ST. JAMES’S PLACE PLC

27 St. James’s Place, London SW1A 1NR
Telephone 020 7493 8111   Facsimile 020 7493 2382

ST. JAMES’S PLACE WEALTH MANAGEMENT

PRESS RELEASE

23 February 2011

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

STRONG FINANCIAL PERFORMANCE ACROSS ALL AREAS OF THE BUSINESS AND 33% INCREASE IN THE FULL YEAR DIVIDEND

St. James’s Place plc (“SJP”), the wealth management group, today announces its annual results for the year ended 31 December 2010.

Financial highlights:

- EEV new business profit of £217.8 million (2009: £155.4 million) up 40%
- EEV operating profit of £332.6 million (2009: £228.9 million) up 45%
- EEV total profit of £455.0 million (2009: £363.2 million) up 25%
- EEV net asset value per share of 352.9p (2009: 284.5p per share) up 24%
- IFRS profit before shareholder tax of £84.2 million (2009: £49.9 million) up 69%
- Cash result of £48.3 million (2009: £23.5 million) up 106%
- Proposed final dividend of 3.975p (2009: 2.66p) up 49%, providing for a full year dividend of 6.0p (2009: 4.5p) up 33%

Other highlights:

- Total single investments of £4.75 billion (2009: £3.46 billion) up 37%
- Net inflow of funds under management of £3.0 billion (2009: £2.3 billion) up 30%
- Funds under management of £27.0 billion (2009: £21.4 billion) up 26%
- Partnership numbers at 1,552 (2009: 1,464) up 6%

David Bellamy, Chief Executive, commented:

“In 2010 we delivered a very strong performance across all areas of the business. We achieved growth in new business, increased the size of the Partnership, saw funds under management rise to an all time high of £27.0 billion and delivered strong profits on all measures. Consequently we are able to propose a significant increase in the dividend as the first step in a two year rebasing of the dividend.”

“Whilst the road to recovery for the UK economy is likely to remain challenging, the need for trusted financial advice is greater than ever. Given the market opportunity available to us, together with the continuing growth and development of the Partnership, we remain confident of our ability to achieve the 15-20% per annum new business growth target over the longer term.”

Enquiries:

David Bellamy, CEO	Tel: 020 7514 1963
Andrew Croft, Group Finance Director	Tel: 020 7514 1963
Tulchan Communications	Tel: 020 7353 4200
John Sunnucks / Mal Patel	

CHAIRMAN'S STATEMENT

I am delighted to report that 2010 was an excellent year for St. James's Place as we built on our robust performance in 2009 by delivering record new business, record profits and our highest ever level of funds under management.

We continue to establish ourselves as a market leading UK wealth manager by ensuring that our Partnership remains best placed to offer trusted advice to our clients, and provides them with market leading investment products that can cater to their ever changing needs.

During the year we increased the number of Partners by 6% and made significant improvements in productivity, while we enhanced further our suite of investment products with the launch of several new funds run by some of the very best UK and US based fund managers.

It is therefore extremely pleasing to receive external recognition for the quality of our client offering with St. James's Place being voted 2010 Wealth Manager of the Year by readers of the Daily Telegraph. This is the third time we have won this award.

Dividend

The scale of our business continues to grow materially and we now have some £27 billion in funds under management, double the figure five years ago. This, together with the increasing maturity of the in-force book underpins our confidence, under normal market conditions, in the cash earnings of the business going forward.

In light of this we intend to rebase the dividend over the next two years, with a significant rise in the current year dividend and an intention for a further significant rise in 2011. Thereafter, off this new higher base, we would hope to be able to progressively grow the dividend in line with the underlying growth of the business.

Therefore, subject to the approval of shareholders at the Annual General Meeting the Board proposes to increase the final dividend by 49% to 3.975 pence per share. This provides for a full year dividend of 6.0 pence per share (2009: 4.5 pence per share), an increase of 33%.

Foundation and community

Charity has always been integral to the St. James's Place culture. Consequently, each year we set an objective to raise more money for our Foundation than in the previous year, doing so by all manner of means ranging from sponsored mountain climbs, triathlons, auctions, quiz evenings and numerous other fundraising activities. The money raised via these events together with regular monthly donations from over 80% of our community, which are matched by the company, exceeded £2.7 million in 2010. As we approach our 20th anniversary, I am delighted to report that we have now raised a total of over £20 million since the business was formed, something that all of us at St. James's Place can rightly be proud of.

The funds raised to date have enabled the Foundation to continue to support hundreds of small charities and also commit to larger projects.

On behalf of the trustees I would like to thank all at St. James's Place and our suppliers who have generously supported the Foundation during 2010.

Partners and Employees

Finally, on behalf of the Board and shareholders, I would also like to extend my thanks to the Partnership, our employees and the staff in our support centres for their continued and outstanding contribution to our record 2010 results.

As I have said before, the quality of our people at every level of our community is exceptional and I am very proud of their continued commitment, dedication and enthusiasm.

Mike Wilson
Chairman
22 February 2011

CHIEF EXECUTIVE'S STATEMENT

In spite of an uncertain economic environment, 2010 proved to be an extremely good year for St. James's Place. We achieved strong growth in new business, increased the size of the partnership, and saw funds under management rise to an all time high of £27 billion. This growth in the new business, coupled with on going control of expenses and good retention, has helped deliver a strong profit performance in 2010.

New Business

The significant growth we experienced in the fourth quarter of 2009 provided good momentum heading into 2010 and led to strong growth in each subsequent quarter giving rise to an increase of 32% in new business (on an APE basis) for the year in total. Encouragingly, growth was achieved across all investment classes.

Gross new funds invested during the year were up 37% to £4.75 billion and this, together with our retention of 95% of existing client funds, enabled us to report net inflows for the year of £3.0 billion.

Financial performance

The financial commentary provides comprehensive detail on the performance of the group on both an IFRS (International Financial Reporting Standards) and an EEV (European Embedded Value) basis. Shareholders will recall that, due to the long-term nature of our business, the Board believes that the EEV result provides a more meaningful measure of the performance of the business.

In addition, given the greater market focus on cash earnings, we have provided shareholders with additional disclosure on the cash result.

I am pleased to announce, that as a result of the strong new business performance coupled with a positive experience variance, EEV operating profits increased 45% to £332.6 million, while IFRS profit before shareholder tax rose 69% to £84.2 million.

Total EEV profit, which takes into account a positive investment variance resulting from the recovery in stock markets in the second half of the year, was £455.0 million compared with £363.2 million in 2009.

We are also pleased to report that the cash result for the year, after taking into account the investment into new business, was £48.3 million in 2010, more than double the prior year. The significant improvement in the result reflects the increasing maturity of the business together with the impact of higher stock market levels on our group funds under management.

The St. James's Place Partnership

Increasing the number of Partners and providing them with the tools and support to become more productive are key drivers to achieving our long term new business growth objectives. It is therefore very pleasing to report success on both counts during the year.

The size of the Partnership grew by 6%, marking the sixth successive year of strong growth and bringing the total to 1,552 at the end of the year.

Partner productivity increased by 23%, which is an excellent outcome given the inevitable disruption caused by the requirement for Partners to attain the new professional qualifications necessary by the forthcoming regulatory changes.

We are confident that, by continuing to focus our field management teams' efforts on both key drivers, we will be able maintain our momentum in new business growth.

Investment Management
Although global investment markets were volatile during the first half of 2010, most major markets rose significantly thereafter with the FTSE 100, for example, posting a net 9% gain for the year. Benefitting from this backdrop of rising markets and strong net inflows, group funds under management rose 26% over the 12 months to an all-time high of £27 billion at 31 December 2010.

We announced a year ago our intention to complement our existing fund range throughout 2010. In April we began by broadening our client proposition with the launch of three new funds: an Emerging Market fund managed by Jonathan Asante of First State Investments (UK); an International Corporate Bond fund managed by Jill Fields and Zak Summerscale of Babson Capital Management; and an Absolute Return fund managed by Mark Lyttleton and Nick Osborne of BlackRock. Our clients have welcomed the launch of these three new funds which in aggregate have attracted £700 million in new investments to date.

Later in the year we appointed Adrian Frost and Adrian Gosden of Artemis to run a UK & International Income Fund and replaced the manager of one of our funds with Dan O'Keefe and David Samra of Artisan Partners.

Over the last two years we have added a total of 15 new managers to manage client monies and, as a result, are now able to offer clients a comprehensive range of funds managed by 30 leading fund managers.

Our commitment to ensuring that our investment proposition remains relevant was evidenced by the launch of our new range of model portfolios at the start of 2011. Having stressed the importance of diversifying investments across asset classes and management styles in order to reduce risk, we have modelled the portfolios appropriately to cater for a range of client investment needs.

Our clients
Building long-term relationships with our clients is at the core of what we do. This is achieved by providing clients with trusted and long-term face-to-face advice, and delivering benchmark- beating investment returns over the medium term.

During 2010 we again commissioned Ledbury Research to undertake an independent survey to give clients the opportunity to provide feedback on St James's Place and the services we provide. Their key findings were encouraging. In the main our clients are very happy with the service they receive, and their level of satisfaction has improved, both from the previous research in 2008 and relative to the wider marketplace. However, there are areas where we can and will do better, particularly in relation to frequency of client contacts and communication. Improving our performance in these areas will be a prime focus for our Partners over the coming months.

Retail Distribution Review
The Review's requirements for advisers to obtain professional qualifications are clear and I am delighted to say that the Partnership have embraced these requirements and really engaged in the process. One of the numerous benefits of our scale is the level of support we can provide to them in that process. So, as a result of the combination of these two factors, I'm pleased to report that, more than 700 partners and members of our management and support teams have achieved the required diploma status and a further 700 are within one or two examinations of doing likewise.

We have had further clarity from the FSA regarding the requirements of vertically integrated firms in respect of the adviser charging rules and now know that essentially our current product charges and remuneration structures will be RDR compliant. The way we disclose charges and remuneration will naturally change, in line with the rest of the industry.

We will keep shareholders abreast of any other developments or changes as they arise.

Outlook

Whilst the road to recovery for the UK economy is likely to remain challenging, the need for trusted financial advice is greater than ever.

We have established a strong reputation in the wealth management market and we remain committed to building long-term relationships with clients who can trust us to provide sound financial advice and manage their investments well.

Our reputation and track record have enabled us to attract good quality advisers into our Partnership and we remain confident that we will be able to continue this growth over the next few years.

Given the market opportunity available to us, together with the continuing growth and development of the Partnership, we remain confident of our ability to achieve the 15-20% per annum new business growth target over the longer term.

David Bellamy
Chief Executive
22 February 2011

FINANCIAL COMMENTARY

The financial performance in 2010 has been very strong. On the back of the record new business figures, we are reporting strong growth in all profit measures. A particular highlight is the more than doubling of the cash result which provides further evidence of the growing maturity of the business.

As noted in the Chairman's Statement, in light of the strong cash result and our confidence in the long-term prospects for the business, the Board is proposing the adoption of a new dividend policy for St. James's Place. We intend to rebase the dividend over the next two years with a 33% rise for 2010 and a similar increase in 2011. Thereafter, off this new higher base, we would hope to be able to progressively grow the dividend in line with the underlying growth in the business.

THE FINANCIAL MODEL

The Group's strategy is to attract retail funds under management by providing trusted advice, through the St. James's Place Partnership, and then to provide our clients with ongoing advice and a high quality level of service together with above average investment returns – thus retaining both the client relationship and the funds under management for the long term.

The main source of income for the group is the annual receipt of a fee from funds under management, which lasts as long as the client relationship remains. Our business is therefore long term in nature both from a client perspective and with regards to the income that is generated.

Out of this income we meet the overheads of the business, invest in growing the Partnership and in acquiring new funds under management. In effect currently, a large proportion of the annual cash generated in a year is re-invested in growing the business to produce future returns for shareholders. However, the new business in a particular year is expected to earn income for an average period of 14 years, thus providing a good return for this investment.

Investment in new business means the cash result today is depressed by the growth in the business and therefore the cash result, whilst an important measure for the business, does not provide a true picture of the economic value of the business. This is why management focus on the EEV result (effectively a discounted future cash flow) which we believe provides a more meaningful measure of the performance of the business in a particular year.

However, the business model is set to generate cash in the long term and the growth in income over the long term will ensure we are able to pay a growing dividend to shareholders. The embedded value profit we report in one year should materialise in cash in the future.

PRESENTATION OF FINANCIAL RESULTS

As noted above our business is long term in nature and for this reason we present the results on an EEV and cash basis, in addition to the statutory IFRS basis. This provides readers with different perspectives to assess the performance of the business in a particular year and to assist them in making their own assessment of the valuation of the business.

Before looking at the results on each of these bases provided below is a summary of the aims of the different presentations of the results.

The EEV result recognises the long-term nature of the emergence of shareholder cash returns by reflecting the net present value of expected future cash flows. This presentation is also commonly referred to as a 'discounted cashflow' valuation.

The cash result is a measure of the underlying cash generated by the business. The result is a combination of the cash arising from the business in-force at the start of the year, less the costs incurred to acquire new business in the current year.

The aim of the IFRS result is to smooth the recognition of profit from new business and spread the benefit over the life of the contracts. Therefore the result reflects neither the future shareholder value added nor the capital impact of the new business in a particular year.

By contrast the EEV result provides a measure of the future shareholder value added from the new business in a particular year, whilst the cash result provides a measure of the cash that has been generated for shareholders in the year (a factor in determining the dividend). We believe it is these two measures that better represent shareholder value.

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

SECTION 1: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IFRS Result

The IFRS result is shown on pages 47 to 64.

Total profit before shareholder tax for the year was £84.2 million, up 69% on the prior year result of £49.9 million.

The key driver to the improved result was higher income from funds under management, with the average funds under management in 2010 at £24.2 billion, being some 30% higher than the prior period.

A negative in the result was a £6.2 million increase in the fees paid to the FSA and the Financial Services Compensation Scheme (FSCS). The increase in these fees was principally due to an increase in the FSCS levy by £4.8 million, resulting from the recent call relating to the Keydata collapse.

The IFRS result requires the pre-tax profit of the life business to be 'grossed up' for policyholder tax, with the corresponding amount then being deducted within the tax charge. The table below reflects the IFRS result after eliminating this 'gross up' in order to show the shareholder return from the business. The Board view this figure as the best IFRS measure of the performance for the year.

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Life business	72.8	53.6
Unit trust business	17.3	16.8
Distribution business	5.8	(7.5)
Other	(11.7)	(13.0)
Profit before shareholder tax	84.2	49.9
Policyholder tax	77.7	(21.4)
Total pre-tax profit	161.9	28.5
Policyholder tax	(77.7)	21.4
Shareholder tax	(29.2)	(10.1)
Profit after tax	55.0	39.8

Life business

The life business pre-tax profit for the year at £72.8 million was 36% higher than the £53.6 million for prior year.

The principal contributor to this rise in profit was the higher income from funds under management, reflecting the new business volumes and recovering markets. The interest earned on the free assets of the Group remains depressed due to the continuing low bank base rates. Our investment policy for managing these free assets remains very prudent.

Unit trust business

The unit trust profit for the year at £17.3 million (2009: £16.8 million) was also higher than the same period last year, due to higher funds under management. The profit was impacted by £3.5 million, being the proportion of the FSCS Keydata levy charged to this business.

Distribution business

We have separately identified the distribution activities from 'Other' operations and will show this additional breakdown going forward. SJP is a vertically integrated firm, allowing it to benefit from synergies of combined management of funds and distribution. So, whilst the management of funds lies at the core of our profit, a further margin will arise from the distribution activity dependent upon the level of new business and expenses.

As the income is variable and a proportion of the costs are fixed in nature the result will improve as new business increases which is referred to as the operational leverage of the distribution activity, and can be seen in the results over the two reporting periods.

The 32% growth in new business during 2010 increases the income the distribution company receives but has no impact on fixed costs (which we refer to as establishment expenses; see section 4 below). This results in a profit of £5.8 million compared with a loss for the prior year of £7.5 million. Over the course of an 'economic cycle' we would expect to make a profit on distribution activity, but the result will vary between years.

The profit would have been £1.3 million higher had it not been for the proportion of the FSCS Keydata levy charged to this company.

Other

Other operations contributed a loss of £11.7 million (2009: loss of £13.0 million). Included within this figure is the cost of expensing share options of £8.2 million for the current period (2009: £8.6 million). The balance is made up of a number of small positive and negative items.

Policyholder tax

The policyholder tax reflects the tax charged to policyholder funds. Given the strong recovery in the markets during the year there was a £77.7 million charge, arising mainly on capital gains on equity holdings in the unit linked funds. This compares to a negative charge of £21.4 million for the prior year.

Taking account of this policyholder tax, the pre-tax profit for the year was £161.9 million, compared with a pre-tax profit of £28.5 million in 2009.

Analysis of constituent parts of the IFRS post tax profit

The tables and commentary below, based on the cash result analysis set out on page 16, provides an analysis of the constituent parts of the IFRS post-tax profit for the reporting periods.

Year Ended 31 December 2010

	Note	In Force	New Business	Total
		£'Million	£'Million	£'Million
Cash result	1	109.7	(61.4)	48.3
DIR amortisation	2	71.0	5.2	76.2
DAC amortisation	3	(55.2)	(5.2)	(60.4)
PVIF amortisation	4	(2.9)	-	(2.9)
DIR on new business	2	-	(124.9)	(124.9)
DAC on new business	3	-	137.9	137.9
Share options	5	(8.2)	-	(8.2)
IFRS deferred tax impacts	6	(8.0)	-	(8.0)
Other IFRS	7	(6.6)	-	(6.6)
Corporation tax rate change	8	3.6	-	3.6
IFRS profit (post-tax)		**103.4**	**(48.4)**	**55.0**
Shareholder tax (*Effective rate 34.7%)*	9	54.9	(25.7)	29.2
IFRS operating profit		**158.3**	**(74.1)**	**84.2**

Year Ended 31 December 2009

	Note	In Force	New Business	Total
		£'Million	£'Million	£'Million
Cash result	1	88.8	(65.3)	23.5
DIR amortisation	2	64.4	4.4	68.8
DAC amortisation	3	(49.0)	(4.4)	(53.4)
PVIF amortisation	4	(2.6)	-	(2.6)
DIR on new business	2	-	(86.3)	(86.3)
DAC on new business	3	-	105.1	105.1
Share options	5	(8.6)	-	(8.6)
IFRS deferred tax impacts	6	(4.2)	-	(4.2)
Other IFRS	7	(2.5)	-	(2.5)
IFRS profit (post-tax)		**86.3**	**(46.5)**	**39.8**
Shareholder tax (*Effective rate 20.2%)*	9	21.9	(11.8)	10.1
IFRS operating profit		**108.2**	**(58.3)**	**49.9**

The total post-tax IFRS profit increased by 38% from £39.8 million to £55.0 million, principally reflecting the higher cash result. Within the result, the post tax profit from the in-force business at the start of the year increased to £103.4 million (2009: £86.3 million).

The loss associated with acquiring new business for the year was £48.4 million (2009: £46.5 million) and should be viewed as an investment for future profits. These profits will arise as net annual management fees, less the future amortisation of the associated deferred acquisition cost ("DAC") and deferred income ("DIR") in subsequent years.

Notes:

1. These figures are explained in the analysis of the post-tax cash result in Section 3.

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

(a) The amortisation of the opening deferred income which increases profit for the period and was £71.0 million (2009: £64.4 million) in the current year. The release in a particular year will depend upon the value of DIR at the start of the year and the remaining life of the policies to which the DIR relates or the remaining surrender penalty period. The expected release for 2011 is £82.9 million.

(b) The deferral of the initial profit associated with new business sales in the period. In 2010 the deferred profit reduced the IFRS result by £124.9 million (2009: 86.3 million). The deferral of profit in any particular year will be dependent upon the level of new business however in 2010 there has been an additional one-off increase due to the change in the minimum pension age from 50 to 55. This change has increased the proportion of business where surrender penalties apply and therefore increased the initial profit which is deferred.

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

(a) The amortisation of the opening DAC, which reduces profit for the period and was £55.2 million (2009: £49.0 million) in the current year. The charge in a particular period will depend upon the value of the DAC at the start of the year and the remaining life of the policies to which the DAC relates. The expected amortisation charge for 2011 is £64.3 million.

(b) The deferral of the specific acquisition costs incurred in the current period. In 2010 this deferral increased IFRS profits by £137.9 million (2009: £105.1 million). The deferral of expenses in any particular year will be dependent upon the level of the acquisition costs which themselves will be determined by the level of new business.

4. The IFRS balance sheet includes an asset representing purchased value of in-force ("PVIF"). This asset is amortised over the remaining life of the policies associated with this asset. The amortisation charge for the year was £2.9 million (2009: £2.6 million). The charge for 2011 is expected to be £2.8 million.

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

6. IFRS deferred tax: under IFRS a deferred tax asset is established for future benefits, not recognised in the cash result, that are expected to be derived.

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

8. Corporation tax rate change: the above adjustments are all shown net of deferred tax rates prevailing at the end of 2009, and this £3.6 million (2009: £nil) reflects the effect on the deferred tax of the change in the tax rate from 28% to 27%.

9. The effective shareholder tax rate: this reflects the weighting of IFRS profit between UK Life insurance business (with a marginal tax rate of 8%), International business (taxed at 12.5%) and Pensions and Unit Trust business (taxed at 28%). In 2010 the utilisation of brought forward pension business losses combined with the application of a marginal tax rate of 8% to the life insurance DIR movements resulted in an effective tax rate of 34.7% for the year.

Analysis of IFRS Assets and Net Assets per Share

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

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Purchased value of in-force*	36.7	39.0
Deferred acquisition costs*	563.1	473.7
Deferred income*	(385.0)	(327.3)
Other IFRS net assets	75.9	91.1
Solvency net assets	295.6	263.3
Total IFRS net assets	586.3	539.8

* net of deferred tax

	Year Ended 31 December 2010	Year Ended 31 December 2009
	Pence	Pence
Net asset value per share	120.6	112.0

SECTION 2: EUROPEAN EMBEDDED VALUE (EEV)

Life business differs from most other businesses, in that the expected shareholder cash flows from the sale of a product emerge over a long period in the future. We therefore present our results not only on an IFRS basis, but also on an EEV basis, which brings into account the net present value of the expected future cash flows.

We continue to believe that the EEV basis provides a more meaningful measure of the Group's operating performance.

The table below and accompanying notes summarise the pre-tax profit of the combined business and the detailed result is shown on pages 35 to 46.

Total operating profit for the year at £332.6 million was 45% higher than the 2009 result of £228.9 million.

The main contributors to this much improved result were higher profits from new business and positive experience variances, in both the life and unit trust businesses, resulting from the continued strong retention of client funds.

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Life business	256.8	175.1
Unit trust business	81.7	74.3
Distribution business	5.8	(7.5)
Other	(11.7)	(13.0)
Operating profit	332.6	228.9
Investment return	117.6	148.2
Economic assumption changes	4.8	(13.9)
Total pre-tax result	455.0	363.2
Taxation	(120.1)	(98.1)
Corporation tax rate change	17.7	-
Post tax result	352.6	265.1

Life business

The life business operating profit has increased from £175.1 million to £256.8 million and a full analysis of the result is shown below:

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
New business contribution	157.9	106.3
Profit from existing business		
- unwind of discount rate	74.0	63.7
- experience variance	24.8	2.6
- operating assumption change	(3.4)	(2.3)
Investment income	3.5	4.8
Life operating profit before tax	256.8	175.1

The **new business contribution** for the year at £157.9 million (2009: £106.3 million) was over 48% higher than the prior year reflecting the higher volume of new business together with tight control over the growth in associated expenses.

The **unwind of the discount rate** at £74.0 million (2009: £63.7 million) reflects the higher opening value of the in-force at the start of 2010.

There was a positive **experience variance** in the year of £24.8 million compared with £2.6 million in 2009. A key contributor to the positive variance in both years was the continued strong retention of funds under management, particularly so in the current year. Over the last five years we have reported a cumulative positive variance of £50.7 million, an average of over £10.0 million per annum. This suggests the assumptions underlying the calculation of the embedded value are prudent.

Investment income for the year at £3.5 million (2009: £4.8 million) reflects the interest rate we earn on our free assets.

Unit Trust business

The unit trust operating profit was £81.7 million (2009: £74.3 million) and a full analysis of the result is shown below:

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
New business contribution	59.9	49.1
Profit from existing business		
- unwind of discount rate	19.5	14.6
- experience variance	1.6	9.0
- operating assumption change	-	0.8
Investment income	0.7	0.8
Unit trust operating profit	81.7	74.3

New business contribution at £59.9 million (2009: £49.1 million) was 22% higher than the prior year as a result of the strong new business growth in the period and lower growth in associated expenses.

The **unwind of the discount rate** at £19.5 million (2009: £14.6 million) reflects the respective value of in-force at the start of each of the reporting periods.

There was a positive experience variance of £1.6 million (2009: £9.0 million) which is accounted for by a number of small positive items. The prior year experience variance reflected particularly strong retention of client funds in that year. As with the life result there has been a cumulative positive experience variance over the last five years of £18.0 million providing for an average of £3.6 million per year.

Distribution and Other operations

The results from distribution and other operations have previously been commented on in the IFRS section.

Investment return

Since the start of the year the world stock markets have recovered with, for example, the MSCI £ world index having increased by some 12.9%.

As a consequence of the higher stock markets, the actual investment return for the period was around 7% higher than the assumed rate of growth of 5.9% and consequently there was a positive investment variance of £117.6 million. In the prior year there was a positive investment variance of £148.2 million reflecting the higher than assumed investment return in that year as well.

Economic Assumption Changes

The £4.8 million profit arising from changes in the economic basis adopted at the end of the year reflects the impact of the recent relative increase in dividend income from equity investments compared to the risk free rate. In 2009 there was a loss of £13.9 million reflecting the impact of an increase in the underlying rate of inflation.

The total pre-tax profit for year was £455.0 million compared with a profit last year of £363.2 million.

Taxation change

The budget on 22 June 2010 set out plans to reduce the corporation tax rate from 28% to 27% for the 2011/2012 tax year. This reduction has been confirmed in the Finance (No 2) Act 2010. The impact of this reduction in corporation tax is to increase the post tax embedded value by £17.7 million and this has been shown within the tax charge.

Although the Government also stated its intention to reduce the corporation tax by a further 1% per year in each of the following three years, these changes have not been reflected in the embedded value at this time. Had these proposed changes been reflected in the calculation then the additional increase in the post tax embedded value would have been £44.2 million and the net asset value per share would have been 9.1 pence higher at 362.0 pence.

New Business Margin

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

APE is calculated as the sum of regular premiums plus 1/10th single premiums. PVNBP is calculated as single premiums plus the present value of expected premiums from regular premium business, allowing for lapses and other EEV assumptions.

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

	Year Ended 31 December 2010	Year Ended 31 December 2009
Life business		
New business contribution (£' m)	157.9	106.3
APE (£'m)	457.2	351.6
Margin (%)	34.5	30.2
PVNBP (£'m)	3,697.1	2,764.1
Margin (%)	4.3	3.8
Unit trust business		
New business contribution (£' m)	59.9	49.1
APE (£'m)	124.6	89.2
New business margin (%)	48.1	55.0
PVNBP (£'m)	1,246.2	892.2
Margin (%)	4.8	5.5
Total business		
New business contribution (£' m)	217.8	155.4
APE (£'m)	581.8	440.8
New business margin (%)	37.4	35.3
PVNBP (£'m)	4,943.3	3,656.3
Margin (%)	4.4	4.3

The PVNBP calculation only includes our manufactured business, as we do not apply these principles to the non-manufactured business.

The Life new business margin on a PVNBP basis, which excludes the non-manufactured business, increased from 3.8% to 4.3%, whilst on an APE basis, which includes the non-manufactured business, the margin increased from 30.2% to 34.5%.

The Unit Trust new business margin reduced from 5.5% to 4.8% on a PVNBP basis and from 55.0% to 48.1% on an APE basis. This reflects the equalisation of Partner remuneration in anticipation of the Retail Distribution Review requirements. In future years there will be an offsetting positive impact on the Life business margins as part of this equalisation process.

In addition to the new business profit arising in the 'manufacturing' companies the group also makes a profit or loss within the distribution business. Including the distribution profit of £5.8 million (2009: loss of £7.5 million) the combined margin arising on new business would be 4.5% (2009: 4.0%) on a PVNBP basis and 38.4% (2009: 33.6%) on an APE basis.

Analysis of the European Embedded Value and Net Asset per Share

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

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Value of in-force		
- Life	1,131.2	886.6
- Unit trust	288.7	221.5
Solvency net assets	295.6	263.3
Total embedded value	1,715.5	1,371.4

	Year Ended 31 December 2010	Year Ended 31 December 2009
	Pence	Pence
Net asset value per share	352.9	284.5

SECTION 3: CASH RESULT AND CAPITAL

Noted below are a number of issues regarding the post-tax cash result and the capital position.

Cash result

As noted in the section above, the Board believe that the EEV approach provides the most meaningful measure of the Group's operating performance. However, it reflects all future cash flows, which in a growing company may be significantly larger than the current level of cash being generated. To assist shareholders this section therefore provides disclosure on the underlying post-tax cash result of the Group.

The cash result is the combination of the cash arising from the business in force at the start of the year less the investment to acquire the new business in the current period. In effect, a proportion of the cash arising from the in-force business is re-invested for future cash returns.

The cash result for the year at £48.3 million was more than double the £23.5 million in 2009.

The tables and commentary below provide an indicative analysis of the cash result.

Year Ended 31 December 2010	**Note**	**Arising from business in-force at 1 January 2010**	**Investment in new business during period**	**Total**
		£'Million	**£'Million**	**£'Million**
Net annual management fee	1	159.5	18.4	177.9
Unwind of surrender penalties	2	(56.5)	(6.5)	(63.0)
Net income from funds under management		103.0	11.9	114.9
Margin arising from new business	3	-	(2.6)	(2.6)
Establishment expenses	4	(6.6)	(59.8)	(66.4)
Development expenses	5	-	(4.2)	(4.2)
FSA/ FSCS Fees	6	(0.7)	(6.7)	(7.4)
Shareholder interest (regulated companies)	7	1.9	-	1.9
Shareholder interest (non-regulated companies)	7	1.4	-	1.4
Miscellaneous	8	10.7	-	10.7
Post-tax cash result		109.7	(61.4)	48.3

Year Ended 31 December 2009	**Note**	**Arising from business in-force at 1 January 2009**	**Investment in new business during year**	**Total**
		£'Million	**£'Million**	**£'Million**
Net annual management fee	1	119.9	13.2	133.1
Unwind of surrender penalties	2	(40.8)	(4.4)	(45.2)
Net income from funds under management		79.1	8.8	87.9
Margin arising from new business	3	-	(12.0)	(12.0)
Establishment expenses	4	(6.6)	(59.5)	(66.1)
FSA/FSCS fees	6	(0.3)	(2.6)	(2.9)
Shareholder interest (regulated companies)	7	3.0	-	3.0
Shareholder interest (non-regulated companies)	7	1.7	-	1.7
Miscellaneous	8	11.9	-	11.9
Post-tax cash result		88.8	(65.3)	23.5

The commentary below provides an explanation of the movement for the year.

Notes

1. The net annual management fee: this is the manufacturing margin the Group retains from the funds under management after payment of the associated costs (e.g. investment advisory fees and Partner remuneration). Broadly speaking the Group retains around 1% pre-tax (0.7% post-tax) of funds under management.

The level of net annual management fee was some 34% higher than 2009. This increase is in line with the increase in funds under management (due to the higher stock markets and new business) which averaged less than £19 billion in 2009 but more than £24 billion in 2010.

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

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

   Like the net annual management fee, the unwind of surrender penalties has increased due to the higher stock markets and the new funds under management added during 2010, however, the increase has been partly offset by the fact that the funds under management added six years ago have completed the surrender penalty period.

   In addition, the increase in the minimum pension age from 50 to 55 in 2010 means this treatment can be applied to more of our pension business. As a result there has been an increase in the amount of the unwind of surrender penalties for 2010 compared to 2009.

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

   The negative margin on new business represents the upfront net cash outflow from a certain category of pension new business where we are unable to apply surrender penalties.

   The increase in the minimum pension age from 50 to 55 referred to above has reduced the proportion of the business where we are unable to use surrender penalties. This, together with the increase in profitability of the distribution element of our new business activity, has reduced the new business strain.

4. Establishment expenses: these are the post-tax expenses of running the Group's infrastructure as shown in the table on page 22 but are shown as post-tax rather than pre-tax numbers.

   The establishment expenses were at a similar level to 2009.

5. Development expenses: these represent the expenditure associated with a significant development in our investment proposition together with the costs associated with training the Partnership towards full diploma qualification over the next couple of years.

6. FSA/ FSCS Fees: this relates to the fees payable to the FSA and the FSCS for the year. The significant increase over 2009 principally relates to the FSCS levy in respect of the collapse of Keydata.

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

   The interest received is at a similar level to the prior year and reflects the low prevailing interest rates we obtain on the free assets.

8. Miscellaneous: this represents the cash flow of the business not covered in any of the other categories. It will include miscellaneous product charges, reserving changes, experience variances and the income and expenses included within the other operations of the business.

2009 benefitted from one-offs of £6.5 million and 2010 has also benefited from additional cash of £7.4 million as a result of the increase in the minimum retirement age. As a result total miscellaneous income for 2010 was £10.7 million which is similar to the level in 2009 of £11.9 million.

Return on in-force business

As shown in the tables above the return on the in-force business is impacted by the level of the annual management fees, the unwind of the surrender penalties, interest on surplus capital, expenses and miscellaneous.

The vast majority of the return relates to the net income from funds under management (annual management fees less the unwind of the surrender penalty). Looking forward, we start 2011 with funds under management of £27.0 billion and provided we repeat the net inflows of £3.0 billion achieved in 2010 (we would actually expect this figure to increase), then even if the stock markets remained flat, average funds under management for 2011 would be £28.5 billion – some 20% higher than the same figure for 2010.

In addition a proportion of the new business has a surrender penalty which unwinds during the first six years, meaning that this business is cash neutral during this period and therefore does not contribute to the cash result until year seven. The table below provides an estimated breakdown of the single premium business over the last six years where these surrender penalties apply and therefore the funds under management are not yet generating income within the cash result.

Year	**With surrender penalties £' Billion**
2005	0.8
2006	1.3
2007	1.6
2008	1.4
2009	1.6
2010	2.1
Total	8.8

The total business within its first six years and not yet contributing to the cash result is £8.8 billion* or just under a third of the total funds under management at 31 December 2010. Once this business reaches the end of the surrender period the cash result will increase. As guidance, if all the business was now at this level of maturity then the annual post-tax cash result (based on 0.7% post-tax earnings from funds under management) would be some £61.0 million higher*.

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

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

Return on investment in new business

As noted in the table on page 10, £61.4 million (2009: £65.3 million) of the cash arising from the in-force business has been re-invested in acquiring the new business during the year.

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

	Year Ended 31 December 2010	Year Ended 31 December 2009
Post-tax investment in new business (£'Million)	(61.4)	(65.3)
Post-tax present value of expected future cash returns (£'Million)	222.7	180.3
Post-tax present value of expected profit from investment (£'Million)	161.3	115.0
Gross inflow of funds under management (£'Billion)	4.7	3.5
Investment as % of gross inflow*	1.3%	1.9%
New business margin (% of APE)	37.4%	35.3%
Cash payback period (years)	5	6
Internal rate of return (net of tax)	19.6%	16.4%

* The investment as a % of net inflow of funds under management was 2.0% compared with 2.8% for the prior year.

The cost of this re-investment to acquire new business has fallen in the last two years as a result of on going expense control and an efficiency drive. Going forward, it is not expected to increase significantly and therefore the proportion of cash generated from the in-force business available to pay dividends to shareholders will expand.

Capital Position

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

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

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

	Life	Other Regulated	Other	Total
	£'Million	£'Million	£'Million	£'Million
Solvency position				
Solvency net assets	141.6	21.4	132.6	295.6
Solvency requirement	40.1	12.6		
Solvency ratio	353%	170%		
Analysis of solvency net assets				
UK government gilts	48.0	-	-	48.0
Other government backed debt	12.7	-	-	12.7
AAA rated money market funds	161.2	30.2	48.1	239.5
Bank balances	11.6	48.3	24.9	84.8
Fixed assets	-	-	7.7	7.7
Actuarial reserves	(57.7)	-	-	(57.7)
Other assets and liabilities	(34.2)	(57.1)	51.9	(39.4)
Solvency net assets	141.6	21.4	132.6	295.6
Reconciliation to IFRS net assets				
Solvency net assets	141.6	21.4	132.6	295.6
- Purchased VIF	36.7	-	-	36.7
- DAC and DIR	194.9	(16.8)	-	178.1
- Other	75.9	-	-	75.9
Total IFRS net assets	449.1	4.6	132.6	586.3

Solvency II

We continue to prepare for the adoption of the new EU Solvency II requirements at the end of 2012 and during the year participated in the 5th Quantitative Impact Study (QIS 5).

The results from QIS 5 confirmed that, based on the proposed rules, the Group will not be adversely impacted by these new requirements and might expect to see a reduction in the solvency capital we are currently required to hold.

Share options maturity

In addition to the strong solvency, the Company has share options outstanding under the various share option schemes at 31 December 2010 which if exercised, will provide a significant source, up to £59.2 million (2009: £69.5 million), of future capital for the Company. It must be recognised that at present a number of these options are 'underwater' and would not therefore be exercised.

Earliest date of exercise	**Average exercise price**	**Number of Share options outstanding**	**Potential Proceeds**
	£'s	Million	£' Million
Prior to 1 Jan 2011	2.34	24.0	56.2
Jan – Jun 2011	2.14	0.1	0.2
Jul – Dec 2012		-	-
Jan – Jun 2012	1.50	1.5	2.2
Jul – Dec 2012		-	-
Jan – Jun 2013	2.04	0.3	0.6
		25.9	59.2

There are also 2.8 million options outstanding under the Partner performance share plan exercisable at the 15p nominal share price, which could result in a further £0.4 million of proceeds by the end of 2012.

Of those options with an earliest date of exercise prior to 1 January 2011, 0.6 million options require further performance conditions to be met before vesting unconditionally.

SECTION 4: OTHER MATTERS

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

Expenses

The table below provides a breakdown of the pre-tax expenditure for the combined financial services activities.

	Note	**Year Ended 31 December 2010**	Year Ended 31 December 2009
		£' Million	£' Million
Paid from policy margins			
Partner remuneration	1	247.9	190.0
Investment expenses	1	87.7	75.4
Third party administration	1	33.4	30.0
		369.0	295.4
Direct expenses			
Other new business related costs	2	49.5	41.9
Establishment costs	3	89.8	89.2
Development costs	4	5.7	-
FSA/FSCS levy	5	10.3	4.1
Contribution from third party product sales	6	(13.8)	(13.3)
		141.5	121.9
		510.5	417.3

The ongoing expense control and efficiency drive has resulted in a particularly pleasing full year expense position. The all important establishment expenses (after stripping out the FSA/ FSCS levy) remained flat during the year despite the continued growth in the infrastructure of the business. The FSA / FSCS levy has been impacted by the recently announced FSCS levy in relation to the Keydata collapse of which our share was £4.8 million, bringing our total FSCS levy for the year to £6.2 million (2009: £1.5 million)

After two years of reductions in establishment expenses we expect these to grow by c.5% in 2011, which includes the impact of higher VAT and employers' national insurance.

Notes

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

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

3. Establishment costs are the running costs of the Group's infrastructure and are relatively fixed in nature in the short term, although subject to inflationary increases. These costs will increase as the infrastructure expands to manage the higher number of existing clients and the growth in the Partnership. During the current year £2.1 million of software development costs have been capitalised as an intangible asset in accordance with IAS 38. This asset will be amortised over the following four years.

4. Development costs represent the expenditure associated with a significant development in our investment proposition together with the costs associated with training the Partnership towards their diploma qualifications over the next couple of years.

5. FSA / FSCS fees have been shown separately due to the significant increase between the two years. The current year cost includes the recently announced levy from the FSCS in respect of the collapse of Keydata. Our share of the total levy was £4.8 million.

6. Contribution from third party product sales reflects the net income received from wealth management sales of £4.2 million (2009: £4.3 million), sales of stakeholder products of £1.0 million (2009: £0.9 million) and sales through the Protection Panel of £8.6 million (2009: £8.1 million).

Movement in funds under management

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

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Billion	£'Billion
Opening funds under management	21.4	16.3
New money invested	4.7	3.5
Investment return	2.6	2.8
	28.7	22.6
Regular withdrawals / maturities	(0.5)	(0.4)
Surrenders / part surrenders	(1.2)	(0.8)
Closing funds under management	27.0	21.4
Implied surrender rate as % of average funds under management	5.0%	4.0%
Net inflow of funds	3.0	2.3
Net inflow as % of opening funds under management	14.0%	14.1%

Shareholders will be pleased to note that the continued strong retention of funds under management which, together with the level of new money invested, provides for net fund inflow of £3.0 billion, 30% higher than the £2.3 billion for last year.

This net inflow represents 14.0% (2009: 14.1%) of opening funds under management and can be viewed as the organic growth in funds.

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

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

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

Surrenders and part surrenders are those amounts where clients have chosen to withdraw money from their plan. Surrenders are assumed to occur in the calculation of the embedded value new business profit based on actual experience, updated on an annual basis, by plan duration and the age of the client.

The implied surrender rate shown in the table above is very much a simple average and it should not be assumed that small movements in this rate will result in a change to the embedded value assumptions.

Concluding remarks

2010 has been an excellent year for the business with the significant increases in all the profit measures. In particular the increase in the cash result should confirm to shareholders that embedded value profits will convert to cash over time and allow for growth in the dividend

Andrew Croft
Finance Director
22 February 2011

RISK AND RISK MANAGEMENT

Introduction

The mechanisms for identifying, assessing, managing and monitoring risks are an integral part of the management processes of the Group. Understanding the risks we face, and managing them appropriately, enables effective decision-making, contributes to our competitive advantage and helps us to achieve our business objectives and to protect the interests of our various stakeholders.

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

- Market Risk
- Credit Risk
- Liquidity & Currency Risk
- Insurance Risk
- Operational Risk

Risk Appetite Statement

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

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

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

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

Risk Policies

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

During the second half of 2010, in addition to scenario stress analysis, we worked on the implementation of reverse stress testing within the Group and we plan to use the outputs from this and future testing, to inform our risk appetite and risk limits going forward.

The Risk Committee & Group Risk Function

Overseeing our risk management framework is the Risk Committee. The Risk Committee is made up of Non-executive Board members responsible for ensuring that a culture of effective risk identification and management is fostered across the Group. The Committee is also responsible for reviewing and assessing corporate, emerging and topical risks.

The Risk Committee is supported by a central Group Risk function, whose primary role is to ensure that an appropriate risk management framework is in place, that it is fit for purpose and is working as intended. The Group Risk function is responsible for the ongoing development and co-ordination of risk management within SJP such as preparing for the implementation of Solvency II and implementing developments to the FSA's corporate governance requirements, and for the consolidation, reporting and, where appropriate, escalation of risk related management information.

Risk Management Framework

The risk management framework enables the continual identification and assessment of risks that may impact on the successful delivery of our Group business objectives. Changing business conditions and the decisions taken by the Board in running business operations may alter the status of risks identified and also assist in the identification of new risks. The risk assessment process supports this ongoing identification and assessment of risk.

Corporate Risk Schedules and quarterly Key Risk Indicators are produced to facilitate the monitoring of risks by the Risk Committee and Board. The Risk Management and Actuarial Functions also monitor risk exposure on a regular basis and report on financial risk through the Individual Capital Assessment process and stress, reverse stress and scenario testing processes.

An annual risk management review is conducted by the Risk Management Function which provides an overview of group risk experience during the year and an opinion on the continued appropriateness of the risk management framework. This report is submitted to the Risk Committee for review and any changes required are approved on behalf of the Board.

This continual process for identifying, evaluating and managing the significant risks faced by the Group has been in place for the year under review and up to the date of approval of the annual report and accounts. The process is regularly reviewed by Risk Committee on behalf of the Board and accords with the Revised Guidance for Directors on the Combined Code (Turnbull).

Principal Risks and Uncertainties

At the time of preparing this report, there are a number of principal risks and uncertainties that are inherent within both the Group's business model and the market in which we operate. These principal risks and uncertainties, and the high level controls and processes through which we aim to mitigate them, are as follows:

Risk	Description	Management
Distribution capability	The Group's distribution strength may be eroded due to an inability to recruit and retain Partners of the appropriate quality.	We employ a number of specialist managers specifically to manage the recruitment and retention of high quality Partners. Formal retention strategies are in place to ensure that, wherever possible, we retain good quality and experienced Partners. All recruitment and retention activity is closely monitored.
Investment Management Approach	Our approach to investment management may fail to deliver expected returns to clients of the Group.	We actively manage and monitor the performance of our investment managers through the Investment Committee and a firm of professional external advisers – Stamford Associates. Our fund range was broadened further during 2010 to help better mitigate sales, persistency and market risks by increasing diversification.
Outsourcing	The Group's dependence on outsourcing may come under threat should any of its key investment management or administration business partners decide to exit the market, significantly revise their strategy or fail.	We maintain close working relationships with our outsourced business partners and should have sufficient warning of any material changes that may significantly impact upon our business model. All relationships are governed by formal agreements with adequate notice periods and full exit management plans. Strong alternative providers exist in the market. Business continuity arrangements have been developed and scenario analysis carried out.
Competitor activity	A major and successful new entrant to the adviser-based wealth management market has an impact on the success of SJP's business.	We closely monitor competitor activity and the market place for signs of any potential new entrants or threats. As noted above, we also have a proven track record in Partner acquisition and retention, which we believe would make it difficult for a new entrant to challenge SJP's position. Established SJP Partners have significant equity stakes in their practices and these are structured to aid retention.
Shareholders' funds	The value of shareholders' funds decrease, thereby reducing the capital available to support the business.	Financial assets and liabilities held outside unitised funds primarily consist of low volatility government, supranational fixed interest securities, units in AAA rated money market funds, cash and cash equivalents.

Advice	Advice given by an individual Partner or authorised by the Group is deemed unsuitable leading to redress, costs and potential reputational damage.	Advice guidelines are agreed by technical specialists and reviewed by Group management. These guidelines are supported by Training and Accreditation arrangements that have been established, with close compliance monitoring to ensure advice guidelines are followed. Appropriate incentives exist to promote Partner compliance, whilst those failing to do so are subject to censure and other sanctions. The Group also has adequate professional indemnity cover in place.
Retail Distribution Review	Changes arising from the Retail Distribution Review, particularly in relation to professionalism and adviser charging adversely impact the Group.	Strategic plans are in place to move the Partnership towards achieving Diploma status ahead of the 2012 deadline and to manage the outcome of the adviser charging review. Progress is well underway in these areas. The Group is actively engaged with the FSA in developing a compliant approach to payment for advised sales.
Regulatory, legislative and tax environment	Changes in the wider regulatory environment, supervisory approach or legislative and tax environments could have an adverse impact on the Group's business.	Governance structure, management committees and active management of the FSA relationship provides intelligence and tools to mitigate the impact of operating in a highly regulated sector. Membership of appropriate trade bodies also provides intelligence on the nature and possible effect of proposed changes.

Other Key Risks and Uncertainties

In addition to the principal risks and uncertainties mentioned above, there are other key risks and uncertainties that are inherent within the business and markets in which we operate. At the time of preparing this report the other key risks and uncertainties facing the business, and the high level controls and processes through which we aim to mitigate these risks, are as detailed below under the relevant risk categories.

Strategic Risk

Risk	Description	Management
Culture	Developments in the industry, or in the scale of SJP's business, have an adverse effect on SJP's culture and, ultimately, the continuing success of the business.	We have a range of strategic mechanisms in place including, for example, regular staff surveys and consultation groups, which enable us to monitor the sentiment of our staff and Partners, identify any adverse or potential adverse impacts upon our culture and allow us to take appropriate action.
Economic environment	A major and prolonged economic downturn and/or stock market crash leads to a failure to meet targets and to a significant under-performance of our business plan.	We closely monitor the achievement of our business plan, the performance of the markets and consumer confidence through the use of daily Management Information circulated to senior management. This helps to identify early signals of a market decline, so that we can manage expenses and strategy appropriately, as developed in our scenario planning.

Market Risk

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

The Group seeks to manage market risk by undertaking unit linked business, whereby the client bears the market risk in the search for investment return. This strategy mitigates any risk to the Group associated with being unable to meet clients' liabilities. However, a reduction in the market value of the unit linked funds would affect the annual management charges paid to the Group, since these charges are based on the market value of funds under management. An associated reduction in investment returns could also result in the deferral of tax relief on UK life business expenses. Indirectly, a reduction in market levels could also be associated with a reduction in the volume of new business sales. The Group accepts the risk associated with variations in the level of future profits arising from market risk.

Management of Market Risk

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

Risk	Description	Management
Client liabilities	As a result of a reduction in equity values, the Group may be unable to meet client liabilities.	This risk is substantially mitigated by the Group's strategic focus on unit-linked business and not providing guarantees to clients on policy values.
Tax	In adverse market conditions, when the Group is realising investment losses rather than gains, the working of the I-E tax regime can lead to short-term capital inefficiencies, including the deferral of cash benefit of tax relief on expenses.	The tax position is monitored closely, in particular the size and sources of relevant income streams.
Retention	Adverse market conditions lead to clients withdrawing their funds above projected experience levels.	Retention of funds is monitored closely. Retention has remained consistently high throughout the reporting period, despite the challenging economic climate, and at the time of writing this report is at 95%.
New Business	Poor performance in the financial markets in absolute terms and relative to inflation, leads to existing and future clients rejecting investment in longer term assets.	The benefit of longer term equity investment is fundamental to the business model. Advice and marketing remain valid even when market values fall; however, greater attention is required to support and give confidence to existing and future clients in such circumstances.

Credit Risk

Credit risk is the risk of loss due to a debtor's non-payment of a loan or other line of credit. Credit risk also arises from holdings of cash and cash equivalents, deposits and formal loans with banks and financial institutions.

The Group has adopted a risk averse approach to such risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives.

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

Management of Credit Risk

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

Risk	Description	Management
Shareholders' assets	Loss of assets.	Shareholder funds are invested in AAA rated unitised money market funds and deposits with approved banks. Maximum counterparty limits are set for each company within the Group and aggregate limits are also set at a Group level.
Investment matching of non-linked liabilities	Loss of value of assets.	These liabilities are matched by fixed interest securities with minimum AAA credit ratings; maximum counterparty limits for such holdings are again set for each company within the Group and at an aggregate Group level.
Reinsurance	Failure of counterparty or counterparty unable to meet liabilities.	It is necessary for the credit ratings of potential reinsurers to meet or exceed minimum specified levels. Consideration is also given to size, risk concentrations/exposures and ownership in the selection of reinsurers. The Group also seeks to diversify its reinsurance credit risk through the use of a spread of reinsurers.
Partner loans	Inability of Partners to repay loans from the business.	Loans are managed in line with the Group's secured lending policy. All loans are secured on the future renewals income stream expected from a Partner's portfolio and loan advances vary in relation to the projected future income of the relevant Partner. Outstanding balances are reviewed on a regular basis and support is provided to help Partners manage their business appropriately. Appropriate provision is made where there is objective evidence of impairment.

Liquidity Risk

Liquidity risk is the risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

The Group seeks to minimise its exposure to liquidity risk by not actively pursuing liquidity risk except where necessary to support other objectives. The Group is subject to minimal liquidity risk since it maintains a high level of highly rated liquid assets to meet its liabilities, rather than relying on recourse to the market.

Currency Risk

The Group is not subject to any significant currency risk since all material shareholder financial assets and financial liabilities are denominated in sterling.

Insurance Risk

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

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

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

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

Management of Insurance related Risk

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

Risk	Description	Management
Underwriting	Failure to price appropriately for a risk, or the impact of anti-selection.	Experience is monitored regularly. For most business the premium or deduction rates can be re-set.
Epidemic / disaster	An unusually large number of claims arising from a single incident or event.	Protection is provided through reassurance.
Expense	Administration costs exceed expense allowance.	Administration is outsourced and a tariff of costs is agreed. The contract is monitored regularly to rationalise costs incurred. Internal overhead expenses are monitored and closely managed.
Persistency	Loss of product margins due to higher than anticipated lapses.	Lapse rates are closely monitored and unexpected experience is investigated. This monitoring has been enhanced during the recent period of market turbulence with a new senior management group established to focus on persistency risk, and new reporting arrangements in the Group's outsourced administration providers.

Operational Risk

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

- Regulation, information technology, financial crime which will include the new offences to be introduced by the Bribery Act, business protection, human resources, outsourcing, purchasing, communications and legal contracts and obligations;
- Brand value degradation;
- Product development process failure;
- Advice, sales management and distribution;
- Financial processes including financial reporting and taxation; and
- External events and developments affecting the Group's markets and operations.

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

Management of Operational Risk

In addition to the operational risks identified in the principal risks and uncertainties disclosed at the start of this section of the report and accounts, there is one further key operational risk to which the business is exposed. The table below summarises this risk and the methods by which the Group seeks to mitigate it.

Risk	Description	Management
Regulatory censure	That the Group could face a fine or regulatory censure should it fail to comply with applicable regulations.	We seek to maintain open and mutually beneficial relationships with our regulators. We have a range of compliance monitoring activities designed to ensure we remain compliant with all applicable regulations.

EUROPEAN EMBEDDED VALUE BASIS

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

CONSOLIDATED STATEMENT OF INCOME

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Life business	256.8	175.1
Unit trust business	81.7	74.3
Distribution business	5.8	(7.5)
Other	(11.7)	(13.0)
Operating profit	332.6	228.9
Investment return variances	117.6	148.2
Economic assumption changes	4.8	(13.9)
EEV profit on ordinary activities before tax	455.0	363.2
Taxation		
Life business	(87.9)	(67.5)
Unit trust business	(31.8)	(32.7)
Distribution business	(1.8)	2.0
Other	1.4	0.1
Corporation tax rate change	17.7	-
	(102.4)	(98.1)
EEV profit on ordinary activities after tax	352.6	265.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Opening equity shareholders' funds on an EEV basis	**1,371.4**	**1,114.3**
Post-tax EEV profit for the year	352.6	265.1
Issue of share capital	8.2	4.6
Retained earnings credit in respect of share option charges	8.2	8.6
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust	0.1	0.1
Dividends paid	(22.6)	(21.0)
Consideration paid for own shares	(2.4)	(0.3)
Closing equity shareholders' funds on an EEV basis	**1,715.5**	**1,371.4**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2010	31 December 2009
	£' Million	£' Million
Assets		
Intangible assets		
Deferred acquisition costs	755.7	642.4
Value of long-term business in-force		
- long-term insurance	877.2	649.1
- unit trusts	288.7	221.5
Computer software	2.1	-
	1,923.7	1,513.0
Property & equipment	7.7	10.4
Deferred tax assets	158.2	187.0
Investment property	397.8	401.7
Investments	21,336.8	16,384.2
Reinsurance assets	38.6	36.8
Insurance and investment contract receivables	14.2	17.4
Income tax assets	37.0	18.6
Other receivables	547.1	235.0
Cash & cash equivalents	2,042.0	1,711.1
Total assets	**26,503.1**	**20,515.2**
Liabilities		
Insurance contract liabilities	417.9	388.1
Other provisions	3.6	4.8
Financial liabilities	21,228.2	16,997.0
Deferred tax liabilities	210.8	172.7
Insurance and investment contract payables	44.6	21.5
Deferred income	469.6	401.1
Income tax liabilities	34.4	14.5
Other payables	433.6	142.4
Net asset value attributable to unit holders	1,944.9	1,001.7
Total liabilities	**24,787.6**	**19,143.8**
Net assets	**1,715.5**	**1,371.4**
Shareholders' equity		
Share capital	72.9	72.3
Share premium	98.1	90.5
Treasury share reserve	(8.2)	(7.7)
Miscellaneous reserves	2.3	2.3
Retained earnings	1,550.4	1,214.0
Total shareholders' equity	**1,715.5**	**1,371.4**
	Pence	Pence
Net assets per share	352.9	284.5

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS

I. BASIS OF PREPARATION

The supplementary information on pages 35 to 46 shows the Group's results as measured on a European Embedded Value (EEV) basis. This includes results for the life, pension and investment business, including unit trust business. The valuation is undertaken on a basis determined in accordance with the EEV Principles issued in May 2004 by the Chief Financial Officers Forum, a group of chief financial officers from 19 major European insurers as supplemented by the Additional Guidance on EEV Disclosures issued in October 2005 (together "the EEV Principles"). The treatment of all other transactions and balances is unchanged from the primary financial statements on an IFRS basis. The objective of the EEV basis is to provide shareholders with more realistic information on the financial position and performance of the Group than that provided by the IFRS basis.

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

II. METHODOLOGY

(a) Covered business

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

(b) Calculation of EEV on existing business

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

(c) Allowance for risk

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

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

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

(d) Non-market risk

Best estimate assumptions have been established based on available information and when used within the market consistent calculations provide the primary evaluation of the impact of non-market risk. However, some non-market operational risks are not symmetric, with adverse experience having a higher impact on the EEV than favourable experience. Allowance has been made for this by increasing the risk discount rate by 0.8% (2009: 0.8%).

(e) The risk discount rate

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

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

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

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

(f) Cost of required capital

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

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

(g) New business

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

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

(h) Operating profit

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

(i) Taxation

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

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

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

III. ASSUMPTIONS

(a) Economic Assumptions

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

	Year Ended 31 December 2010	Year Ended 31 December 2009
Risk free rate	3.6%	4.2%
Inflation rate	3.2%	3.2%
Risk discount rate (net of tax)	6.7%	7.3%
Future investment returns:		
- Gilts	3.6%	4.2%
- Equities	6.6%	7.2%
- Unit linked funds		
- Capital growth	2.9%	3.4%
- Dividend income	3.0%	3.1%
- Total	5.9%	6.5%
Expense inflation	3.9%	3.9%

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

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

(b) Experience Assumptions

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

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

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

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

(c) Taxation

Future taxation has been determined assuming a continuation of the current tax legislation. The EEV result has been calculated on an after-tax basis and has been grossed up to a pre-tax level for presentation in the profit and loss account. The corporation tax rate used for this grossing up is 26% for UK life and pensions business, 12.5% for Irish life and pensions business and 28% for unit trust business.

IV. COMPONENTS OF EEV PROFIT

(a) Life Business

	Note	Year Ended 31 December 2010	Year Ended 31 December 2009
		£' Million	£' Million
New business contribution	1	157.9	106.3
Profit from existing business			
Unwind of discount rate		74.0	63.7
Experience variances		24.8	2.6
Operating assumption changes		(3.4)	(2.3)
Investment income		3.5	4.8
Operating profit before tax		**256.8**	**175.1**
Investment return variances		84.9	104.0
Economic assumption changes		5.8	(12.1)
Profit before tax		**347.5**	**267.0**
Attributed tax		(87.9)	(67.5)
Corporation tax rate change		13.8	-
Profit after tax		**273.4**	**199.5**

Note 1: New business contribution after tax is £118.2 million (2009: £79.7 million)

(b) Unit Trust Business

	Note	Year Ended 31 December 2010	Year Ended 31 December 2009
		£' Million	£' Million
New business contribution	1	59.9	49.1
Profit from existing business			
Unwind of discount rate		19.5	14.6
Experience variances		1.6	9.0
Operating assumption changes		-	0.8
Investment income		0.7	0.8
Operating profit before tax		**81.7**	**74.3**
Investment return variances		32.7	44.2
Economic assumption changes		(1.0)	(1.8)
Profit before tax		**113.4**	**116.7**
Attributed tax		(31.8)	(32.7)
Corporation tax rate change		3.9	-
Profit after tax		**85.5**	**84.0**

Note 1: New business contribution after tax is £43.1 million (2009: £35.3 million)

(c) Combined Life and Unit Trust Business

	Note	Year Ended 31 December 2010	Year Ended 31 December 2009
		£' Million	£' Million
New business contribution	1	217.8	155.4
Profit from existing business:			
Unwind of discount rate		93.5	78.3
Experience variances		26.4	11.6
Operating assumption changes		(3.4)	(1.5)
Investment income		4.2	5.6
Operating profit before tax		**338.5**	**249.4**
Investment return variances		117.6	148.2
Economic assumption changes		4.8	(13.9)
Profit before tax		**460.9**	**383.7**
Attributed tax		(119.7)	(100.2)
Corporation tax rate change		17.7	-
Profit after tax		**358.9**	**283.5**

Note 1: New business contribution after tax is £161.3 million (2009: £115.0 million).

(d) Detailed Analysis

In order to better explain the movement in capital flows, the components of the EEV profit for the year ended 31 December 2010 are shown separately between the movement in IFRS net assets and the present value of the in-force business (VIF) in the table below. All figures are shown net of tax.

	Movement in IFRS Net Assets	Movement in VIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	(61.9)	223.2	161.3
Profit from existing business	124.9	(124.9)	-
Unwind of discount rate	-	69.5	69.5
Experience variances	(4.9)	24.3	19.4
Operating assumption changes	(2.0)	(0.9)	(2.9)
Investment return	3.2	-	3.2
Investment return variances	4.0	83.1	87.1
Economic assumption changes	(2.0)	5.6	3.6
Miscellaneous	(6.3)	-	(6.3)
Corporation tax rate change	-	17.7	17.7
Profit after tax	**55.0**	**297.6**	**352.6**

The comparative figures for 2009 are as follows:

	Movement in IFRS Net Assets	Movement in VIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	(50.5)	165.5	115.0
Profit from existing business	102.0	(102.0)	-
Unwind of discount rate	-	58.2	58.2
Experience variances	7.8	0.8	8.6
Operating assumption changes	(7.5)	6.0	(1.5)
Investment return	4.4	-	4.4
Investment return variances	(0.2)	109.9	109.7
Economic assumption changes	2.2	(13.1)	(10.9)
Miscellaneous	(18.4)	-	(18.4)
Profit after tax	**39.8**	**225.3**	**265.1**

V. EEV SENSITIVITIES

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

	Note	Change in new business contribution		Change in European Embedded Value
		Pre-tax	Post-tax	Post-tax
		£' Million	£' Million	£' Million
Value at 31 December 2010		**217.8**	**161.3**	**1,715.5**
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	(0.5)	(0.4)	8.5
10% reduction in withdrawal rates		21.3	15.8	84.4
10% reduction in expenses		4.6	3.5	22.1
10% reduction in market value of equity assets	2	-	-	(158.6)
5% reduction in mortality and morbidity	3	-	-	0.5
100bp increase in equity expected returns	4	-	-	-
100bp increase in assumed inflation	5	(3.8)	(2.9)	(12.2)

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

Note 2: For the purposes of this required sensitivity, all unit linked funds are assumed to be invested in equities. The actual mix of assets varies and in recent years the proportion invested directly in UK and overseas equities has exceeded 70%.

Note 3: Assumes the benefit of lower experience is passed on to clients and reassurers at the earliest opportunity.

Note 4: As a market-consistent approach is used, equity expected returns only affect the derived discount rates and not the embedded value or contribution to profit from new business.

Note 5: Assumed inflation is set by reference to 10 year index linked gilt yields.

	Change in new business Contribution		Change in European Embedded Value
	Pre-tax	Post-tax	Post-tax
	£' Million	£' Million	£' Million
100bp reduction in risk discount rate	31.2	23.1	118.9

Although not directly relevant under a market-consistent valuation, this sensitivity shows the level of adjustment which would be required to reflect differing investor views of risk.

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

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
IFRS profit before tax	**161.9**	**28.5**
Movement in life value of in-force	197.0	234.8
Movement in unit trust value of in-force	96.1	99.9
Total EEV profit before tax	**455.0**	**363.2**

	31 December 2010	31 December 2009
	£' Million	£' Million
IFRS net assets	**586.3**	**539.8**
Less: acquired value of in-force	(50.2)	(54.1)
Add: deferred tax on acquired value of in-force	13.5	15.1
Add: life value of in-force	877.2	649.1
Add: unit trust value of in-force	288.7	221.5
EEV net assets	**1,715.5**	**1,371.4**

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

	31 December 2010	31 December 2009
	£' Million	£' Million
Life company estimated free assets	**102.1**	**82.2**
Estimated required life company solvency capital	39.5	42.5
Other subsidiaries, consolidation and IFRS adjustments	444.7	415.1
IFRS net assets	**586.3**	**539.8**

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Life company estimated free assets at 1 January	**82.2**	**110.8**
Investment in new business	(69.5)	(65.2)
Profit from existing business	96.0	78.6
Dividends paid	(10.0)	(44.4)
Investment return	2.7	3.8
Movement in required solvency capital	0.7	(1.4)
Life company estimated free assets at 31 December	**102.1**	**82.2**

CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year Ended 31 December 2010	Year Ended 31 December 2009
		£' Million	£' Million
Insurance premium income		78.5	85.5
Less premiums ceded to reinsurers		(28.5)	(30.5)
Net insurance premium income		50.0	55.0
Fee and commission income		455.0	369.1
Investment income		2,626.7	2,706.1
Other operating income		1.4	0.9
Net income	4	3,133.1	3,131.1
Policy claims and benefits			
- Gross amount		(61.2)	(55.4)
- Reinsurers' share		20.8	22.1
Net policyholder claims and benefits incurred		(40.4)	(33.3)
Change in insurance contract liabilities			
- Gross amount		(29.8)	(49.7)
- Reinsurers' share		1.8	4.6
Net change in insurance contract liabilities		(28.0)	(45.1)
Investment contract benefits		(2,462.7)	(2,632.8)
Fees, commission and other acquisition costs		(320.0)	(273.3)
Administration expenses		(116.2)	(114.5)
Other operating expenses		(3.9)	(3.6)
		(440.1)	(391.4)
Profit before tax	4	161.9	28.5
Tax attributable to policyholders' returns	5	(77.7)	21.4
Profit before tax attributable to shareholders' returns		84.2	49.9
Total tax (expense) / credit		(106.9)	11.3
Less: tax attributable to policyholders' returns	5	77.7	(21.4)
Tax attributable to shareholders' returns	5	(29.2)	(10.1)
Profit for the year		**55.0**	**39.8**
Other comprehensive income, net of tax		**-**	**-**
Total comprehensive income for the year		**55.0**	**39.8**
		Pence	Pence
Basic earnings per share	6	11.4	8.3
Diluted earnings per share	6	11.2	8.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Treasury Shares Reserve	Retained Earnings	Miscellaneous Reserves	Total
	£'Million	£' Million	£' Million	£' Million	£' Million	£' Million
At 1 January 2009	71.9	86.3	(13.0)	360.5	2.3	508.0
Profit for the year				39.8		39.8
- Dividends				(21.0)		(21.0)
- Issue of share capital						
- Scrip dividend	0.1	1.4				1.5
- Exercise of options	0.3	2.8				3.1
Consideration paid for own shares			(0.3)			(0.3)
Own shares vesting charge			5.6	(5.6)		-
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust				0.1		0.1
Retained earnings credit in respect of share option charges				8.6		8.6
At 31 December 2009	72.3	90.5	(7.7)	382.4	2.3	539.8
Profit for the year				55.0		55.0
- Dividends				(22.6)		(22.6)
- Issue of share capital						
- Scrip dividend	0.1	1.9				2.0
- Exercise of options	0.5	5.7				6.2
Consideration paid for own shares			(2.4)			(2.4)
Own shares vesting charge			1.9	(1.9)		-
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust				0.1		0.1
Retained earnings credit in respect of share option charges				8.2		8.2
At 31 December 2010	**72.9**	**98.1**	**(8.2)**	**421.2**	**2.3**	**586.3**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2010	31 December 2009
		£' Million	£' Million
Assets			
Intangible assets			
- Deferred acquisition costs		755.7	642.4
- Acquired value of in force business		50.2	54.1
- Computer software		2.1	-
		808.0	696.5
Property & equipment		7.7	10.4
Deferred tax assets		158.2	187.0
Investment property		397.8	401.7
Investments			
- Equities		15,835.7	12,361.4
- Fixed income securities		2,939.1	2,249.5
- Investment in Collective Investment Schemes		2,558.5	1,753.7
- Currency forwards		3.5	19.6
Reinsurance assets		38.6	36.8
Insurance and investment contract receivables		14.2	17.4
Income tax assets		37.0	18.6
Other receivables		547.1	235.0
Cash & cash equivalents		2,042.0	1,711.1
Total assets		**25,387.4**	**19,698.7**
Liabilities			
Insurance contract liabilities	8	417.9	388.1
Other provisions	9	3.6	4.8
Financial liabilities			
- Investment contracts		21,191.9	16,994.4
- Borrowings		15.9	2.6
- Currency forwards		20.4	-
Deferred tax liabilities		224.3	187.8
Insurance and investment contract payables		44.6	21.5
Deferred income		469.6	401.1
Income tax liabilities		34.4	14.5
Other payables		433.6	142.4
Net asset value attributable to unit holders		1,944.9	1,001.7
Total liabilities		**24,801.1**	**19,158.9**
Net assets		**586.3**	**539.8**
Shareholders' equity			
Share capital	10	72.9	72.3
Share premium		98.1	90.5
Treasury shares reserve		(8.2)	(7.7)
Miscellaneous reserves		2.3	2.3
Retained earnings		421.2	382.4
Total shareholders' equity		**586.3**	**539.8**
		Pence	Pence
Net assets per share		120.6	112.0

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Cash flows from operating activities		
Profit before tax for the period	161.9	28.5
Adjustments for:		
Depreciation	3.6	3.4
Impairment losses	0.5	-
Amortisation of acquired value of in-force business	3.9	3.6
Fair value gains on non-operating investments	-	(0.1)
Share based payment charge	8.2	8.6
Changes in operating assets and liabilities		
Increase in deferred acquisition costs	(113.3)	(77.5)
Decrease in investment property	3.9	8.9
Increase in investments	(4,952.6)	(4,943.9)
Increase in reassurance assets	(1.8)	(4.6)
Decrease / (increase) in insurance and investment contract receivables	3.2	(2.5)
Increase in other receivables	(357.3)	(16.5)
Increase in insurance contract liabilities	29.8	49.7
Decrease in provisions	(1.2)	(8.1)
Increase in financial liabilities (excluding borrowings)	4,234.2	3,849.6
Increase / (decrease) in insurance and investment contract payables	23.1	(1.4)
Increase in deferred income	68.5	28.5
Increase / (decrease) in other payables	291.2	(31.6)
Increase in net assets attributable to unit holders	943.2	665.9
Cash generated from operations	**349.0**	**(439.5)**
Income taxes received	5.1	12.2
Net cash from operating activities	**354.1**	**(427.3)**
Cash flows from investing activities		
Acquisition of property & equipment	(1.4)	(2.7)
Acquisition of intangible assets	(2.1)	-
Proceeds from sale of plant & equipment	-	1.1
Net cash from investing activities	**(3.5)**	**(1.6)**
Cash flows from financing activities		
Proceeds from the issue of share capital	6.2	3.0
Consideration paid for own shares	(2.4)	(0.3)
Proceeds from exercise of options over shares held in trust	0.1	-
Additional / (repayment of) borrowings	13.3	(5.2)
Dividends paid	(20.6)	(19.4)
Net cash from financing activities	**(3.4)**	**(21.9)**
Net increase / (decrease) in cash & cash equivalents	**347.2**	**(450.8)**
Cash & cash equivalents at 1 January	1,711.1	2,253.5
Effect of exchange rate fluctuations on cash held	(16.3)	(91.6)
Cash & cash equivalents at 31 December	**2,042.0**	**1,711.1**

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

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. BASIS OF PREPARATION

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

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

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

The Group financial statements have been prepared on a going concern basis.

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 2009 with the exception of the following new policy for recognising Computer Software as an intangible asset:

Computer software is recognised as an intangible asset during development and amortised on a straight line basis over its useful life of 4 years, commencing when the software is operational. Computer software is stated at cost less amortisation and any recognised impairment loss. The carrying value is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Judgements

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

Estimates

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

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

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

Measurement of insurance contract liabilities

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

- the lapse assumption, which is set prudently based on an investigation of experience during the year;
- the level of expenses, which is based on actual expenses in 2010 and expected long term rates;
- the mortality and morbidity rates, which are based on the results of an investigation of experience during the year; and
- the assumed rate of investment return, which is based on current gilt rates.

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

Acquisition expenses

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

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

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

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

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

Acquired in-force business

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

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

Valuing capital losses in unit funds

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

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

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

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 chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Group's reportable segments under IFRS 8 are therefore as follows:

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

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

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

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

4. Other – all other group activities.

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

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

Segment Income

Annual Premium Equivalents ("APE")

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

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Life business	405.9	310.9
Unit Trust business	124.6	89.2
Distribution business	51.3	40.7
Other business	-	-
Total APE	**581.8**	**440.8**
Adjustments to IFRS basis		
Life Business		
Exclude investment business APE	(400.7)	(306.2)
Difference between insurance business APE and premium receivable	73.3	80.8
Less insurance premium income ceded to reinsurers	(28.5)	(30.5)
Fee income (management fees)	353.0	267.9
Net movement on deferred income	(33.2)	(5.5)
Investment income (primarily in unit linked funds)	2,428.9	2,523.3
Unit trust business		
Exclude unit trust APE	(124.6)	(89.2)
Fee income (dealing profit and management fees)	128.3	89.6
Net movement on deferred income	(35.3)	(23.0)
Investment income	0.3	0.4
Distribution business		
Exclude distribution APE	(51.3)	(40.7)
Fee and commission income receivable	38.8	37.1
Other investment income	-	0.1
Other business		
Income receivable	3.4	3.0
Investment income on third party holdings in consolidated unit trusts	195.8	180.1
Other investment income	1.7	2.2
Other operating income	1.4	0.9
Total adjustments	2,551.3	2,690.3
Net income	**3,133.1**	**3,131.1**

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

Segment Profit

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

EEV Operating Profit before Tax

EEV Operating Profit before tax is monitored on a monthly basis by the chief operating decision maker. The components of the EEV Operating Profit are included in more detail in the EEV basis section within this announcement. A reconciliation of EEV operating profit to IFRS profit before tax is shown below.

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Life business	256.8	175.1
Unit Trust business	81.7	74.3
Distribution business	5.8	(7.5)
Other business	(11.7)	(13.0)
EEV operating profit before tax	**332.6**	**228.9**
Investment return variance	117.6	148.2
Economic assumption changes	4.8	(13.9)
EEV profit before tax	455.0	363.2
Adjustments to IFRS basis		
Movement in life value of in-force	(197.0)	(234.8)
Movement in unit trust value of in-force	(96.1)	(99.9)
IFRS profit before tax	**161.9**	**28.5**

Cash result	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Life business	27.5	22.1
Unit trust business	18.3	14.5
Distribution business	4.9	(5.5)
Other business	(2.4)	(7.6)
Cash result after tax	48.3	23.5
IFRS adjustments (after tax)		
Share option expense	(8.2)	(8.6)
Deferred acquisition costs (DAC)	83.6	51.7
Deferred income (DIR)	(54.6)	(17.5)
Acquired value of in-force (PVIF)	(2.9)	(2.6)
Sterling reserves	(6.5)	(2.5)
IFRS tax adjustments	(4.7)	(4.2)
IFRS profit after tax	55.0	39.8
Shareholder tax	29.2	10.1
IFRS operating profit before tax	84.2	49.9
Policyholder tax	77.7	(21.4)
IFRS profit before tax	161.9	28.5

IFRS segment result	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Life business		
- shareholder	72.8	53.6
- policyholder tax gross up	77.7	(21.4)
Unit trust business	17.3	16.8
Distribution business	5.8	(7.5)
Other business	(11.7)	(13.0)
Operating profit and profit before tax	**161.9**	**28.5**

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

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£'Million	£'Million
Interest income	3.0	4.0
Depreciation	3.6	3.4

Segment Assets

Funds under Management ("FUM")

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

	31 December 2010	31 December 2009
	£' Million	£' Million
Life business	21,500.0	17,200.0
Unit trust business	5,500.0	4,200.0
Total FUM	**27,000.0**	**21,400.0**
Exclude third party holdings in non consolidated unit trusts	(3,584.8)	(3,207.2)
Add balance sheet liabilities in unit linked funds	268.3	50.0
Adjustments for other balance sheet assets excluded from FUM		
DAC	755.7	642.4
PVIF	50.2	54.1
Computer software	2.1	-
Property & equipment	7.7	10.4
Deferred tax assets	158.2	187.0
Fixed income securities	60.7	53.3
Collective investment schemes	240.2	163.7
Reinsurance assets	38.6	36.8
Insurance and investment contract receivables	14.2	17.4
Income tax assets	37.0	18.6
Other receivables	236.1	146.6
Cash & cash equivalents	84.7	67.2
Other adjustments	18.5	58.4
Total adjustments	**(1,612.6)**	**(1,701.3)**
Total assets	**25,387.4**	**19,698.7**

5. INCOME TAXES

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Policyholder tax		
Overseas withholding taxes	13.5	16.1
Deferred tax on eligible unrelieved foreign tax	-	8.4
Deferred tax on unrelieved expenses		
- Current year credit	(8.6)	(3.4)
- Adjustment in respect of prior year	-	5.4
Deferred tax on unrealised gains and capital losses in unit linked funds	57.5	(42.4)
UK corporation tax		
- Current year charge	13.9	-
- Adjustment in respect of prior year	1.4	(5.5)
Total policyholder tax charge/(credit) for the year	**77.7**	**(21.4)**
Shareholder tax		
UK corporation tax		
- Current year charge	12.0	3.0
- Prior year charge	(0.7)	(1.1)
- Overseas taxes	1.5	0.4
	12.8	2.3
Deferred tax on pension business losses		
- Current year credit	5.5	1.1
- Adjustment in respect of prior year	0.6	(2.7)
Deferred tax charge on other items		
- Current year charge	10.3	10.1
- Adjustment in respect of prior year	-	(0.7)
Total shareholder tax charge for the year	**29.2**	**10.1**

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

Included within the shareholder deferred tax current year charge is a credit of £1.4 million (2009: £0.3 million credit) relating to share based payments charged directly to equity.

The change in the corporation tax rate from 28% to 27% effective from 1 April 2011 enacted in the Finance (No2) Act 2010 has been incorporated into the deferred tax balances and is quantified in the reconciliation of the tax charge on page 59.

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Reconciliation of tax charge		
Profit before tax	161.9	28.5
Tax at 28% (2009: 28%)	45.3	8.0
Effects of:		
Deferred tax on unrelieved expenses current year	(4.5)	(3.4)
Deferred tax on unrelieved expenses prior year	-	5.4
Overseas withholding tax in unit linked funds	6.7	10.0
Deferred tax in respect of unit linked funds	44.2	(30.6)
Shareholder deduction for policyholder tax	10.0	1.5
Adjustments to reserves	-	1.2
Policyholder tax rate differential	9.3	4.5
Prior year items	2.1	(9.9)
Change in tax rate	(3.3)	-
Other adjustments	(2.9)	2.0
Total tax charge / (credit) for the year	**106.9**	**(11.3)**

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

6. EARNINGS PER SHARE

	Year Ended 31 December 2010	Year Ended 31 December 2009
	Pence	Pence
Basic earnings per share	11.4	8.3
Diluted earnings per share	11.2	8.2

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

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£' Million	£' Million
Earnings		
Profit after tax (*for both basic and diluted EPS*)	55.0	39.8
Adjustments	-	-
Adjusted profit (*for both basic and diluted EPS*)	55.0	39.8
Weighted average number of shares		
Weighted average number of ordinary shares in issue *(for basic EPS)*	481.5	477.3
Adjustments for outstanding share options	8.9	6.7
Weighted average number of ordinary shares *(for diluted EPS)*	490.4	484.0

7. DIVIDENDS

The following dividends have been paid by the Group:

	Year Ended 31 December 2010	Year Ended 31 December 2009	Year Ended 31 December 2010	Year Ended 31 December 2009
	Pence per Share	Pence per Share	£' Million	£' Million
Final dividend in respect of previous financial year	2.660	2.55	12.8	12.2
Interim dividend in respect of current financial year	2.025	1.84	9.8	8.8
Total	**4.685**	**4.39**	**22.6**	**21.0**

The Directors have recommended a final dividend of 3.975 pence per share (2009: 2.66 pence). This amounts to £19.3 million (2009: £12.8 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 18 May 2011 to those shareholders on the register as at 4 March 2011.

8. INSURANCE CONTRACT LIABILITIES

	2010	2009
	£' Million	£' Million
Balance at 1 January	388.1	338.4
Movement in unit linked liabilities	22.5	41.3
Movement in non-unit linked liabilities		
- New business	1.1	0.2
- Existing business	0.4	(1.7)
- Other assumption changes	8.2	3.4
- Experience variance	(2.4)	6.5
Total movement in non-unit linked liabilities	7.3	8.4
Balance at 31 December	**417.9**	**388.1**
Unit linked	344.3	321.8
Non-unit linked	73.6	66.3
	417.9	388.1
Current	71.3	66.9
Non current	346.6	321.2
	417.9	388.1

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

Assumptions used in the calculation of liabilities

The principal assumptions used in the calculation of the liabilities are:

Assumption — Description

Interest rate

The valuation interest rate is calculated by reference to the long term gilt yield at 31 December 2010 and the specific gilts backing the liabilities. The specific rates used are between 2.7% and 3.9% depending on the tax regime (3.0% and 4.1% at 31 December 2009).

Mortality

Mortality is based on company experience and is set at 72% of the TM/F92 tables with an additional loading for smokers. There has been no change since 2006.

Morbidity
Critical Illness

Morbidity is based on company experience. There has been no change during 2010. Sample annual rates per £ for a male non-smoker are:

	Rate	
Age	2010	2009
25	0.000760	0.000760
35	0.001334	0.001334
45	0.003189	0.003189

Morbidity
Permanent Health Insurance

Morbidity is based on company experience. There has been no change during 2010. Sample annual rates per £ income benefit p.a. for a male non-smoker are:

	Rate	
Age	2010	2009
25	0.00548	0.00548
35	0.01447	0.01447
45	0.03138	0.03138

Expenses

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

	Annual Cost	
Product	2010	2009
Protection business	£35.43	£34.22

Persistency

Allowance is made for a prudent level of lapses within the calculation of the liabilities. The rates have not changed in 2010. Sample annual lapse rates are:

	Lapses		
2009 & 2010	Year 1	Year 5	Year 10
Protection	7%	9%	8%

Sensitivity analysis

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

Sensitivity analysis	Change in assumption	Change in profit before tax 2010	Change in profit before tax 2009	Change in net assets 2010	Change in net assets 2009
	%	£' Million	£' Million	£' Million	£' Million
Withdrawal rates	-10%	(4.5)	(3.4)	(3.5)	(2.6)
Expense assumptions	-10%	1.7	1.5	1.4	1.2
Mortality / morbidity	-5%	0.7	0.4	0.5	0.3

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

9. OTHER PROVISIONS

	Endowments	Office Restructuring	Other Provisions	Total
	£' Million	£' Million	£' Million	£' Million
At 1 January 2010	**0.1**	**4.3**	**0.4**	**4.8**
Utilised/released during the year	(0.1)	(3.3)	(0.4)	(3.8)
Additional provisions	0.3	1.9	0.4	2.6
At 31 December 2010	**0.3**	**2.9**	**0.4**	**3.6**
Current	-	1.0	0.4	1.4
Non current	0.3	1.9	-	2.2
	0.3	2.9	0.4	3.6

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

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

The remaining £0.4 million (2009: £0.4 million) relates to sundry miscellaneous items.

10. SHARE CAPITAL

	Number of Ordinary Shares	Share Capital
		£' Million
At 1 January 2009	479,552,860	71.9
- Scrip dividend	798,315	0.1
- Exercise of options	1,680,612	0.3
At 31 December 2009	**482,031,787**	**72.3**
- Scrip dividend	782,813	0.1
- Exercise of options	3,334,586	0.5
At 31 December 2010	**486,149,186**	**72.9**

The total authorised number of ordinary shares is 605 million (2009: 605 million), with a par value of 15 pence per share (2009: 15 pence per share). All issued shares are fully paid.

Included in the issued share capital are 3,038,633 (2009: 2,824,647) shares held in the Treasury Shares Reserve with a nominal value of £0.5 million (2009: £0.4 million)

11. RELATED PARTY TRANSACTIONS

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

Transactions with LBG and LBG group companies

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

- Commission of £0.7 million (2009: £1.1 million) was receivable from the sale of banking services for St. James's Place Bank (a division of Halifax plc).
- Commission of £0.7 million (2009: £0.8 million) was receivable from the sale of pensions offered by Clerical Medical.
- Commission of £1.4 million (2009: £2.3 million) was receivable from the sale of Halifax, Cheltenham & Gloucester, Bank of Scotland, Birmingham Midshires, Scottish Widows and The Mortgage Business mortgages.
- Commission of £0.9 million (2009: £0.7 million) was receivable from Bank of Scotland Annuity Service.
- Commission of £6,000 (2009: £10,000) was receivable from Bank of Scotland in respect of corporate banking income in 2010.
- During the year, deposits were placed with Bank of Scotland on normal commercial terms. At 31 December 2010 these deposits amounted to £55.6 million (2009: £46.2 million).
- Amounts lent by, or assigned to, the Bank of Scotland to members of the St. James's Place Partnership, under guarantee by St. James's Place, totalled £84.9 million (2009: £66.0 million).
- Amounts lent by the Bank of Scotland to the Group totalled £0.8 million (2009: £2.6 million).
- Fees of £1.9 million (2009: £1.3 million) were payable to Invista Real Estate Investment Management Limited (55% owned by LBG) in respect of investment management services for the property portfolio of the St. James's Place UK life and pension funds. The outstanding balance payable at 31 December 2010 was £0.3 million (2009: £0.5 million).

- Tax fees of £24,557 (2009: £25,530) in respect of annual tax compliance and ad-hoc tax advice were charged by LBG plc to certain unit trusts.
- Fees of £50,000 (2009: £50,000) were payable to LBG in respect of the services of Non-executive St. James's Place Board Directors.
- In respect of the non-consolidated St. James's Place managed unit trusts that are held as investments in the St. James's Place life and pension funds, there was income recognised of £41.5 million (2009: £23.7 million) and the total value of transactions with those non-consolidated unit trusts was £124.5 million (2009: £107.0 million). Net management fees receivable from these unit trusts amounted to £55.3 million (2009: £43.4 million). The value of the investment into the non-consolidated unit trusts at 31 December 2010 was £392.6 million (2009: £245.3 million).

12. NON STATUTORY ACCOUNTS

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 2009, but is derived from those accounts. Statutory accounts for 2009 have been delivered to the registrar of companies, and those for 2010 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

13. ANNUAL REPORT

The Company's annual report and accounts for the year ended 31 December 2010 is expected to be posted to shareholders by 6 April 2011. Copies of both this announcement and the annual report and accounts will be available to the public at the Company's registered office at St. James's Place House, 1 Tetbury Road, Cirencester GL7 1FP and through the Company's website at www.sjp.co.uk.

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

The Directors confirm to the best of their knowledge that:

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

On behalf of the Board

David Bellamy Chief Executive	Andrew Croft Finance Director

22 February 2011