ST. JAMES'S PLACE PLC ANNUAL REPORT AND ACCOUNTS 2010

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WEALTH MANAGEMENT

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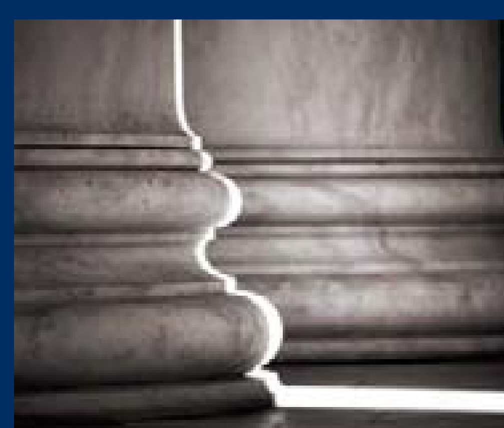
ANNUAL REPORT AND ACCOUNTS 2010



St. James's Place Wealth Management is a leading UK wealth management organisation. Founded in 1991, St. James's Place was listed on the London Stock Exchange in 1997, and is now a FTSE 250 company, with over £27 billion funds under management.

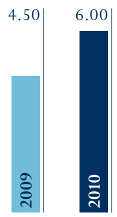
We specialise in the provision of high quality face-to-face financial advice to individuals, trustees and businesses.

Contents

Financial Highlights

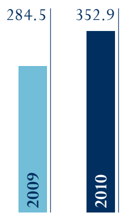
Dividends
(pence per share)

Increase of
33%



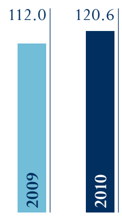
EEV Net Assets per Share
(pence)

Increase of
24%



IFRS Net Assets per Share
(pence)

Increase of
8%



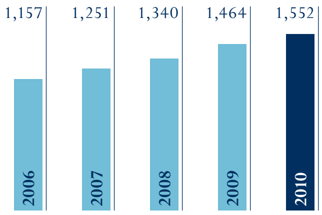
	Year Ended 31 December 2010 £ million	Year Ended 31 December 2009 £ million
European Embedded Value Basis		
Life business	**256.8**	175.1
Unit Trust business	**81.7**	74.3
Distribution business	**5.8**	(7.5)
Other	**(11.7)**	(13.0)
Operating profit before tax	**332.6**	228.9
Total profit before tax	**455.0**	363.2
Shareholders' funds	**1,715.5**	1,371.4
International Financial Reporting Standards		
Life business – shareholder profit	**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
Profit before tax**	**161.9**	28.5
Shareholders' funds	**586.3**	539.8

* Figures exclude policyholders' tax gross up.
** Figures include policyholders' tax gross up.

Key Performance Indicators

Number of Partners

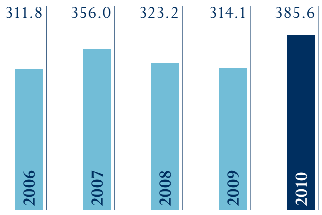
Increase of
6%



The growth in the number of advisers in the St. James's Place Partnership continues to contribute to the growth in new business year on year. It is key not only to recruit good quality advisers but also to retain those already with us. During 2010, the number of Partners increased by 6% to 1,552.

New Business per Partner APE (£'000)

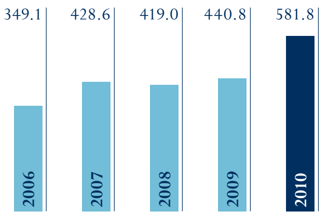
Increase of
23%



New business per Partner is measured on the Annual Premium Equivalent ('APE') basis (being new regular premiums plus one-tenth of single premiums and unit trust sales) divided by the average number of Partners for the year. It is a measure of the productivity of the Partnership and has significantly contributed to the growth in new business over recent years. In 2010, the new business per Partner increased by 23% to £385.6k (2009: £314.1k).

Growth in New Business APE (£ million)

Increase of
32%

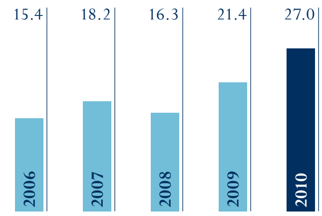


Our longer term target is to grow new business on the APE basis by 15 to 20% per annum. This is achieved by increasing both the number of Partners and new business per Partner. In 2010, the growth in new business was +32% resulting in compound annual growth of 21% over the last five years and 18% since inception.

The proportion of manufactured business for the year was 91%, maintaining the level of the previous year.

Funds under Management (£ billion)

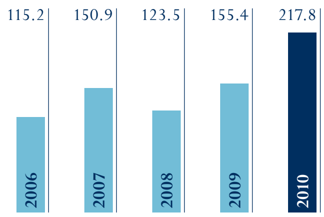
Increase of
26%



The profitability on all measures of the Group is ultimately driven by the income we earn from funds under management ('FUM'). The key drivers to FUM are the level of new business, retention of existing clients' funds and the performance of our funds. During 2010, FUM increased to £27 billion representing growth of 26% over the year, compound growth of 17% over five years and 28% since inception.

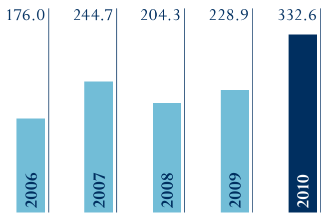
New Business Contribution on an EEV Basis (£ million)

Increase of
40%



EEV Operating Profit before Tax (£ million)

Increase of
45%

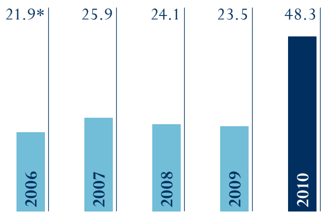


New business contribution represents the gross margin on the European Embedded Value ('EEV') reporting basis emerging from new business sales, less the direct expenses and as such is a measure of the profitability of new business sales. In 2010, the growth in EEV new business contribution was 40%.

The EEV reporting basis, in our opinion, provides the most meaningful measure of the Group's operating performance. We aim to achieve sustainable growth in EEV operating profit and for 2010 achieved growth of 45%.

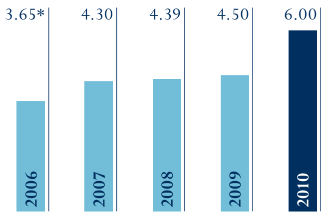
Cash Result (£ million)

Increase of
106%



Dividends (pence per share)

Increase of
33%



The cash result is the combination of the cash arising from the business in force at the start less the investment to acquire business in the current period – in effect a proportion of the cash arising from the in-force business is reinvested for future cash returns. The cash result is monitored as a key metric and has therefore been included as a KPI for the first time. The cash result for the year was £48.3 million, an increase of 106% over the prior year.

* Cash result not available for 2006 growth.

It is our intention to increase the total dividend on a basis judged prudent taking account of the cash generated from the business. Taking into account the strong growth experienced in 2010, the Board proposes to increase the total dividend for 2010 by 33%, subject to shareholder approval at the AGM.

* 6.35p special dividend also distributed.

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.

Mike Wilson
Chairman

+33%
FULL YEAR DIVIDEND

£2.7m
FUNDS RAISED FOR SJP FOUNDATION

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. Further details of fund raising events and charities supported can be found on pages 31 to 33.

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 ongoing control of expenses and good retention, has helped deliver a strong profit performance in 2010.

David Bellamy
Chief Executive

+32%
APE NEW BUSINESS

+45%
EEV OPERATING PROFIT

+6%
SIZE OF PARTNERSHIP

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. Benefiting from this backdrop of rising markets and strong net inflows, group funds under management rose 26% over the twelve 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.

£3.0bn
NET INFLOW OF FUNDS

£27.0bn
FUNDS UNDER MANAGEMENT

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% to 20% per annum new business growth target over the longer term.

David Bellamy
Chief Executive
22 February 2011

Our Business Strategy

We provide face-to-face advice to clients based on their individual needs and circumstances, adapting the advice as requirements change over time to ensure that recommendations remain appropriate.

This relationship-based approach has proved to be very resilient, no more so than in the volatile period following the credit crunch. There is an increasing demand for trusted face-to-face advice from experienced advisers backed by a strong organisation and brand.

We believe we remain uniquely positioned to continue to succeed in our market because of the two fundamental principles that have underpinned our business from day one: the strength of the relationship between our advisers and their clients; and our approach to investment management.

The St. James's Place Partnership

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

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

Our Partners recognise that no one client's objectives or circumstances are the same as another. The relationships between Partners and clients endure because they are founded on mutual respect and trust, with the emphasis on building and maintaining a long-term relationship. The large majority of clients choose to continue the working relationship with their Partner indefinitely, appreciating a source of trusted advice as their financial needs evolve over the years.

The success of our approach can be seen from the fact that an estimated 92% of new investments came from existing clients or from referrals from them and once invested, clients tend to stay invested with a retention figure of 95%.

Our Approach to Investment Management

Successful investment is critical to future financial wellbeing, but it is a field which presents a unique problem: future performance is unpredictable. As a result, when clients choose an investment manager, no matter how successful, they can never be sure that they have made the right choice. And even if they have, it may not continue to be the right choice over the years to come.

We believe that our approach to investment management addresses these challenges. We do not place clients' money in the hands of our own team of investment managers; indeed, we have no investment managers of our own. Instead, we are free to choose any investment manager from any fund management firm anywhere in the world.

The responsibility of selecting the range of funds and fund managers that are made available to St. James's Place clients at any one time falls upon the St. James's Place Investment Committee, advised by the respected independent investment research consultancy, Stamford Associates.

Stamford Associates share their extensive research of the global investment markets with a small number of companies. We are particularly proud to have them on our team, as St. James's Place is the only company they work with that provides wealth management advice to private individuals or Trustees.

The Committee meets regularly to review performance and consider detailed reports from each investment manager. If a change in the marketplace calls for the addition of another manager, the Committee will select one. Equally, if the Committee loses confidence in the ability of an existing manager it will replace them.

We remain committed to monitoring and reviewing all of our fund managers to ensure we generate the optimum return for our clients' investments.

New Fund Managers

During 2010, the Investment Committee in conjunction with Stamford Associates made seven new fund manager appointments. The new managers and mandates appointed were:

- Jonathan Asante of First State Investments (Global Emerging Markets).
- Jill Fields and Zak Summerscale of Babson Capital Management (International Corporate Bond).
- Nick Osborne and Mark Lyttleton of BlackRock (Absolute Return Fund).
- Adrian Frost and Adrian Gosden of Artemis (UK & International Income).
- Dan O'Keefe and David Samra of Artisan Partners (Global Equity).
- Nick Purves of RWC (UK & Equity Income).
- Nick Kirrage and Kevin Murphy of Schroders (UK Equities).

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

Andrew Croft
Finance Director

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 reinvested 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 70 to 113.

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 views 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 the 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 18, provides an analysis of the constituent parts of the IFRS post-tax profit for the reporting periods.

Year Ended 31 December 2010

	Notes	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

	Notes	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
	£ million	£ million
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 123 to 132.

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 the 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 percentage of APE and PVNBP.

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

	Notes	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

	Notes	Arising from Business In-force at 1 January 2010	Investment in New Business During Period	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 encashed.
   As the surrender penalty reduces to zero so the liability to the policyholder is enhanced by increasing their funds by 1% per annum over the first six years of the product life, to correspond to this 'unwind' of the surrender penalty. In other words there is a cost which offsets the annual management fee above.
   Like the net annual management fee, the unwind of surrender penalties 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 benefited 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 18, £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 percentage of net inflow of funds under management was 2.0% compared with 2.8% for the prior year.

The cost of this reinvestment to acquire new business has fallen in the last two years as a result of ongoing 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 fifth 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
	£	million	£ million
Prior to 1 Jan 2011	2.34	24.0	56.2
Jan–Jun 2011	2.14	0.1	0.2
Jul–Dec 2011		–	–
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.

	Notes	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

The mechanisms for identifying, assessing, managing and monitoring risks are an integral part of the management processes of the Group.

Introduction

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 (on page 27).
- Credit Risk (on page 28).
- Liquidity and Currency Risk (on pages 28 and 29).
- Insurance Risk (on page 29).
- Operational Risk (on page 30).

This information is an integral part of the audited financial statements.

Risk Appetite Statement

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

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

Overseeing our risk management framework is the Risk Committee. The Risk Committee is made up of Non-executive Board members responsible for ensuring that a culture of effective risk identification and management is fostered across the Group. The Committee is also responsible for reviewing and assessing corporate, emerging and topical risks. Further information setting out the activities of the Risk Committee is set out on page 53.

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.

RISK	DESCRIPTION	MANAGEMENT
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 under way 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.
- 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.

Corporate Social Responsibility Report

St. James's Place is committed to growing the business in a way that considers the economic, social and environmental impacts of what we do.

We understand that responsible management is increasingly important to our stakeholders – shareholders, clients, Partners, employees, suppliers and the communities in which we operate.

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

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

CSR Governance

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

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

St. James's Place Foundation

The St. James's Place Foundation ('the Foundation') has been an important part of the St. James's Place culture since the Company's formation in 1992, nearly 20 years ago, when the founders of the Company had a collective desire to give something back to people who need it most and set up the Foundation to achieve this.

The Foundation is a grant making charity with a difference. It relies on the support it receives from the entire SJP community, with Partners and employees making regular monthly donations out of their income or salary and also raising funds from events and sponsored activities. The amounts raised by members of the SJP community are then matched pound for pound by the Company and the total funds are utilised in the support of UK registered charities operating in both the UK and abroad.

Foundation Income 2010

The Foundation is governed by a board of Trustees (which include the Executive Directors of the Company). However, they devolve much of the day-to-day decision making to a National Committee which meets regularly, throughout the year. The Committee is made up of members of the St. James's Place Partnership and employees of the Company from each of the 22 locations around the UK and they help to drive the Foundation's main aims and objectives, including the vetting of charities applying to the Foundation for support.

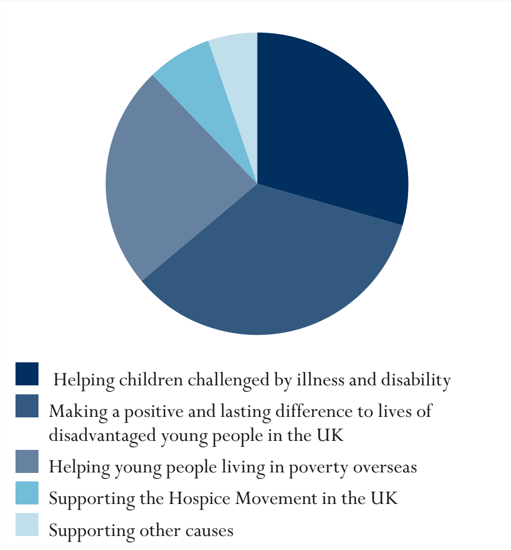
2010 was a record year for the Foundation, both in terms of funds raised and the amount of funds donated and pledged to good causes. A total of £2.7 million was raised in the year (including matching and gift aid), with £3.2 million donated to charities.

A key aspect of the Foundation's strategy for 2010 has been to assist charities by making multi year commitments whereby the cost of a salary or a related project will be funded over two to three years, thus giving the charity greater stability in terms of funding. As a result, a further £1 million has been pledged to good causes in 2010, but is due to be paid in 2011 and beyond.

How the Foundation Chooses the Causes it Supports

The Foundation's grant making is guided by themes and these are updated every three years following consultation with the St. James's Place community. The two main themes have until recently been the 'Hospice Movement' and 'Cherishing the Children' assisting children whose lives have been challenged by illness and disability. In 2009, the Foundation's reach was enhanced and the themes were broadened to include people with cancer and young people struggling to get on in life who are disadvantaged socially and economically. The Foundation tends to support small to medium sized charities with relatively low levels of reserves, as the Trustees believe that grants to such charities are likely to have a greater impact on the people supported by the charities.

Foundation Giving in 2010 by Theme



Helping Disadvantaged Young People

In 2010, a total of £1,098,208 has been donated or pledged to causes focused on disadvantaged young people, who are often marginalised and struggling to reach their full potential.

A good example of the Foundation's support of marginalised young people in London was the grant we made to the New Horizon Youth Centre, who help vulnerable and disadvantaged young people to achieve independence and positive futures through advocacy, support and education. A grant of £96,000 was made over three years to fund their ICT Life Skills Project aimed at helping young people overcome barriers to learning and to achieve key vocational qualifications.

Helping Children Whose Lives Have Been Challenged by Illness and Disability

In 2010, a total of £969,457 was donated to fund projects assisting children with disabilities, illness or life limiting conditions. We aim to help children whose quality of life has been affected adversely and where we can help to make a difference to both the child and their family's day-to-day existence. The Foundation funds both capital items and revenue costs, including, for example, specialist equipment which will make a real difference to the mobility of a child with a disability or funding the cost of a therapist who works with children to alleviate physical or mental health issues.

Through the Foundation's grant making we help children with various different illnesses and conditions including Cerebral Palsy. In 2010, the Foundation awarded Cerebral Palsy Sport ('CP Sport') a grant of £39,347 to fund the salary of a part-time specialist athletics coordinator over two years. The Foundation and CP Sport believe that participation in sport can impact positively on a child's health and mobility and can increase their self confidence.

Helping to Change the Lives of Children and People in Need Overseas

In 2010, a total of £772,230 was donated to causes focused on children living in poverty overseas and people whose lives have been devastated by disaster. The Foundation and the SJP community responded by donating a significant amount to UK charities helping those people adversely affected by the devastating earthquake in Haiti and the floods in Pakistan.

The Foundation donated a total of £75,000 over three years to the Philippine Community Fund who work with the poorest Filipino communities (particularly the 'rubbish tip' communities in Manila), improving their quality of life through education, nutrition, health, medical and family enhancement programmes.

Supporting Hospices to Provide Quality Holistic End of Life Care

In 2010, a total of £239,019 was donated to Hospices providing quality palliative care to people of all ages across the UK. The Foundation has funded a range of different projects from the purchase of specialist equipment, building of new facilities, to covering the costs of nurses providing direct care and support to patients.

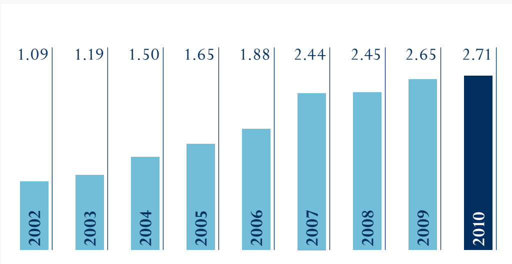
A good example of how the Foundation helps Hospices is illustrated by the £30,000 donated to St. Cuthbert's Hospice to part fund the construction of a dedicated bereavement room to enable enhanced specialist counselling and therapy services to children and young people. St. Cuthbert's Hospice is based in Durham and helps families to cope with the physical, social, psychological or spiritual effects of life-limiting illnesses.

Fundraising in 2010

The Foundation continues to be reliant on the incredible generosity of the St. James's Place community, both in terms of sums donated but also the time set aside to attend or organise events in support of the Foundation. In 2010, Partners and employees of St. James's Place raised a total of £2.7 million including Company matching and gift aid. This record is an improvement on the £2.6 million raised in 2009 and takes our total fundraising since the formation of the Foundation in 1992 to a total of just over £20 million; an outstanding achievement.

The following table shows the amount raised for the Foundation by Partners and staff (including Company matching) in the period from 2002 to 2010.

Amount raised £million



The Foundation plays a central role in the day-to-day activities of the Company. It holds a valued and unique position within the culture of St. James's Place and this is illustrated by the total funds raised and the ongoing support we receive from our community through regular monthly donations and also participation in sponsored events. Over 80% of the St. James's Place community give a regular monthly donation to the Foundation and these funds are then matched by the Company, raising over £2.7 million in 2010.

As well as giving regularly by covenant, many Partners and employees also raise significant sums by taking part in organised events or by creating their own fundraising events, from walks and cycle rides to mountain treks, triathlons, talent competitions and quiz nights.

For example, a group of Partners and employees travelled to Sicily in September 2010 and trekked to the summit of Mount Etna, raising £20,000 including Company matching.

In June 2010, 90 members of our community cycled from London to Paris, raising in excess of £250,000 for the Foundation and the Laureus Sport for Good Foundation.

Plans for 2011

We have some exciting plans to grow the reach of the Foundation in 2011 by increasing the income received through covenants and through various events planned across the UK, including two walking weekends which we hope will attract many participants from across our community. In addition, we hope to continue to increase the amount we are able to grant to good causes which match the Foundation's themes and put in place plans for the next significant milestone of the Foundation's history, being the 20th anniversary of the Foundation in 2012.

People

Our Approach

At induction, all employees and members of the St. James's Place Partnership receive a booklet entitled 'Our Approach' which gives guidance on the culture and values of St. James's Place.

We believe it is important for all areas of our community to know and understand our objectives, including the ethos behind the St. James's Place brand and how its integrity and values should be maintained, our corporate culture and management style, how we deal with internal and external communications and our commitment to the St. James's Place Foundation.

Spirit of Partnership

Partners are also provided with a document entitled 'The Spirit of Partnership', written by Partners for Partners, which sets out the principles that have made the Partnership our competitive edge and a group of professionals that other advisers aspire to join. The document emphasises our values of integrity, trust, openness, partnership and teamwork and is designed to guide individual and corporate actions, decisions and standards across the Company.

Our Employees

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

Employee Communication

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

Employee Feedback

We continue to seek employee's views and opinions through a bi-annual Employee Survey with the most recent survey being conducted in September 2010. The survey was carried out by independent third party consultants (ORC International) so staff could be assured that any feedback would be confidential and strictly non-attributable.

We received a strong survey response rate of 85% (compared to 82% in 2008) so we believe that the survey results provide a good snapshot of how our employees are feeling on a number of important issues.

ORC measure the 'engagement' of staff through a series of questions in the survey which together form an 'employee engagement index', which ORC used to compare SJP's results to those of other financial services organisations that take part in their surveys. We were delighted that SJP's overall engagement score was 84%, considerably higher than the financial services benchmark of 69%. The following table shows the responses to the questions linked to our employee engagement index:

Question	% Positive	% Difference to Benchmark
I feel proud to work for SJP	90%	+14%
I would recommend SJP as a good place to work	84%	+16%
Considering everything, I am satisfied with SJP as a place to work	86%	+17%
I feel a strong sense of belonging to SJP	82%	+18%
I intend to still be working for SJP in 12 months' time	83%	+13%
This organisation motivates me to go the extra mile	74%	+22%
Working here makes me want to do the best I can	84%	+11%

The results of the survey have been shared with all staff at Department or Divisional team meetings, with discussions taking place on those areas of the survey where lower scores indicated that improvements could be made. The various ideas for improvement from employees have been collated by HR and, where appropriate, will be used to enhance our procedures in the future, whether divisionally or across all employees generally. Particular areas of focus for 2011 include improving the development plans put in place for staff following annual appraisals and greater understanding of the pay and promotion process across the Company.

Employee retention in 2010 was 91.3%, whilst average days lost through sickness across the business was 3.6 days per employee, which is below the national average. Whilst our employee turnover remains low, we carry out farewell interviews for all our employees, to gain valuable feedback on reasons for leaving and act where possible.

Our workplace gender profile is fairly evenly split with a total of 54% female and 46% male employees. We are keen to ensure that individuals are encouraged to develop and are given opportunities to seek new challenges across the business and, as a result, job vacancies are advertised internally.

People Development

St. James's Place is a Corporate Member of the Institute of Customer Service ('ICS'). During 2010, the ICS Awards programme continued to provide practical support to the development of employees with growing numbers of staff involved in the scheme. We now have over 60 people participating in the Awards programme and many of the early participants now assist colleagues in coaching and mentoring roles. The Company retained its Approved Centre Status by the ICS which recognises that our programme is self-sufficient with our own training events, coaches and assessors.

The Knowledge Development Meetings implemented during 2008 for Cirencester employees were further extended in 2010 and were supported by a new range of events for Managers. In total, we ran 37 of these events with over 400 attendees. This approach has proved to be successful in helping employees develop their understanding of our business and learn new skills. These meetings are extremely well received and the programme will continue to evolve throughout 2011.

The induction programme for new employees ensures that the unique brand and culture of St. James's Place is shared in sufficient depth with all new joiners. The inclusion in the programme of a member of the Partnership, together with selected members of staff from our third party suppliers, is proving very successful in helping them build a better understanding of the Company.

Our Field Management Team has different specialist areas, so we have created a development programme that is tailored to each role. This commences as soon as a new Manager joins St. James's Place and continues throughout their career. An example of this is a programme of six courses for Business Development Managers that helps them develop their skills to act as a consultant and help Partners build their practices. This covers various topics from recruiting staff to business planning. During 2010, we worked extensively with our Senior Field Management team to implement a more effective appraisal and review process to ensure that everyone has clear personal development objectives.

A new initiative in 2010 was the growth in our support of professional qualifications. Changes in regulation will require many of our Partners to hold a higher level qualification by the end of 2012 and we wish to ensure that our Partner support teams are qualified to a similar or higher level as the Partnership. We have therefore implemented a programme of development courses to help the relevant staff obtain their Diploma qualifications. During 2010, 132 exams were successfully passed by our employees.

Following a 'Leadership Conference' in the final quarter of 2010, a project group has been put in place to consider our approach and make recommendations regarding the future of senior management development and succession planning. Ensuring that we have employees with the necessary competencies for our current and future needs is key both to our business and the personal growth of our leadership team.

Performance, Reward and Remuneration

We encourage a culture of high performance and service delivery. This is supported by a formalised Performance Development Review process underpinned by our Competency Framework, which articulates the importance to SJP of core activities and particular behaviours – including communication, relationship and people management, project delivery and strategic development – at each level. Employees are encouraged to develop their skills and knowledge through internal and external learning and workshop opportunities, including our popular 'Knowledge Development Meetings' presented by employees to employees and during which knowledge and expertise across different areas of the business is shared.

Our reward package is competitive with a comprehensive range of benefits provided to all employees including Pension, Life and Critical Illness cover, income replacement and Private Medical cover and health screening.

We provide all employees with the opportunity to benefit from annual cash bonuses linked to St. James's Place corporate or team performance. All employees are also provided with an annual opportunity to sacrifice their cash bonuses to their pension arrangement, with any amount sacrificed enhanced by 10% by the Company to encourage and communicate the importance of retirement planning. A pension salary sacrifice arrangement was introduced during 2009 to complement the existing bonus sacrifice arrangement enabling staff to enhance their pension by sacrificing a portion of their annual salary, such amount again enhanced by 10%. Over 20% of our employees elected to participate in the scheme.

We also recognise the value of employees being given the opportunity to acquire St. James's Place shares and as a result all employees are invited to participate in both the Sharesave plan and a new Share Incentive Plan which was launched in 2010. Currently 70% of employees participate in the Sharesave plan (which allows shares to be acquired after a three-year savings period) with 20% of employees having also elected to participate in the Share Incentive Plan, which provides the opportunity to acquire up to £1,500 worth of SJP shares from pre-tax salary with every tenth share acquired in this manner matched by the Company with one further share. Further opportunities to participate in these share plans will be provided during 2011.

Health and Safety
We work hard to create an excellent working environment for employees and Partners. We ensure every office complies with Health and Safety regulations and also seek to improve awareness through regular training sessions on subjects such as manual handling, fire marshal and first aider training.

Each year we carry out fire risk assessments, fire evacuation tests and health and safety inspections and the actions identified from these are completed appropriately and overseen by the Health and Safety working group. The working group is chaired by the Operations Director and meets at least quarterly to review policies, review the progress against targets and agree the action plan for the following year.

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

In respect of employees with disabilities, we will always consider possible modifications to the working environment to ensure that anyone with disabilities has the chance to take up opportunities or enhance their role. We ensure that every effort is made to achieve continuity of employment in the event of an employee becoming disabled. Similarly, best practice principles ensure that our responsibilities are met as an equal opportunity employer.

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

- Providing trusted advice through experienced and suitably trained advisers.
- Providing solutions to meet identified client needs.
- Ensuring that our literature is clear and easily understood.

– Doing our very best to ensure that our clients' investments are managed effectively and meet or exceed expectations.
– Exhibiting empathy and consideration when dealing with our clients and working within the 'spirit' of our relationship with them: we listen to their needs.

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

Winner
The Daily Telegraph
Wealth Manager
of the Year 2007, 2008 & 2010

In settling life and health claims, we take a positive view and do not hide behind the 'small print'. Wherever possible, we will pay claims in line with the spirit of the contract. We also place great emphasis on communicating the characteristics of our products and services with clarity and transparency.

Client consultation is undertaken on a regular basis via client surveys and focussed research on specific areas of our offering. We conduct annual satisfaction surveys on a regular basis, giving us a clear understanding of what clients want and expect and enabling us to enhance the service we are able to offer them.

WINNER
Personal Finance
Best
financial adviser

We were delighted to receive recognition for the quality of advice and service we provided to our clients during 2010. Readers of the Daily Telegraph rated St. James's Place Wealth Management the winner of the 'Wealth Manager of the Year Award' – the third time we have won the newspaper's leading award since it was first launched in 2007.

We were also voted 'Best Financial Adviser' at the Money Pages 2010 Personal Finance Awards.

These awards recognise the importance of the client relationship, which together with our successful approach to wealth management, lies at the heart of our business.

Community Activities

Our community activity is focussed on the recognition of our responsibility to help build strong and healthy communities in the areas in which we operate our business. Where possible we work with local charitable partners and community organisations. The combination of their expertise and the talents and enthusiasm of our employees makes our community involvement effective and rewarding for all concerned.

Our Employee Volunteering programme was revised in 2010 with employees being encouraged to share their knowledge and business skills with charities and other voluntary organisations, rather than providing 'one-off' support. In this way, we can benefit the charity as well as enhance the personal development of the employee by helping to develop and build a range of skills and abilities that they can bring back to the workplace.

Cirencester College is a good example of the type of voluntary support we provide to local communities. The College has over 1,600 students between the ages of 16 and 19 and a further 7,000 students attending a variety of adult learning courses. Our main involvement with the College is to provide support for the 16 to 19 year old 'Academy Programmes', of which there are eight, all designed for students who aspire to work in a particular market sector. In 2010, we supported six students with paid summer internships and we continue to provide extensive personal mentoring and business coaching to a number of students. St. James's Place also sponsors a number of awards and continues to have representation on the various Academy Boards of the College. We have also employed five Academy students as a direct result of our relationship with the College, following their graduation.

Young Gloucestershire ('Young Glos') is the leading voluntary youth organisation in Gloucestershire, delivering high-quality programmes and training for vulnerable young people. In 2009, we helped Young Glos to set up a drop-in centre for young people in South Cerney, near Cirencester, and assisted their bid for government funding to build a new centre for young people in Gloucester. Members of the Legal department helped Young Glos with a variety of legal issues, including the provision of employment advice. Two of our employees also act as Trustees of the charity, helping Young Glos to enhance their governance procedures and plan for the future in light of government cutbacks for youth service programmes.

Environmental Performance

In 2010, we again demonstrated our commitment and responsibilities towards improving our Environmental Performance through continual improvement in our working practices in order to generate reductions in our emission output. We recognise that both the Company and our staff have a responsibility to manage the effects on climate change by taking a positive approach in managing our business activities while also encouraging staff to consider their own personal activities and environmental responsibilities. We measure our environmental data from October to September to allow sufficient time for data collation and review prior to inclusion in this Annual Report.

The table below summarises our normalised CO_2 emissions for the years 2008, 2009 and 2010, produced for our core business and calculated using 2010 conversion rates as provided by DEFRA for all our emission categories. Our normalised figures are based on the full-time occupants ('FTO') in our offices divided by the amount of CO_2. In 2008, we set ourselves a 3 year target for reducing our normalised energy figures by 5%, travel by 3% and waste by 5% by 2011. We are pleased to report that we have exceeded our 3 year targets in our second year. In light of this we will look to re-base our 3 year targets this year, and these will be introduced into our full Annual Environment Report to be published in the second quarter of 2011.

Normalised Emissions

	2008 (Base Yr) FTO/CO_2e	2009 FTO/CO_2e	2010 FTO/CO_2e	Full-Time Occupant +/– Since Base Yr (2008)	3 Year Target
Gas	0.424	0.373	0.281	–34%	
Electric	1.867	1.841	1.711	–8%	
Total energy	2.291	2.214	1.992	–13%	–5%
Business Travel	1.954	1.717	1.638	–16%	–3%
General Waste	0.173	0.167	0.078	–55%	–5%
Totals	4.418	4.098	3.708	–16%	–4%

	Tonnes	Tonnes	Tonnes	Absolute Change Since Base Yr (2008)	3 Year Target
Recycled Paper	0.119	0.125	0.131	+10%	+10%

	Cubic Meters	Cubin Meters	Cubin Meters	Absolute Change Since Base Yr (2008)	3 year target
Water Usage	5.774	4.973	4.296	–26%	–2%

CO_2e = Carbon Dioxide equivalent – Methane and Nitric oxide are converted to Carbon Dioxide.

Energy

We are again pleased to see that both absolute and normalised energy emissions have continued to reduce, despite the recent harsh winters. We attribute the reductions to more efficient use of the building management systems, increased general awareness and improved billing from our suppliers.

Business Travel
Again, both the normalised and absolute emissions have significantly reduced, exceeding our original target of a 3% reduction. This saving can be attributed to a more fuel efficient car scheme, additional audio-conference use and better control of our travel budget. This reduction is a particularly pleasing result given increases in both business levels and members of staff.

The introduction of the new car scheme has reduced our overall fleet CO_2 emission per car from 176g/km to 149g/km, in two years, while the average for new vehicles since January 2010 is 126g/kg.

Waste
The amount of waste we have sent to landfill has reduced significantly since 2008, again beating our 5% target by a significant margin. This is due to improved recycling facilities introduced in all of our offices in 2009.

Our Marketing Department has succeeded in introducing additional items of marketing literature into our 'on demand' print options, which has reduced our print and distribution process. For items which are still printed, we use Forestry Stewardship ('FSC') or Programme for the Endorsement of Forest Certification ('PEFC') accredited paper stock. We use 100% recycled branded copy paper throughout the company and we work closely with our paper and copier suppliers to ensure that such paper does not impact on our equipment performance.

Water
The amount of water used within St. James's Place has reduced by 26% since 2008 in normalised terms. This improvement is largely down to better awareness and repairing leaks more efficiently.

Engagement with Third Parties
We have once again participated in The Carbon Disclosure Project, a Global Project to evaluate companies' performance and attitude to climate change including the business risks which could result from climate change events, and the management of such identified risks. We regularly engage with Business in the Community ('BITC') not only on environmental issues, but also on the wider subject of Corporate Responsibility ('CR'). We aim to continue to be included in the FTSE4GOOD Index.

Environmental Projects
While continuing to find small ways to reduce our CO_2 emissions we recognise that, in spite of improvements made over the years, we are still producing emissions from fossil fuels, which we are unable to avoid while alternative fuel sources remain unavailable in the energy market. In view of this we decided to continue with our carbon neutral program in 2010 and offset our emissions for a further 12-month period. We will review this option on an annual basis, taking into account any changes in the market and budgetary constraints.

In 2010 we once again engaged with The Carbon Neutral Company to evaluate our CO_2 emissions through verification by Ecometrica and confirm the amount of carbon required for Carbon Neutral status.

La Pradera, Columbia
This project has been set up for the destruction of methane gas from two landfill sites serving the area of Medellin. A portion of the proceeds from this project are used to promote research at the University of Antioquia and fund students from low income groups. This project is validated by the Clean Development Mechanism ('CDM') and is generating CER's. Recently an additional flare has been installed at the La Pradera site to deal with more landfill gas than was originally expected.

Wind: Sangli, India
This project forms part of a larger group of turbine projects and consists of ten wind turbines in Maharashtra. The project provides employment for up to 500 people and has been validated by the Clean Development mechanism. The project is delivering the expected volume of carbon credits, with 24,000 CER's validated between June 2008 to October 2010.

eTree Electronic Communication
We remain a member of the eTree Initiative, a programme which encourages shareholders to receive electronic communications as a way of saving paper and reducing the impact on the environment. The scheme is run in association with the Woodland Trust 'Tree for All' campaign. We sent out a further invitation to shareholders during 2010 to sign up for electronic communication, the objective being to donate a sum of money on the

shareholders' behalf to an area selected for re-forestation in the UK by the Woodland Trust. Further details of the scheme can be found at www.eTreeuk.com.

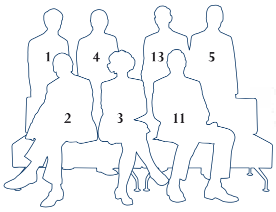
Activities Planned for 2011

We remain committed to continuing our approach of reducing our environmental impacts and our initiatives for 2011 include:

- Concluding the energy audits commissioned towards the end of 2010 to evaluate office energy options and potential improvements and, where practical, upgrade less efficient energy systems.
- Further reducing printed material and transfer further items onto electronic on demand ordering. This will continue to reduce wastage, particularly when legislative changes are introduced.
- Ensuring that audio web conferencing and online training facilities are adequately available to help towards further reducing travel options and reduce business mileage.
- Maintaining our commitment to recycling as much as possible and provide the relevant facilities to enable the achievements to date to be continued.
- Engaging with our employees to encourage them to become more environmentally responsible. We will continue to engage with staff through such activities as our Environment Day and quarterly articles in our Community Newsletter.
- Engaging with organisations such as Business in the Community and The Carbon Neutral Company, to look to find other ways to reduce our emissions and keep up our level of employee awareness.

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

President and Board of Directors



1. Sir Mark Weinberg (79) (I)
President
Sir Mark founded the St. James's Place Group with Mike Wilson in 1991 and was Chairman of the Company until September 2004, when he resigned from the Board and was appointed President of the Company. Sir Mark originally practised as a barrister and was formerly Deputy Chairman of the Securities and Investments Board, the forerunner to the Financial Services Authority. He is Chairman of the Pension Corporation and of Synergy Insurance Services. Sir Mark chairs the Company's Investment Committee.

The Current Directors of the Company are:

2. Mike Wilson (67) (N)
Chairman
Mike has worked in the financial services industry since 1963 and founded St. James's Place Group with Sir Mark Weinberg in 1991. He was Chief Executive until 2004, when he became Chairman. Mike is a member of the Nomination Committee. He was formerly Chairman of the Mental Health Foundation and a Non-executive Director of Vendôme Luxury Group plc between 1993 and 1998. Mike is a Trustee of the St. James's Place Foundation.

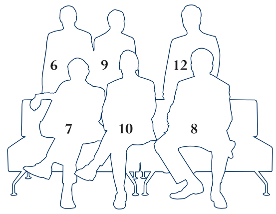
3. Sarah Bates (52) (I) (R)
Non-executive Director
Sarah joined the Board as an independent Non-executive Director in 2004 and is a member of the Investment and Risk Committees. She is a Non-executive Director of Development Securities plc and of three listed investment trusts and has been elected Chairman of the Association of Investment Companies. She is also Chairman of Stena Line (UK) Pension Fund Trustees and the Cancer Research UK Pension Fund Investment Committee. Sarah is also an adviser to, or member of, various other investment committees including the Investment Committee of the Daily Mail & General Trust pension schemes and of the National Heritage Memorial Fund. Sarah graduated in Philosophy and Law from Trinity Hall, Cambridge and has an MBA from the London Business School.

4. David Bellamy (57)
Chief Executive
David joined the Company in 1991 and was appointed to the Board in 1997, before becoming Chief Executive in 2007. He previously fulfilled a number of roles at St. James's Place including Group Operations Director and Managing Director. David has worked in the financial services industry since 1973 and is a Trustee of the St. James's Place Foundation.

5. Steve Colsell (46)
Non-executive Director
Steve was appointed to the Board as a non-independent Non-executive Director in 2009 to represent Lloyds Banking Group plc. He is Finance and Strategy Director of Wealth and International at Lloyds Banking Group. Steve has held a number of senior finance and strategy roles in the life, general insurance, banking and consumer finance sectors. He is a Non-executive Director of Invista Real Estate Investment Management Holdings plc, a Fellow of the Institute of Actuaries and a graduate of Imperial College, London.

6. Andrew Croft (46) (I)
Finance Director
Andrew joined the Company in 1993 and was appointed as Finance Director in 2004. He qualified as a Chartered Accountant at PricewaterhouseCoopers in 1988, has a degree in Accounting and Economics from Southampton University and is a member of the Company's Investment Committee. Andrew is also a Trustee of the St. James's Place Foundation.

7. Charles Gregson (63) (Rem) (A)
Non-executive Director
Charles joined the Board in January 2010 as an independent Non-executive Director. He is a member of the Audit and Remuneration Committees. Charles is Chairman of ICAP plc and a Non-executive Director of International Personal Finance plc. He is also Chairman of



CPP Group plc and a Director of Caledonia Investments plc. He has extensive board and senior management experience in the UK and overseas and served on the boards of United Business Media plc, Provident Financial plc and MAI plc. Charles graduated in History and Law from Trinity Hall, Cambridge and has an MA in Law. He qualified as a solicitor in 1972.

8. Ian Gascoigne (54)
Partnership Director
Ian has worked in the financial services industry since 1986 and joined the Company in 1991. He was appointed to the Board in 2003. He has a degree from Lancaster University and an MA from Leicester University. Ian is also a Trustee of the St. James's Place Foundation.

9. David Lamb (54) (I)
Business Development Director
David joined the Company in 1992. He was appointed to the position of Business Development Director in 2001 and to the Board in 2007. He is a graduate of City University, London and a Fellow of the Institute of Actuaries. David is also a member of the Company's Investment Committee and Trustee of the St. James's Place Foundation.

10. Derek Netherton (66) (Rem) (A) (N)
Non-executive Director
Derek joined the Board in 1996 and is an independent Non-executive Director. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. Derek is Chairman of Greggs plc and Chairman of Opera North and is a former Non-executive Director of Next plc and Hiscox plc. He was formerly a Fellow of the Institute of Actuaries and a Director of J. Henry Schroder Wagg & Co Limited.

11. Mike Power (53) (R) (A)
Non-executive Director
Mike joined the Board as an independent Non-executive Director in 2005. He chairs the Risk Committee and is Deputy Chairman of the Audit Committee. He is Professor of Accounting at the London School of Economics and Political Science and Director of the Centre for Analysis of Risk and Regulation. He is a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate of the UK Chartered Institute of Taxation. Mike lectures and writes on risk management, regulation and compliance issues.

12. Michael Sorkin (67) (I) (Rem) (N)
Senior Independent Director
Michael was appointed to the Board as an independent Non-executive Director in 2002 and became Senior Independent Director in 2005. He chairs the Remuneration and Nomination Committees and is a member of the Company's Investment Committee. He joined Hambros Bank in 1968, was a Director of Hambros plc between 1986 and 1999, and Managing Director of S G Hambros from 1999 to 2001. He is Vice Chairman of Investment Banking at N M Rothschild Corporate Finance Limited and Director of Almar plc and Leucadia National Corporation. Michael is a former Non-executive Director of J Z Equity Partners plc.

13. Roger Walsom (57) (R) (Rem)
Non-executive Director
Roger was appointed to the Board as an independent Non-executive Director in 2005. He is a member of the Risk and Remuneration Committees. After several years in the financial services industry, Roger graduated in Law from Southampton University and qualified as a solicitor in 1980 with a City law firm. He became a partner at Ashurst, a leading City law firm, in 1988, specialising in the financial services industry. He retired as a partner in 2005 although continues as a Director of an Ashurst company. He is also a Non-executive Director of Invesco Income Growth Trust plc and the Miller Insurance Broking Group. He was formerly a Non-executive Director of the Pensions Regulator.

Ages correct as at 22 February 2011
(I) – Member of Investment Committee
(N) – Member of Nominations Committee
(R) – Member of Risk Committee
(Rem) – Member of Remuneration Committee
(A) – Member of Audit Committee

Directors' Report

The Directors present their Report and the Annual Report and Accounts and the audited consolidated Financial Statements of the Company for the year ended 31 December 2010.

Business Review

The information that fulfils the Companies Act requirements of the Business Review can be found in the following sections:

Principal risks and uncertainties	The Risk and Risk Management section on pages 24 to 30.
Performance and development of the business during the year and position at the end of the year	Chief Executive's Statement on pages 6 to 8 and the Financial Commentary on pages 10 to 23.
Information on likely future developments	Chief Executive's Statement on page 8 and the Financial Commentary on pages 14, 21 and 22.
Directors' and Officers' Indemnity and Insurance	The Corporate Governance Report on page 50.
Financial and non-financial KPIs	Key Performance Indicators on pages 2 and 3.
Environmental, employee and social community matters	The Corporate Social Responsibility Report on pages 31 to 40.
Contractual or other arrangements essential to the business of the Company	Page 46.

Results and Dividends

The consolidated statement of comprehensive income is on page 70 and profit for the financial year attributable to equity shareholders amounted to £55.0 million. An interim dividend of 2.025 pence per share, which equates to £9.8 million, was paid on 15 September 2010 (2009: 1.84 pence per share or £8.8 million). The Directors recommend that shareholders approve a final dividend of 3.975 pence per share, which equates to £19.3 million (2009: final dividend of 2.66 pence per share or £12.8 million) to be paid on 18 May 2011 to shareholders on the register at the close of business on 4 March 2011.

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

Status of Company

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

Principal Activities

The Company is a financial services holding company, with principal interests in the provision of wealth management advice and services to the clients of the Group. A full review of the activities of the Group and the basis on which the Company generates or preserves value over the longer term is given in the Chief Executive's Statement on pages 6 to 8.

Substantial Shareholders

The Company is aware of the interests of the following companies in 3% or more of the ordinary issued share capital of the Company as at 22 February 2011:

Lloyds Banking Group ('LBG')	288,641,058 (58.92%)
Newton Investment Management	19,121,165 (3.99%)
BlackRock	19,038,332 (3.96%)
Prudential	17,421,205 (3.57%)

Details of the relationship agreement between Lloyds Banking Group plc and the Company are set out on page 51.

The interests of the Directors, their families and any connected persons in the issued share capital of the Company are shown on page 66.

Share Capital

Structure of the Company's Capital

As at 31 December 2010, the Company's issued and fully paid up share capital was 486,149,186 ordinary shares of 15p each. All ordinary shares are quoted on the London Stock Exchange and can be held in uncertificated form via CREST. Details of the movement in the issued share capital during the year are provided in Note 28 to the financial statements on page 106.

The full rights and obligations attaching to the ordinary shares of the Company are set out in the Articles of Association. The Articles can be amended by a Special Resolution of the members of the Company and copies can be obtained from Companies House. Holders of ordinary shares are entitled to receive the Company's Reports and Accounts; attend, speak and exercise voting rights and appoint proxies to attend General Meetings.

Voting Rights

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

Forms appointing a proxy sent by the Company to shareholders, in relation to any General Meeting, must be received by the Company not less than 48 hours before the time appointed for holding of the meeting or adjourned meeting.

Restrictions on Voting Rights

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

If those default shares represent at least 0.25% of their class, any dividend payable in respect of the shares will be withheld by the Company and (subject to certain limited exceptions) no transfer, other than an excepted transfer, of any shares held by the member in certificated form will be registered.

Restrictions on Share Transfers

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

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

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

Power of the Directors

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

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

Directors

Details of the Directors as at 22 February 2011 and their biographies are shown on pages 42 and 43. Brief particulars of the Directors' membership of the Board Committees are contained in the Corporate Governance Report on pages 51 to 53.

As reported in last year's Report and Accounts, Charles Gregson was appointed to the Board on 1 January 2010, as an independent Non-executive Director and was elected at the Annual General Meeting in May 2010 and Jo Dawson resigned as a non-independent Non-executive Director on 5 February 2010.

The Company's Articles of Association require that any Director appointed during the year to fill a casual vacancy must stand for reappointment at the next Annual General Meeting and that, at each Annual General Meeting, all those Directors who were elected or last re-elected at or before the Annual General Meeting held in the third calendar year before the current year, shall retire from office by rotation.

However, in accordance with the requirements of the UK Corporate Governance Code, the whole Board of Directors will retire by rotation at the AGM in 2011. The Chairman is pleased to confirm that the Non-executive Directors seeking re-election continue to be effective in their roles on the Board and its Committees and have demonstrated their continued commitment to these roles. Further details on the Directors are set out in the Directors biographies on pages 42 and 43 and in the Notice of Meeting.

Except as stated in the Remuneration Report, no Director has, or has had during the year under review, any material interest in any contract or arrangement with the Company or any of its subsidiaries. Details of all executive Directors' Service Contracts are set out in the Remuneration Report on pages 60 and 61.

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

Creditors' Payment Policy
The payment of supplier invoices is made on the Company's behalf by St. James's Place Management Services Limited ('SJPMS'), a subsidiary company. It is SJPMS's policy to pay creditors in accordance with the Confederation of British Industry Better Practice Payment Code on supplier payments. SJPMS's average number of days purchases outstanding in respect of trade creditors at 31 December 2010 was 18 days (2009: 17 days).

Charitable and Political Donations
Charitable contributions made by the Group to the St. James's Place Foundation during the year totalled £1,200,000 (2009: £1,330,000). Contributions during the year to other charitable organisations totalled £7,100 (2009: £3,000). A list of charitable donations made by the Foundation is available on request. Further details on the Foundation are included in the Corporate Social Responsibility Report on pages 31 to 33.

It is the Group's policy not to make any donations to political parties within the meaning of the definitions set out in the Political Parties, Elections and Referendums Act 2000 and sections 362 to 379 of the Companies Act 2006. The Group did not make any political donations during the year (2009: nil).

Employees
Full details of the Group's approach to employee involvement, training, development and communication can be found in the Corporate Social Responsibility Report on pages 33 to 36.

Significant Contracts and Change of Control
The Company has a number of contractual arrangements which it considers essential to the business of the Company. Specifically, these are committed loan facilities totalling £45 million and arrangements with third party providers of administration services.

A change of control of the Company may cause some agreements to which the Company is party to alter or terminate. These include bank facility agreements and employee share plans.

The Group had committed facilities totalling £45 million as at 23 February 2011 which contain clauses which require lender consent for any change of control. Should consent not be given, a change of control would trigger mandatory prepayment of the facilities.

All of the Company's employee share plans contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on a change of control, subject where appropriate to the satisfaction of any performance conditions at that time and pro-rating of awards.

Annual General Meeting
The Company's Annual General Meeting will be held on 12 May 2011 at The Royal Aeronautical Society, 4 Hamilton Place, London W1J 7BQ at 11.00am.

Authority to Purchase Own Shares
At the Annual General Meeting in 2010, shareholders granted authority to the Directors for the purchase by the Company of its own shares. The authority will expire at the end of the Annual General Meeting to be held in 2011, or 18 months from the date granted, whichever is earlier. During the year, the Company did not purchase any of its own ordinary shares. The Directors will propose the renewal of the authority to purchase own shares at the forthcoming Annual General Meeting.

Going Concern
The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review, as referred to on page 44. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Commentary on pages 10 to 23. In addition, the Notes on pages 92 and 97 and the Risk and Risk Management section on pages 24 to 30 include: the Company's objectives; policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity.

As shown on page 21 of the Financial Commentary, the Group's capital position is strong and well in excess of regulatory requirements. The long-term nature of the business results in considerable positive cash flows, arising from existing business. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts. Further information on the basis of preparation of these accounts can be seen in Note 1 to both the Consolidated Accounts under International Financial Reporting Standards and Parent Company Accounts on UK GAAP basis.

Statement of Directors' Responsibilities
This statement is set out in the Corporate Governance Report on pages 54 and 55.

Disclosure of Information to Auditors

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

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

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

Independent Auditors

The auditors PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a Resolution that they be reappointed until the end of the 2012 Annual General Meeting will be put to shareholders at the Annual General Meeting on 12 May 2011.

On behalf of the Board

D Bellamy
Chief Executive

A Croft
Finance Director

22 February 2011

Corporate Governance Report

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

St. James's Place is committed to high standards of Corporate Governance and supports the principles set out in both the Combined Code ('the Code') and the new UK Corporate Governance Code. The Listing Rules require UK listed companies to state whether they have complied with the provisions of the Code during the year. The Board considers that the Company has achieved compliance with all of the provisions of the Code throughout the financial year and details of how the Company has applied the principles of the Code are set out in this report.

Information relating to substantial shareholdings, restrictions on voting rights, powers of the Directors, appointment of Directors and the authority to purchase own shares are disclosed within the Directors' Report on pages 44 and 45.

The Board

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

There were six formal Board meetings during the year, plus an additional all-day Strategy Meeting. A table detailing the Directors' attendance at Board meetings can be found on page 50.

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

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

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

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

Operational matters are delegated to management via the Board's Executive Committee, comprising solely Executive Directors of the Board. The Executive Committee is responsible for implementing the Group's business plan objectives, ensuring that the necessary resources are put in place to achieve those objectives and managing the day-to-day operational business of the Group.

The Company maintains a Board Control Manual ('BCM') which sets out the primary policy and decision-making mechanisms within the Company. The manual includes the Terms of Reference for the various sub-Committees of the Board, the Company's risk policies and risk appetite statement. In addition, detailed job descriptions for each Executive and subsidiary Director are included, as well as a general job description outlining the responsibilities of the Non-executive Directors. The BCM is updated by the Company Secretary and approved by the Audit Committee on an annual basis.

The Roles of the Chairman and Chief Executive

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

The Senior Independent Director

Michael Sorkin is the Senior Independent Director and acts as a sounding board and confidante for the Non-executive Directors. Michael is available to meet with shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through the existing mechanisms for investor communication.

Directors and Directors' Independence

The Board currently consists of an Executive Chairman, four Executive Directors, six independent Non-executive Directors and one non-independent Non-executive Director. The non-independent Non-executive Director, Steve Colsell, has been nominated by the Company's largest shareholder, Lloyds Banking Group plc. Biographical details of all the Directors can be found on pages 42 and 43. The terms and conditions of appointment of the Non-executive Directors are available on request and will be available for inspection at the Annual General Meeting in May 2011.

Jo Dawson resigned from the Board on 5 February 2010, following her decision to leave Lloyds Banking Group. Charles Gregson joined the Board as an independent Non-executive Director with effect from 1 January 2010.

The quality of individual Directors and the Board's overall composition is a key contributor to the Board's effectiveness. Committee membership is reviewed annually to ensure skills are refreshed over time. The Board is satisfied that all Directors have sufficient time to devote to their roles.

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

Derek Netherton and Michael Sorkin have served on the Board for more than nine years, which is a relevant factor in the consideration of their independence. The Board has considered this point with particular care and believes that Derek and Michael have continued to demonstrate their independence when carrying out their duties on the Board. They have constructively challenged management as and when they consider it appropriate and have contributed significantly in Board and Committee meetings. Their individual skills and extensive knowledge of the financial services sector have been extremely helpful to the business in general. In particular, Derek's financial knowledge has been invaluable in connection with his role as Chairman of the Audit Committee and Michael Sorkin's knowledge of the City has been particularly helpful in his role as the Senior Independent Director. Mike Power was appointed as the Deputy Chairman of the Audit Committee in 2009, as part of the Board's ongoing succession plans.

Induction and Continuing Professional Development

On joining the Board, Directors are given a pack of comprehensive documents providing background information about the Group. An appropriate induction programme is set up for them which enables the new Director to meet senior management, understand the business and future strategy, the main risks potentially affecting the Group, visit office locations and speak directly to Partners and staff around the country.

During the year, the Chairman and the Company Secretary reviewed the induction process for new appointments to the Board, as well as the continuing professional development needs of all Directors. Ongoing training was reviewed and agreed by the Chairman and Company Secretary for all Directors during the year following individual discussions with each Director, taking account of their roles and responsibilities on Board committees. Ad hoc training was set up in the year to deal with individual requests and the Non-executive Directors are able to attend seminars or conferences which they consider will assist them in carrying out their duties. Non-executive Directors are briefed on the views of major shareholders at Board meetings and have an opportunity to meet with shareholders, as necessary.

Directors are regularly updated on their duties and responsibilities and have access to the advice of the Company Secretary, as well as independent professional advice where needed in furtherance of their duties. Further training is made available, as necessary, to ensure that the whole Board is kept abreast of relevant developments (such as regulatory changes) applicable to their roles. Topical issues are addressed prior to each Board meeting. During 2010, the Company Secretary and other senior executives updated the Board on an array of pertinent topics such as the Company's Administration and IT strategy, Solvency II, the results of the staff survey and they also received a presentation by the FSA's Supervisory Team.

Board Evaluation

The Board carried out an annual evaluation of its own performance during the year which included a review of its Committees and individual Directors. The evaluation was conducted by the Company Secretary, who carried out individual interviews with each Board member. The findings were presented to the Board and a number of relatively minor improvements were implemented, including the inclusion of more information in Board packs and devoting more time at Board meetings to strategic issues. The Board has committed to undertaking externally-led evaluations every three years in accordance with the new UK Corporate Governance Code and the first such evaluation will be carried out in 2011.

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

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

Board Committees

There are five sub-Committees of the Board; Audit, Investment, Nomination, Remuneration and Risk Committees. The membership and Terms of Reference of the Committees are reviewed annually and the Terms of Reference are available on the corporate website (www.sjp.co.uk), or on request from the Company.

Attendance at Meetings

The attendance by individual Directors at Board and Committee meetings during the year ended 31 December 2010 was as follows:

	Board (7 Meetings)	Risk (5 Meetings)	Audit (5 Meetings)	Remuneration (3 Meetings)	Nominations (2 Meetings)	Investment (9 Meetings)
Sarah Bates	6	5	–	–	–	9
David Bellamy	7	(3)	–	(3)	(2)	–
Andrew Croft	7	–	(4)	(1)	–	9
Steve Colsell	7	–	(2)	–	–	–
Ian Gascoigne	7	(3)	–	–	–	–
Charles Gregson*	7	–	1/2	–	–	–
David Lamb	7	–	–	–	–	9
Derek Netherton	7	–	5	3	2	–
Mike Power	7	5	5	–	–	–
Michael Sorkin*	7	–	3/3	3	2	6
Roger Walsom	7	5	–	3	–	–
Mike Wilson	7	–	–	(2)	2	–

* Charles Gregson joined and Michael Sorkin ceased to be a member of the Audit Committee on 1 October 2010.

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

Directors' and Officers' Indemnity and Insurance

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

The Company has granted indemnities to all of its Directors on terms consistent with the applicable statutory provisions. Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the financial year ended 31 December 2010, and remain in force at the date of this report.

Procedures to Deal with Directors' Conflicts of Interest

Procedures have been approved by the Board to deal with situations where a Director either has a conflict of interest, or where a potential conflict of interest situation arises. Under the procedure, the relevant Director must disclose to the Board the actual or potential conflict of interest for discussion by the other members of the Board. The Board will consider the potential conflict on its particular facts and decide whether to waive the potential conflict if it believes this to be in the best interests of the Company. The process involves keeping detailed records and Board minutes in respect of authorisations granted by the Board and the scope of approvals given. Conflict authorisations are reviewed annually by the Board.

Relations with Shareholders

The Board maintains close relationships with institutional shareholders through dialogue and frequent meetings and the Finance Director provides feedback to the Board on topics raised by major shareholders. The Company also meets regularly with JPMorgan Cazenove, who facilitates meetings with investors and their representatives. The Senior Independent Director is available for consultation with shareholders and other Non-executive Directors are also available to meet with major shareholders on request.

During the year an investor audit was carried out by the independent investor relations consultants Makinson Cowell, to seek the views of shareholders on a variety of subjects. The results of the investor audit were presented to the Board. Board members receive copies of the latest analysts' and brokers' reports on the Company.

Members of the Board will be available at the forthcoming Annual General Meeting to answer shareholders' questions on the Company's business and the activities of the Board and its Committees.

Relationship with Lloyds Banking Group plc

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

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

Nomination Committee

The Nomination Committee comprises two independent Non-executive Directors and the Executive Chairman. The Committee met three times during the year and the current members and attendees are:

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

Duties

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

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

The Terms of Reference that set out the Committee's role and authority can be found on the corporate website.

Activities

During 2010, the Committee focused on succession plans in relation to the Chairman of the Investment Committee and other Board executive and Non-executive positions. The Committee discussed the attributes required for future Non-executive Directors and the timing of any future changes in order to continue the gradual refreshing of the Board.

Remuneration Committee

The Remuneration Committee comprises solely independent Non-executive Directors. The Committee met three times during the year and the current members/attendees are:

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

Duties

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

The Committee agrees at the start of the year the short term and long term bonus schemes for the Executive Directors, including any applicable performance conditions or metrics and then reviews the performance of individual Directors and senior management against the objectives set by the Committee. In the event of a Director leaving the Group, the Committee will review and determine the scope of any termination payment and severance terms. The Committee is also responsible for selecting, appointing and setting the Terms of Reference for any remuneration consultants who advise the Committee.

The Terms of Reference that set out the Committee's role and authority can be found on the corporate website and further details on the activity of the Committee during the year is set out in the Remuneration Report on page 56.

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

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

Various members of the Asset Management team and representatives from Stamford Associates were invited to attend meetings during the year. In January 2010, the Committee appointed three new members. Vivian Bazalgette and Peter Dunscombe are independent consultants who have a wealth of knowledge and experience in the investment management arena. Chris Ralph was appointed as the Company's Chief Investment Officer and also became a member of the Committee. In January 2011, the Company announced that Sir Mark Weinberg would be stepping down as Chairman of the Investment Committee in July 2011 and that Vivian Bazalgette would be appointed as Chairman of the Committee in his place.

Duties
The Committee's main responsibilities include overseeing the Company's Investment Management Approach, monitoring the performance and suitability of the Group's range of independent Fund Managers, as well as ensuring that the Fund Managers follow the terms of their agreements with the Company. Where necessary, the Committee will make recommendations in relation to the appointment or removal of Fund Managers and also considers any new funds which are to be made available to the Group's clients.

Activities
During the year, the Committee monitored the performance of the Group's Fund Managers and focused on specific manager issues as they arose. Face-to-face reporting sessions were held with managers, which provided the Committee with an opportunity to evaluate and assess their investment philosophy and processes and question the individual fund managers on topical issues.

The Committee also considered the Investment Manager Report from Stamford Associates and brought about a number of changes and additions to the Investment Managers appointed by the Group. Following a rigorous review and selection process, the Committee oversaw the changes to the range of funds announced in September 2010, bringing the number of funds run by the Company to 27, managed by a range of external fund managers. The Committee also provided oversight of the introduction of a range of example Portfolios to the Partnership, together with the accompanying client facing material.

More detail on the work of the Committee can be found in the 'Report of the Investment Committee 2010', located on the Company's website at www.sjp.co.uk.

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

Members:	Attendees:
Derek Netherton (Chairman)	Andrew Croft
Mike Power (Deputy Chairman)	Steve Colsell
Charles Gregson (appointed 1 October 2010)	
Michael Sorkin (retired 1 October 2010)	

All members of the Audit Committee are independent Non-executive Directors who have considerable financial experience. Biographies for each Director can be found on pages 42 and 43. Attendees at meetings during the year included the Finance Director, the Risk Director, the Head of Internal Audit and members of the Finance team, as well as the external auditor. Steve Colsell also attended meetings as the LBG representative.

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

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

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

The Committee considered the appropriateness, independence and services provided by the external auditor. Other areas considered during the year included:

– The terms, areas of responsibility, associated duties and scope of the audit, as set out in the external auditors' engagement letter.
– The external auditors' fees.
– Issues that arose during the course of the audit and their resolution.
– Key accounting and audit judgements.
– Recommendations made by the external auditors and the adequacy of management's response.

The Committee increased the financial limit for non-audit related advice and consultancy work by the external audit firm to £175,000 (from £100,000) per year. Details of the amount paid to the external auditors during the year for audit and non-audit related services are set out in the Notes to the Accounts on page 86.

Other activities undertaken by the Committee during the year included consideration of the Internal Audit function audit plan, which included a review of the Company's system of internal financial controls and a review of the Group's 'whistle-blowing' policy. Committee members also received updates from the chair of the Risk Committee and discussed risks identified on the Emerging, Topical & Corporate Risk Schedules.

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

Risk Committee

The Risk Committee met five times during the year and the current members and attendees comprise:

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

All members of the Committee are independent Non-executive Directors who have considerable financial and/or risk-based experience. Biographies for each Director can be found on pages 42 and 43. Other attendees at meetings during the year included the Head of Internal Audit, Head of Risk Management and a representative from Lloyds Banking Group, the Company's major shareholder.

Duties

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

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

Activities

During the year, the Committee received regular management reports from senior executives on risk identification and mitigation within their areas of the business. These included an update from the Group Legal Director on risk mitigation in relation to the Legal and Client Liaison Departments, an update on the risks associated with developing the Investment Management Approach, a review of Partners' other business interests and a discussion on the risks associated with professional qualifications. There was an additional meeting scheduled during the year to consider the principles set out in the FSA's Remuneration Code and whether any of the procedures in the Code should be adopted by the Company.

The Committee reviewed and discussed the risks identified on the Emerging, Topical and Corporate Risk Schedules as well as the annual Risk Appetite Statement, the Internal Audit plan and the Individual Capital Assessment for SJP UK. The Committee also conducted an annual review of the risk management framework.

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

Internal Control and Risk Management

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

The Group has fully complied with provision C.2.1 of the UK Corporate Governance Code throughout the financial year and up to the date of approval of the Annual Report and Accounts.

In accordance with the Turnbull Guidance on Internal Control, the Directors and senior managers of the Group are committed to maintaining a strong control culture within all business areas and have processes for evaluating and managing the significant risks faced by the Group. Adherence to regulatory codes of conduct is required at all times and the Board actively promotes a culture of quality and integrity. In addition to these ongoing procedures, the Audit Committee conducts an annual review that considers the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance. The review also includes the nature and scope of the ongoing monitoring processes, including the effectiveness of the Internal Audit function and the potential impact on these processes as a result of any changes during the year to the risks that the Group faces.

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

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

The Company operates a multilayered series of internal controls over its financial reporting processes. The key elements of the framework comprise the documentation, assessment and performance of controls in key risk areas, monthly review and sign off of all financial accounting data submitted by outsourced service providers together with the accounts of all subsidiaries within the Group, and the formal review of the financial statements by senior management, for both individual companies within the Group as well as at the consolidated Group level.
In addition, the published financial statements of the Company and the Group are formally reviewed by the Audit Committee, with particular focus on key areas of judgement and accounting estimates.

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

When significant control issues have occurred, the Audit Committee has received full and detailed reports from management and Internal Audit, including proposals for amending and strengthening the business systems involved in line with the Group's focus on continuous improvement. Where appropriate, such cases have been referred to the Board by the Chairman of the Audit Committee and the Group Risk Director for further discussion.

In establishing the system of internal control, the Directors have regard to the materiality of relevant risks, the likelihood of risks occurring and the cost of mitigating risks. It is therefore designed to manage, rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material financial mis-statement or loss.

In the Board's view, the information it has received from entity-wide risk assessment, operational management, and the reports issued by Internal Audit has been sufficient to enable it to properly review the effectiveness of the Company's system of internal control, in accordance with the Turnbull Guidance for Directors on Internal Control.

Statement of Directors' Responsibilities in respect of the Annual Report and Accounts and the Financial Statements

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

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

– select suitable accounting policies and then apply them consistently;

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

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

The Directors have chosen to prepare supplementary information in accordance with the European Embedded Value Principles issued in May 2004 by the Chief Financial Officers Forum, as supplemented by the Additional Guidance on European Embedded Value Disclosures issued in October 2005 ('the EEV Principles'). When compliance with the EEV Principles is stated, those principles require the Directors to prepare supplementary information in accordance with the Embedded Value methodology ('EVM') contained in the EEV Principles and to disclose and explain any non-compliance with the EEV Guidance included in the EEV Principles.

In preparing the EEV supplementary information, the Directors have:

- prepared the supplementary information in accordance with the EEV Principles;
- identified and described the business covered by the EVM;
- applied the EVM consistently to the covered business;
- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently; and
- made estimates that are reasonable and consistent.

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

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

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

Remuneration Report

The Directors present the Remuneration Report for the financial year ended 31 December 2010 which has been prepared on behalf of the Remuneration Committee ('the Committee') and in accordance with the requirements of the Companies Act 2006. Shareholders will be invited to approve the report at the Annual General Meeting on 12 May 2011. The Report contains information relating to executive remuneration policy, including Directors' pay and benefits, share awards and pension provision. It also contains additional information required by the FSA Listing Rules and the UK Corporate Governance Code.

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

Role of the Committee

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

The membership and terms of reference of the Committee are reviewed annually and the Terms of Reference are available on the Company's website. Details of the number of meetings of the Committee during the year can be found in the Corporate Governance Report on page 50.

Membership of the Committee

The members of the Committee (all independent Non-executive Directors) are as follows:

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

Charles Gregson was appointed to the Committee on 1 March 2010. Derek Netherton and Micheal Sorkin have served on the Board for more than nine years, although the Board believes that they are entirely independent of management – see page 49 of the Corporate Governance Report for further details. Biographical details of the current members of the Committee are set out on pages 42 and 43.

The Company Secretary acts as Secretary to the Committee and provides advice on corporate governance, legal and regulatory issues as well as the design and operation of the long term incentive schemes. The Committee may request attendance at meetings of members of the executive team or other third parties as they see fit. The Head of the Risk Committee attends meetings periodically as part of the Company's risk management process.

Advisers to the Committee

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

The Chairman and Chief Executive are normally invited to attend each Committee meeting to provide information on corporate or individual performance to the Committee. They may also make recommendations regarding the remuneration packages of individual Directors. Such recommendations are discussed by the Committee and adopted or amended as the Committee sees fit. No Director is present at any part of a meeting of the Committee when their individual remuneration or contractual terms are being discussed.

Remuneration Policy

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

The short and long-term incentive schemes are designed to be retentive in nature as well as linking the value of an award to movements in the share price, in line with shareholder interests. Approximately 55% to 60% of the total remuneration of the Executive Directors is performance related, except for Mike Wilson, where approximately 40% of his total remuneration is performance related as he does not participate in the short-term bonus scheme. He does participate in the long-term incentive scheme ('the Performance Share Plan'), as this plan focuses on long-term value creation (rather than the more operationally focused annual bonus plan). Any shares in the Company which vest to Mike Wilson will be retained by him until he ceases to be a Director of the Company, less any shares required to meet any tax liability on vesting.

When setting the remuneration policy, the Committee applies the principles set out in Schedule A of the UK Corporate Governance Code and also takes into account best practice guidance issued by the major UK institutional investor bodies, the FSA and other relevant bodies. The Committee reviewed the principles set out in the revised FSA Remuneration Code published during the year on supporting sound risk management when setting incentive arrangements. Further details of the changes made by the Committee as a result of this review are set out on page 57.

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

The Committee acknowledges that it is not always possible to achieve this policy in the short-term as the Committee does not automatically follow comparator data (recognising that such data can be volatile and must be used carefully to avoid the risk of an upward ratchet in remuneration) or due to the need to phase in changes over a period of time. For example, the Committee is aware that, in terms of total remuneration, the packages for some of the Executive Directors are still below its assessment of market median levels, despite the Committee's decision to increase the salaries of the Executive Directors in March 2011 (see page 58 for further details).

Shareholding Guidelines

The Committee also operates shareholding guidelines for the Executive Directors whereby, as and when awards vest under the Performance Share Plan or other long term incentive schemes, the Executive Directors are required to retain no fewer than 50% of the vested shares, less any shares required to pay any tax liability which arises on vesting, until such time as a shareholding equivalent to 100% of base salary has been achieved.

At the year-end share price of £2.656, the value of shares in the Company held by Executive Directors as at 31 December 2010, calculated as a percentage of their base salary, is as follows:

Director	Value as a % of Base Salary
David Bellamy	714%
Andrew Croft	457%
Ian Gascoigne	482%
David Lamb	326%
Mike Wilson	3,911%

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

Risk and the FSA Remuneration Code

The Committee considers carefully every year the level of risk inherent in the remuneration policy. During the year the Committee reviewed the remuneration policy in light of the recommendations contained in the FSA Remuneration Code ('the Code') published in December 2010. Despite the fact that SJP is not required to comply with the Code, the Committee has considered the principles set out in the Code and has amended the policy in certain respects, recognising that the Code provisions can apply more widely to companies like SJP.

The Remuneration Committee has, for some time, had an overall responsibility to be aware of the remuneration policies and structures of the Group as a whole. The Terms of Reference of the Committee include a review of remuneration policy on a firm-wide basis. In addition, the Remuneration Committee works closely with the Risk Committee to ensure that the incentive arrangements are appropriately adjusted for risk. In this regard Roger Walsom is a member of both Committees, so as to ensure continuity and Mike Power, Chairman of the Risk Committee, attends Remuneration Committee meetings periodically.

The Committee's Terms of Reference also cover specifically the remuneration of senior risk-based employees and include oversight of remuneration policy and outcomes in respect of 'high-end' employees earning on average more than the Executive Directors, although there are no such high-end employees within the SJP Group who fall into this category at present.

The structure of the overall remuneration package is considered to be effective from a risk adjustment perspective. The annual bonus plan contains a mix of financial and non-financial performance metrics, where performance conditions are tailored to the business outlook and strategy. Financial performance conditions are based on the profitability of SJP, looking at EEV operating profit and profit from new business. The setting of metrics and their assessment is rigorously assessed from a risk perspective. Deferral of annual bonus payments has for many years been part of the remuneration policy. 50% of any sum paid to executives under the annual discretionary bonus scheme is invested in SJP shares and deferred for three years under the Deferred Bonus Scheme. This increases the performance time-horizon of the annual bonus plan beyond a single financial year.

The majority of the incentive pay comes in the form of a long-term incentive scheme (the Performance Share Plan) under which each award is subject to stretching performance targets measured over multi-year performance periods, with the performance period for subsequent awards overlapping the previous award. This ensures that there is no particular incentive to maximise performance over a particular period. The Committee considers that three years is a sufficiently long vesting period over which to measure performance, taking account of the fact that SJP's business model has a lower risk profile than the largest banks and other financial services companies which are the main focus of the Code.

With effect from 2011 the terms of the Annual bonus, Deferred Bonus Scheme and the Performance Share Plan have been amended to incorporate provisions to claw back payments made, in certain circumstances such as financial mis-statement or misconduct.

As stated above, the Executive Directors are expected to build and maintain a shareholding in the Company worth a minimum of 100% of base salary, to be built up over a period of time.

Salaries

Salaries are reviewed annually at the start of the year, using comparative company data provided by Hewitt and any increases take effect from 1 March. As stated above, the Committee aims (so far as practicable) to set fixed benefits (salary, pension and fringe benefits) below the median position for UK listed companies of a similar size to SJP, with adjustments then being made to take into account the responsibility and accountabilities of each role, the experience of the relevant individual and any other relevant factors.

The Committee reviewed the salaries of the Executive Directors in January 2011. In line with the Board's considerations in relation to pay and conditions for employees generally, recognising the strong performance of SJP and taking into account that the salaries of the Executive Directors (excluding David Lamb) had been frozen for two years, the Committee determined that the level of the increase to base salaries should be 5% for all Executive Directors (with the exception of the Chief Executive). This is in line with the average increase for the workforce as a whole.

In relation to the Chief Executive's salary, the Committee reviewed the performance of SJP and his own performance since he was promoted to the position of Chief Executive in 2007. The Committee also looked carefully at market data for remuneration levels in similar roles in comparable organisations. Having consciously positioned his initial salary at below comparable external benchmarks (and at a less significant differential to his Executive Director colleagues than in most comparable companies) when he was first appointed CEO, the Committee has determined that there should be a more significant increase to his base salary level from 2011 than for other Directors. It is not intended that this level of increase will be repeated next year. The salary increase for the Chief Executive is 9.4%, increasing his salary to a level which is closer to, but still below, comparable median benchmarks (looking at both base salary and total remuneration).

Accordingly, the 2011 salaries for the Executive Directors are as follows:

Director	2010 Salary	2011 Salary	% Increase
David Bellamy	£425,000	£465,000	+9.4%
Andrew Croft	£320,000	£336,000	+5.0%
Ian Gascoigne	£320,000	£336,000	+5.0%
David Lamb	£320,000	£336,000	+5.0%
Mike Wilson	£315,000	£331,000	+5.1%

Annual Bonus

For 2011, as in previous years, the Committee has determined that the maximum annual bonus will be 120% of salary, with half of any bonus award payable in cash, the remainder being invested in the Company's shares and deferred for three years ('the Deferred Bonus'). Mike Wilson does not participate in the annual bonus scheme.

As in 2010, the Committee decided that it was appropriate to measure the financial performance of the Group using two metrics. Up to 40% of salary will be awarded by reference to growth in the Group's EEV operating profit before tax, with a further 40% being awarded by reference to growth in the Group's profit from new business. Both measures are used by shareholders to assess the underlying profitability of the Group and the profit from the new business metric aligns a greater proportion of Executive Directors' remuneration to growth in new business and the control of expenses.

The operating profit and profit from new business targets set by the Committee are based on a sliding scale, to progressively reward incremental performance, with the bottom end of the scales representing a material increase in operating profit and new business profit compared with 2010 (which itself represented an all-time-high figure).

Up to a further 40% of salary may be awarded by the Committee by reference to the performance of the Executive Directors as a team, based on a review by the Committee of the performance of the Executive Directors in completing the main non-financial objectives set out in the 2011 business plan, agreed by the Board. The Committee believes it is appropriate to assess the performance of the Directors as a team as it considers that the emphasis on team performance fits with the culture and management ethos within the Director team. These objectives include achieving targets in relation to exams passed by the Partnership towards Diploma qualifications, preparing for the introduction of the various regulatory changes in 2013 as a result of the FSA's Retail Distribution Review, growth in net new funds under management, enhancing the range of investment funds and standards of service for SJP clients, the successful recruitment and retention of high quality new Partners, successfully controlling and mitigating the material risks that could impact the Group and maintaining the Group's good relations with its regulators. A framework for the assessment of these targets has been agreed including, where relevant, sliding scale targets.

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

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

The Committee is also able to take into account the performance of the Group on environmental, social and governance ('ESG') matters when assessing the bonus to be paid to the Executive Directors. The Committee believes that the Group's remuneration structure helps to alleviate ESG risks affecting the Group.

No Executive Director has a contractual right to receive an annual bonus award. The satisfaction of the targets set by the Committee is assessed by reference to the Company's internal management information systems and verified by the Committee, which the Committee believes is the most appropriate method, given the internal nature of most of the performance targets. Financial performance conditions are also verified by the Company's auditors.

The Committee believes that the annual bonus scheme is an effective incentive for the Executive Directors, whilst at the same time offering strong retentive characteristics through the deferred element, which normally lapses if an executive leaves the Group, as well as being aligned with shareholder interests due to the value of the deferred element of the award on vesting being dependent on share price performance.

The Committee also believes that the annual bonus scheme provides a rounded assessment of the performance of the Executive Directors, together with enhanced risk mitigation characteristics due to the two different profit-based metrics and a significant focus on non-financial objectives, including those based on risk mitigation.

With effect from 2011 the annual bonus plan (including the deferred shares element) will be subject to a clawback provision whereby payments can be reclaimed in the event of financial misstatement or misconduct.

Long Term Incentive Scheme

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

The Committee reviewed the grant levels under the PSP and decided to retain the existing grant levels of 175% of salary for Andrew Croft, Ian Gascoigne, David Lamb and Mike Wilson and 190% of salary for David Bellamy. When making this decision, the Committee noted that their potential total remuneration would continue to be at or below the market median.

The Committee also reviewed the performance conditions for the 2011 PSP awards to ensure that they were appropriately challenging and provided an appropriate risk adjusted performance measurement basis.

For 2011 PSP awards, one-third of the shares is subject to an EPS growth condition based on EEV adjusted profit, calculated as explained below. A separate one-third of the shares is subject to an EPS based performance condition based on EEV adjusted profit, but excluding the impact of the EEV unwind of the discount rate as this provides a better link to long-term management performance as stock market movements do not impact this measure. The final one-third of the shares is subject to a comparative Total Shareholder Return ('TSR') condition. All three performance conditions are measured over a single three-year period. The Committee believes that the mix of these three performance conditions provides an appropriate balance of targets that both incentivise the executives to achieve stretching long term financial performance targets, whilst also keeping their interests aligned with those of shareholders.

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

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

The Committee considered the sliding scale between threshold and maximum performance for each of the EPS-based performance conditions, being careful to ensure that the ranges are suitably stretching in the context of the prospects of the Company and the current operating environment, but without there being any undue pressure for management to take inappropriate risks. In this regard, for 2011 awards the Committee determined that, compared to 2010 awards, the growth range should be reduced marginally at the bottom end of the range from RPI+7% to RPI+5% so that the growth range will require average annual EPS growth of RPI+5% to RPI+16% p.a.

This adjustment has been made taking account of the fact that the base point of the 2010 financial year end from where EPS would be measured represents a big increase over the previous year. The Committee has also looked at analysts' forecasts for the Company and the sector and the EPS growth ranges adopted in long term incentive plans operated by similar businesses. Overall it considers that the growth range is still above those set in most other comparable businesses and represents an equivalent level of challenge to those ranges set for previous PSP awards.

In relation to the one-third of the award based on TSR performance, the Committee decided that, for 2011 awards, the TSR comparator group should continue to be the constituent companies of the FTSE 250, excluding investment trusts and also companies in the FTSE Oil & Gas Producers and FTSE Mining sectors as their share prices are likely to be impacted by changes in commodity prices.

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

One third of the award based on EPS (including the unwind of the discount rate) and the separate one third of the award based on EPS (excluding the unwind of the discount rate).

Average Annual Earnings Growth	Percentage of One Third of Award Exercisable
Below RPI + 5%	Zero
RPI + 5%	25%
RPI + 16% or more	100%
Between the above points	Pro rata between 25% and 100%

One third of the award based on TSR:

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

With effect from 2011, PSP awards will be subject to a clawback provision whereby payments can be reclaimed in the event of financial misstatement or misconduct.

Details of previous awards made under the PSP are set out on page 63. Awards under the PSP are largely satisfied by the issue of new shares in the Company. Full details of the current position of the Company against its dilution limits are set out on pages 66 and 67.

All Employee Incentive Schemes

All UK employees of the Group, including the Executive Directors, are eligible to enter into a Save As You Earn ('SAYE') contract, under which they are able to save up to £250 per month, and at the end of a three year savings period acquire shares in the Company at a price not less than 80% of the market price of the Company's shares at the date of the invitation to participate.

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

Pension and Death in Service Benefits

As in previous years, employer contributions of 20% of base salary are made to the money purchase Group personal pension for the Executive Directors, except for those Executives who are impacted by the pension cap, in which case the equivalent amount is paid to the Executive as an additional (non-pensionable) salary supplement. As a result of the pension changes announced by the Government restricting tax relief on pension contributions to £50,000 from April 2011, the Committee has decided that up to £50,000 of the 20% of base salary contribution will continue to be paid into the Group personal pension for the Executive Directors, with any excess being paid as an additional salary supplement as before.

The costs of the pension and death in service arrangements for the Executive Directors during the year ended 31 December 2010 are shown on page 62.

Service Agreements

It is the Committee's policy that service agreements should not contain notice periods in excess of one year. The terms and conditions of the Directors' service agreements are reviewed regularly and all service agreements contain an express obligation on the executive to mitigate his loss in the event the agreement is terminated. In addition, the Company reserves the right to pay an amount representing the value of salary and benefits in lieu of any outstanding period of notice on a monthly basis so that, should the executive obtain alternative employment during the notice period, the monthly payments can be reduced to take into account any earnings received under the new employment.

When considering the size of any proposed termination payment, the Committee would take into account a number of factors including the health, length of service, age and the performance of the relevant executive, including the duty to mitigate his own loss, with a broad aim to avoid rewarding poor performance while dealing fairly with cases where the departure is due to other reasons, for example illness.

All of the Executive Directors have entered into a service agreement with the Company. Each service agreement can be terminated, inter alia, by either party giving the other not less than twelve months' written notice. No enhanced rights or benefits (other than those previously approved by shareholders in relation to the Group's share incentive schemes) are payable to the Executive Directors on termination, resignation or retirement or as a result of any other event such as a change of control of the Company. The agreements automatically terminate on the 65th birthday of the executive, except for Mike Wilson, whose agreement terminates on 31 December 2011, unless otherwise extended by mutual agreement. All the service agreements provide for benefits in kind, including life assurance, pension provision, private health insurance and a company car. Mike Wilson is also entitled to the use of a chauffeur.

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

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

Currently, no Executive Director acts as a Non-executive Director on the Board of another company.

Non-executive Directors

The remuneration of the Non-executive Directors is determined by the Board as a whole, within the limits set by the provisions of the Articles of Association. In 2010, a basic annual fee of £25,000 per annum was paid to the Non-executive Directors, with additional fees being paid in respect of Board committee and other responsibilities. The Board reviewed the fees paid to the Non-executive Directors in January 2011 and it was decided to increase the fee levels by 5%, reflecting the average salary increases that have applied across the workforce as a whole.

Set out below are the annual fees paid to the Non-executive Directors in 2010 and those currently payable in relation to 2011:

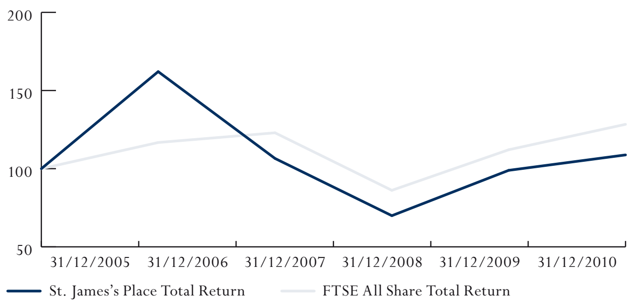
Director	2010 Fee £	2011 Fee £	Date of Letter of Appointment
Sarah Bates	55,000	57,750	26 July 2004
Steve Colsell(i)	25,000	26,250	30 January 2009
Jo Dawson(ii)	2,466	N/A	31 May 2006
Charles Gregson(iii)	46,000	48,300	7 December 2009
Derek Netherton	55,000	57,750	15 March 1999
Mike Power	58,000	60,900	22 April 2005
Michael Sorkin	66,250	60,375	16 October 2001
Roger Walsom	43,000	45,150	21 July 2005

Notes:
(i) Fees for Steve Colsell were paid directly to Lloyds Banking Group plc ('LBG').
(ii) LBG were paid £2,466 for Jo Dawson's services as a Non-executive Director in 2010 up to the date of her resignation from the Board on 5 February 2010.
(iii) Charles Gregson was appointed to the Board on 1 January 2010.

The Non-executive Directors do not have service contracts or any benefits in kind arrangements and do not participate in any of the Group's pension or long term incentive arrangements. The term of the appointment of each Non-executive Director (other than those appointed by Lloyds Banking Group plc pursuant to the Relationship Agreement described more fully on page 51) is for three years, terminating on the date on which the Non-executive Director is required by the Company's Articles of Association to retire by rotation at the AGM, at which time the appointment will be reviewed by the Board. Any period of service longer than six years is subject to particularly rigorous review by the Nomination Committee of the Board.

Performance Graph

The graph below, prepared in accordance with the Companies Act 2006, shows a comparison of the Company's TSR performance against the FTSE All-Share index over the last five financial years. The Company considers this to be the most appropriate comparative index, given the broad nature of the index and the companies within it.



Directors' Remuneration*

Total Directors' remuneration for the year ended 31 December 2010 is shown below, with comparative figures for the year ended 31 December 2009:

	Year Ended 31 December 2010 £	Year Ended 31 December 2009 £
Aggregate emoluments		
Fees to Non-executive Directors	**350,716**	331,171
Emoluments to Executive Directors	**3,552,314**	3,403,572
Aggregate gains on exercise of share awards	**33,000**	1,218
Company contributions to money purchase pension schemes		
– see note (iii) to the table below	**340,000**	332,000
	4,276,030	4,067,961

The following table, which has been prepared in accordance with regulatory requirements, sets out the elements of Directors' aggregate emoluments for the year ended 31 December 2010, or for the period ended 31 December 2010 if appointed during the year.

Director	Salaries & Fees £	Cash Bonus £	Deferred Bonus £	Death In Service & Other Benefits £	2010 Aggregate Emoluments £	2009 Aggregate Emoluments £
Sarah Bates	55,000	–	–	–	**55,000**	55,000
David Bellamy	425,000	244,375	244,375	76,691	**990,441**	954,723
Steve Colsell	25,000	–	–	–	**25,000**	21,685
Andrew Croft	320,000	184,000	184,000	40,291	**728,291**	715,931
Jo Dawson	2,466	–	–	–	**2,466**	25,000
Ian Gascoigne	320,000	184,000	184,000	42,660	**730,660**	717,434
Charles Gregson	46,000	–	–	–	**46,000**	N/A
David Lamb	320,000	184,000	184,000	42,682	**730,682**	633,849
Derek Netherton	55,000	–	–	–	**55,000**	55,000
Mike Power	58,000	–	–	–	**58,000**	58,000
Michael Sorkin	66,250	–	–	–	**66,250**	72,500
Roger Walsom	43,000	–	–	–	**43,000**	43,000
Mike Wilson	315,000	–	–	57,240	**372,240**	381,635

Notes:

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

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

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

(iv) For the 2010 annual bonus, Executive Directors could earn up to 80% of salary by reference to the Group's financial performance, largely based on growth in EEV operating profit and new business profit, by reference to objectives set by the Committee at the start of the year. A further payment of up to 40% of salary could be earned by reference to the team performance of the Executive Directors, based on a number of financial and non-financial objectives set at the start of the year by the Committee. The Committee met in January 2011 to review the performance of the Group and the executives against the objectives set at the start of the year.
As regards the elements of the annual bonus based on the financial objectives set by the Committee based on EEV operating profit and new business profit, the Committee awarded the maximum bonus of 80% of salary to the Executive Directors, given the substantial increases in both operating profit and new business profit in 2010, well in excess of the scale set by the Committee at the start of the year. The Committee awarded a further payment of 35% of salary (out of a possible 40%) to each of the Executive Directors for the team performance element of the bonus, making a total bonus of 115% of salary out of a possible 120% of salary.

The level of management's performance was recognised by the Committee as being outstanding in challenging market conditions. Metrics against which management performance was assessed included the achievement of the financial and non-financial objectives set by the Committee at the start of the year, communication skills, teamwork, performance in relation to the identification and ongoing management of the material risks facing the Group and other relevant factors. Further details of the annual bonus scheme can be found on pages 58 and 59.

As explained on page 58, half of the annual bonus is paid in cash, with the other half being used to purchase SJP shares which are held in trust for three years under the Deferred Bonus Scheme. Mike Wilson does not participate in the annual bonus scheme.

Share Awards

The tables below set out details of share awards that have been granted to individuals who were Directors during 2010 and which had yet to vest at some point during the year.

Performance Share Plan – Awards Held in Return for Qualifying Services During 2010*

Director	Balance at 1 January 2010	Granted in Year (iv)	Lapsed in Year (v)	Exercised in Year	Balance at 31 December 2010	Dates from which Exercisable
David Bellamy	114,566(i)	–	114,566	–	–	2 Mar 2010 to 2 Sept 2010
	40,276(i)	–	40,276	–	–	7 Aug 2010 to 7 Feb 2011
	229,936(ii)	–	–	–	229,936	3 Mar 2011 to 3 Sept 2011
	331,168(iii)	–	–	–	331,168	2 Mar 2012 to 2 Sept 2012
	–	316,666	–	–	316,666	8 Mar 2013 to 8 March 2016
Andrew Croft	114,566(i)	–	114,566	–	–	2 Mar 2010 to 2 Sept 2010
	173,128(ii)	–	–	–	173,128	3 Mar 2011 to 3 Sept 2011
	249,350(iii)	–	–	–	249,350	2 Mar 2012 to 2 Sept 2012
	–	219,607	–	–	219,607	8 Mar 2013 to 8 March 2016
Ian Gascoigne	114,566(i)	–	114,566	–	–	2 Mar 2010 to 2 Sept 2010
	173,128(ii)	–	–	–	173,128	3 Mar 2011 to 3 Sept 2011
	249,350(iii)	–	–	–	249,350	2 Mar 2012 to 2 Sept 2012
	–	219,607	–	–	219,607	8 Mar 2013 to 8 March 2016
David Lamb	43,644(i)	–	43,644	–	–	2 Mar 2010 to 2 Sept 2010
	135,256(i)	–	–	–	135,256	3 Mar 2011 to 3 Sept 2011
	218,181(ii)	–	–	–	218,181	2 Mar 2012 to 2 Sept 2012
	–	219,607	–	–	219,607	8 Mar 2013 to 8 March 2016
Mike Wilson	190,943(i)	–	190,943	–	–	2 Mar 2010 to 2 Sept 2010
	284,039(ii)	–	–	–	284,039	3 Mar 2011 to 3 Sept 2011
	245,454(iii)	–	–	–	245,454	2 Mar 2012 to 2 Sept 2012
	–	216,176	–	–	216,176	8 Mar 2013 to 8 March 2016

Notes:

(i) These awards were made on 2 March 2007 when the St. James's Place share price was £4.42. David Bellamy received a further award on 7 August 2007 following his appointment as Chief Executive when the St. James's Place share price was £4.26 per share. The performance period was the three year period ending on 31 December 2009. The performance conditions related to EPS for two-thirds of the award and TSR for one-third of the award, compared to a comparator group of other financial services companies. The EPS scale started at RPI +8% for 25% of the award to vest and ended at RPI +18% for 100% of the award to vest, with pro rata vesting between the said points. The TSR sliding scale was between median and upper quartile, with 25% of the TSR part of the award vesting at median.

(ii) These awards were made on 3 March 2008 when the SJP share price was £2.585. The performance period is the three year period ending on 31 December 2010. The performance conditions relate to EPS for two-thirds of the award and TSR for one-third of the award, compared to a comparator group of other financial services companies. The EPS scale starts at RPI +7% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest, with pro-rata vesting between the said points. The TSR sliding scale is between median and upper quartile, with 25% of the TSR part of the award vesting at median.

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

(iv) These awards were made on 8 March 2010 when the St. James's Place share price was £2.55. The performance period is the three year period ending on 31 December 2012. The performance conditions relate to EPS (including the impact of the unwind of the discount rate, as described more fully on page 59) for one-third of the award, to EPS excluding the impact of the said unwind for one-third of the award and TSR for one-third of the award, compared to the FTSE All Share Index, excluding investment trusts and companies in the oil, gas and mining sectors. The EPS scale starts at RPI +7% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest, with pro rata vesting between the said points. The TSR sliding scale is between median and upper quartile, with 25% of the TSR part of the award vesting at median.

(v) These awards lapsed in full due to the performance conditions based on EPS growth (for two-thirds of the awards) and TSR compared to a group of comparator companies (for one-third of the awards) not being satisfied i.e. the performance of the Group in relation to EPS and TSR did not achieve the minimum levels set by the Committee when the awards were granted in 2007.

Deferred Bonus Scheme – Shares Held During 2010*

The table below sets out details of the awards held by the Directors under the deferred element of the annual bonus scheme during 2010:

Director	Balance at 1 January 2010	Released During Year (i)	Granted During Year(ii)	Balance at 31 December 2010(iii)	Vesting Date
David Bellamy	35,814	35,814	–	–	9 Mar 2010
	86,564	–	–	86,564	5 Mar 2011
	34,931	–	–	34,931	4 Mar 2012
	–	–	89,990	89,990	10 Mar 2013
Andrew Croft	33,000	33,000	–	–	9 Mar 2010
	64,923	–	–	64,923	5 Mar 2011
	26,301	–	–	26,301	4 Mar 2012
	–	–	67,757	67,757	10 Mar 2013
Ian Gascoigne	35,814	35,814	–	–	9 Mar 2010
	64,923	–	–	64,923	5 Mar 2011
	26,301	–	–	26,301	4 Mar 2012
	–	–	67,757	67,757	10 Mar 2013
David Lamb	23,023	23,023	–	–	9 Mar 2010
	41,478	–	–	41,478	5 Mar 2011
	23,972	–	–	23,972	4 Mar 2012
	–	–	59,287	59,287	10 Mar 2013

Notes:

(i) These deferred share awards were granted on 9 March 2007 equal in value to the executive's 2006 annual cash bonus. The St. James's Place share price on the date of the grant was £4.4175 and on the date of release (9 March 2010) was £2.511.

(ii) These deferred share awards were granted on 10 March 2010, equal in value to the executive's 2009 annual cash bonus. These shares will be held in trust for a restricted period ending on 10 March 2013. The St. James's Place share price on 10 March 2010 was £2.54.

(iii) Outstanding awards at the year end relate to share awards granted in 2008, 2009 and 2010 (see (ii) above). The share price at the date of the 2008 award (5 March 2008) was £2.635 and at the date of the 2009 award (4 March 2009) was £1.85 and at the date of the 2010 award (10 March 2010) was £2.54.

(iv) Further details of the deferred element of the annual bonus scheme are set out on page 58.

Executive Share Option Scheme – Options Held in Return for Qualifying Services During 2010*

Details of the options held by the Directors in 2010 under the Company's executive scheme and any movements during the year are as follows:

Director	Options Held at 1 January 2010	Granted in Year	Exercised in Year(ii)	Options Held at 31 December 2010	Exercise Price(i)	Dates from which Exercisable
Andrew Croft	30,000	–	30,000	–	£1.45	15 Mar 2007 to 15 Mar 2012

Notes:

(i) The exercise price corresponds with the market price (as defined in the Scheme rules) on the date on which the options were granted. At 31 December 2010 the mid market price for St. James's Place shares was £2.656. The range of prices between 1 January 2010 and 31 December 2010 was between £2.042 and £2.92.

(ii) These options were exercised on 5 March 2010, when the mid-market price was £2.55, resulting in a gain of £33,000.

SAYE Share Option Scheme – Options Held in Return for Qualifying Services During 2010*

Details of the options held by the Directors in 2010 under the SAYE scheme and any movements during the year are as follows:

Director	Options Held at 1 January 2010	Granted in Year	Lapsed in Year	Exercised in Year	Options Held at 31 December 2010	Exercise Price	Dates from which Exercisable
David Bellamy	6,100	–	–	–	6,100	£1.50	1 May 2012 to 31 Oct 2012
Andrew Croft	6,100	–	–	–	6,100	£1.50	1 May 2012 to 31 Oct 2012
Ian Gascoigne	6,100	–	–	–	6,100	£1.50	1 May 2012 to 31 Oct 2012
David Lamb	6,100	–	–	–	6,100	£1.50	1 May 2012 to 31 Oct 2012
Mike Wilson	6,100	–	–	–	6,100	£1.50	1 May 2012 to 31 Oct 2012

Note:

(i) At 31 December 2010 the mid market price for St. James's Place shares was £2.656. The range of prices between 1 January 2010 and 31 December 2010 was between £2.042 and £2.92.

Share Incentive Plan – Shares Held During 2010*

The table below sets out details of the awards held by the Directors under the Share Incentive Plan during 2010:

Director	Balance at 1 January 2010	Partnership Shares Allocated During Year (i)	Matching Shares Allocated During Year(i)	Balance at 31 December 2010	Holding Period (Matching Shares)
Andrew Croft	–	584	58	642	26 March 2010 to 26 March 2013

Note:

(i) The Partnership shares were awarded on 26 March 2010 under the Share Incentive Plan at a price of £2.5675 per share, in return for £1,500 being deducted from Mr Croft's pre-tax salary. A further 58 Matching shares were awarded on the same date. The Partnership and Matching shares will be held by an employee benefit trust on behalf of the Director. The Matching shares must be held for a minimum period of three years from the date of the award.

Between 31 December 2010 and 22 February 2011 there were no transactions in the Company's share options by Directors.

Share Interests

St. James's Place plc*

The interests of the Directors in the share capital of the Company as at 1 January 2010 (or as at the date of appointment, if applicable) and as at 31 December 2010 (or as at the date of resignation, if applicable) are given below:

Director	31 December 2010 Ordinary Shares of 15 pence each Beneficial	31 December 2010 Ordinary Shares of 15 pence each Non-Beneficial	1 January 2010 Ordinary Shares of 15 pence each Beneficial	1 January 2010 Ordinary Shares of 15 pence each Non-Beneficial
Sarah Bates	13,500	–	13,500	–
David Bellamy	232,578	909,450	316,184	750,575
Steve Colsell	–	–	–	–
Andrew Croft(iii)	416,639	134,000	354,249	134,000
Ian Gascoigne	550,450	30,000	497,414	30,000
Charles Gregson(iv)	8,300	–	–	–
David Lamb	389,600	3,681	339,777	3,681
Derek Netherton	20,000	–	20,000	–
Mike Power	–	–	–	–
Michael Sorkin	–	–	–	–
Roger Walsom	3,194	–	3,194	–
Mike Wilson	3,888,361	750,000	3,888,361	750,000

Notes:

(i) The beneficial interests of the Executive Directors set out above include deferred bonus scheme awards held in trust for the Directors, details of which are set out on page 64.

(ii) The Company's register of Directors' interests contains full details of Directors' shareholdings and any share awards under the Company's various share schemes.

(iii) The interest in shares disclosed above for Andrew Croft has been restated at 1 January 2010 to include 134,000 shares held by a connected person which were not included in disclosure for the year ended 31 December 2009.

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

(v) Disclosure of the Directors' interests in share awards is given on pages 63 to 65 above and also in Note 31 - Related Party Transactions on page 111.

(vi) The term 'beneficial' is used to describe directors' holdings where discretion over transactions involving the shares (subject to the usual Model Code requirements) and the exercise of voting rights is held solely by the director. The term 'non-beneficial' is used to describe holdings of directors' connected persons where discretion over transactions involving the shares (subject to the usual Model Code requirements) and the exercise of voting rights is held by the connected person and not the director.

Between 31 December 2010 and 22 February 2011 there were no transactions in the Company's shares by Directors.

Dilution

Dilution limits agreed by shareholders at the time of shareholder approval of the various long term incentive schemes allow for the following:

– up to 5% of share capital in ten years to be used for grants to employees under discretionary schemes;
– up to 10% of share capital in ten years to be used for grants to employees under all employee share schemes; and
– up to 15% of share capital in ten years to be used for grants to employees and members of the St. James's Place Partnership (the Group's sales force) under all share schemes i.e. both the employee and 'Partner' share schemes. This increased limit reflects the unique structure of the business and the importance of the Partnership to the ongoing success of the Group.

The table below sets out, as at 31 December 2010, the number of new ordinary shares in the Company which have been issued, or are capable of being issued (subject to the satisfaction of any applicable performance conditions) as a result of options or awards granted under the various long term incentive schemes operated by the Company in the ten years prior to 31 December 2010.

Share Scheme	Number of New Ordinary Shares of 15 Pence Each	% of Total Issued Share Capital as at 31 December 2010
SAYE schemes	5,166,243	1.06%
Executive share schemes	11,490,483	2.36%
Partners share schemes	32,352,764	6.65%
Total	49,009,490	10.07%

In addition, as at 31 December 2010, the Group's Employee Share Trust held 306,768 shares in the Company which were purchased in the market to satisfy awards made under the PSP and executive share option schemes.

A further 2,729,365 shares, registered to employees under the terms of the Group's deferred bonus scheme, have been allocated by the Group's Employee Share Trust. These shares are allocated to the relevant individuals on a restricted basis whereby the recipients are not entitled to the shares until completion of the three year restricted period. Further details of the deferred bonus scheme are set out on pages 58 and 59.

Lloyds Banking Group plc*

The Directors had no interests in the share capital of LBG plc as at 31 December 2010 except for the beneficial interests set out below.

Director	31 December 2010 Ordinary Shares of 10 pence each in Lloyds Banking Group	1 January 2010 Ordinary Shares of 10 pence each in Lloyds Banking Group
Steve Colsell	52,411	52,411
Ian Gascoigne	8,086	8,086
David Lamb	307	307
Roger Walsom	567	567
Mike Wilson	954	907

Notes:

(i) The term 'beneficial' is used to describe directors' holdings where discretion over transactions involving the shares and the exercise of voting rights is held solely by the director. The term 'non-beneficial' is used to describe holdings of directors' connected persons where discretion over transactions involving the shares and the exercise of voting rights is held by the connected person and not the director.

Between 31 December 2010 and 22 February 2011 there have been no transactions in shares of the Lloyds Banking Group by the Directors.

Interests in Shares Held in Trusts

Certain Executive Directors and employees are deemed to have an interest or a potential interest as potential discretionary beneficiaries under the SJP Employee Share Trust. As such, they were treated as at 31 December 2010 as being interested in 2,944,497 ordinary shares of 15 pence in the Company, such shares being held by S G Hambros Trust Company (Channel Islands) Limited, the trustee of that trust.

This report was approved by the Board of Directors and signed on its behalf by

Michael Sorkin
Chairman, Remuneration Committee
22 February 2011

Consolidated Accounts
on International Financial Reporting Standards Basis

Independent Auditors' Report
to the members of St. James's Place plc

We have audited the group financial statements of St. James's Place plc for the year ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

Respective Responsibilities of Directors and Auditors

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

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

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion the group financial statements:
- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the lAS Regulation.

Opinion on Other Matters Prescribed by the Companies Act 2006

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

Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the directors' statement, set out in the Directors' Report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other Matter

We have reported separately on the parent company financial statements of St. James's Place plc for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Craig Gentle (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
22 February 2011

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

Consolidated Statement of Comprehensive Income

	Notes	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	1	**455.0**	369.1
Investment income	4	**2,626.7**	2,706.1
Other operating income		**1.4**	0.9
Net income	3	**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	21	**(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)
	5	**(440.1)**	(391.4)
Profit before tax	3	**161.9**	28.5
Tax attributable to policyholders' returns	7	**(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	7	**77.7**	(21.4)
Tax attributable to shareholders' returns	7	**(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	8	**11.4**	8.3
Diluted earnings per share	8	**11.2**	8.2

The notes and information on pages 74 to 113 form part of these accounts.

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**

The number of shares held in the Treasury Share Reserve is given in Note 28 Share Capital on page 106.

Miscellaneous reserves represent other non-distributable reserves.

The notes and information on pages 74 to 113 form part of these accounts.

Consolidated Statement of Financial Position

	Notes	31 December 2010 £ million	31 December 2009 £ million
Assets			
Intangible assets			
– Deferred acquisition costs	10	**755.7**	642.4
– Acquired value of in force business	10	**50.2**	54.1
– Computer software	10	**2.1**	–
		808.0	696.5
Property & equipment	11	**7.7**	10.4
Deferred tax assets	12	**158.2**	187.0
Investment property	13	**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	19	**38.6**	36.8
Insurance and investment contract receivables		**14.2**	17.4
Income tax assets		**37.0**	18.6
Other receivables	15	**547.1**	235.0
Cash & cash equivalents	16	**2,042.0**	1,711.1
Total assets		**25,387.4**	19,698.7
Liabilities			
Insurance contract liabilities	18	**417.9**	388.1
Other provisions	20	**3.6**	4.8
Financial liabilities			
– Investment contracts	21	**21,191.9**	16,994.4
– Borrowings	22	**15.9**	2.6
– Currency forwards		**20.4**	–
Deferred tax liabilities	23	**224.3**	187.8
Insurance and investment contract payables		**44.6**	21.5
Deferred income	24	**469.6**	401.1
Income tax liabilities		**34.4**	14.5
Other payables	25	**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	28	**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

The financial statements on pages 70 to 113 were approved by the Board of Directors on 22 February 2011 and signed on its behalf by:

D Bellamy
Chief Executive

A Croft
Finance Director

The notes and information on pages 74 to 113 form part of these accounts.

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.

The notes and information on pages 74 to 113 form part of these accounts.

1. ACCOUNTING POLICIES

St. James's Place plc ('the Company') is a company incorporated and domiciled in England and Wales.

Statement of Compliance

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

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

The following new and amended standard, which the Group has adopted as of 1 January 2010, has not had any material impact on the Group's reported results:

IFRS 2	Amendment – Group cash settled share-based payment transactions

As at 31 December 2010, the following standards and interpretation, which are relevant to the Group but have not been applied in the financial statements, were in issue but not yet effective:

IAS 12	Amendment – Income taxes
IAS 24	Revised – Related party disclosures
IAS 27	Amendment – Consolidated and separate financial statements
IAS 32	Amendment – Financial instruments: Presentation
IAS 39	Amendment – Financial instruments recognition and measurement
IFRS 7	Amendment – Financial instruments: Disclosures
IFRS 9	Financial instruments – Classification and measurement
IFRIC 17	Distribution of non-cash assets to owners

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

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

Basis of Preparation

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

The financial statements are presented in pounds sterling, rounded to the nearest one hundred thousand pounds. They are prepared on a historical cost basis except for assets classified as investment property, investments and currency forwards, and liabilities classified as investment contracts, insurance contracts and third party holdings in unit trusts, which are held at fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The consolidated statement of comprehensive income for the year ended 31 December 2009 has been re-presented to better present fee and commission income to disclose all fund related income which, had in part, been previously netted off against investment contract benefits. The impact on the consolidated income statement has been to increase fee and commission income and to increase investment contract benefits by £267.9 million for the year ended 31 December 2009. There has been no impact on the profit attributable to the shareholders of the Company.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 2.

The financial statements are prepared in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS and the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Summary of Significant Accounting Policies

(a) Basis of consolidation

The consolidated financial information incorporates the assets, liabilities and the results of the Company and of its subsidiaries. Subsidiaries are those entities in which the Group directly or indirectly has the power to govern the financial and operating policies in order to gain benefits from its activities (including unit trusts in which the Group holds more than half of the units). The Group uses the acquisition method of accounting to account for business combinations. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Group.

Intragroup balances, and any income and expenses or unrealised gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(b) Product classification

The Group's products are classified for accounting purposes as either insurance contracts or investment contracts.

(i) Insurance contracts

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

(ii) Investment contracts

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

(c) Long-term business

(i) Insurance premium revenue

For unit linked insurance contracts, premiums are recognised as revenue when the liabilities arising from them are recognised. All other premiums are accounted for when due for payment.

Investment contract premiums are not included in the income statement but are reported as deposits to investment contract liabilities in the balance sheet.

(ii) Revenue from investment contracts

Fees charged for services related to the management of investment contracts are recognised as revenue as the services are provided. Initial fees, including dealing margins from unit trusts, which exceed the level of recurring fees and relate to the future provision of services, are deferred. These are amortised over the anticipated period in which services will be provided.

(iii) Policy claims and benefits

For insurance contracts, death claims are accounted for on notification of death. Critical illness claims are accounted for when admitted. All other claims and surrenders are accounted for when payment is due.

1. ACCOUNTING POLICIES *CONTINUED*

For investment contracts, benefits paid are not included in the income statement but are instead deducted from investment contract liabilities. The movement in investment contract benefits within the income statement principally represents the investment return credited to policyholders.

(iv) Acquisition costs

For insurance contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. Acquisition costs which are incurred during a financial year, net of any impairment losses, are deferred and then amortised over the period during which the costs are expected to be recoverable and in accordance with the incidence of future related margins.

For investment contracts, only directly attributable acquisition costs, which vary with and are related to securing new contracts and renewing existing contracts, are deferred to the extent that they are recoverable out of future revenue. These deferred acquisition costs, which represent the contractual right to benefit from providing investment management services, net of any impairment losses, are amortised on a straight-line basis over the expected lifetime of the Group's investment contracts. All other costs are recognised as expenses when incurred.

(v) Insurance contract liabilities

Insurance contract liability provisions are determined following an annual actuarial investigation of the long-term fund in accordance with regulatory requirements. The provisions are calculated on the basis of current information and using the gross premium valuation method. The Group's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4, as they consider current estimates of all contractual cash flows, and of related cash flow such as claims handling costs.

Insurance contract liabilities can never be definitive as to their timing nor the amount of claims and are therefore subject to subsequent reassessment on a regular basis.

(vi) Investment contract liabilities

All of the Group's investment contracts are unit linked. Unit linked liabilities are measured at fair value by reference to the value of the underlying net asset value of the Group's unitised investment funds, determined on a bid value, at the balance sheet date. An allowance for future tax to be paid or recovered in respect of capital gains and losses in the unit linked funds, discounted to reflect the time period over which such gains and losses are expected to be realised for tax purposes, is also reflected in the measurement of unit linked liabilities. Investment contract liabilities are recognised when units are first allocated to the policyholder; they are derecognised when units allocated to the policyholder have been cancelled.

The decision by the Group to designate its unit linked liabilities as fair value through the profit and loss statement reflects the fact that the underlying investment portfolio is managed, and its performance evaluated, on a fair value basis.

(vii) Insurance and investment contract receivables and payables

Insurance and investment contract receivables and payables are initially recognised at fair value and subsequently at amortised cost, using the effective interest method, less impairment losses.

(d) Reinsurance

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

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

(e) Fee and commission income

Fee and commission income primarily consists of management fees on investment contracts (see accounting policy note c (ii)) and commission due in respect of products sold on behalf of third parties. Commission is recognised in full on acceptance and inception of the policy by the product provider. Where the product provider retains the right to clawback of commission on an indemnity basis, turnover on sale of these products is recognised net of a provision for the estimated clawback.

(f) Investment return

Investment return comprises investment income and investment gains and losses. Investment income includes dividends, interest and rental income from investment properties under operating leases. Dividends are accrued on an ex-dividend basis, and rental income is recognised in the income statement on a straight-line basis over the term of the lease. Interest, which is generated on assets classified as fair value through profit and loss, is accounted for on an accruals basis.

(g) Expenses

(i) Commission

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

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

(ii) Operating lease payments

Leases where a significant proportion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and are spread over the life of the lease.

(h) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax payable by the Group in respect of policyholders and shareholders. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Policyholder and shareholder tax

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

1. ACCOUNTING POLICIES *CONTINUED*

(i) Dividends

Dividend distributions to the Company's shareholders are recognised in the period in which the dividends are paid, and, for the final dividend, when approved by the Company's shareholders at the Annual General Meeting.

(j) Intangible assets

(i) Deferred acquisition costs
See accounting policy note c (iv).

(ii) Acquired value of in-force business
The acquired value of in-force business in respect of insurance business represents the present value of profits that are expected to emerge from insurance business acquired on business combinations. It is calculated at the time of acquisition using best estimate actuarial assumptions for interest, mortality, persistency and expenses, net of any impairment losses, and it is amortised as profits emerge over the anticipated lives of the related contracts in the portfolio. An intangible asset is also recognised in respect of acquired investment management contracts representing the fair value of contractual rights acquired under those contracts. The acquired value of in-force business is expressed as a gross figure in the balance sheet with the associated tax included within deferred tax liabilities. It is assessed for impairment at each reporting date and any movement is charged to the income statement.

(iii) Computer software
Computer software is recognised as an intangible asset during development and amortised on a straight line basis over its useful life of four 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.

(k) Property & equipment

Items of property & equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy note (p)). Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. The deemed cost of owner occupied property is the fair value determined by an independent valuer at the date of transition to IFRS.

Depreciation is charged to the income statement to administration expenses on a straight-line basis over the estimated useful lives of the property & equipment as follows:

Computers:	3 years
Fixtures and fittings:	5 years
Office equipment:	5 years
Motor vehicles:	4 years
Buildings:	50 years

Land is not depreciated.

(l) Investment property

Investment properties, which are all held within the unit linked funds, are properties which are held to earn rental income and/or for capital appreciation. They are stated at fair value.

An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every month.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy note (f).

(m) Investments

The Group's investments are all classified at fair value through profit and loss, with all gains and losses recognised within investment income in the income statement. The fair values of quoted financial investments, which represent the vast majority of the Group's investments, are based on current bid prices. If the market for a financial investment is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models.

The decision by the Group to designate its investments at fair value through the profit and loss reflects the fact that the investment portfolio is managed, and its performance evaluated, on a fair value basis.

The Group recognises purchases and sales of investments on trade date. The costs associated with investment transactions are included within administration expenses in the income statement.

(n) Currency forwards

The Group uses currency forwards within some unit linked funds to hedge exposure to foreign currency. Each contract is recognised initially and subsequently at fair value, based on quoted market prices, with all changes in value recognised within investment income in the income statement.

(o) Other receivables

Other receivables are initially recognised at fair value and subsequently held at amortised cost less impairment losses. The value of any impairment recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

(p) Impairment policy

Formal reviews to assess the recoverability of deferred acquisition costs on insurance and investment contracts, the acquired value of in-force business and loans are carried out at each balance sheet date. The recoverability of such assets is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset. The carrying amounts of the Group's other assets that are not carried at fair value are also reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication of irrecoverability or impairment, the asset's recoverable amount is estimated based on the present value of its estimated future cash flows.

Impairment losses are reversed – through the income statement – if there is a change in the estimates used to determine the recoverable amount. Such losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation where applicable, if no impairment loss had been recognised.

(q) Cash & cash equivalents

Cash & cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts to the extent that they are an integral part of the Group's cash management.

Cash & cash equivalents held within unit linked and unit trust funds are classified at fair value through the profit and loss. All other cash & cash equivalents are classified as loans and receivables.

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events such that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured as the discounted expected future cash flows taking account of the risks and uncertainties associated with the specific liability where appropriate. The Group recognises provisions for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

1. ACCOUNTING POLICIES *CONTINUED*

(s) Borrowings

Borrowings are measured initially at fair value, net of directly attributable transaction costs, and subsequently stated at amortised cost. The difference between the proceeds and the redemption value is recognised in the income statement over the borrowing period on an effective interest rate basis. Borrowings are recognised on drawdown and derecognised on repayment.

(t) Other payables

Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(u) Net asset value attributable to unit holders

The Group consolidates unit trusts in which it holds more than half of the units. The third party interests in these unit trusts are measured at fair value, since the underlying investment portfolios are managed on a fair value basis, and they are presented in the balance sheet as net asset value attributable to unit holders. Income attributable to the third party interests is accounted for within investment income, offset by a corresponding change in investment contract benefits.

(v) Employee benefits

(i) Pension obligations

The Group operates a defined contribution personal pension plan for its employees. Contributions to this plan are recognised as an expense in the income statement as incurred.

(ii) Share-based payments

The Group operates a number of share-based payment plans. The fair value of equity instruments granted is recognised as an expense spread over the vesting period of the instrument which accords with the period for which related services are provided, with a corresponding increase in equity in the case of equity settled plans. The total amount to be expensed is determined by reference to the fair value of the awards at the grant date, measured using standard option pricing models.

At each balance sheet date, the Group revises its estimate of the number of equity instruments that are expected to vest and it recognises the impact of the revision of original estimates, if any, in the income statement, such that the amount recognised for employee services are based on the number of shares that actually vest. The charge to the income statement is not revised for any changes in market vesting conditions.

(w) Treasury shares

Where any Group company purchases the Company's share capital, the consideration paid is deducted from equity attributable to shareholders, as disclosed in the Treasury Shares reserve. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to shareholders, net of any directly attributable incremental transaction costs and the related income tax effects.

(x) Foreign currency translation

The Group's presentational and functional currency is pounds sterling.

Foreign currency transactions are translated into sterling using the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gain or losses on translation are recognised in the income statement.

Non-monetary assets and liabilities which are held at historical cost are translated using exchange rates prevailing at the date of transaction; those held at fair value are translated using exchange rates ruling at the date on which the fair value was determined.

(y) Segment reporting

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

(z) Current and non-current disclosure

Assets which are expected to be recovered or settled no more than twelve months after the balance sheet date are disclosed as current within the notes to the accounts. Those expected to be recovered or settled more than twelve months after the balance sheet date are disclosed as non-current.

Liabilities which are expected and due to be settled no more than twelve months after the balance sheet date are disclosed as current within the notes to the accounts. Those liabilities which are expected and due to be settled more than twelve months after the balance sheet date are disclosed as non-current.

Deferred tax balances are all treated as non-current.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Judgements

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

Estimates

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

– Determining the value of insurance contract liabilities.
– Deciding the amount of management expenses that are treated as acquisition expenses.
– Amortisation and recoverability of deferred acquisition costs and deferred income.
– Determining the fair value, amortisation and recoverability of acquired in-force business.
– 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.
– The assumed rate of investment return, which is based on current gilt rates.

Greater detail on the assumptions applied is shown in Note 18.

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.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

CONTINUED

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

Acquired in-force business

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

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

Valuing capital losses in unit funds

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

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

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

3. SEGMENT REPORTING

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.

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 £ million	Year Ended 31 December 2009 £ 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.

3. SEGMENT REPORTING *CONTINUED*

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 Supplementary Information on EEV basis within the Annual Report and Accounts on pages 123 to 132. 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

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£ million	£ million
Cash result		
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

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£ million	£ million
IFRS segment result		
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

4. INVESTMENT INCOME

	Year Ended 31 December 2010 £ million	Year Ended 31 December 2009 £ million
Dividend income	**383.3**	349.1
Interest income	**151.8**	140.6
Rental income	**28.9**	30.7
Net realised gains/(losses)	**1,002.5**	(114.5)
Net unrealised gains	**864.4**	2,120.1
Income attributable to third party holdings in unit trusts	**195.8**	180.1
Total investment income	**2,626.7**	2,706.1

5. EXPENSES

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

	Year Ended 31 December 2010 £ million	Year Ended 31 December 2009 £ million
Employee costs (see note 6)	**57.3**	50.8
Depreciation	**3.6**	3.4
Impairment losses	**0.5**	–
Amortisation of acquired value of in-force business	**3.9**	3.6
Amortisation of DAC	**74.5**	65.9
Payment under operating leases	**9.1**	10.7
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and its associates for other services:		
– the audit of the Company's subsidiaries pursuant to legislation	**0.3**	0.3
– other services pursuant to legislation	**0.1**	–

6. EMPLOYEE COSTS

	Year Ended 31 December 2010 £ million	Year Ended 31 December 2009 £ million
Wages and salaries	**42.5**	38.6
Social security costs	**4.9**	4.6
Pension costs in relation to defined contribution schemes	**3.5**	3.3
Cost of share awards and options	**6.4**	4.3
Total employee benefits	**57.3**	50.8
Average number of persons employed by the Group during the year	**705**	669

The above information includes Directors' remuneration. Details of the Directors' remuneration, share options, pension entitlements and interests in shares are disclosed in the Remuneration Report on pages 62 to 66.

7. 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 charge	**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.

The deferred tax components to which the policyholder and shareholder deferred tax movements above relate to are disclosed in Note 12 Deferred Tax Assets and Note 23 Deferred Tax Liabilities.

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, as disclosed in Note 29 Share-based Payments.

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 88.

7. INCOME TAXES *CONTINUED*

	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%.

8. 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

9. 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.

10. INTANGIBLE ASSETS

	Life Business – Insurance DAC	Life Business – Investment DAC	Unit Trust Business – Investment DAC	Total DAC	Acquired Value of In-force Business	Computer Software	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Cost							
At 1 January 2009	87.2	565.5	134.2	786.9	73.4	–	860.3
Additions	6.3	106.9	30.2	143.4	–	–	143.4
At 31 December 2009	93.5	672.4	164.4	930.3	73.4	–	1,003.7
At 1 January 2010	**93.5**	**672.4**	**164.4**	**930.3**	**73.4**	**–**	**1,003.7**
Additions	**5.7**	**142.1**	**40.0**	**187.8**	**–**	**2.1**	**189.9**
At 31 December 2010	**99.2**	**814.5**	**204.4**	**1,118.1**	**73.4**	**2.1**	**1,193.6**
Amortisation							
At 1 January 2009	61.8	131.6	28.6	222.0	15.7	–	237.7
Charge for the year	9.6	45.8	10.5	65.9	3.6	–	69.5
At 31 December 2009	71.4	177.4	39.1	287.9	19.3	–	307.2
At 1 January 2010	**71.4**	**177.4**	**39.1**	**287.9**	**19.3**	**–**	**307.2**
Charge for the year	**8.1**	**53.6**	**12.8**	**74.5**	**3.9**	**–**	**78.4**
At 31 December 2010	**79.5**	**231.0**	**51.9**	**362.4**	**23.2**	**–**	**385.6**
Carrying value							
At 1 January 2009	25.4	433.9	105.6	564.9	57.7	–	622.6
At 31 December 2009	22.1	495.0	125.3	642.4	54.1	–	696.5
At 31 December 2010	**19.7**	**583.5**	**152.5**	**755.7**	**50.2**	**2.1**	**808.0**
Current							**67.1**
Non-current							**740.9**
							808.0
Outstanding amortisation period							
At 31 December 2009	6 years	14 years	14 years		16 years	–	
At 31 December 2010	**6 years**	**14 years**	**14 years**		**15 years**	**4 years**	

Amortisation of deferred acquisition costs is charged within the fees, commission and other acquisition costs line in the income statement. The amortisation of the acquired value of in-force business is charged within other operating expenses. Amortisation profiles are reassessed annually.

11. PROPERTY & EQUIPMENT

	Fixtures, Fittings, Computers & Office Equipment	Motor Vehicles	Land & Buildings	Total
	£ million	£ million	£ million	£ million
Cost				
At 1 January 2009	29.0	1.7	1.1	31.8
Additions	0.9	0.3	1.5	2.7
Disposals	–	(1.9)	–	(1.9)
At 31 December 2009	29.9	0.1	2.6	32.6
At 1 January 2010	**29.9**	**0.1**	**2.6**	**32.6**
Additions	**1.3**	**–**	**0.1**	**1.4**
Disposals	**–**	**(0.1)**	**–**	**(0.1)**
Impairment losses	**–**	**–**	**(0.5)**	**(0.5)**
At 31 December 2010	**31.2**	**–**	**2.2**	**33.4**
Depreciation				
At 1 January 2009	18.9	0.7	–	19.6
Charge for the year	3.2	0.2	–	3.4
Disposals	–	(0.8)	–	(0.8)
At 31 December 2009	22.1	0.1	–	22.2
At 1 January 2010	**22.1**	**0.1**	**–**	**22.2**
Charge for the year	**3.6**	**–**	**–**	**3.6**
Disposals	**–**	**(0.1)**	**–**	**(0.1)**
At 31 December 2010	**25.7**	**–**	**–**	**25.7**
Net book value				
At 1 January 2009	10.1	1.0	1.1	12.2
At 31 December 2009	7.8	–	2.6	10.4
At 31 December 2010	**5.5**	**–**	**2.2**	**7.7**

12. DEFERRED TAX ASSETS

	31 December 2010	31 December 2009
	£ million	£ million
Life business – unrelieved expenses	**64.3**	55.7
Life business – net capital losses in unit linked funds	**–**	41.9
Life business – pension business	**1.4**	7.5
Life business – deferred income	**37.2**	34.5
Unit trust business – deferred income	**47.4**	39.3
Other	**7.9**	8.1
Total deferred tax assets	**158.2**	187.0

13. INVESTMENT PROPERTY

	2010	2009
	£ million	£ million
Balance at 1 January	**401.7**	410.6
Additions	**5.8**	85.1
Disposals	**(33.5)**	(99.2)
Changes in fair value	**23.8**	5.2
Balance at 31 December	**397.8**	401.7

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

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

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£ million	£ million
Rental income	**28.9**	30.7
Direct operating expenses	**2.2**	2.3

At the year end contractual obligations to purchase, construct or develop investment property amounted to £0.4 million (2009: £5.6 million).

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

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

	31 December 2010	31 December 2009
	£ million	£ million
Assets		
Investment property	**397.8**	401.7
Investments		
– Equities	**15,835.7**	12,361.4
– Fixed income securities	**2,878.4**	2,196.2
– Investment in Collective Investment Schemes	**2,318.3**	1,590.0
– Currency forwards	**3.5**	19.6
Deferred tax asset	**–**	41.9
Other receivables	**311.0**	88.4
Cash & cash equivalents	**1,957.2**	1,643.9
Total assets	**23,701.9**	18,343.1
Liabilities		
Financial liabilities		
– Currency forwards	**20.4**	–
Other payables	**247.9**	50.0
Total liabilities	**268.3**	50.0
Net assets held to cover linked liabilities and third party holdings in unit trusts	**23,433.6**	18,293.1

15. OTHER RECEIVABLES

	31 December 2010 £ million	31 December 2009 £ million
St. James's Place Partnership loans	**71.6**	70.7
Prepayments	**24.7**	8.6
Unearned commission	**23.8**	26.2
Unit linked funds and UTMI (including outstanding security sales)	**311.0**	88.4
Unit trust dealing receivable	**93.3**	17.1
Miscellaneous	**22.7**	24.0
Total other receivables	**547.1**	235.0
Current	**474.9**	160.5
Non-current	**72.2**	74.5
	547.1	235.0

The fair value of loans and receivables included in other receivables is not materially different from amortised cost. St. James's Place Partnership loans are interest bearing (linked to Bank of England base rate plus a margin), repayable on demand and secured against the future renewal income streams of that Partner.

16. CASH & CASH EQUIVALENTS

	31 December 2010 £ million	31 December 2009 £ million
Cash at bank	**154.1**	110.0
Bank overdrafts	**(69.3)**	(42.8)
Cash & cash equivalents held outside unit linked and unit trust funds	**84.8**	67.2
Balances held within unit linked and unit trust funds	**1,957.2**	1,643.9
Total cash & cash equivalents	**2,042.0**	1,711.1

All cash & cash equivalents are deemed current.

17. INSURANCE RISK

The Group assumes insurance risk through the issuance of insurance contracts under which the Group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. The Group insures mortality and morbidity risks.

Insurance risk appetite and risk management strategies, together with the terms and conditions of the insurance contracts offered by the Group are discussed in the Risk and Risk Management section, on page 29.

18. 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:

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

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18. INSURANCE CONTRACT LIABILITIES *CONTINUED*

Assumption	Description
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:

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

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

Product	Annual Cost 2010	Annual Cost 2009
Protection business	**£35.43**	£34.22

Assumption	Description
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:

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

Sensitivity analysis

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

	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
Sensitivity analysis					
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.

19. REINSURANCE ASSETS

	31 December 2010	31 December 2009
	£ million	£ million
Reinsurers' share of insurance contract liabilities		
– Long term insurance contract liability	**33.7**	32.1
– Claims outstanding	**4.9**	4.7
Reinsurance assets	**38.6**	36.8
Current	**10.1**	9.8
Non-current	**28.5**	27.0
	38.6	36.8

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

	2010	2009
	£ million	£ million
Reinsurance assets at 1 January	**36.8**	32.2
Reassurance component of net change in claims provision	**0.1**	(3.4)
Reassurance component of change in insurance liabilities	**1.7**	8.0
Reinsurance assets at 31 December	**38.6**	36.8

The overall impact of reassurance on the profit for the year was a charge of £5.9 million (2009: charge of £3.8 million).

20. 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.

21. INVESTMENT CONTRACT BENEFITS

	2010	2009
	£ million	£ million
Balance at 1 January	**16,994.4**	13,109.8
Deposits	**3,553.7**	2,626.5
Withdrawals	**(1,270.1)**	(926.7)
Investment contract benefits (principally representing investment income)	**2,462.7**	2,632.8
Less: investment contract benefits attributable to fund deductions	**(353.0)**	(267.9)
Less: investment contract benefits attributable to third party holdings in unit trusts	**(195.8)**	(180.1)
Balance at 31 December	**21,191.9**	16,994.4
Current	**1,568.2**	1,257.6
Non-current	**19,623.7**	15,736.8
	21,191.9	16,994.4

22. BORROWINGS

	31 December 2010	31 December 2009
	£ million	£ million
Bank loan	**15.9**	2.6

The bank loans include £15.0 million (2009: £nil) from Barclays Bank plc drawn under a new three year £30.0 million revolving credit facility that is used to finance loans from the Group to members of the St. James's Place Partnership. The Partners' loans are secured against the future renewal income streams of that Partner.

Bank loans also includes £750,000 (2009: £750,000) from Bank of Scotland which is secured on property disclosed in Note 11 to the accounts.

The Company also guarantees £84.9 million (2009: £66.0 million) of direct loans from Bank of Scotland to members of the St. James's Place Partnership drawn under a total facility of £100.0 million. In the event of default of any individual Partner loan the Company guarantees to repay the outstanding balance of that loan. These Partner's loans are secured against the future renewal income streams of that Partner. As the Company's guarantee is contingent these loans are not shown as a financial liability under borrowing.

On 6 January 2011, the Company entered into a three year £15.0 million revolving credit facility with Royal Bank of Scotland that will be used to finance loans from the Group to members of the St. James's Place Partnership.

The fair value of the outstanding bank loans are not materially different from amortised cost.

23. DEFERRED TAX LIABILITIES

	31 December 2010	31 December 2009
	£ million	£ million
On deferred acquisition costs	**192.6**	168.7
On acquired value of in-force business	**13.5**	15.1
In respect of unit linked funds	**15.6**	–
Other	**2.6**	4.0
Total deferred tax liabilities	**224.3**	187.8

A deferred tax liability on capital gains on eligible investments within the unit linked funds of £15.6 million has been established. In 2009, the comparative figure was represented by a deferred tax asset on capital losses of £41.9 million.

24. DEFERRED INCOME

	31 December 2010	31 December 2009
	£ million	£ million
Life business	**294.1**	260.9
Unit trust business	**175.5**	140.2
Total deferred income	**469.6**	401.1
Current	**96.7**	71.0
Non-current	**372.9**	330.1
	469.6	401.1

25. OTHER PAYABLES

	31 December 2010	31 December 2009
	£ million	£ million
Accruals	**49.8**	34.2
Unit trust dealing payable	**107.3**	40.1
Unit linked funds and UTMI (including outstanding security purchases)	**247.9**	49.0
Miscellaneous	**28.6**	19.1
Total other payables	**433.6**	142.4

All other payable balances are considered current.

The fair value of financial liabilities in other payables is not materially different from amortised cost.

26. FINANCIAL RISK

Risk management objectives and risk policies

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

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

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

These risks and the Group's strategies for managing them are described in the Risk and Risk Management section, beginning on page 24.

26. FINANCIAL RISK *CONTINUED*

Categories of financial assets and financial liabilities

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

	31 December 2010				31 December 2009			
	Financial Assets at Fair Value Through Profit and Loss (1)	Loans and Receivables	Financial Liabilities at Fair Value Through Profit and Loss (1)	Financial Liabilities Measured at Amortised Cost	Financial Assets at Fair Value Through Profit and Loss (1)	Loans and Receivables	Financial Liabilities at Fair Value Through Profit and Loss (1)	Financial Liabilities Measured at Amortised Cost
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Financial Assets								
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			
Other receivables(2)								
– St. James's Place Partnership loans		**71.6**				70.7		
– Other		**427.0**				129.5		
Total other receivables		**498.6**				200.2		
Cash & cash equivalents	**1,957.2**	**84.8**			1,643.9	67.2		
Total Financial Assets	**23,294.0**	**583.4**			18,028.1	267.4		
Financial Liabilities								
Investment contract benefits			**21,191.9**				16,994.4	
Borrowings				**15.9**				2.6
Currency forwards			**20.4**				–	
Other payables				**433.6**				142.4
Net asset value attributable to unit holders			**1,944.9**				1,001.7	
Total Financial Liabilities			**23,157.2**	**449.5**			17,996.1	145.0

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

(2) Other financial assets exclude prepayments and unearned commission from other receivables.

The carrying value of the unit linked investment contract liabilities may differ from the amount contractually required to pay at maturity. Maturity values of the financial liabilities vary with future policyholder investment and withdrawals as well as investment return, coupled with the impact of capital losses in the funds. The contractual value required to be paid to policyholders as at 31 December 2010 would be £5.8 million lower than the investment contract benefits stated above.

Income, expense, gains and losses arising from financial assets and financial liabilities

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

	Year Ended 31 December 2010				Year Ended 31 December 2009			
	Financial Assets at Fair Value Through Profit and Loss(1)	Loans and Receivables	Financial Liabilities at Fair Value Through Profit and Loss(1)	Financial Liabilities Measured at Amortised Cost	Financial Assets at Fair Value Through Profit and Loss(1)	Loans and Receivables	Financial Liabilities at Fair Value Through Profit and Loss(1)	Financial Liabilities Measured at Amortised Cost
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Financial Assets								
Unit linked assets	**2,618.3**				2,704.1			
Fixed income securities	**4.6**				(2.1)			
Investment in Collective Investment Schemes	**1.7**				1.7			
Other receivables								
– St. James's Place Partnership loans		**3.5**				1.6		
Total other receivables		**3.5**				1.6		
Cash & cash equivalents(2)		**0.6**				0.7		
Total Financial Assets	**2,624.6**	**4.1**			2,703.7	2.3		
Financial Liabilities(3)								
Investment contract benefits			**1,913.9**				2,184.8	
Borrowings				**–**				–
Net asset value attributable to unit holders			**195.8**				180.1	
Total Financial Liabilities			**2,109.7**				2,364.9	

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

(2) The majority of the return from cash & cash equivalents is included within unit linked assets.

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

Fair value estimation

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

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

26. FINANCIAL RISK *CONTINUED*

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

31 December 2010	Level 1	Level 2	Level 3	Total balance
	£ million	£ million	£ million	£ million
Financial assets at fair value through profit or loss:				
Equities	**15,834.5**		**1.2**	**15,835.7**
Fixed income securities		**2,939.1**		**2,939.1**
Investment in Collective Investment Schemes	**2,556.7**		**1.8**	**2,558.5**
Currency forwards		**3.5**		**3.5**
Cash & cash equivalents	**2,042.0**			**2,042.0**
Total financial assets at fair value through profit or loss	**20,433.2**	**2,942.6**	**3.0**	**23,378.8**
Financial liabilities at fair value through profit or loss:				
Investment contract benefits		**21,191.9**		**21,191.9**
Currency forwards		**20.4**		**20.4**
Net asset value attributable to unit holders	**1,944.9**			**1,944.9**
Total financial liabilities at fair value through profit or loss	**1,944.9**	**21,212.3**	**–**	**23,157.2**

31 December 2009	Level 1	Level 2	Level 3	Total balance
	£ million	£ million	£ million	£ million
Financial assets at fair value through profit or loss:				
Equities	12,356.7		4.7	12,361.4
Fixed income securities		2,249.5		2,249.5
Investment in Collective Investment Schemes	1,750.9		2.8	1,753.7
Currency forwards		19.6		19.6
Cash & cash equivalents	1,711.1			1,711.1
Total financial assets at fair value through profit or loss	15,818.7	2,269.1	7.5	18,095.3
Financial liabilities at fair value through profit or loss:				
Investment contract benefits		16,994.4		16,994.4
Net asset value attributable to unit holders	1,001.7			1,001.7
Total financial liabilities at fair value through profit or loss	1,001.7	16,994.4	–	17,996.1

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

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

	2010	2009
	£ million	£ million
Opening balance	7.5	3.7
Transfer into Level 3	0.3	–
Additions during the year	0.1	4.3
Disposed during the year	(1.1)	(2.7)
(Losses)/gains recognised in the profit or loss	(3.8)	2.2
Closing balance	3.0	7.5
Total (losses)/gains for the year included in profit or loss for assets held at the end of the reporting period	(3.8)	2.2

Credit risk

The following table sets out the maximum credit risk exposure and ratings of financial and other assets which are neither past due or impaired and susceptible to credit risk:

31 December 2010	AAA	AA	A	BBB	Unrated	Unit linked funds and third party holdings in unit trusts (1)	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Fixed income securities	60.7					2,878.4	2,939.1
Investment in Collective Investment Schemes(2)	239.6				0.6	2,318.3	2,558.5
Cash & cash equivalents	10.0	(5.9)	77.7	3.0		1,957.2	2,042.0
Amounts due from reassurers							
– Claims outstanding		3.5	1.4				4.9
– Reassurers share of long term insurance contract liabilities		32.9	0.8				33.7
Total amount due from reassurers		36.4	2.2				38.6
Other receivables					116.0	311.0	427.0
Total	310.3	30.5	79.9	3.0	116.6	7,464.9	8,005.2

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

(2) Investment of shareholder assets in Collective Investment Schemes refers to investment in unitised money market funds held for the longer term.

26. FINANCIAL RISK *CONTINUED*

The table below sets out the comparative credit risk analysis as at 31 December 2009:

31 December 2009	AAA	AA	A	Unrated	Unit linked funds and third party holdings in unit trusts	Total
	£ million	£ million	£ million	£ million	£ million	£ million
Fixed income securities	53.3				2,196.2	2,249.5
Investment in Collective Investment Schemes	163.2			0.5	1,590.0	1,753.7
Cash & cash equivalents	4.0	(0.4)	63.6		1,643.9	1,711.1
Amounts due from reassurers						
– Claims outstanding		3.7	1.0			4.7
– Reassurers share of long term insurance contract liabilities		31.1	1.0			32.1
Total amount due from reassurers		34.8	2.0			36.8
Other receivables				41.1	88.4	129.5
Total	220.5	34.4	65.6	41.6	5,518.5	5,880.6

Financial assets that are either past due or impaired

Loans to St. James's Place Partnership of £71.6 million (2009: £70.7 million) are net of an impairment provision of £6.7 million (2009: £8.6 million). The reduction in the impairment loss recognised within Administration Expenses in the income statement was £2.0 million credit (2009: £0.1 million loss). The factors considered in determining the impairment include default history, the nature or type of the Partner loan, exposure levels to individual Partners and whether the individual Partner is active or has left.

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

Contractual maturity analysis

The following table sets out the contractual maturity analysis of the Group's financial assets and financial liabilities as at 31 December 2010:

31 December 2010	Up to 1 year	1 – 5 years	Over 5 years	Total ex. unit linked funds and other unit holders	Unit linked funds and third party holdings in unit trusts*	Total
	£ million	£ million	£ million	£ million	£ million	£ million
Financial Assets						
Equities				–	15,835.7	15,835.7
Fixed income securities			60.7	60.7	2,878.4	2,939.1
Investment in Collective Investment Schemes	240.2			240.2	2,318.3	2,558.5
Currency forwards				–	3.5	3.5
Other receivables						
– St. James's Place Partnership loans	17.0	40.8	13.8	71.6		71.6
– Other	116.0			116.0	311.0	427.0
Total other receivables	133.0	40.8	13.8	187.6	311.0	498.6
Cash & cash equivalents	84.8			84.8	1,957.2	2,042.0
Total Financial Assets	**458.0**	**40.8**	**74.5**	**573.3**	**23,304.1**	**23,877.4**
Financial Liabilities						
Investment contract benefits				–	21,191.9	21,191.9
Borrowings		15.9		15.9		15.9
Currency forwards				–	20.4	20.4
Other payables	185.7			185.7	247.9	433.6
Total Financial Liabilities	**185.7**	**15.9**		**201.6**	**21,460.2**	**21,661.8**

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

26. FINANCIAL RISK *CONTINUED*

The table below sets out the comparative contractual maturity analysis as at 31 December 2009:

31 December 2009	Up to 1 year	1 – 5 years	Over 5 years	Total ex. Unit linked funds and other unit holders	Unit linked funds and third party holdings in unit trusts*	Total
	£ million	£ million	£ million	£ million	£ million	£ million
Financial Assets						
Equities				–	12,361.4	12,361.4
Fixed income securities	3.1	50.2		53.3	2,196.2	2,249.5
Investment in Collective Investment Schemes	163.7			163.7	1,590.0	1,753.7
Currency forwards				–	19.6	19.6
Other receivables						
– St. James's Place Partnership loans	17.0	39.6	14.1	70.7		70.7
– Other	41.1			41.1	88.4	129.5
Total other receivables	58.1	39.6	14.1	111.8	88.4	200.2
Cash & cash equivalents	67.2			67.2	1,643.9	1,711.1
Total Financial Assets	292.1	89.8	14.1	396.0	17,899.5	18,295.5
Financial Liabilities						
Investment contract benefits				–	16,994.4	16,994.4
Borrowings		0.8	1.8	2.6		2.6
Currency forwards				–	–	–
Other payables	92.4			92.4	50.0	142.4
Total Financial Liabilities	92.4	0.8	1.8	95.0	17,044.4	17,139.4

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

Sensitivity analysis to market risks

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

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

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.

27. CAPITAL MANAGEMENT AND ALLOCATION

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

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

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

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

– the Company's internal assessment of the capital required; and
– the capital requirement of the relevant supervisory body plus a specified margin over this to absorb changes.

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

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

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

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

The regulatory requirements for the remaining companies within the Group are assessed and monitored by the relevant Board.

There has been no material change in the Group's management of capital during the period and all regulated entities exceed the minimum solvency requirements at the balance sheet date.

Capital composition

The principal forms of capital are included in the following balances on the consolidated balance sheet:

	31 December 2010	31 December 2009
	£ million	£ million
Share capital	**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
	586.3	539.8

27. CAPITAL MANAGEMENT AND ALLOCATION *CONTINUED*

The above assets do not all qualify as regulatory capital. Analysis of the assets which do qualify as regulatory capital is given in Section 3 of the Financial Commentary on page 21. The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the period.

28. 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).

29. SHARE-BASED PAYMENTS

During the year ended 31 December 2010 the Group operated a number of different equity settled share-based payment arrangements, which are aggregated as follows:

– SAYE plan – this is a standard HMRC approved scheme that is available to all employees where individuals may contribute up to £250 per month over three years to purchase shares at a price not less than 80% of the market price at the date of the invitation to participate.
– Executive deferred bonus schemes – under these plans the deferred element of the annual bonus is used to purchase shares at market value in the Company. The shares are held by the Company until vesting after three years and, in addition to the performance targets, which apply prior to any entitlement being granted, further performance conditions may also apply on vesting.
– Executive performance share plan – the Remuneration Committee of the Group Board may make awards of performance shares to the Executive Directors and other senior managers. Two-thirds of shares awarded to Directors are subject to an earnings growth condition of the Group and one-third of shares awarded to Directors are subject to a comparative total shareholder return ('TSR') condition, both measured over a three year period. Further information regarding the vesting conditions of the earnings growth and total shareholder return dependent portions of the award is given in the Remuneration Report on page 59. Awards made to senior managers are largely only subject to the earnings growth condition of the Group.
– Executive and sales management share option schemes – these include both approved and unapproved elements and vest after three or five year periods subject to satisfying personal and/or Group earnings performance. The last award under these schemes was made in 2005.
– Partner share option schemes – these were offered to the Partners of the St. James's Place Partnership and vest over three to six years subject to satisfying personal sales related performance criteria. The last award under these schemes was made in 2007.
– Partner performance share plan – a new scheme was launched in January 2008 whereby Partners are entitled to purchase shares in the future at nominal value (15p). The number of shares the Partners are entitled to purchase will depend on their personal sales production in the year of the award and validation over the following three years.

Share options outstanding under the various share option schemes at 31 December 2010 amount to 34.6 million shares (2009: 38.1 million). Of these, 25.3 million are under option to Partners of the St. James's Place Partnership, 7.4 million are under option to executives and senior management (including 3.5 million under option to Directors as disclosed in the Remuneration Report on page 63) and 1.9 million are under option through the SAYE scheme. These are exercisable on a range of future dates.

The table below summarises the share-based payment awards made in 2009 and 2010:

	SAYE	Executive Deferred Bonus	Executive Performance Share Plan	Partner Performance Share Plan
Awards in 2009:				
Date of grant	27 March	4 March	Various	24 February
Number granted	1,634,068	490,932	2,131,754	3,320,000
Awards in 2010:				
Date of grant	22 March	10 March	Various	25 February
Number granted	323,129	1,151,682	2,108,585	675,000
Contractual life	3.5 years	3 years	3.5 years	4 years
Vesting conditions	3 year saving period	3 years' service and achievement of personal targets in some instances	3 years' service and achievement of earnings and TSR targets	Sales production for year of award and subsequent validation over following 3 years

Financial assumptions underlying the calculation of fair value

The fair value expense has been based on the fair value of the instruments granted, as calculated using appropriate derivative pricing models. The table below shows the assumptions and models used to calculate the grant date fair value of each award:

	SAYE	Executive Deferred Bonus	Executive Performance Share Plan	Partner Performance Share Plan
Valuation model	Black Scholes	Black Scholes	Monte Carlo	Black Scholes
Awards in 2009:				
Fair value (pence)	59.14[2]	182.5	124.45/190.0[4]	166.25
Share price (pence)	168.00	182.5	176.0 to 190.0[5]	190.0
Exercise price (pence)	150.00	0.00	0.00	0.15
Expected volatility (% pa)[1]	50	N/A	50	50
Expected dividends (% pa)	2.5	N/A[3]	N/A	2.5
Risk-free interest rate (% pa)	1.9	N/A	N/A	1.9
Volatility of competitors (% pa)	N/A	N/A	29 to 62	N/A
Correlation with competitors (%)	N/A	N/A	40	N/A
Awards in 2010:				
Fair value (pence)	100.5[2]	254.0	172.4/257.7[4]	–
Share price (pence)	250.00	254.0	254.7 & 257.7[5]	–
Exercise price (pence)	204.00	0.00	0.00	–
Expected volatility (% pa)[1]	51	N/A	51	–
Expected dividends (% pa)	1.8	N/A[3]	N/A	–
Risk-free interest rate (% pa)	2.0	N/A	N/A	–
Volatility of competitors (% pa)	N/A	N/A	17 to 106	–
Correlation with competitors (%)	N/A	N/A	20	–

29. SHARE-BASED PAYMENTS *CONTINUED*

Notes:

(1) Expected volatility is based on an analysis of the Company's historic share price volatility over a period (typically three or five years) which is commensurate with the expected term of the options or the awards.

(2) In 2009 and 2010, the vesting period for the SAYE plan was three years. The vesting period may be extended by up to six months in order to catch up on missed contributions (up to a maximum of six).

(3) Dividends payable on the shares during the restricted period are paid out during the restricted period for the executive deferred bonus schemes and no dividend yield assumption is therefore required.

(4) The awards made under the executive performance share plan are dependent upon earnings growth in the Company (two-thirds of the award) and a total shareholder return of a comparator group of companies (one-third of the award). This results in having two fair values for each of the awards made in the table above, the first being in relation to the comparator total shareholder return and the second relating to the Company's earnings growth.

(5) Awards were made under the executive performance share plan on three and six separate occasions during 2009 and 2010 respectively.

(6) There were no awards made in 2009 or 2010 for the executive share option schemes or the sales management share option schemes.

	Year Ended 31 December 2010	**Year Ended 31 December 2010**	Year Ended 31 December 2009	Year Ended 31 December 2009
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
SAYE:				
Outstanding at start of year	**1,767,660**	**£1.56**	1,201,870	£2.20
Granted	**323,129**	**£2.04**	1,634,068	£1.50
Forfeited	**(161,200)**	**£1.79**	(782,064)	£2.13
Exercised	**(39,822)**	**£1.91**	(286,214)	£2.30
Expired	**–**		–	
Outstanding at end of year	**1,889,767**	**£1.62**	1,767,660	£1.56
Exercisable at end of year	**–**		–	
Executive Share Options:				
Outstanding at start of year	**2,150,718**	**£1.79**	2,307,319	£1.78
Granted	**–**		–	
Forfeited	**(116,851)**	**£2.48**	(10,000)	£2.38
Exercised	**(602,745)**	**£1.69**	(146,601)	£1.53
Expired	**–**		–	
Outstanding at end of year	**1,431,122**	**£1.78**	2,150,718	£1.79
Exercisable at end of year	**1,418,788**	**£1.77**	1,839,071	£1.69
Sales Management Share Options:				
Outstanding at start of year	**81,000**	**£1.89**	172,250	£1.67
Granted	**–**		–	
Forfeited	**–**		(32,500)	£1.79
Exercised	**(68,500)**	**£1.81**	(58,750)	£1.31
Expired	**–**		–	
Outstanding at end of year	**12,500**	**£2.42**	81,000	£1.89
Exercisable at end of year	**12,500**	**£2.42**	81,000	£1.89
Partner Share Options:				
Outstanding at start of year	**26,951,714**	**£2.33**	29,234,437	£2.31
Granted	**–**		–	
Forfeited	**(1,443,531)**	**£2.52**	(1,255,583)	£2.46
Exercised	**(2,965,858)**	**£1.69**	(1,027,140)	£1.69
Expired	**–**		–	
Outstanding at end of year	**22,542,325**	**£2.38**	26,951,714	£2.33
Exercisable at end of year	**21,971,025**	**£2.37**	24,144,756	£2.29

The average share price during the year was 258.3 pence (2009: 205.6 pence).

The SAYE plan options outstanding at 31 December 2010 had exercise prices of 150 pence (1,494,134 options), 204 pence (292,264 options) and 213 pence (103,369 options) and a weighted average remaining contractual life of 1.4 years.

The options outstanding under the executive share option schemes at 31 December 2010 had exercise prices ranging from 85.5 pence to 257 pence and a weighted average remaining contractual life of 3.0 years.

The options outstanding under the sales management share option schemes at 31 December 2010 had an exercise price of 242 pence and a weighted average remaining contractual life of 4.2 years.

The options outstanding under the Partner share option schemes at 31 December 2010 had exercise prices ranging from 81.5 pence to 465 pence and a weighted average remaining contractual life of 4.0 years.

Executive Performance Share Plan (nil cost option – no proceeds on exercise)

	Year Ended 31 December 2010	Year Ended 31 December 2009
	Number of options	Number of options
Outstanding at start of year	**5,027,836**	4,344,418
Granted	**2,108,585**	2,131,754
Forfeited	**(1,156,438)**	(218,975)
Exercised	**(25,692)**	(1,229,361)
Expired	**–**	–
Outstanding at end of year	**5,954,291**	5,027,836
Exercisable at end of year	**–**	11,560

Partner Performance Share Plan (15 pence nominal share value option – 15 pence per share on exercise)

	Year Ended 31 December 2010	Year Ended 31 December 2009
	Number of options	Number of options
Outstanding at start of year	**2,160,000**	–
Granted	**675,000**	3,320,000
Forfeited	**(62,500)**	(1,160,000)
Exercised	**–**	–
Expired	**–**	–
Outstanding at end of year	**2,772,500**	2,160,000
Exercisable at end of year	**–**	–

Executive Deferred Bonus (no proceeds on exercise)

	Year Ended 31 December 2010	Year Ended 31 December 2009
	Number of shares	Number of shares
Outstanding at start of year	**2,194,718**	2,396,078
Granted	**1,151,682**	490,932
Forfeited	**(7,053)**	(32,760)
Exercised	**(634,072)**	(659,532)
Outstanding at end of year	**2,705,275**	2,194,718
Exercisable at end of year	**–**	–

29. SHARE-BASED PAYMENTS *CONTINUED*

Early exercise assumptions

The following allowance has been made for the impact of early exercise once options have vested:

(1) SAYE plan – all option holders are assumed to exercise half-way through the six month exercise window.

(2) Executive, sales management and partner share option schemes – it is assumed that 10% of option holders are forced to exercise their options each year irrespective of the level of the share price. For the remainder it is assumed that one-half will exercise their options each year if the share price is at least 33% above the exercise price.

Allowance for performance conditions

The executive performance share plan includes a market based performance condition based on the Company's total shareholder return relative to an index of comparator companies. The impact of this performance condition has been modelled using Monte Carlo simulation techniques, which involve running many thousands of simulations of future share price movements for both the Company and the comparator index. For the purpose of these simulations it is assumed that the share price of the Company and the comparator index are 20% (2009: 40%) correlated and that the comparator index has volatilities ranging between 17% pa and 106% pa (2009: 29% pa to 62% pa).

The performance condition is based on the Company's performance relative to the comparator index over a three year period commencing on 1 January each year. The fair value calculations for the awards that were made in 2010 therefore include an allowance for the actual performance of the Company's share price relative to the index over the period between 1 January 2010 and the various award dates.

Charge to the consolidated statement of comprehensive income

The table below sets out the charge to the consolidated statement of comprehensive income in respect of the share-based payment awards:

	Year Ended 31 December 2010	Year Ended 31 December 2009
	£ million	£ million
Share-based payment expense	**8.2**	8.6

30. FINANCIAL COMMITMENTS

At 31 December 2010 the Group had the following annual commitments under non-cancellable operating leases in connection with the rental of office buildings and office equipment with varying lease end dates ranging from 2010 to 2027:

	31 December 2010	31 December 2009
	£ million	£ million
Within one year	**0.4**	0.3
Between two and five years	**2.2**	3.0
In more than five years	**7.5**	8.2
Total financial commitments	**10.1**	11.5

As at 31 December 2010, there was £3.1 million (2009: £4.6 million) of future minimum sublease payments expected to be received under non-cancellable sub-leases.

31. 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.

St. James's Place Board Directors have been included in a directors' and officers' insurance policy negotiated on a Group basis by LBG.

Transactions with St. James's Place unit trusts

In respect of the non-consolidated St. James's Place managed unit trusts that are held as investments in the St. James's Place life and pension funds, there was income recognised of £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).

Transactions with key management personnel

The compensation paid to key management personnel, being the Board of Directors of St. James's Place, is set out in the Remuneration Report on page 62. The Remuneration Report also sets out transactions with the Directors under the Deferred Bonus Scheme, the Performance Share Plan, the Executive Share Option Scheme and the SAYE Share Option Schemes, together with details of the Directors' interests in the share capital of the Company.

The charge to the profit and loss account in respect of the share-based payment awards made to the Executive Directors of St. James's Place during 2010 was £2.5 million (2009: £1.5 million).

Commission of £678,845 (2009: £648,235) was paid, under normal commercial terms, to St. James's Place Partners who were related parties by virtue of being connected persons with key management. The outstanding amount payable at 31 December 2010 was £29,777 (2009: £39,018).

31. RELATED PARTY TRANSACTIONS *CONTINUED*

At the start of the year a St. James's Place Partner, connected to Mr Andrew Croft, held 147,000 options under the Partner share option scheme, exercisable between 1 July 2003 and 1 July 2009 (expiry dates between 31 July 2012 and 26 July 2015) at exercise prices ranging between £1.45 and £3.28, and 45,000 options under the Partner performance share plan exercisable on 24 February 2012 (same expiry date) at an exercise price of £0.15. During the year 10,000 options under the Partner share option scheme were exercised (2009: nil) at £1.45 leaving a balance at 31 December 2010 of 137,000 options under the Partner share option scheme and 45,000 options under the Partner performance share plan. The 10,000 options, which were exercised on 23 March 2010 when the share price was £2.49, realised a gain of £10,400.

32. PARENT COMPANY

The company regarded by the Directors as the ultimate parent company is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which Group accounts are drawn up and of which the Company is a member. Copies of the Group accounts may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. HBOS plc is the parent undertaking of the smallest group of undertakings for which Group accounts are drawn up.

Lloyds Banking Group plc was the ultimate controlling party as at 31 December 2010 and has been the ultimate controlling party of the company since its acquisition of HBOS plc on 19 January 2009.

33. PRINCIPAL SUBSIDIARIES

Investment Holding Companies	St. James's Place Investments plc St. James's Place Wealth Management Group plc
Life Assurance	St. James's Place UK plc St. James's Place International plc *(incorporated in Ireland)*
Unit Trust Management	St. James's Place Unit Trust Group Limited
Distribution	St. James's Place Wealth Management plc
Management Services	St. James's Place Management Services Limited
Internal Reassurance	St. James's Place Reinsurance Limited *(incorporated in Ireland)* St. James's Place Reassurance (2009) Limited

A full list of subsidiaries is available on request from the registered office and will be submitted with the Company's Annual Return.

The Company owns either directly or indirectly 100% of the voting ordinary equity share capital of the above-named subsidiaries.

All of these companies are registered in England and Wales and operate principally in the United Kingdom except where otherwise stated.

Due to ongoing solvency requirements, there are restrictions on the amount of distributable reserves within the life assurance, unit trust and financial services operating companies of the Group which restricts their ability to transfer cash dividends to the Company.

In addition, the Group accounts consolidate the following unit trusts:

St. James's Place Allshare Income Unit Trust
St. James's Place Alternative Assets Unit Trust
St. James's Place Balanced Managed Unit Trust
St. James's Place Cash Unit Trust
St. James's Place Cautious Unit Trust
St. James's Place Continental European Unit Trust
St. James's Place Corporate Bond Unit Trust
St. James's Place Ethical Unit Trust
St. James's Place Far East Unit Trust
St. James's Place Gilts Unit Trust
St. James's Place Global Unit Trust
St. James's Place Global Emerging Markets Unit Trust
St. James's Place High Octane Unit Trust
St. James's Place International Corporate Bond Unit Trust
St. James's Place Investment Grade Corporate Bond Unit Trust
St. James's Place Managed Growth Unit Trust
St. James's Place North American Unit Trust
St. James's Place Strategic Managed Unit Trust
St. James's Place UK and International Unit Trust
St. James's Place Worldwide Opportunities Unit Trust

All of these unit trusts are managed in the United Kingdom.

Parent Company Accounts
on UK GAAP Basis

Independent Auditors' Report
to the members of St. James's Place plc

We have audited the parent company financial statements of St. James's Place plc for the year ended 31 December 2010, which comprise the Balance Sheet of the Parent Company and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective Responsibilities of Directors and Auditors

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

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

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion the parent company financial statements:

– give a true and fair view of the state of the company's affairs as at 31 December 2010;
– have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
– have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

– the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
– the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

– adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
– the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
– certain disclosures of directors' remuneration specified by law are not made; or
– we have not received all the information and explanations we require for our audit.

Other Matter

We have reported separately on the group financial statements of St. James's Place plc for the year ended 31 December 2010.

Craig Gentle (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
22 February 2011

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

Balance Sheet of the Parent Company

	Note	31 December 2010	31 December 2009
		£ million	£ million
Fixed assets			
Investment in subsidiaries	2	**368.5**	360.7
Current assets			
Income tax assets		**0.2**	0.4
Current liabilities			
Amounts owed to Group undertakings		**(44.0)**	(57.8)
Net current liabilities		**(43.8)**	(57.4)
Total assets less current liabilities		**324.7**	303.3
Capital and reserves			
Called up share capital	3	**72.9**	72.3
Share premium	4	**98.1**	90.5
Share option reserve	4	**57.5**	49.3
Other reserves	4	**0.1**	0.1
Profit and loss account	4	**96.1**	91.1
Total shareholders' funds		**324.7**	303.3

The financial statements on pages 116 to 120 were approved by the Board of Directors on 22 February 2011 and signed on its behalf by:

D Bellamy
Chief Executive

A Croft
Finance Director

The notes and information on pages 117 to 120 form part of these accounts.

 Registered No. 3183415

Notes to the Parent Company Accounts

1. ACCOUNTING POLICIES

Basis of preparation

St. James's Place plc ('the Company') is a limited liability company incorporated in England and Wales and whose shares are publicly traded. The Company offers a range of insurance, investment and other wealth management services through its subsidiaries, which are principally incorporated in the UK and Ireland.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The Company has elected to continue to prepare the parent financial statements in accordance with UK Generally Accepted Accounting Practice. In publishing the Parent Company financial statements, the Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual profit and loss account and related notes that form part of these financial statements. The Company is not required to present a statement of total recognised gains and losses.

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

All accounting policies have been reviewed for appropriateness in accordance with Financial Reporting Standard ('FRS') 18 (*Accounting Policies*). In accordance with FRS 1 (*Cash Flow Statements*), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that this is provided in its consolidated financial statements, which are publicly available.

Significant accounting policies

(a) Investment return

Investment return comprises dividends from subsidiaries, which are accounted for when received.

(b) Taxation

Taxation is based on profits and income for the period as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior periods.

(c) Investment in subsidiaries

Investments in subsidiaries are carried at cost after impairment losses, plus the cost of share awards granted by the Company of its own shares.

(d) Debtors

Debtors are stated at amortised cost less impairment losses.

(e) Other creditors and amounts owed to Group undertakings

Other creditors and amounts owed to Group undertakings are stated at amortised cost.

(f) Impairment losses

The carrying amounts of the assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication of irrecoverability or impairment, the asset's recoverable amount is estimated based on the present value of its estimated future cash flows.

2. INVESTMENT IN SUBSIDIARIES

	2010 £ million	2009 £ million
Cost at 1 January		
Investment in Group undertakings	**311.4**	311.4
Share options granted by Company	**49.3**	40.7
	360.7	352.1
Additions in the year		
Investment in Group undertakings	**–**	–
Share options granted by Company	**8.2**	8.6
	8.2	8.6
Cost at 31 December		
Investment in Group undertakings	**311.4**	311.4
Share options granted by Company	**57.5**	49.3
	368.9	360.7
Impairment in value		
Investment in Group undertakings	**(0.4)**	–
Net book value at 31 December	**368.5**	360.7

The Directors' believe that the carrying value of the investments is supported by their underlying net assets.

Principal Subsidiary Undertakings at 31 December 2010

Investment Holding Companies	St. James's Place Investments plc
	St. James's Place Wealth Management Group plc
Life Assurance	St. James's Place UK plc
	St. James's Place International plc *(incorporated in Ireland)*
Unit Trust Management	St. James's Place Unit Trust Group Limited
Distribution	St. James's Place Wealth Management plc
Management Services	St. James's Place Management Services Limited
Internal Reassurance	St. James's Place Reinsurance Limited *(incorporated in Ireland)*
	St. James's Place Reassurance (2009) Limited

A full list of subsidiaries is available on request from the registered office and will be submitted with the Company's Annual Return.

The Company owns either directly or indirectly 100% of the voting ordinary equity share capital of the above-named subsidiaries.

All of these companies are registered in England and Wales and operate principally in the United Kingdom except where otherwise stated.

Due to ongoing solvency requirements, there are restrictions on the amount of distributable reserves within the life assurance, unit trust and financial services operating companies of the Group which restricts their ability to transfer cash dividends to the Company.

3. CALLED UP 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.

3,334,586 shares were issued in the year at a nominal value of £0.5 million, for which the Company received consideration of £6.2 million.

4. RESERVES

	Share Premium	Profit and Loss Account	Share Option Reserve	Other Reserves	Total
	£ million	£ million	£ million	£ million	£ million
At 1 January 2009	86.3	48.3	40.7	0.1	175.4
Profit for the financial year		63.8			63.8
Dividends		(21.0)			(21.0)
Issue of share capital					
Scrip dividend	1.4				1.4
Exercise of options	2.8				2.8
Cost of share options expensed in subsidiary			8.6		8.6
At 31 December 2009	90.5	91.1	49.3	0.1	231.0
Profit for the financial year		27.6			27.6
Dividends		(22.6)			(22.6)
Issue of share capital					
Scrip dividend	1.9				1.9
Exercise of options	5.7				5.7
Cost of share options expensed in subsidiary			8.2		8.2
At 31 December 2010	**98.1**	**96.1**	**57.5**	**0.1**	**251.8**

5. AUDITORS' REMUNERATION

The total audit fee in respect of the Group is set out in Note 5 on page 86 of the consolidated financial statements. The audit fee charged to the Company for the year ended 31 December 2010 is £1,000 (2009: £1,000).

6. 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.

7. RELATED PARTY TRANSACTIONS AND BALANCES

At the year end the following related party balances existed:

	31 December 2010	31 December 2009
	£ million	£ million
Investments in Group companies		
St. James's Place Partnership Limited	**42.0**	42.0
St. James's Place Wealth Management Group plc	**145.1**	136.9
St. James's Place Investments plc	**181.4**	181.8
Intra-group creditors		
St. James's Place Investments plc	**44.0**	57.8

During the year, the Company received £28.0 million (2009: £63.4 million) dividends from subsidiary undertakings.

8. DIRECTORS' EMOLUMENTS

The Directors' responsibilities relate primarily to the trading companies of the Group and accordingly their costs are recharged to those companies and none are met by the Parent Company.

9. PARENT COMPANY

The company regarded by the Directors as the ultimate Parent Company is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which Group accounts are drawn up and of which the Company is a member. Copies of the Group accounts may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. HBOS plc is the parent undertaking of the smallest group of undertakings for which Group accounts are drawn up.

Lloyds Banking Group plc was the ultimate controlling party as at 31 December 2010 and has been the ultimate controlling party of the Company since its acquisition of HBOS plc on 19 January 2009.

Supplementary Information
on European Embedded Value Basis

Financial Statements

Independent Auditors' Report

to the Directors of St. James's Place plc ('the Company') on the Supplementary Information on European Embedded Value Basis

We have audited the Supplementary Information on the European Embedded Value Basis for the year ended 31 December 2010 that comprise the Consolidated Statement of Income – European Embedded Value Basis, Consolidated Statement of Changes in Equity – European Embedded Value Basis, Consolidated Statement of Financial Position – European Embedded Value and the related notes ('the Supplementary Information'), which have been prepared in accordance with the European Embedded Value ('EEV') basis set out in Note I – Basis of Preparation and which should be read in conjunction with the Group's financial statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Supplementary Information on the EEV basis in accordance with the EEV basis set out in Note I – Basis of Preparation. Our responsibility, as set out in our letter of engagement agreed with you dated 4 January 2011, is to audit and express an opinion on the Supplementary Information in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's directors as a body in accordance with our letter of engagement dated 4 January 2011 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

SCOPE OF THE AUDIT OF THE SUPPLEMENTARY INFORMATION

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

OPINION ON THE SUPPLEMENTARY INFORMATION

In our opinion, the Supplementary Information for the year ended 31 December 2010 have been properly prepared in all material respects in accordance with the European Embedded Value basis set out in Note I – Basis of Preparation.

PricewaterhouseCoopers LLP
Chartered Accountants
Bristol
22 February 2011

Notes:

(a) The Supplementary Information is published on the website of St. James's Place plc, www.sjp.co.uk. The maintenance and integrity of the St. James's Place plc website is the responsibility of the directors; the audit work does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the Supplementary Information since it was initially presented on the website.

(b) Practices in the United Kingdom governing the preparation and dissemination of Supplementary Information may differ from practices in other jurisdictions.

Consolidated Statement of Income
European Embedded Value Basis

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

	Year Ended 31 December 2010 £ million	Year Ended 31 December 2009 £ 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

The notes and information on pages 126 to 132 form part of this supplementary information.

Consolidated Statement of Changes in Equity

European Embedded Value Basis

	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

The notes and information on pages 126 to 132 form part of this supplementary information.

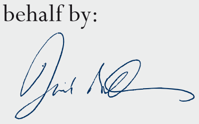
Consolidated Statement of Financial Position

European Embedded Value Basis

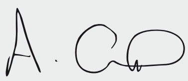
	31 December 2010 £ million	31 December 2009 £ million
Assets		
Intangible assets		
Deferred acquisition costs	**755.7**	642.4
Value of long-term business in-force		
– long-term insurance	**877.2**	649.1
– unit trusts	**288.7**	221.5
Computer software	**2.1**	–
	1,923.7	1,513.0
Property & equipment	**7.7**	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

The supplementary information on pages 123 to 132 was approved by the Board of Directors on 22 February 2011 and signed on its behalf by:



D Bellamy
Chief Executive



A Croft
Finance Director

The notes and information on pages 126 to 132 form part of this supplementary information.

Notes to the European Embedded Value Basis

I. BASIS OF PREPARATION

The supplementary information on pages 123 to 132 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.
– 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%

III. ASSUMPTIONS *CONTINUED*

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

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

(b) Experience Assumptions

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

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

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

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

(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).

IV. COMPONENTS OF EEV PROFIT *CONTINUED*

(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.

	Notes	Change in New Business Contribution Pre-tax	Change in New Business Contribution Post-tax	Change in European Embedded Value 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)

Notes:

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

2 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%.

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

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.

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

	Change in New Business Contribution Pre-tax	Change in New Business Contribution Post-tax	Change in European Embedded Value 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

Shareholder Information

ANALYSIS OF NUMBER OF SHAREHOLDERS

Analysis by Number of Shares	Holders	%	Shares Held	%
1–999	2,513	44.1	985,566	0.2
1,000–9,999	2,471	43.4	7,335,321	1.5
10,000–99,999	520	9.1	14,069,994	2.9
100,000 and above	192	3.4	463,758,305	95.4
	5,696	100.0	486,149,186	100.0

FINANCIAL CALENDAR

Ex-dividend date for final dividend	2 March 2011
Calculation period for scrip final dividend	2–8 March 2011
Record date for final dividend	4 March 2011
Latest date for receipt of scrip dividend mandates	21 April 2011
Announcement of first quarter new business	5 May 2011
Annual General Meeting	12 May 2011
Payment date for final dividend	18 May 2011
Announcement of Interim Results and second quarter new business	28 July 2011
Announcement of third quarter new business	2 November 2011

SCRIP DIVIDEND

If you would prefer to receive, subject to shareholder approval, new shares instead of cash dividends please complete a scrip dividend mandate, which is available from the Registrars, Computershare Investor Services PLC. Their contact details are on page 134.

SHARE DEALING

A telephone share dealing service has been established with the Registrars, Computershare Investor Services PLC, which provides shareholders with a simple way of buying or selling St. James's Place plc shares on the London Stock Exchange. If you are interested in this service telephone 0870 703 0084.

ELECTRONIC COMMUNICATIONS

If you would like to have access to shareholder communications such as the Annual Report and the Notice of General Meeting through the internet rather than receive them by post, please register at www.etreeuk.com/stjamesplace.

An internet share dealing service is also available. Further information about this section can be obtained by logging on to: www.computershare.com/dealing/uk.

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