ST. JAMES'S PLACE PLC

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

PRESS RELEASE

28 February 2018

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

RECORD BUSINESS PERFORMANCE SUPPORTS 30% INCREASE IN FULL YEAR DIVIDEND

St. James's Place plc ("SJP"), the wealth management group, today issues its annual results for the year ended 31 December 2017:

Financial highlights

- EEV new business profit £779.8 million (2016: £520.2 million) – up 50%
- EEV operating profit £918.5 million (2016: £673.6 million) – 36%
- IFRS profit before shareholder tax £186.1 million (2016: £140.6 million) – up 32%
- Operating cash result (post tax) £315.2 million (2016: £226.0 million) – up 39%
- Underlying cash result (post tax) £281.2 million (2016: £199.5 million) – up 41%
- Underlying cash earnings per share of 53.6 pence (2016: 38.2 pence per share) – up 40%

Dividend

- Final dividend of 27.45 pence per share (2016: 20.67 pence per share) up 33% providing a full year dividend of 42.86 pence per share (2016: 33.00 pence per share), growth of 30%

Other highlights

- Record gross inflows of £14.6 billion (2016: £11.4 billion)
- Net inflow of funds under management of £9.5 billion (2016: £6.8 billion)
- Funds under management of £90.7 billion (2016: £75.3 billion)
- We are now represented by 3,661 qualified advisers across our Partnership businesses

Andrew Croft, Chief Executive, commented:

"As we announced in January, during 2017 we achieved record gross inflows which at £14.6 billion were up 29% whilst net inflows were up 40% to £9.5 billion, reflecting the continued strong retention of existing client investments. These net flows, together with strong investment returns, increased the funds we manage on behalf of our clients by 20% over the year to close at an all-time high of £90.7 billion.

I am very pleased to confirm that this record new business performance is reflected in the strong financial performance, across all measures, that we are reporting today. Given the strong performance of the business, the Board has proposed a final dividend of 27.45 pence per share, up 33%, which brings the full year dividend to 42.86 pence per share, up 30%.

I believe there are great opportunities ahead for St. James's Place. Our core target market is already large and forecast to grow further still, driven by favourable demographic trends and the accumulation of investable assets as savers take on the responsibility for providing for their own well-being in retirement. Meanwhile, the environment for UK savers seeking to plan their long-term financial affairs has rarely felt more difficult whether due to complexities around personal taxation, pensions freedoms, or the implications of a sustained low interest rate environment.

As a result, demand for trusted, personal face-to-face advice has never been greater. With our focus on developing long-term relationships that span client generations, our advisers can provide a level of tailored and expert advice that clients truly value. Allied with our distinct Investment Management Approach that offers clients access to best-in-class fund managers from around the world, we have a clear and compelling client proposition that I believe stands St. James's Place in great stead to capture the market opportunities ahead.

Our continuing focus on achieving the best possible outcomes for our clients, through the provision of sound personal financial advice, together with our distinctive approach to the management of their wealth, gives us confidence that we will continue to grow our business, in line with our stated medium-term objective of 15 -20%, in 2018 and beyond."

Enquiries:

Andrew Croft, Chief Executive Officer — Tel: 020 7514 1963
Craig Gentle, Chief Financial Officer — Tel: 020 7514 1963
Tony Dunk, Investor Relations Director — Tel: 020 7514 1963

Brunswick Group — Tel: 020 7404 5959
Charles Pretzlik — Email: cpretzlik@brunswickgroup.com
Tom Burns — Email: tburns@brunswickgroup.com

Analyst presentation at 10.15am for 10.30am at:

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

to be held in the Auditorium

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

(Live and On-demand):

http://www.investis-live.com/st-jamess-place/5a6ef2d525d9c011009a22b5/qlbe

There will also be a Dial-in:

UK Local: 020 3936 2999
All other locations: +44 20 3936 2999
Participant Access Code: 94 17 01
Once participants have entered this code, name and company details will be taken.

Replay information:

UK: 020 3936 3001
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CHIEF EXECUTIVE'S REPORT

Introduction

I should like to begin my first Chief Executive's Report by acknowledging the enormous contribution made by my predecessor David Bellamy. David joined at the inception of the Company and has given 26 years of service to the Group, the last 11 as CEO. It has been my pleasure to have worked alongside David over 25 of these years and as his Chief Financial Officer over the last 11 years. I would also like to say that it is a great honour and a privilege to be taking on the role of Chief Executive.

Looking forward, I fully intend to continue with our successful business model of providing trusted face-to-face financial advice through the St. James's Place Partnership. In doing so, we will continue to get better at everything we do well and improve those areas where we do less well, while refining and evolving our business so that the next 25 years for St. James's Place are as successful as the last. We will continue to invest in our service to clients and in increasing our support to the Partnership.

I believe there are great opportunities ahead for St. James's Place. Our core target market is already large and forecast to continue to grow, driven by favourable demographic trends and the accumulation of investable assets as savers take on the responsibility for providing for their own well-being in retirement. Meanwhile, the environment for UK savers seeking to plan their long-term financial affairs has rarely felt more difficult, whether due to complexities around personal taxation, pensions freedoms or the implications of a sustained low interest rate environment.

As a result, demand for trusted, personal face-to-face advice has never been greater. With our focus on developing long-term relationships that span client generations, our advisers can provide a level of tailored and expert advice that clients truly value. Allied with our distinct Investment Management Approach that offers clients access to best-in-class fund managers from around the world, we have a clear and compelling client proposition that I believe stands St. James's Place in great stead to capture the market opportunities ahead. Indeed, we remain confident of being able to achieve 15 - 20% annual growth in gross inflows over the medium-term.

Business performance & dividend

During 2017, our 25th anniversary year, we achieved record gross inflows which at £14.6 billion were up 29%, whilst net inflows were up 40% to £9.5 billion reflecting the continued strong retention of existing client investments. These net flows, together with a strong investment return, increased funds under management by 20% over the year to close at an all-time high of £90.7 billion. Against the backdrop of continued political and economic uncertainty that prevailed in the UK during the year, we are very pleased with these achievements which are a testament to the strength of our business model, the attractiveness of our client proposition, and the hard work of all in the St. James's Place community.

The financial performance naturally reflects these outcomes with all the key measures the Board monitors also seeing strong growth. The Chief Financial Officer's Report and Financial Review on pages 8 to 44 provide a comprehensive analysis of the financial performance for the year.

Of particular note was the 41% growth in the Underlying cash result, which is a key measure the Board considers when determining the dividend. This outcome, supported by a small capital release, has enabled the Board to increase the final dividend by 33% to 27.45 pence per share, which provides a full year dividend of 42.86 pence per share, growth of 30%.

This will result in an 80% full year pay-out ratio to Underlying cash and our expectation is that going forward future dividends will be set using this higher pay-out ratio.

The final dividend, subject to approval of shareholders at our AGM, will be paid on 1 June 2018 to shareholders on the register at the close of business on 6 April 2018. A Dividend Reinvestment Plan continues to be available for shareholders.

Clients

Our success has been built on a core commitment to achieving the best possible outcomes for clients and ensuring that they are well served by our long-term, face-to-face relationship-based approach to the management of their financial affairs. Although in recent years we have seen the UK wealth management landscape evolve to incorporate new, digital-led solutions, we know that a highly personalised service remains in high demand and are confident that this will continue to be the case in the future as the management of individuals' financial affairs becomes more, not less, complex.

In the past year, we have seen increased activity around pension transfers, driven in part by the flexibility afforded around defined contribution schemes following the introduction of pensions freedoms but also due to increased transfer values. Transferring out of defined benefit schemes is not without considerable risk and complexity which requires expert bespoke advice, so we have naturally been relatively cautious in recommending such a course of action, but we expect this to be an area of heightened interest for clients and one which we will continue to manage carefully in the years ahead.

We continue to enhance and evolve our client proposition. In 2017, we launched a new Retirement Account with added flexibility for clients as they move from accumulation of savings before retirement to drawdown of benefit in retirement. We also introduced a cash management portal, a probate service as part of our intergenerational initiative, a panel of private banks to serve our higher net worth clients and a further range of savings accounts.

Looking ahead, a key opportunity and challenge for the wealth management industry over the long-term will be how to sensibly manage the generational transfer of wealth, which is forecast to total some £2.8 trillion over the next 30 years. We have already made good steps in developing our intergenerational proposition for clients in recent years, but this will continue to be an area of further focus going forward.

In 2017, we won a number of awards that are voted for by investors including the **City of London Wealth Management Company of the Year Award, Shares Award** – **Best Wealth Manager**, **Wealth Advise**r – **Best Private Client Investment Manager**, and **The Personal Finance Award for Best Financial Adviser**, the last of which we've won for eight consecutive years. Thank you to everyone who voted for St. James's Place.

The St. James's Place Partnership

Partners and advisers build long-term relationships with their clients, firstly by providing trusted holistic financial advice to help them achieve their personal objectives, and then by providing an on-going advisory service to ensure they remain on track to achieve their financial goals.

Our future growth is dependent upon increasing the number of advisers and helping our existing Partners grow their businesses. It was therefore pleasing that during 2017 we grew the number of advisers working across the Partnership by 246, growth of 7%, whilst the new business per adviser increased by 19%. These new advisers comprised recruitment of experienced advisers from the industry together with graduates from our highly successful St. James's Place Academy.

We now have 3,661 qualified advisers and, going forward, we will continue to develop the infrastructure and support that we provide to Partner businesses to assist them with their client relationships and to help them grow their businesses. If we do this well, we will remain the 'go to' place for successful financial advisers and attract highly talented individuals to join St. James's Place. At the same time, we will continue to invest in our Academy, which aims to 'grow our own advisers'. We look forward to seeing many of the 261 individuals currently in the programme graduating in 2018 and 2019. We will also continue to support those advisers who wish to progress to Chartered status.

Investment Markets and our Investment Management Approach

The strong performance from major stock and bond markets around the world continued during 2017. This was despite the growing tensions around North Korea, conflicts in the Middle East and the continuing uncertainty in the UK arising from negotiations to leave the EU in March 2019. The backdrop of strong corporate earnings and high levels of consumer confidence drove many indices, including the FTSE 100 and the S&P 500, to new highs.

In general our Portfolios performed strongly through 2017, with the most cautious strategy, the Defensive Portfolio, increasing by 4.6% and the higher-risk Adventurous Portfolio increasing by 12.6%, net of all charges.

Nevertheless, the continued strong economic environment creates the possibility of a return to higher inflation. In the UK, inflation crept above its target level of 2.0% and, by the end of the year, recorded a figure of 3.1%. In response, the Monetary Policy Committee of the Bank of England increased interest rates for the first time in ten years. Meanwhile, in the United States, the Federal Reserve increased interest rates no less than three times. Looking ahead, there are expectations that rates will increase further in both the US and the UK during 2018. Accommodative monetary policy is also slowing in other major economies, as quantitative easing programmes elsewhere in the world are beginning to be pulled back.

Towards the end of the year, we announced the launch of a strategy investing in Japan – a new opportunity for our clients. There are signs that the corporate governance environment in that country continues to improve and, in Nippon Value Investors, the Investment Committee has identified a manager which gives us access to some of the most interesting ideas in the world's third-largest economy.

The start of 2018 has seen some volatility return to markets. However, our broadly diversified Portfolios continue to give clients access to a variety of different asset classes, dampening down the impact of market gyrations as and when they occur. It is for this reason we remain confident that our investment approach will continue to support clients in realising their long-term financial goals.

Investment for growth

As well as working to meet our shorter-term objectives as a business, we have been sowing the seeds for longer-term growth through new markets both in the UK and overseas.

St. James's Place Asia, which has been operating since 2014, continues to progress well. We now have 120 advisers, an increase of 18% during the year, and over £400 million of funds under management in St. James's Place funds, which has more than doubled during the 12 months. We currently operate across three separate markets: Hong Kong, Shanghai and Singapore, each of which has its own distinct characteristics. What is common to all, however, is the long-term market opportunity for a well-managed, well capitalised, wealth management business with a strong client proposition. In the past year we have made further operational progress on building our business and proposition.

We have also been investing for the future through Rowan Dartington (RD), our discretionary fund management business. In 2017, funds under management grew by 34% to £2.1 billion, while the number of RD investment executives has increased from 41 to 46 as we have broadened the reach of the business from its historic roots in the south west of England. We have also launched an RD service in Hong Kong alongside our Asian operations. Importantly, the capabilities provided by Rowan Dartington have served to enrich our overall client proposition.

Neither St. James's Place Asia nor Rowan Dartington are expected to achieve critical mass or contribute materially to Group profitability in the short-term. Rather, it will take some time for these businesses to achieve scale as we build the appropriate infrastructure to support their long-term growth, but we remain confident they will generate value over time.

Back-office infrastructure

We continue to make good progress on our important programme to consolidate our UK back-office administration onto a single client-centric platform. This will deliver a more holistic administration service to our clients whilst leveraging modern technology.

We already have £27.9 billion funds under management administered on the new platform and approximately two-thirds of our gross inflows are currently going onto the new platform. Migrations planned for 2018 mean that by the end of the year, we expect to administer approximately two-thirds of our funds under management on the new platform as we continue our programme to transform the UK back-office. The final third of UK funds under management will complete this significant transformation project in 2019.

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

Helping people in need is a very important part of the St. James's Place culture, with the whole community, including employees, the Partnership and their teams, together with suppliers and fund managers committed to supporting charitable causes and making a positive and lasting difference to the lives of people in need. In 2017, the St. James's Place community celebrated 25 years of giving by raising a record £5.5 million which, after including the company matching of £2 for every £1 raised by our community and gift aid, provided for total funds raised during the year of £16.8 million. On behalf of the Trustees and all the charities receiving grants, I would like to thank everyone who supported the Charitable Foundation.

In addition to these fund-raising efforts, our desire to be 'doing the right thing' runs through the whole organisation, underpinning all our interactions with our local and extended communities. Our continued membership of FTSE4GOOD recognises the positive nature of our work in these areas.

Mike Wilson CBE

It is with sadness and a heavy heart that I inform shareholders of the recent passing of Mike Wilson, one of our original Founders and the inspiration behind St. James's Place. He will be missed as a friend and mentor to many of the SJP community.

Mike was also instrumental in establishing the St. James's Place Charitable Foundation and leaves a legacy within our community of giving back to others.

Our community

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

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

I very much look forward to working with everyone going forward.

Outlook

The global economy is in good shape, with companies trading profitably as new technologies continue to evolve at pace driving economic growth.

Of course, there are global economic and geopolitical risks, in the UK we advance towards Brexit and we are starting to see interest rates rise on both sides of the Atlantic and some increase in market volatility. Whilst there are no certain outcomes we remain comfortable advising clients to invest through a well-diversified portfolio in order to benefit over the medium-term and we continue to see a growing need for financial advice. We remain confident that the Partnership is ideally placed to help their clients through the complexities of their financial lives, reducing their risks and investing their money wisely.

Our continuing focus on achieving the best possible outcomes for our clients, through the provision of trusted financial advice together with our distinctive Investment Management Approach, gives us confidence that we will continue to grow our business, in line with our stated medium-term objective of 15-20%, in 2018 and beyond.

Andrew Croft
Chief Executive
27 February 2018

CHIEF FINANCIAL OFFICER'S REPORT

The business fundamentals have performed very strongly against a backdrop of uncertainty.

As already stated in the Chief Executive's Report, Gross and Net Inflows in 2017 grew by 29% and 40% respectively and we completed the year with £90.7 billion of funds under management, growth of 20% compared to 31 December 2016.

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

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

Financial Results

Whilst our financial business model remains straightforward, the impact of having a significant life insurance company at the heart of the Group results in accounting complexity under IFRS. For this reason we continue, in our Financial Review on pages 11 to 44, to supplement IFRS information with EEV information as well as further detail on the way in which cash emerges within the business. The Financial Review shows strong results on every measure but there are a number of factors that merit emphasis:

1. Our contribution to the Financial Services Compensation Scheme for 2017 pre-tax was £21.2 million (2016: £17.2 million). This negatively impacted post tax results for the group by £17.1 million in 2017 (2016: £13.7 million).
2. We continue to invest in growing the Partnership and the number of advisers within it. In particular we invested £6.6 million post tax in our Academy and Next Generation Academy (2016: £5.8 million) and saw 124 qualified advisers graduate during the year.
3. Our Asia and DFM operations are medium to long-term investments and are developing well. During the year, investment in these areas of future growth amounted to £22.0 million post tax (2016: £15.4 million).
4. Our back-office infrastructure initiative has been a multi-year project and in 2017 we had progressed to the point where approximately two-thirds of new business was written using the new Bluedoor system. By 31 December 2017, 31% of all funds under management were recorded on the new platform (2016: 26%). Costs in 2017 were £21.7 million post tax (2016: £16.7 million).

Last year, we reassessed the fair value of investment contract liabilities in order to reflect recent experience and match the encashment values of client investments. As explained in last year's Chief Financial Officer's Report, this had, and will continue to have, no impact on IFRS profit before tax. However, it has significantly increased the operating cash result for new business, which for 2017 was positive £10.5 million (2016: negative £80.2 million). This positive impact is a consequence of more cash being recognised at the point at which business is written whereas in the past it emerged in the cash result over a 6-year period.

IFRS Result

The **IFRS profit after tax** was £145.8 million (2016: £111.7 million). The results continue to be impacted by IFRS requirements to defer income and costs associated with new business and the significant excess of income over expense subject to this deferral continues to result in a net reduction to IFRS profit. Nonetheless, the IFRS profit after tax has increased as a result of the increase in funds under management which is the long-term driver of profit.

The **Underlying profit before shareholder tax** was £245.1 million (2016: £163.5 million). This measure excludes the impact of the deferral accounting explained above and is therefore more sensitive to new business. The result for 2017 is underpinned by increased funds under management but also reflects a 29% increase in gross inflows for the year.

Cash Result (presented post tax)

The **Operating cash result** for the year was £315.2 million (2016: £226.0 million), growth of 39%. This result reflects the positive impact of continued growth in funds under management and also increased expenses incurred to both support and grow the business.

As we explained previously, last year's reassessment of investment contract liabilities has also had a positive impact on the Cash result because it results in an earlier emergence of cash on new Investment and Pensions business. This earlier emergence will continue with future new business.

Operating cash is then used for investment in the Academy, our Asian operations, our new DFM offering and other strategic investments. The total post tax investment during the year was £34.0 million (2016: £26.5 million) resulting in the **Underlying cash result** of £281.2 million (2016: £199.5 million), growth of 41%.

The **Cash result** was £252.6 million (2016: £175.4 million) represented by the Underlying cash result adjusted for the cost of the back-office infrastructure investment and a number of one-off items detailed in the Financial Review on page 30.

It is important to note that the cash, operating cash and underlying cash results should not be confused with the IFRS consolidated statement of cash flows which is prepared in accordance with IAS 7 and disclosed on page 58.

EEV Result

The **EEV new business contribution** for the year was £779.8 million (2016: £520.2 million) growth of 50%. This reflects both the increase in new business together with operational economies of scale achieved as fixed costs are spread across more business.

The **EEV operating profit** for the year was £918.5 million (2016: £673.6 million), growth of 36%. This reflected the strong growth in EEV new business contribution above, but also the positive effect of improved retention assumptions and operational economies of scale.

A continued rise in the value of global stocks resulted in an investment return variance of £340.8 million building on the positive variance of £537.2 million in the prior year.

Total **EEV profit before tax** for the year was therefore £1,289.1 million compared with £1,198.4 million for the prior year. The net asset value per share on an EEV basis at the end of the year was 1,067.5 pence (31 December 2016: 900.7 pence).

Dividend

At the half year we increased the interim dividend by 25% to 15.41 pence and stated an intention to grow the full year dividend by a similar amount. Given the continued strong performance of the business during the second half of 2017, the Board has recommended a final dividend of 27.45 pence per share, an increase of 33% which will consume £145.2 million. This will provide for a full year dividend of 42.86 pence per share, growth of 30%.

This will result in an 80% full year pay-out ratio to Underlying cash and our expectation is that going forward future dividends will be set using this higher pay-out ratio.

Capital and Solvency

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

We assess our solvency against a management solvency buffer (MSB). During 2017 we completed a review of our Life business MSB, which, despite growth in the businesses, has resulted in a release of £82.0 million. This has been partially offset by an increase in solvency requirements for the rest of the Group, resulting in an overall release of £65.1 million. The MSB held by the Group reduced from £527.0 million at 31 December 2016 to £461.9 million at 31 December 2017. Further details of the MSB review are provided on page 51. Management free assets are £1,095.1 million at 31 December 2017 (31 December 2016: £1,070.0 million), well in excess of the Group MSB.

We provide information on our Solvency II position on page 36. Our solvency ratio at 31 December 2017, prior to the payment of the proposed final dividend, is 139% (31 December 2016: 147%) which demonstrates the financial strength of the business.

Concluding Remarks

The business fundamentals and financials are in very good shape. The cash result is expected to continue to grow, even alongside the significant investments we are making. We are therefore pleased to be able to set an expected dividend policy based on a pay-out ratio to Underlying cash of 80%.

Our business is long-term in nature with emergence of shareholder value over time. The growth we have reported therefore bodes well for the future.

Craig Gentle
Chief Financial Officer
27 February 2018

FINANCIAL REVIEW

The Financial Model

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

The level of income is dependent on the level of client funds and the level of asset values. In addition, since around half of our business does not generate net cash result in the first six years, the level of income will increase as a result of new business from six years ago becoming cash generative. This deferral of cash generation means the business always has six years' worth of funds in the 'gestation' period. More information about our fees on Funds under Management can be found in Section 1 on page 17.

Group expenditure is carefully managed with clear targets set for growth in Establishment expenses in the year. Many other expenses increase with business levels and are met from margins in the products. The Group also invests in ensuring the quality of our proposition for clients and Partners, through investment in new client services and existing IT systems. Finally, we are also looking to the future, with investment in our back-office infrastructure programme and strategic initiatives, including the Academy, Asia and DFM. More information about our expenses can be found in Section 2 on page 20.

A small proportion of Group expenditure is required to support management of existing funds, but the majority of expenditure is investment in growing the Partnership and acquiring new funds together with investment in future back-office and administrative capabilities.

Given the importance of FUM to profit generation by the business, we provide an analysis of the FUM make-up and development in Section 1. Section 2 covers Expenses, which is the other significant driver of profits, with Sections 3-5 reporting on the performance of the business on the IFRS, Cash and EEV result bases, and providing commentary on solvency and liquidity.

Performance Measurement

In line with statutory reporting requirements we report profits assessed on an International Financial Reporting Standards (IFRS) basis. However, given the long-term nature of the business and the high level of investment in new business generation each year, we believe the IFRS result does not provide an easy guide to the cash likely to emerge in future years, nor does it reflect the total economic value of the business. Therefore, consistent with last year, we complement IFRS reporting with additional disclosure on various alternative performance measures (APMs).

APMs are not defined by the relevant financial reporting framework (which for the Group is IFRS), but we use them to provide greater insight to the financial performance, financial position and cash flows of the Group and the way it is managed. Summary information about the key APMs used in our Financial Review is provided in the following table.

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
Solvency II net assets	Based on IFRS Net Assets, but with the following adjustments: 1. Reflection of the recognition requirements of the Solvency II regulations for assets and liabilities. In particular this removes deferred acquisition costs (DAC), deferred income (DIR), purchased value of in-force (PVIF) and their associated deferred tax balances, other intangibles and some other small items which are treated as inadmissible from a regulatory perspective; and 2. Adjustment to remove the matching client assets and the liabilities as these do not represent shareholder assets. No adjustment is made to deferred tax, except for that arising on DAC, DIR and PVIF, as this is treated as an allowable asset in the Solvency II regulation.	Our ability to satisfy our liabilities to clients, and consequently our solvency, is central to our business. By removing the liabilities which are fully matched by assets, this presentation allows the reader to focus on the business operation. It also provides a simpler comparison with other wealth management companies.	Refer to page 28.
Cash result, Underlying cash result and Operating cash result	The Cash result is defined as the movement between the opening and closing Solvency II net assets adjusted for the following items: 1. The movement in deferred tax is removed to reflect just the cash realisation from the deferred tax position; 2. The movements in goodwill and other intangibles, which are excluded from the Solvency II net assets, are re-instated in the Cash result; and 3. Other changes in equity, such as dividends paid in the year and share option costs, are excluded. The **Operating cash result** reflects the regular emergence of cash from the business operations. The **Underlying cash** results additionally reflects the cash impact of the strategic investments we are making. Finally, the **Cash result** reflects all other cash items, including those whose emergence is volatile, varying over time and often influenced by markets, together with the short-term costs associated with the back-office infrastructure project.	IFRS income statement methodology recognises non-cash items such as deferred tax and share options. By contrast, dividends can only be paid to shareholders from appropriately fungible assets. The Board therefore uses the cash results to monitor the level of cash generated by the business. While the Cash result gives an absolute measure of the cash generated in the year, the Underlying and Operating cash results are particularly useful for monitoring the expected long-term rate of cash emergence, which supports dividends and sustainable dividend growth.	Refer to pages 23 and 30 and also see Note 4 – Segment Profit

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
	Neither the cash result nor the underlying cash result should be confused with the IFRS consolidated statement of cash flows which is prepared in accordance with IAS 7.		
Policyholder and Shareholder tax	Shareholder tax is estimated by making an assessment of the effective rate of tax that is applicable to the shareholders on the profits attributable to shareholders. This is calculated by applying the appropriate effective corporate tax rates to the shareholder profits. The remainder of the tax charge represents tax on policyholder's investment returns. This calculation method is consistent with the legislation relating to the calculation of tax on shareholder profits.	The UK tax regime facilitates the collection of tax from life insurance policyholders by making an equivalent charge within the corporate tax of the Company. The total tax charge for the insurance companies therefore comprises both this element and an element more closely related to normal corporation tax. Life insurance business impacted by this tax typically includes policy charges which align with the tax liability, to mitigate the impact on the corporate. As a result when policyholder tax increases, the charges also increase. Given these offsetting items can be large, and typically don't perform in line with the business, it is beneficial to be able to identify the two elements separately. We therefore refer to that part of the overall tax charge, which is deemed attributable to policyholders, as policyholder tax, and the rest as shareholder tax.	Disclosed as separate line items in the statement of comprehensive income on page 55.
Profit before shareholder tax	A profit measure which reflects the IFRS result adjusted for policyholder tax, but before deduction of shareholder tax. Within the consolidated statement of comprehensive income the full title of this measure is "Profit before tax attributable to shareholders' returns".	The IFRS methodology requires that the tax recognised in the financial statements should include the tax incurred on behalf of policyholders in our UK life assurance company. Since the policyholder tax charge is unrelated to the performance of the business, we believe it is useful to also separately identify the profit before shareholder tax, which reflects the IFRS profit before tax, adjusted only for tax paid on behalf of policyholders.	Disclosed as a separate line item in the statement of comprehensive income on page 55.
Underlying profit	A profit measure which reflects the IFRS result adjusted to remove the movements in DAC, DIR and PVIF balances.	The IFRS methodology promotes recognition of profits in line with the provision of services and so, for long-term business, some of the initial cash flows are spread over the life of the contract through the use of intangible assets and liabilities (DAC and DIR). Due to the retail distribution review (RDR) regulation change in 2013, there was a step change in the progression of these items in our financial statements, which resulted in significant accounting presentation changes despite the fundamentals of our vertically-integrated business remaining unchanged. We therefore believe it is useful to consider the IFRS result having removed the impact of movements in these intangibles as it better reflects the underlying performance of the business.	Refer to page 23.

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
EEV operating profit	A discounted cash flow valuation methodology, assessing the long-term economic value of the business. Our embedded value is determined in line with the EEV principles, originally set out by the Chief Financial Officers (CFO) Forum in 2004, and amended for subsequent changes to the principles, including those published in April 2016, following the implementation of Solvency II. The EEV operating profit reflects the total EEV result with an adjustment to strip out the impact of stockmarket and other economic effects during the year.	Both the IFRS and cash results reflect only the cash flows in the year. However, our business is long-term, and activity in the year can generate business with a long-term value. We therefore believe it is helpful to understand the full economic impact of activity in the year, which is the aim of the EEV methodology. Within the EEV, many of the future cash flows derive from fund charges, which change with movements in stock markets. Since the impact of these changes is typically unrelated to the performance of the business, we believe that the EEV operating profit (reflecting the EEV profit, adjusted to reflect only the expected investment performance and no change in economic basis) provides the most useful measure of embedded value performance in the year.	See Note 4 – Segment Profit

SECTION 1: FUNDS UNDER MANAGEMENT

This section starts with analysis of the movement in the funds under management of the Group. This is followed by information about the income the Group earns from managing these funds, together with the profile of these earnings, and finally a geographical and segmental analysis of the funds under management.

Movement in funds under management

During 2017 we have seen gross new funds of £14.60 billion (2016: £11.35 billion), growth of 29% and a net inflow of funds under management of £9.51 billion (2016: £6.78 billion), growth of 40%. The investment return contributed £6.20 billion (2016: £8.71 billion) to funds under management during the year reflecting growth in world stock markets. Given the strong net inflow, and the positive investment performance, funds under management increased to £90.75 billion (2016: £75.31 billion).

Analysis of the development of the funds under management is provided in the following tables:

Year Ended 31 December 2017	**Investment**	**Pension**	**UT/ISA & DFM**	**Total**
	£'Billion	**£'Billion**	**£'Billion**	**£'Billion**
Opening funds under management	25.88	28.25	21.18	75.31
Gross inflows	2.49	7.26	4.85	14.60
Net investment return	1.69	2.70	1.81	6.20
Regular income withdrawals and maturities	(0.56)	(0.96)	-	(1.52)
Surrenders and part surrenders	(1.06)	(0.96)	(1.55)	(3.57)
Matching strategy disinvestment	(0.13)	(0.14)	-	(0.27)
Closing funds under management	**28.31**	**36.15**	**26.29**	**90.75**
Net inflows	**0.87**	**5.34**	**3.30**	**9.51**
Implied surrender rate as a percentage of average funds under management	**3.9%**	**3.0%**	**6.5%**	**4.3%**

Included within "UT/ISA & DFM" are closing funds under management of £2.10 billion, gross inflows of £0.49 billion and outflows of £0.10 billion in relation to the Rowan Dartington Group funds under management.

Year Ended 31 December 2016	Investment	Pension	UT/ISA & DFM	Total
	£'Billion	£'Billion	£'Billion	£'Billion
Opening funds under management	22.52	20.86	15.23	58.61
Rowan Dartington acquisition	-	-	1.26	1.26
Gross inflows	2.28	5.12	3.95	11.35
Net investment return	2.50	4.02	2.19	8.71
Regular income withdrawals and maturities	(0.52)	(0.84)	(0.11)	(1.47)
Surrenders and part surrenders	(0.90)	(0.91)	(1.29)	(3.10)
Rowan Dartington – Ardan International disposal	-	-	(0.05)	(0.05)
Closing funds under management	**25.88**	**28.25**	**21.18**	**75.31**
Net inflows	**0.86**	**3.37**	**2.55**	**6.78**
Implied surrender rate as a percentage of average funds under management	**3.7%**	**3.7%**	**6.8%**	**4.6%**

Included within "UT/ISA & DFM" are closing funds under management of £1.57 billion, gross inflows of £0.42 billion and outflows of £0.16 billion in relation to the Rowan Dartington Group funds under management. Also included is the £0.05 billion reduction in funds under management relating to the disposal of Rowan Dartington's non-core international platform business, Ardan International, in December 2016.

Geographical and segmental analysis

The table below provides a geographical and segmental analysis of funds under management at the end of each year.

	31 December 2017		31 December 2016	
	£'Billion	**% of total**	£'Billion	% of total
North American Equities	20.0	22%	17.5	23%
UK Equities	19.3	21%	17.3	23%
Fixed Income Securities	16.7	19%	12.8	17%
European Equities	10.5	12%	8.2	11%
Asia and Pacific Equities	8.5	9%	6.2	8%
Cash	6.6	7%	6.0	8%
Property	2.9	3%	2.4	3%
Alternative Investments	2.6	3%	1.9	3%
Other	3.6	4%	3.0	4%
Total	**90.7**	**100%**	**75.3**	**100%**

Fees on funds under management

As noted at the start of this Financial Review, our financial model is to attract and retain retail funds under management (FUM) on which we receive an annual management fee.

The average net annual management fee retained by the Group (net of investment advisory fees and Partner remuneration) is c.0.77% post tax. However, due to our product structure, investment and pension business does not generate net cash result (after the initial margin) during the first six years. Consequently, the level of Cash result we are reflecting today is not fully representative of the expected earnings from the funds we are managing, and will increase as a result of the new business from six years ago becoming net Cash result generative. This deferral of Cash result generation means there is always six years' worth of business in the 'gestation' period.

The table below provides an estimated current value, for illustrative purposes, of the funds under management in the gestation period.

Year	**31 December 2017 Total £'Billion**	31 December 2016 Total £'Billion
2011	-	2.4
2012	2.9	2.9
2013	4.0	4.0
2014	4.5	4.4
2015	5.3	5.3
2016	6.3	6.1
2017	7.6	-
Total	**30.6**	**25.1**

This £30.6 billion of funds under management in the gestation period represents approximately a third of the total funds under management. If all the business reached the end of the gestation period, it would then contribute some £235.6 million to the annual post-tax Cash result, calculated using the Group's average net annual management fee of 0.77% (post tax).

The business case for continued investment in growth in FUM

The Group invests in order to:

- Continue building capacity and attract new funds;
- Enhance the Group's future capability to grow; and
- Develop administration systems and processes that will accommodate growth, contribute to future improvements in Partner and client experience, and reduce the cost of processing.

Building capacity and attracting new funds

The Group has continued to invest in expanding high quality adviser capacity, with total adviser numbers growing by 7% during the year from 3,415 in 2016 to 3,661 at 31 December 2017. At the same time Gross inflows increased by 29% which contributed to an overall net increase in funds under management of £15.4 million, or 20%.

As previously reported, the reassessment of the investment contract liability that was implemented at 31 December 2016 has had a significant positive impact on the pattern of cash emergence for new business. As a result, the Operating cash result on new business is now positive £10.5 million (2016: negative £80.2 million). The emergence of this Cash result takes time to be reflected within IFRS profit as a result of the action of the DIR, but provides a useful reminder of the future value embedded within the business.

On an EEV post tax basis, the expected present value of this new business is £642.0 million (2016: £427.8 million).

Investing in the Group's future capability to grow

Academy

Investment in our Academy and Next Generation Academy is in anticipation of medium and long-term pay-back. We have now categorised the associated costs as investment related for over 5 years on the basis that it would take a certain amount of time for individuals starting their training to be productive. In 2017, 124 individuals graduated from the Academy and the Next Generation Academy, and we expect the 2018 equivalent to be 140. By the end of 2018, we expect to have over 500 Academy and Next Generation Academy graduates active as advisers, and so, reflecting the fact that this has become core to our operations, from 2019 onwards we will include the cost of our Academy within our new business Operating cash result.

Rowan Dartington

Our DFM business now has £2.10 billion of funds under management, growth of 34% from £1.57 billion at 31 December 2016. We continue to invest in operational, regulatory and IT infrastructure to provide the business with a robust platform for growth in the future. We expect funds under management will grow at a similar rate over the next few years and anticipate reclassifying DFM from Investment to business as usual by 2020.

Asia

Our investment in Hong Kong, Singapore and Shanghai is long-term in nature and we now have 120 advisers on board, and a fully licensed and operational Life Company in Hong Kong to complement our branch in Singapore. The business is growing strongly and will contribute a positive EEV in the next few years.

Investing in next generation administration systems and processes

The most significant investment in this category is in a new back-office infrastructure which represents a multi-year programme to ensure our future systems and processes can support our overall business goals. As we have reported previously, our Unit Trust and ISA propositions are now administered using the Bluedoor platform and in 2016 and early 2017, the focus was on the launch of a new Retirement Account meaning that new pensions business is now also administered on Bluedoor.

The result of the progress made to date is that approximately two-thirds of all business written in 2017 was done so using Bluedoor and as at 31 December 2017 31% of total FUM was on Bluedoor (2016: 26%). The next significant phase will be the migration of existing pension and drawdown business, and plans for the final key migrations are being prepared. We anticipate heightened activity levels throughout 2018 and into 2019 in order to complete the project. This is likely to result in costs in 2018 being ahead of 2017.

SECTION 2: EXPENSES

Management expenses

The table below provides a breakdown of the management expenditure (before tax):

	Note	**Year Ended 31 December 2017 £'Million**	Year Ended 31 December 2016 £'Million
Establishment costs	1	191.7	160.7
Other performance related costs	2	133.5	104.0
Operational development costs	3	19.3	17.0
Strategic development costs	4	6.7	6.6
Academy costs	5	8.2	7.2
Asia costs	6	15.6	13.8
DFM costs	7	18.7	12.9
Back-office infrastructure development	8	26.8	20.9
Regulatory fees	9	8.3	8.3
FSCS levy	9	21.2	17.2
		450.0	**368.6**

Notes

1. Establishment costs are the running costs of the Group's infrastructure, which although relatively fixed in nature will inevitably increase with inflation, but also as the infrastructure expands to manage higher numbers of clients, growing numbers of advisers and increasing business volumes. Establishment costs in 2017 have been higher than expected due to strong business growth.

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

3. Operational development costs represent business as usual expenditure to support the business, such as the on-going development of our investment proposition and our technology, including focus on cyber security. We expect costs in 2018 will grow in line with the business.

4. As a growth business we are constantly looking to new opportunities and expect to incur a small level of ongoing expense associated with pursuing other strategic developments. We will continue to explore opportunities and undertake appropriate initiatives.

5. The Academy is an important strategic investment for the future and we are continuing to grow our investment in this programme. Costs have increased in recent years as we have increased the number of students within the programme and launched more regional academies.

   Our investment in the Academy will continue in 2018 with expected costs of some £10.0 million.

6. Our expansion into Asia through operations in Singapore, Hong Kong and Shanghai is intended to provide diversification of our growth model through exporting our successful wealth management proposition to new markets, starting with the UK expat market. Costs reflect both the ongoing operational costs, but also the development costs associated with growing these businesses to achieve sustainable scale.

   Our investment will continue in 2018 and we expect expenses to increase by £2-3 million, but the level of investment reflected in the Cash result will be similar as a result of offsetting increases in Asia income.

7. Our DFM operation, which became part of the SJP proposition in March 2016 following the Rowan Dartington acquisition, continues to grow quickly. Investment is required to support this growth, and we expect that expenses in 2018 will be some £6-7 million higher. However, the level of investment reflected in the Cash result will be at a similar level as a result of offsetting increases in DFM income.

8. Our back-office infrastructure programme is a multi-year initiative to upgrade our administration so it can support our future business goals. Having achieved the migration of our ISA and Unit Trust proposition to our new Bluedoor platform in 2015, the focus in 2016 and early 2017 has been the launch of a new Retirement Account with the intention of migrating pension and drawdown business onto the new system in 2018. With the final key migrations being planned, we expect heightened activity levels through 2018 and into 2019 in order to complete the project. This is likely to result in costs in 2018 being ahead of 2017.

9. The costs of operating in a regulated sector include fees charged by the regulators and our contribution to the Financial Services Compensation Scheme (FSCS). Our position as a market-leading provider of advice, means we make a very substantial contribution to supporting the industry compensation scheme, the FSCS, thereby providing protection for clients of other sector businesses that fail. Over the last few years, the levy has been at an elevated level and we remain hopeful that it will return to a more normalised level in future, albeit we now expect a fourth year of an elevated contribution in the 2018/19 funding year. The FSCS levy is met by our various regulated companies and is split £18.9 million (2016: £16.5 million) via the Distribution business and £2.3 million (2016: £0.7 million) via the Life and Unit Trust regulated business.

Group expenses

The table below provides a reconciliation from the management expenses above to the total Group expenses included in the IFRS consolidated statement of comprehensive income on page 55.

	Note	**Year Ended 31 December 2017**	Year Ended 31 December 2016
		£'Million	£'Million
Expenses per table above		450.0	368.6
Payments to Partners	1	709.0	599.7
Investment expenses	1	83.4	67.9
Third party administration	1	89.9	74.2
Acquired IFA operating costs		3.8	3.1
Amortisation of DAC and PVIF, net of additions		65.0	63.4
Share based payment expenses		32.7	23.9
Share based payment national insurance expense		3.4	1.9
Interest expense and bank charges		5.6	6.2
Donations to the St. James's Place Charitable Foundation	2	11.0	3.4
Other		13.8	12.8
		1,017.6	856.5
Total IFRS Group expenses		**1,467.6**	**1,225.1**

Notes

1. These costs are met from corresponding 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 Group.
2. Costs in 2017 reflect double matching of contributions for the year in recognition of the Group's 25th Anniversary.

SECTION 3: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

- **Profit before shareholder tax**
  This is a profit measure based on IFRS which removes the impact of policyholder tax.

- **Underlying profit**
  This is profit before shareholder tax adjusted to remove the impact of accounting for DAC, DIR and PVIF.

Of these two measures, Underlying profit is considered to be the most helpful for assessing operating performance given its greater similarity with the way in which cash emerges within the Group. Further information on these IFRS-based alternative performance measures can be found on page 13.

IFRS profit before tax

The following table demonstrates the way in which profit before shareholder tax is presented in the IFRS consolidated statement of comprehensive income on page 55:

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
IFRS profit before tax	**342.1**	**486.3**
Policyholder tax	(156.0)	(345.7)
Profit before shareholder tax	**186.1**	**140.6**

Policyholder tax is accounted for as part of the Group's own corporation tax arrangements. The amount to be accounted for is a reflection of investment return in the underlying funds. The significant reduction in policyholder tax in 2017 is matched by an equivalent reduction in policyholder fund tax deductions that are credited to fee and commission income within the IFRS statement of comprehensive income, and hence IFRS profit before policyholder tax. These fund deductions are similarly unrelated to the performance of the business and for this reason profit after policyholder tax (i.e. Profit before shareholder tax) is the measure used.

IFRS profit after tax

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Profit before shareholder tax	**186.1**	**140.6**
Shareholder tax	(40.3)	(28.9)
IFRS profit after tax	**145.8**	**111.7**

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

The following table demonstrates the way in which IFRS profit and Underlying profit reconcile to the Cash result presented in Section 4:

	2017		2016	
	Before shareholder tax	**After tax**	Before shareholder tax	After tax
	£' Million	**£' Million**	£' Million	£' Million
IFRS profit	**186.1**	**145.8**	**140.6**	**111.7**
Remove the impact in the year of DAC/DIR/PVIF	59.0	48.1	22.9	16.8
Underlying profit	**245.1**	**193.9**	**163.5**	**128.5**
Non-cash settled share based payments	30.5	30.5	23.9	23.9
Deferred tax impacts	-	15.0	-	21.1
Other	14.7	13.2	6.2	1.9
Cash result	**290.3**	**252.6**	**193.6**	**175.4**

	Year Ended 31 December 2017	Year Ended 31 December 2016
	Pence	Pence
IFRS basic earnings per share	27.8	21.5
IFRS diluted earnings per share	27.4	21.3

The following table shows an analysis of Underlying profit before shareholder tax by activity:

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Life business	257.8	165.8
Unit Trust and DFM business	113.2	92.3
Funds management business	371.0	258.1
Distribution business	(31.9)	(25.9)
Back-office infrastructure development	(26.8)	(20.9)
Other	(67.2)	(47.8)
Underlying profit before shareholder tax	**245.1**	**163.5**

Funds management business

The Underlying profit, which excludes DAC, DIR and PVIF movements for the year, was £371.0 million, which was 44% higher than the prior year (2016: £258.1 million). The key driver for this improvement in performance is the increase in fee income from higher funds under management during the year.

Distribution business

An analysis of the distribution result shown above is as follows:

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Distribution gross profit	105.4	87.1
Administrative expenses	(93.2)	(73.1)
Investment in Partnership growth	(11.3)	(10.2)
FSCS levy	(18.9)	(16.5)
Distribution loss	**(18.0)**	**(12.7)**
Asia distribution loss	(13.9)	(13.2)
Total distribution loss	**(31.9)**	**(25.9)**

The result for the Distribution business reflects continued significant investment in future growth, investment in our new businesses in Asia, and the impact of the FSCS costs which continue to run at elevated rates.

Other

Items categorised within other are as follows:

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Academy	(8.2)	(7.2)
Other development expenditure	(6.1)	(8.5)
Donations to the St. James's Place Charitable Foundation	(11.0)	(3.4)
Non-cash settled share based payments	(30.5)	(23.9)
Other share based payment costs including NI	(5.6)	(1.9)
Other	(5.8)	(2.9)
Total	**(67.2)**	**(47.8)**

DAC, DIR and PVIF

The following table sets out the impact of IFRS accounting for DAC, DIR and PVIF:

	Year Ended 31 December 2017		Year Ended 31 December 2016	
	Before shareholder tax	**After tax**	Before shareholder tax	After tax
	£'Million	**£'Million**	£'Million	£'Million
Amortisation of DAC	(98.7)	(80.4)	(101.8)	(82.3)
Amortisation of DIR	150.4	122.7	100.5	81.5
Amortisation of PVIF	(3.2)	(2.6)	(3.2)	(2.6)
DAC on new business for the year	36.9	30.3	44.7	37.4
DIR on new business for the year	(144.4)	(118.1)	(63.1)	(52.9)
Tax rate change	-	-	-	2.1
Movement in year	**(59.0)**	**(48.1)**	**(22.9)**	**(16.8)**

Income and expense deferral rates

The effect of our IFRS accounting policies is that substantially all income deferred is amortised over a 6 year period and substantially all expense deferred is amortised over a 14 year period.

Impact of RDR in 2013

One of the impacts of RDR in 2013 was that under IFRS, from that point on, fewer expenses would qualify for deferral. This has resulted in a period of transition where the continued amortisation of expenses previously deferred will significantly outweigh new expenses deferred. Although this position will eventually reverse, it results in a net negative impact on IFRS profits until the reversal takes place.

Impact of the 2016 reassessment of the investment contract liability

The reassessment carried out in 2016 had, and will have, no impact on the IFRS profit and comprehensive income for the year. This is because amounts that were recognised as an accelerated emergence of Cash result in 2016, together with the accelerated emergence of Cash result reflected in the New business margin for 2017, have been deferred over a 6 year period starting on the date the business was written. This is the key driver behind both the increase in income deferred and also the amount of amortisation.

Impact of the continued growth in new business

Continued growth in new business has the effect of increasing the amount of income deferred in each accounting period and the corresponding DIR amortisation over the following 6 years.

With growth in new business comes an increase in costs required to be deferred. These are then amortised over 14 years but as can be seen above, the amount of expense that qualifies for deferral is significantly exceeded by the amount of income required to be deferred. This will result in a continued net deferral of emergence of IFRS profits and the net amortisation impact will grow in line with the long-term business growth rate.

Analysis of IFRS Assets and Net Assets per Share

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

	31 December 2017	31 December 2016
	£' Million	£' Million
Purchased value of in-force [(1)]	22.4	25.0
Deferred acquisition costs [(1)]	539.0	587.0
Deferred income [(1)]	(608.4)	(607.9)
Other IFRS net assets	10.0	1.5
Solvency II net assets	1,095.1	1,070.0
Total IFRS net assets	**1,058.1**	**1,075.6**

(1) net of deferred tax

	31 December 2017	31 December 2016
	Pence	Pence
Net asset value per share	200.0	203.9

SECTION 4: CASH RESULT DERIVED FROM IFRS AND SOLVENCY II NET ASSETS BALANCE SHEETS

This section sets out the Cash result for the year and the way in which the Solvency II net asset balance sheet, from which it is derived, is prepared using the IFRS balance sheet as a source.

Solvency II Net Assets Balance Sheet

The Group's consolidated IFRS balance sheet is largely dominated by a number of material balances that reflect policyholder interests in unit linked liabilities together with the underlying assets that are held to match them.

To determine the Solvency II net assets balance sheet, policyholder interests in unit-linked assets and liabilities, plus a number of other items including intangible assets and certain 'accounting' balances such as DIR, DAC and associated deferred tax, are removed. Given the relevance of the resulting Solvency II net assets balance sheet to shareholders, we believe it is helpful to show how it is calculated and how the cash result has contributed to its year on year movement.

31 December 2017	IFRS Balance Sheet	Adjustment 1	Adjustment 2	Solvency II Net Assets Balance Sheet	Solvency II Net Assets Balance Sheet: 2016
	£'Million	£'Million	£'Million	£'Million	£'Million
Assets					
Goodwill	15.6	-	(15.6)	-	-
Deferred acquisition costs	623.0	-	(623.0)	-	-
Purchased value of in force business	27.2	-	(27.2)	-	-
Developments	2.4	-	(2.4)	-	-
Property and equipment	26.4	-	-	26.4	23.1
Investment property	1,630.9	(1,630.9)	-	-	-
Equities	55,086.9	(55,086.9)	-	-	-
Fixed income securities	17,180.7	(17,134.6)	-	46.1	47.7
Investment in Collective Investment Schemes	5,903.4	(4,486.6)	-	1,416.8	867.4
Derivative financial instruments	343.4	(343.4)	-	-	-
Reinsurance assets	82.8	-	(82.8)	-	-
Cash and cash equivalents	7,280.6	(7,005.9)	-	274.7	345.9
Other receivables	1,620.0	(475.9)	(21.7)	1,122.4	1,222.8
Deferred tax assets	182.7	-	(38.6)	144.1	157.7
Total assets	**90,006.0**	**(86,164.2)**	**(811.3)**	**3,030.5**	**2,664.6**
Liabilities					
Insurance contract liabilities	544.6	(459.0)	(85.6)	-	-
Borrowings	279.9	-	-	279.9	281.4
Investment contract benefits	64,014.3	(64,014.3)	-	-	-
Derivative financial instruments	190.3	(190.3)	-	-	-
Net asset value attributable to unit holders	21,349.1	(21,349.1)	-	-	-
Other provisions	20.0	-	-	20.0	17.1
Other payables	1,231.2	(151.5)	-	1,079.7	789.0
Income tax liabilities	125.3	-	-	125.3	72.7
Deferred tax liabilities	546.8	-	(116.4)	430.4	434.3
Deferred income	646.3	-	(646.3)	-	-
Preference shares	0.1	-	-	0.1	0.1
Total liabilities	**88,947.9**	**(86,164.2)**	**(848.3)**	**1,935.4**	**1,594.6**
Net Assets	**1,058.1**	**-**	**37.0**	**1,095.1**	**1,070.0**

Adjustments:

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

Movement in Solvency II Net Assets

The following table sets out the year on year movement in Solvency II net assets. As well as highlighting the Cash result, it also shows other movements such as dividend payments and non-cash movements such as deferred tax.

	Year Ended 31 December 2017 £'Million	Year Ended 31 December 2016 £'Million
Opening Solvency II Net Assets	**1,070.0**	**801.1**
Dividend paid	(190.0)	(155.2)
Issue of share capital and exercise of options	7.5	6.6
Consideration paid for own shares	(11.3)	(5.5)
Movement in other reserves	-	0.2
Change in deferred tax	(15.0)	(17.2)
Change in tax discounting	(16.2)	-
Change in goodwill and intangibles	(2.5)	(2.4)
Investment contract liability reassessment	-	267.0
Cash result	252.6	175.4
Closing Solvency II Net Assets	**1,095.1**	**1,070.0**

Cash result

Although the Cash result should not be confused with the IAS 7 consolidated statement of cash-flows, we believe that it provides a helpful alternative view of the way in which cash is generated and emerges within the Group.

The cash result is derived from the movement in the IFRS balance sheet and the Solvency II Net Assets balance sheet within it as shown on pages 28 and 29.

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

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

Year Ended 31 December 2017

	Note	In-Force £'Million	New Business £'Million	Total £'Million
Operational				
Net annual management fee	1	569.6	53.6	623.2
Reduction in fees in gestation period	1	(266.1)	-	(266.1)
Net income from funds under management	1	**303.5**	**53.6**	**357.1**
Margin arising from new business	2	-	129.4	129.4
Establishment expenses	3	(15.0)	(135.4)	(150.4)
Operational development expenses	3	-	(15.6)	(15.6)
Regulatory fees	3	(0.7)	(6.1)	(6.8)
FSCS levy	3	(1.7)	(15.4)	(17.1)
Shareholder interest	4	9.9	-	9.9
Tax relief from capital losses	5	12.1	-	12.1
Miscellaneous	6	(3.4)	-	(3.4)
Operating cash result		**304.7**	**10.5**	**315.2**
Investment				
Academy	7	-	(6.6)	(6.6)
Asia	7	-	(15.1)	(15.1)
DFM	7	-	(6.9)	(6.9)
Strategic development costs	7	-	(5.4)	(5.4)
Underlying cash result		**304.7**	**(23.5)**	**281.2**
Back-office infrastructure development	7			(21.7)
Variance	8			(6.9)
Cash result				**252.6**

Year Ended 31 December 2016

	Note	In-Force	New Business	Total
		£'Million	£'Million	£'Million
Operational				
Net annual management fee	1	468.5	40.4	508.9
Reduction in fees in gestation period	1	(165.6)	(24.3)	(189.9)
Net income from funds under management	1	**302.9**	**16.1**	**319.0**
Margin arising from new business	2	-	49.0	49.0
Establishment expenses	3	(12.9)	(115.7)	(128.6)
Operational development expenses	3	-	(13.9)	(13.9)
Regulatory fees	3	(0.4)	(3.4)	(3.8)
FSCS levy	3	(1.4)	(12.3)	(13.7)
Shareholder interest	4	9.8	-	9.8
Tax relief from capital losses	5	12.6	-	12.6
Miscellaneous	6	(4.4)	-	(4.4)
Operating cash result		**306.2**	**(80.2)**	**226.0**
Investment				
Academy	7	-	(5.8)	(5.8)
Asia	7	-	(12.2)	(12.2)
DFM	7	-	(3.2)	(3.2)
Strategic development costs	7	-	(5.3)	(5.3)
Underlying cash result		**306.2**	**(106.7)**	**199.5**
Back-office infrastructure development	7			(16.7)
Variance	8			(7.4)
Cash result				**175.4**

	Year Ended 31 December 2017	Year Ended 31 December 2016
	Pence	Pence
Underlying cash basic earnings per share	53.6	38.2
Underlying cash diluted earnings per share	52.7	37.9
Cash basic earnings per share	48.2	33.6
Cash diluted earnings per share	47.4	33.4

Notes

All numbers are expressed after tax at the prevailing tax rate for each year.

1. The net annual management fee is the manufacturing margin the Group retains from funds under management after payment of the associated costs (for example, investment advisory fees and Partner remuneration). Broadly speaking the Group receives an average net annual management fee of 0.77% (post tax) of funds under management (2016: 0.77% (post tax)).

   As noted on page 17 however, our investment and pension business product structure means that these products do not generate net cash result (after the initial margin) during the first six years, which we call the 'gestation period'. This effect is reflected through the reduction in fees in gestation period line. This deduction represents the offsetting of management fee income through the gestation period.

   The reduction in fees line has been impacted in 2017 by the reassessment of investment contract liabilities that took place at the end of 2016. The reassessment had the impact of bringing forward £267.0 million of cash emergence that would otherwise have emerged in the following six years within net income from funds under management.

2. Margin arising from new business: This is the cash impact of new business in the year, reflecting growth in new business, production related expenses and mix of new business.

   As noted previously, the reassessment of the investment contract liability at 31 December 2016 resulted in an increase in the level of initial margin on investment and pension business. This was the main driver for the increase between the two periods.

3. Expenses: These reflect the expenses of running the Group and more detail is provided in the table on page 20. In line with the rest of the table they are presented after allowance for tax.

4. Shareholder interest: This is the income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the Group.

5. Tax relief from capital losses: In recent years, a deferred tax asset has been established for historic capital losses which are now regarded as being capable of utilisation over the medium-term. Utilisation during the year of £12.1 million tax value (2016: £12.6 million) was slightly ahead of our expected rate of c. £10-12 million benefit in a year.

6. Miscellaneous: This represents the cash flow of the business not covered in any of the other categories, including ongoing administration expenses and associated policy charges, together with utilisation of the deferred tax asset in respect of prior years' unrelieved expenses (due to structural timing differences in the life company tax computation).

7. Strategic investments, including back-office infrastructure: These reflect significant investments in developing our business for the future. Further analysis of the expenses associated with these initiatives is presented in section 2 on page 20 but all are expected to result in either additional funds (Academy, Asia and DFM) or expense savings (Back-office infrastructure) in the future. Advice margin and fees generated in Asia, and all fees generated by DFM, are reflected in the relevant line.

8. Variance: This principally reflects the impact of double matching for the Charitable Foundation during the year and other 25th anniversary costs. Costs arising from reviewing charges on legacy business were funded by one-off investment profits arising in the year. The prior year also reflected costs associated with reviewing charges in legacy business cohorts (2016: £6.6 million).

Liquidity

Included in the Solvency II net assets balance sheet are holdings in Fixed Interest Securities, Collective Investment Schemes and other cash and cash equivalents. It is our policy to always hold such assets in high credit quality liquid assets. An analysis of liquid asset holdings as at 31 December 2017 is provided below:

	31 December 2017	31 December 2016
	£' Million	£' Million
Fixed interest securities: government bonds	46.1	47.7
Collective investment schemes: money market funds	1,416.8	867.4
Cash and cash equivalents	274.7	345.9
Total liquid asset holdings	**1,737.6**	**1,261.0**

The Group's holdings in money market funds and cash and cash equivalent are spread across a number of different AAA rated unitised money market funds and approved banking counterparties. Diversification ensures that the Group's appetite for credit and liquidity risk are appropriately managed.

In the normal course of business, the Group is expected to generate regular, positive cash flow from annual management income exceeding expenses. As noted previously, future growth in cash flow is driven by new business, but in the short-term growth will reflect the transition as new business from six years ago becomes cash generative.

The key calls on liquidity are payments of Group dividends and investment to support the business. As noted previously, our expected dividend policy is based on a pay-out ratio to Underlying cash of 80%. We believe this will enable us to continue to invest in the business to support our growth aspirations.

Solvency

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

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

In the year ended 31 December 2016, we re-assessed our approach to investment contract liabilities, and the revised approach of recording them at their encashment value resulted in a reduction in the liability of £267.0 million in the life companies. Although this exercise was completed at 31 December 2016, the need for further work on the MSB proxy in the second year of Solvency II was flagged and a decision was made to re-allocate the £267.0 million to the MSB, temporarily, in order that we would continue to hold unchanged total capital while the review was ongoing. However, at that point we explained that an asset–liability matching exercise would likely result in a reduction in our corporate exposure to market risk, and would therefore likely result in a reduction in risk capital requirement.

During the second half of 2017 we have competed our review of the MSB. The review was able to take into account stress and scenario testing completed as part of our 2017 ORSA process, together with our plans to continue investing in the business. It has also taken account of a forward Capital Management approach within our largest insurance company, the UK Life company, that will require capital to be equal to 110% of the Solvency II standard formula requirement. Given the risk profile of the business we consider this to be a prudent and sustainable policy.

Under normal circumstances we would expect the MSB to grow with the business, but as a result of this review we are able to reduce the MSB for the Life businesses this year from £437.0 million at 31 December 2016 to £355.0 million at 31 December 2017. As previously noted, we plan to manage capital in the Life businesses in order to meet the MSB, and therefore at this valuation we will be releasing the excess assets (including the reduction in MSB) and reducing capital to be in line with the MSB.

The following table demonstrates the movement in the MSB for the Life business over the year:

	2017	2016
	£'Million	£'Million
Life MSB at 1 January	437.0	150.0
(Reduction) / other increase in Life MSB	(82.0)	20.0
Increase in Life MSB due to investment contract liability reassessment	-	267.0
Life MSB at 31 December	**355.0**	**437.0**

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

31 December 2017	**Life**[1]	**Other Regulated**	**Other**[2]	**Total**	2016 Total
	£'Million	**£'Million**	**£'Million**	**£'Million**	£'Million
Solvency II net assets	360.1	154.4	580.6	1,095.1	1,070.0
Management Solvency Buffer (MSB)	355.0	106.9		461.9	527.0
Management solvency ratio	101%	144%			

(1) After payment of year end intragroup dividend.
(2) Before payment of the Group final dividend.

Solvency II net assets reflect the assets of the Group in excess of those matching the client's (unit-linked) liabilities. It includes a £144.1 million (2016: £157.7 million) deferred tax asset which is not immediately fungible, although we expect it will be utilised over the next ten years. The actual rate of utilisation will depend on business growth and external factors, particularly investment market conditions.

Solvency II Balance Sheet

Whilst we focus on Solvency II net assets and the MSB to manage solvency, we provide additional information about the Solvency II free asset position for information. The presentation starts from the same Solvency II net assets, but includes recognition of an asset in respect of the expected Value of In-Force cash flows (VIF) and a Risk Margin (RM) reflecting the potential cost to secure the transfer of the business to a third party. The Solvency II net assets, VIF and RM comprise the 'Own Funds', which is assessed against a Solvency Capital Requirement (SCR), reflecting the capital required to protect against a range of "1 in 200" stresses. The SCR is calculated on the Standard Formula approach. No allowance has been made for Transitional Provisions in the calculation of Technical Provisions or SCR.

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

31 December 2017	Life[(1)]	Other Regulated	Other[(2)]	Total	2016 Total
	£'Million	**£'Million**	**£'Million**	**£'Million**	£'Million
Solvency II net assets	360.1	154.4	580.6	1,095.1	1,070.0
Value of in-force (VIF)	3,244.3	-	-	3,244.3	2,707.9
Risk Margin	(946.1)	-	-	(946.1)	(779.2)
Own Funds (A)	**2,658.3**	**154.4**	**580.6**	**3,393.3**	**2,998.7**
Solvency capital requirement (B)	(2,385.9)	(63.3)	-	(2,449.2)	(2,046.5)
Solvency II free assets	**272.4**	**91.1**	**580.6**	**944.1**	**952.2**
Solvency ratio (A/B)	**111%**	**244%**		**139%**	**147%**

(1) After payment of year end intragroup dividend.
(2) Before payment of the Group final dividend.

The solvency ratio after payment of the proposed Group final dividend is 133% at the year end (2016: 141%).

Solvency II Sensitivities

The table below shows the estimated impact on the Solvency II Free Assets, the Solvency Capital Requirement and the Solvency Ratio from changes in various assumptions underlying the Solvency II calculations. In each case, only the indicated item is varied relative to the restated values.

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

	Note	Solvency II Free Assets £'Million	Solvency II Capital Requirement £'Million	Solvency Ratio %
Value at 31 December 2017		944.1	2,449.2	139%
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	871.1	2,449.0	136%
10% increase in withdrawal rates	2	978.7	2,297.8	143%
10% reduction in market value of equity assets	3	892.2	2,197.3	141%
10% increase in expenses	4	903.5	2,447.6	137%
100bp reduction in assumed inflation	5	985.5	2,447.6	140%

Note 1: This is the key economic basis change sensitivity. The business model is relatively insensitive to change in economic basis. Note that the sensitivity assumes a corresponding change in all investment returns but no change in inflation.
Note 2: The 10% increase is applied to the lapse rate. For instance, if the lapse rate is 8% then a 10% sensitivity increase would reflect a change to 8.8%.
Note 3: For the purposes of this sensitivity all unit linked funds are assumed to be invested in equities. The actual mix of assets varies and in recent years the proportion invested directly in UK and overseas equities has exceeded 70%.
Note 4: For the purposes of this all expenses are increased by 10%.
Note 5: This reflects a 100bp reduction in the assumed RPI underlying the expense inflation calculation.

SECTION 5: EUROPEAN EMBEDDED VALUE (EEV)

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

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

Many of the principles and practices underlying EEV are similar to the requirements of Solvency II. In 2017, we have made a number of small changes to our EEV methods and assumptions to align them as closely as possible. For example, the value of the deferred tax assets arising from unrelieved expenses and historic capital losses has been set equal to the asset recognised on the IFRS consolidated statement of financial position at 31 December 2017, where previously the EEV estimate had been based on a discounted cashflow approach. These changes are reflected in the Economic assumption changes line.

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

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Life business	647.2	501.4
Unit Trust and DFM business	397.2	266.8
Funds management business	1,044.4	768.2
Distribution business	(31.9)	(25.9)
Back-office infrastructure development	(26.8)	(20.9)
Other	(67.2)	(47.8)
EEV operating profit	**918.5**	**673.6**
Investment return variance	340.8	537.2
Economic assumption changes	29.8	(12.4)
EEV profit before tax	**1,289.1**	**1,198.4**
Tax	(229.2)	(212.9)
Corporation tax rate change	-	28.6
EEV profit after tax	**1,059.9**	**1,014.1**

	Year Ended 31 December 2017	Year Ended 31 December 2016
	Pence	Pence
EEV operating profit after tax basic earnings per share	143.9	105.9
EEV operating profit after tax diluted earnings per share	141.5	105.2

EEV Operating Profit

Funds Management Business

The funds management business operating profit has increased to £1,044.4 million (2016: £768.2 million) and a full analysis of the result is shown below:

	Year Ended 31 December 2017 £' Million	Year Ended 31 December 2016 £' Million
New business contribution	779.8	520.2
Profit from existing business		
- unwind of the discount rate	209.5	199.6
- experience variance	3.8	1.4
- operating assumption change	44.0	18.6
Addition of Rowan Dartington	-	21.0
Investment income	7.3	7.4
Fund management business EEV operating profit	**1,044.4**	**768.2**

The **new business contribution** for the year at £779.8 million (2016: £520.2 million) was some 50% higher than the prior year, reflecting both the increase in new business and operational economies of scale achieved as fixed expenses are spread across more new business. The new business contribution has also benefitted from the assumption changes noted below, particularly from the persistency changes, and from the additional value associated with Retirement Account business compared to Retirement Plan business. Further detail on the new business margin is provided on page 41.

The **unwind of the discount rate** for the year increased slightly to £209.5 million (2016: £199.6 million), reflecting the higher opening value of in-force business but offset by a lower discount rate of 4.5% (2016: 5.2%).

The **experience variance** during the year was small at £3.8 million (2016: £1.4 million), with positive retention experience offset by other negative variances.

The impact of **operating assumption changes** in the year was a positive £44.0 million (2016: £18.6 million) as a result of higher retention assumptions reflecting positive experience for on-shore bond, ISA and Unit Trust business, and operational economies of scale noted above.

The **investment income** for the year was little changed at £7.3 million (2016: £7.4 million).

Distribution business, Back-office infrastructure development and Other

The results for these items have already been commented on in the IFRS section on pages 24 and 25.

Investment Return Variance

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

The average investment return on our funds during the period was some 7% higher than the assumed investment return during the period, resulting in a positive investment return variance of £340.8 million (2016: £537.2 million).

Economic Assumption Changes

The positive variance of £29.8 million arising in the year (2016: £12.4 million negative) reflects the positive effect from the decrease in the long-term inflation rate which is offset by the expected impact from tax changes announced in the 2017 Budget. In addition, there is a positive impact from aligning the EEV valuation approach with the Solvency II valuation with respect to economic assumptions and the valuation of deferred tax assets.

EEV Profit before Tax

The total EEV profit before tax for the year was £1,289.1 million (2016: £1,198.4 million). The improvement is principally due to growth in the business between the two periods arising from both strong gross inflows and positive investment performance over the last twelve months.

Tax

The tax charge at £229.2 million (2016: £212.9 million) reflects the underlying result.

All future changes in corporation tax have been incorporated in the EEV calculation in previous reporting periods.

EEV Profit after Tax

The EEV profit after tax was £1,059.9 million (2016: £1,014.1 million) reflecting the movement in EEV profit before tax.

New Business Margin

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

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

	Year Ended 31 December 2017	Year Ended 31 December 2016
Life business		
Investment		
New business contribution (£'Million)	130.2	108.3
Gross inflows (£'Billion)	2.49	2.28
Margin (%)	5.2	4.8
Pension		
New business contribution (£'Million)	363.5	207.9
Gross inflows (£'Billion)	7.26	5.12
Margin (%)	5.0	4.1
Unit Trust and DFM business		
New business contribution (£'Million)	286.1	204.0
Gross inflows (£'Billion)	4.85	3.95
Margin (%)	5.9	5.2
Total business		
New business contribution (£'Million)	779.8	520.2
Gross inflows (£'Billion)	14.60	11.35
Margin (%)	5.3	4.6
Post tax margin (%)	4.4	3.8

The overall margin for the year was higher at 5.3% (2016: 4.6%) reflecting increases in margin across all categories of business. Two particular drivers were key to the increases:

- Firstly, changes in retention assumptions to reflect positive experience for both insurance bond business and unit trust/ISA business resulted in projection of additional future profits. Small improvements to pensions business also had a positive effect, as did recognition within the valuation of our new Retirement Account of the potential value of both the pre-retirement and post-retirement phases of this investment product.

- Secondly, the margin was positively impacted by economies of scale as higher levels of business combined with the new administration tariff. This new tariff better reflects the actual fixed and variable nature of the administration expenses than the previous tariff, and so, as the fixed proportion of the expenses are spread over a higher volume of business the value of the new business will grow.

Economic assumptions

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

	Year Ended 31 December 2017	Year Ended 31 December 2016
	%	%
Risk free rate	1.4	1.4
Inflation rate	3.2	3.4
Risk discount rate (net of tax)	4.5	4.5
Future investment returns:		
- Gilts	1.4	1.4
- Equities	4.4	4.4
- Unit-linked funds	3.7	3.7
Expense inflation	3.6	3.8

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

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

EEV Sensitivities

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

	Note	Change in new business contribution		Change in European Embedded Value
		Pre-tax	**Post-tax**	**Post-tax**
		£'Million	**£'Million**	**£'Million**
Value at 31 December 2017		779.8	642.0	5,647.7
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	(21.3)	(17.6)	(70.8)
10% reduction in withdrawal rates	2	62.4	51.4	325.4
10% reduction in market value of equity assets	3	-	-	(566.1)
10% reduction in expenses	4	14.9	12.4	53.6
100bp increase in assumed inflation	5	(23.7)	(19.6)	(88.1)

Note 1: This is the key economic basis change sensitivity. The business model is relatively insensitive to change in economic basis. Note that the sensitivity assumes a corresponding change in all investment returns but no change in inflation.
Note 2: The 10% reduction is applied to the lapse rate. For instance, if the lapse rate is 8% then a 10% sensitivity reduction would reflect a change to 7.2%.
Note 3: For the purposes of this sensitivity all unit linked funds are assumed to be invested in equities. The actual mix of assets varies and in recent years the proportion invested directly in UK and overseas equities has exceeded 70%.
Note 4: For the purposes of this sensitivity only non-fixed elements of the expenses are reduced by 10%.
Note 5: This reflects a 100bp increase in the assumed RPI underlying the expense inflation calculation.

	Change in new business contribution		Change in European Embedded Value
	Pre-tax	**Post-tax**	**Post-tax**
	£'Million	**£'Million**	**£'Million**
100bp reduction in risk discount rate	92.8	76.4	430.0

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

Analysis of the EEV result and Net Assets per Share

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

	31 December 2017	31 December 2016
	£' Million	£' Million
Value of in-force		
- Life	3,182.3	2,636.2
- Unit Trust and DFM	1,370.3	1,044.9
Solvency II net assets	1,095.1	1,070.0
Total embedded value	**5,647.7**	**4,751.1**

	31 December 2017	31 December 2016
	Pence	Pence
Net asset value per share	1,067.5	900.7

As noted above, the 2017 EEV result reflects the new terms and conditions of our Retirement Account product, which incorporates both pre-retirement and post-retirement phases of this investment in the same product. The impact of reflecting both phases is a higher new business margin which has helped drive the overall increase in margin for pension business from 4.1% to 5.0%.

Our experience is that much of our Retirement Plan business converts into Drawdown business at retirement. However, because of the way the legal terms of our existing Retirement Plan business are written, and in line with the EEV guidelines, we are required to defer recognition of the additional value from the Drawdown plan until it is crystallised. If instead we were to assess the future value of Retirement Plan business (beyond the immediate contract boundary) in a more holistic fashion, in line with Retirement Account, this would result in an increase of approximately £400 million in Life EV.

RISK AND RISK MANAGEMENT

Overview and Culture

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

We do not, and cannot, seek to eliminate risk entirely, rather we seek to understand our risks fully, and to apply appropriate risk management strategies such that all material risks are identified, and appropriately managed or mitigated. Risk management is a core aspect of decision-making and is embedded in our culture. Our framework is specifically designed to manage the risks that are important to our shareholders, clients, Advisers, regulators and employees, and to provide reasonable assurance against material financial misstatement or loss.

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

Risk Appetite

The Board chooses carefully the risks it accepts and those it seeks to limit or avoid. These choices are set out in detail in our Group Risk Appetite Statement, which is owned by the Board and reviewed at least annually. The Risk Appetite Statement is aligned with the outcomes-based approach of the Group's business and client objectives and the overarching Risk Management Framework. In particular, it articulates:

- Risks that are actively sought in pursuit of return;
- Risks that are consciously avoided;
- Risks that are reduced through transfer to other parties; and
- Risks that are minimised through controls.

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

Risk Management Framework

The Board, through the Risk Committee, takes an active role in overseeing the Risk Management Framework, for which it is responsible. This framework is the combined processes by which the Group identifies, assesses, measures, manages and monitors the risks that may impact on the successful delivery of business objectives. The Group's Own Risk and Solvency Assessment (ORSA) is a central part of this framework.

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

The Risk Committee is supported by the Executive Board, but also by the Group Risk Executive Committee and by Risk Management teams at Group and local levels, which take the lead in ensuring an appropriate framework is in place and that there is on-going development and co-ordination of risk management within the Group. The other executive sub-committees of the Executive Board also provide support for the management of risks in their areas of responsibility.

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

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

ADVISERS - *That we continue to grow and develop the Partnership, both numbers and skills*

PEOPLE - *That we treat all of our stakeholders well*

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

FINANCIALS AND SHAREHOLDERS - *That we deliver sustainable growth in reported profits on all measures*

Whilst clearly a simplification of the business model, this focuses attention on those things that are of greatest importance, and hence indicates where risk management activity should be focused. It also allows the identification of the individuals within the Group responsible for managing these risks.

Within these outcomes, indicators are used to monitor performance against risk appetite. Each indicator has an owner on the Executive Board who is accountable for managing the associated risks within agreed thresholds and providing regular reports to the Executive Board. This enables the Executive Board to maintain effective oversight of all outcomes, and to manage any conflicts of interest that arise between them.

To ensure a comprehensive risk universe, there is also a bottom up element to our framework. Each division of the Group is responsible for the identification, management and quarterly reporting of its own risks, and is supported in this by the Risk Management function. Each risk is assessed by considering its potential impact and the likelihood of its occurrence, with impact assessments being made against financial and non-financial metrics. Establishment of appropriate controls is a core part of the risk management process.

Recognising the importance of ongoing effective risk management, the Group maintains a comprehensive suite of governance policies to support the Risk Management Framework.

Own Risk and Solvency Assessment (ORSA)

Many of the activities of the Group are regulated and we have relationships with regulators in the UK, Ireland, Singapore and Hong Kong. Regulation arises both as a result of our role in the provision of financial advice and also as a manufacturer. However, at Group level we are classified as an Insurance Group, and are subject to the Solvency II insurance regulation. A key part of this regulation is the expectation that there should be a consistent approach to Risk Management across the Group, and that an ORSA should be undertaken annually (considering both the Group and the individual insurance entities).

The ORSA process is directed by the Boards of the EU insurance entities (Group, SJPUK and SJPI), and comprises a comprehensive risk assessment, providing understanding of the risks each of the business units face, how those risks are managed and how those risks might change, in the context of the strategic plan. It incorporates a quantitative analysis of the capital required to protect the sustainability of the company, and how it might develop over our planning period (five years). Similar risk based capital assessments are performed for the other regulated entities.

The activities included in these assessments range from stress and scenario testing, through loss event recording and analysis, to recovery and resolution planning. Stress testing is undertaken across a broad range of scenarios, including market shocks, mass lapse events, new business growth scenarios and particularly operational risk events. Above the regulatory solvency capital requirements, which allow for at least a 1 in 200 year risk event, we focus on reasonably foreseeable scenarios for the insights they can provide about how the business might react to stress conditions, as well as considering other, more extreme scenarios. Our results show strong levels of free assets being maintained even under extreme scenarios, which demonstrates the Group's resilience to adverse conditions. Analysis of more severe "reverse stress tests" investigating liquidity, which could be a key risk in stressed conditions, indicate that even in these circumstances the Group can reasonably expect to have sufficient liquid funds to be able to meet its liabilities over the planning period.

As a result of these activities we have considered the calculation and allocation of risk capital to all the major risks in the Group, and the insurance companies in particular, and the adequacy of the capital position. This process ensures our continued confidence that the regulated entities remain strongly capitalised.

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

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

In reaching this conclusion the Directors have taken into account a number of different strands of work, including:
- The Business Plan and associated strategy documents;
- An assessment of the economic, regulatory, competitive and risk environment which was carried out as part of the Board's strategy review process; and
- The Group's ORSA process, which is summarised in the section above.

As a result of this work the Board has concluded that the business model remains appropriate, with no concerns that would fundamentally threaten the business model or market. This is also supported by the resilience that the Group has demonstrated over recent years and in a variety of different external conditions.

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

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

The Group monitors performance against a range of predefined indicators, which will identify if experience over the planning period differs from risk appetite or expectations, allowing management action to be taken.

Internal Control
The internal control environment in St. James's Place is built upon a strong control culture which is underpinned by our Code of Ethics and organisational delegation of responsibility. The Board has adopted the 'three lines of defence' model for the internal control system, under which the 1st Line is Business Operations, the 2nd Line is Oversight Functions including Risk Management and Compliance, and the 3rd Line is Independent Assurance. The purpose of this internal control system is to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

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

Control Self-Assessment
Control Self Assessment (CSA) is a continuous activity, which has a formal summary on an annual basis, and forms a key part of our internal control system. This self assessment process requires business areas to review their controls regularly, and sign off on their efficacy, against a standard set of control statements. Collectively these control statements embody the elements required for an organisation to maintain a control framework across the five components of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities, as laid down in the internationally accepted COSO control standards.

This process is beneficial as it provides confidence that business areas can meet their objectives, clarity to support decision making, and agility in adapting to change and complexity. The annual summary of the control self assessment process contributes to the year end Internal Control Evaluation exercise undertaken by Internal Audit as part of the assurance provision to the Audit Committee.

Financial Reporting Processes

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

The following tables summarise the principal risks and uncertainties that are inherent within both the Group's business model and the market in which we operate. These are the risks which could have a material impact on the key strategic outcomes in the five areas set out on page 45. The Group Board and the Boards of the insurance entities have responsibility for assessing their main risks and these are monitored on a regular basis by the Risk Committee, the Executive Board, the SJPUK and SJPI Boards, the SJPI Risk and Compliance Committee, the SJPI Singapore Branch Executive Management Committee and the Senior Managers-in-Charge of SJPI (Hong Kong) Limited.

Against each of the principal risks, consideration is given to the level of exposure and the extent to which the risk can be mitigated. For example, the Group believes that the Accumulation of Reputational Issues risk set out below presents a significant exposure yet is difficult to mitigate beyond the processes currently in place across the business. Conversely, the Investor Relations risk described below presents a moderate exposure and can be mitigated through the ongoing development of the Investor Relations team.

There have been no significant changes in the principal risks for the Group in the past year. The EU Referendum in 2016, together with the General Election results of 2017, combine to form a backdrop of uncertainty for business in general, but the Group is well positioned to deal with the changes that this uncertainty may bring.

The principal risks and uncertainties, the business outcomes on which they impact, and the high-level controls and processes through which we aim to mitigate them, are set out in the following tables.

NON-FINANCIAL RISKS

Risk	Description	Outcome	Management and Controls
Systemic advice failure	Clients rely on their SJP Advisers for the provision of initial and ongoing advice. Failures in the quality of advice or documentation of advice could lead to redress costs, reputational damage and regulatory intervention.	**Clients**	There are many processes in place to mitigate this risk, including detailed advice guidance with appropriate governance around changes and updates, appropriate incentive structures, Adviser training and accreditation, compliance procedures, monitoring processes and quality checking. The Group guarantees the advice given by Advisers and also has appropriate professional indemnity insurance in place.
Outsourcing failure	The Group's business model involves the outsourcing of administration and custodial services to third parties. Poor service from, or failure of, one of these third parties could lead to disruption of services to clients, reputational damage and profit impacts.	**Clients, Financials and Shareholders**	We maintain close working relationships with our outsourcing partners, who are central to our business model. This enables us, in seeking to work effectively and efficiently together, to deliver the best result. Service level agreements are in place and performance is monitored against these. We also work closely with our outsourcing business partners to understand any material changes to their businesses which may impact us. In the extreme event, all our relationships are governed by formal agreements with notice periods. The business continuity arrangements of each outsourcer are also regularly tested and improved and scenario analysis is carried out.
Cyber Risk	Cyber risk, which could include loss of data, system control or system availability, continues to be one of the top risks facing individuals and organisations. A successful cyber attack could result in disruption or distress for clients, Advisers, and employees, as well as resulting in reputational damage and regulatory censure.	**Clients, Advisers, Financials and Shareholders**	The leading cause of information security incidents are individuals unknowingly or inadvertently enabling the attack, so awareness is the most effective defence. We maintain an active and on-going awareness programme on information security threats and how to prevent or respond to them for employees and Advisers. This is supported by system maintenance and vulnerability testing, as well as an incident reporting system to ensure rapid response if an incident does occur. We also ensure our outsourcing partners have robust information security programmes in place and use secure means for transmitting data to and from these organisations.
Investment performance fails to meet client expectations	Our approach to investment management may fail to deliver expected returns to clients of the Group or the range of products and services offered may become inappropriate for client needs.	**Clients**	We offer a broad range of funds, which allows client diversification and mitigates our new business, persistency and market risks. We actively manage and monitor the performance of our investment managers through the Investment Committee, which is supported by respected independent investment research consultancies. We

Risk	Description	Outcome	Management and Controls
			perform ongoing due diligence and appropriateness review on third party products at least annually.
Adviser proposition, recruitment and retention	Group products are distributed, and ongoing advice is provided, exclusively through the SJP Partnership. Inadequacies in the Adviser proposition, range of products, technology or services offered to the Partnership may result in inefficiencies and frustration, with consequent loss of Advisers and client impact, or inability to recruit sufficient, high quality new Advisers or field management.	**Advisers**	The Adviser proposition is an area of continual focus, with outputs from regular Adviser surveys and other Adviser feedback being reflected on an ongoing basis. We employ a number of specialist managers specifically to manage the recruitment and retention of high quality Advisers, and a dedicated senior management team oversees the SJP Academy, which broadens our recruitment streams. Formal retention strategies are in place to ensure that, wherever possible, we retain good quality and experienced Advisers. All recruitment and retention activity is closely monitored.
Regulatory, legislative and tax environment	The nature of the Group is such that it falls under the influence of regulators and legislators in multiple jurisdictions. Transformative regulatory, or indeed political changes, could impact adversely on our current business model. The Group could face a fine or regulatory censure from failure to comply with current and/or future regulations, with increased supervisory intrusion, disruption to business and potential for changes to the business model.	**Regulators**	Regulatory and legislative change is largely a risk which cannot be mitigated, although the Group seeks to engage with regulators and policy makers in an open and constructive manner, with the aim that key issues impacting the Group are taken into consideration in the drafting of changes. Our governance structures, management committees and compliance monitoring activities seek to ensure we remain compliant with regulation.
Competition and charge pressure	The competitive environment in which we operate continues to evolve with the need for dependable wealth management advice increasing whilst regulation and technology changing the nature and accessibility of available information. Competitor activity in the adviser based wealth management market may result in a reduction in new business volumes, reduced retention of existing business with the resulting impact to ongoing advice fees, pressure on margins for both new and existing business, and the potential loss of Advisers and key employees.	**Financials and shareholders**	This risk is mitigated through ensuring our business is run efficiently, being responsive to the needs of our clients and Advisers and seeking continual improvements to processes. Charges are benchmarked against competitors and competitor activity is monitored allowing action to be taken in a timely manner if required. The Group offers a diversified product range, including manufactured and third party products. We have a proven track record in Adviser and employee acquisition and retention. Our more established Advisers often have significant equity stakes in their practices and their ability to access these is structured to aid retention. Similarly, variable remuneration of key employees is structured to aid retention.

Risk	Description	Outcome	Management and Controls
Funding availability	Pressure on funding availability may limit the Group's ability to provide business loans to Partners and make strategic investments.	**Financials and shareholders**	A debt funding policy is in place, with committed funds available through the revolving credit facility. Credit approved bank lending facilities are available to support business loans to Partners. Further corporate borrowing requires approval at Board level.
Investor relations	Failure to communicate effectively with new and existing shareholders may lead to falls in the share price and reputational damage.	**Financials and shareholders**	This risk is mitigated through the work of the investor relations team, whose remit is to ensure the maintenance of positive relationships with shareholders.
Accumulation of reputational issues	The success of the Group is closely linked to the strength of the St. James's Place brand. An accumulation of reputational issues, for example, advice failures, fraud, service issues, low client investment returns, has the potential to damage the brand, leading to reduced retention and lower levels of new business.	**Financials and shareholders**	Mitigants for individual reputational events, such as systemic advice failure, cyber risk or outsourcing failure, are described above in the Management and Controls section for each risk. The Group seeks to achieve the best possible outcomes for its clients and the cultural driver of 'doing the right thing' runs through the whole organisation. However, it is recognised that isolated incidents will occur and, when this is the case, the Group seeks to rectify the issue and achieve positive outcomes for clients.
People and culture	People and the distinctive culture of the Group play an important part in its success. Poorly managed expansion, succession, culture and resourcing may lead to loss of valued individuals, increased risk of errors, and failure to deliver on the business plan.	**People**	This risk is mitigated through effective leadership, succession planning, the implementation of executive and management development initiatives and regular surveys and consultation groups. The latter enable us to monitor the sentiment of our staff and Advisers and identify any potential adverse impacts upon, or trends within, our culture, and respond appropriately.

FINANCIAL RISKS

Risk	Description	Outcome	Management and Controls
Market Risk – Loss of Annual Management Charge (AMC) income	A reduction in funds under management owing to market shocks, poor market performance or currency and exchange rate movements would reduce future AMC income, and hence future profits.	**Financials and shareholders**	The Group accepts the risk of reduced future profits as a result of market shocks, poor market performance, adverse movement in credit spreads or currency movements. This risk is mitigated to an extent by the diversified fund range.
Insurance risk	A reduction in funds under management owing to poor retention would reduce future AMC income. This may arise from factors such as changes in the economic climate, poor investment performance, competitor activity, or reputational damage to the Group.	**Financials and shareholders**	Retention risk is managed through the long-term relationships between Advisers and clients. In particular, Advisers keep clients informed during periods of market volatility, and lower risk funds and portfolios are available, with no charges for switching. The Investment Management Approach involves monitoring of fund manager performance, and changes are made where appropriate.

Risk	Description	Outcome	Management and Controls
	Adverse mortality or disability experience, in particular higher death claims following an incident or widespread illness, or longer-term increases in mortality rates, would reduce future profits.		Mortality and disability risk is substantially reduced through the use of reassurance with low retention. Mortality risk benefit on investment products are generally limited to 1% of invested assets. Most risk deductions are reviewable and an increase in reassurance rates would be passed on to clients through increases to charges and/or premiums within five years. Experience analysis is performed.
Expense risk	Increased expenses, in particular higher than expected administration costs, would reduce future profits.	**Financials and shareholders**	Expenses are controlled through contracts with third party administrators and expense controls at Group level, so that growth in average per policy expenses is broadly aligned to the rate of increase in the average weekly earnings index. Administration charges are reviewable. Clients meet investment management fees directly through the product, with changes, both positive and negative also passed on.
Interest rate and credit risks	Changes in interest rates or the failure of a counterparty may reduce the value of fixed interest assets held by the shareholder. Key counterparties include reassurers, banks, money market funds, issuers of fixed interest securities, Advisers to whom loans have been granted, and other debtors.	**Financials and shareholders**	Generally, shareholder funds are invested in high credit rating and highly liquid cash and cash equivalent investments, and only highly rated reinsurers are used. However, in support of the business, some shareholder funds (outside the insurance companies) are used to provide business loans to Partners. These are secured against income streams on a conservative multiple and with appropriate financial monitoring. A prepayment has been made to DST in anticipation of future benefits arising from the development of the new Bluedoor administration system. However, the contract with Bluedoor would enable the Group to continue to use the Bluedoor system in the event of failure of DST.
Liquidity risk	Liquidity issues may arise from client requests to switch or withdraw money from unit linked funds, and through events that may require immediate recourse to shareholder funds.	**Financials and shareholders**	Client funds are invested in deep and liquid markets and, where investments are less liquid, contractual terms are included, allowing the flexibility to defer withdrawals. Sizeable balances of liquid shareholder assets are maintained and the emergence of cash profits is monitored. Banks' propensity to lend in support of Partner business loans is also monitored.

CHAIR’S REPORT

2017 was a year of robust growth for St. James’s Place and of continued evolution. As already covered in both the CEO and CFO reports the business continued to expand, and delivered good results for its stakeholders: clients, Partners and advisers, shareholders, employees and the communities in which it operates.

We continue to benefit from our consistent strategic approach together with a series of long term external trends that have underpinned a supportive environment for UK wealth management businesses. These include the atomisation of savings, as corporate provision for pensions has shifted for many from the relative clarity of defined benefit pensions to a defined contribution environment. As a result more individuals have to bear investment risk and their own longevity risk. People are understandably concerned about provision for their care in later years, whilst at the same time, considering how best to provide for their children whose circumstances may, for the first time in generations, look less promising than for their parents. Intergenerational wealth transfer is likely to become an increasing focus of client interest, while the introduction of pensions freedoms into all this in 2016 has clearly improved flexibility and the potential options for that part of an individual’s savings which are in a pensions structure. The new freedoms have also increased complexity and risk if things go wrong so the demand for financial advice has increased significantly.

Taken as a whole, the overall impact of these external trends and financial markets have been relatively supportive in 2017.

Succession

At the beginning of 2017, we announced that David Bellamy would step down as CEO at the end of the year, handing over the baton to Andrew Croft, who joined St. James’s Place in 1993 and who had been CFO since 2004. We also announced that Craig Gentle, who joined in 2016, would take over from Andrew as CFO at the same time. On behalf of the Board, shareholders, clients and the whole SJP community I would like to thank David Bellamy for his very considerable contribution to the evolution and success of SJP over his 26 years of service, 20 years of Board membership and 11 years as CEO.

This was just one step in a phased succession plan, with work having been undertaken over the years to strengthen and broaden the senior executive team. This has seen the expansion of the Executive Board over recent years with the promotion of Iain Rayner and Jonathan McMahon as joint Chief Operating Officers, Peter Edwards as Establishment Director, and Ian Mackenzie, as Chief Technology Officer. Graham Coxell also joined the executive team following the acquisition of Rowan Dartington.

Succession will continue to be a key priority for the Board at both management and Board level, including Non-executive Directors and my own succession.

Diversity

An area of increasing importance for our business is the matter of diversity. On some measures, such as the Partnership gender balance, we are better than industry averages but that is perhaps not saying enough. We are working hard on this. The Academy intake gender balance is improving, with women representing 23% of the 2017 intake, while our apprentice programme intake is around 50% female, and our graduate intake is similar.

Two years ago, on behalf of the Nominations Committee, Ian Gascoigne was appointed to chair a steering group looking at our approach to gender diversity. Over the last year we have put in place an Inclusive Leadership Programme for the director level population and a personal and professional development programme for 40 senior women.

As a consequence of this thought and consideration, I am pleased to say that the Executive Board has now clarified our approach to flexible working, that recruitment practices will be amended with targets for women on shortlists and the Board will monitor gender related KPIs. These, and a number of other related initiatives, will be included in the Business Plan and will be part of the Executives' strategic bonus targets. These measures match up with the Women in Finance Charter which we will be applying to join.

Diversity is of course not only about gender. It is imperative that we attract and retain the best people for our business, and do not unwittingly exclude any group or individual for reasons which have nothing to do with capability and commitment.

Our wider corporate responsibilities

We take our wider corporate responsibilities seriously. Our world is complicated and the interests and expectations of our stakeholders are considerable. The approach SJP takes to its social responsibilities will be set out in some detail in our annual report and accounts, and is a very important part of the everyday life of the business. Last year, the Board also agreed we would double match monies raised by the SJP community for the Charitable Foundation, which ultimately resulted in a contribution of £11.0 million.

We have also been working for some years to achieve consistency between our shareholders' expectations of us and those we have of the companies in which our clients' money is invested. Our Responsible Shareholder Committee has oversight of this and we have recently become signatories to the United Nations Principles for Responsible Investment. In addition, we have taken steps to increase our understanding and oversight of how our fund managers and consultants adopt Environmental, Social and Governance criteria into their investment processes. This will continue to be an area of focus for our business

Concluding remarks

In what was a landmark 25th anniversary year for St. James's Place, we once again delivered well for stakeholders and on behalf of the Board I would like to say thank you to the whole SJP community.

We look to the future with optimism, confident in our prospects as a leading wealth management business.

Sarah Bates
Chair
27 February 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year Ended 31 December 2017 £' Million	Year Ended 31 December 2016 £' Million
Insurance premium income		49.9	52.2
Less premiums ceded to reinsurers		(29.6)	(31.5)
Net insurance premium income		**20.3**	**20.7**
Fee and commission income	5	1,779.8	1,703.9
Investment return	6	7,282.5	9,630.1
Net income		**9,082.6**	**11,354.7**
Policy claims and benefits			
- Gross amount		(61.1)	(62.7)
- Reinsurers' share		23.3	21.7
Net policyholder claims and benefits incurred		**(37.8)**	**(41.0)**
Change in insurance contract liabilities			
- Gross amount		(26.5)	(64.6)
- Reinsurers' share		2.3	4.1
Net change in insurance contract liabilities		**(24.2)**	**(60.5)**
Movement in investment contract benefits	6	**(7,210.9)**	**(9,541.8)**
Expenses		**(1,467.6)**	**(1,225.1)**
Profit before tax	4	**342.1**	**486.3**
Tax attributable to policyholders' returns	7	(156.0)	(345.7)
Profit before tax attributable to shareholders' returns		**186.1**	**140.6**
Total tax expense	7	(196.3)	(374.6)
Less: tax attributable to policyholders' returns	7	156.0	345.7
Tax attributable to shareholders' returns	7	(40.3)	(28.9)
Profit and total comprehensive income for the year		**145.8**	**111.7**
Loss attributable to non-controlling interests		(0.1)	(0.5)
Profit attributable to equity shareholders		145.9	112.2
Profit and total comprehensive income for the year		**145.8**	**111.7**
		Pence	Pence
Basic earnings per share	14	27.8	21.5
Diluted earnings per share	14	27.4	21.3

The results relate to continuing operations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable owners of the parent							
		Share Capital	Share Premium	Shares in Trust Reserve	Retained Earnings	Misc Reserves	Total	Non-controlling Interests	Total Equity
		£'M	£' M	£' M	£' M	£'M	£' M	£' M	£' M
At 1 January 2016		78.7	158.3	(18.5)	874.6	2.3	1,095.4	(0.3)	1,095.1
Profit/(loss) and total comprehensive income/(expense) for the year					112.2		112.2	(0.5)	111.7
Dividends	14				(155.2)		(155.2)		(155.2)
Issue of share capital	14		0.9				0.9		0.9
Exercise of options	14	0.4	5.3				5.7		5.7
Consideration paid for own shares				(5.5)			(5.5)		(5.5)
Shares sold during the year				3.1	(3.1)		-		-
Misc reserves on acquisition						0.2	0.2		0.2
Retained earnings credit in respect of share option charges					22.7		22.7		22.7
At 31 December 2016		79.1	164.5	(20.9)	851.2	2.5	1,076.4	(0.8)	1,075.6
Profit/(loss) and total comprehensive income/(expense) for the year					145.9		145.9	(0.1)	145.8
Dividends	14				(190.0)		(190.0)		(190.0)
Issue of share capital	14	0.1	4.1				4.2		4.2
Exercise of options	14	0.2	3.1				3.3		3.3
Consideration paid for own shares				(11.3)			(11.3)		(11.3)
Shares sold during the year				5.5	(5.5)		-		-
Retained earnings credit in respect of share option charges					30.5		30.5		30.5
At 31 December 2017		79.4	171.7	(26.7)	832.1	2.5	1,059.0	(0.9)	1,058.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2017	As at 31 December 2016
		£' Million	£' Million
Assets			
Goodwill	8	15.6	13.8
Deferred acquisition costs	8	623.0	684.8
Intangible assets			
- Purchased value of in-force business	8	27.2	30.4
- Computer software	8	2.4	3.0
Property and equipment		26.4	23.1
Deferred tax assets	7	182.7	199.9
Reinsurance assets		82.8	80.5
Other receivables	10	1,620.0	1,473.0
Investments			
- Investment property	9	1,630.9	1,462.4
- Equities	9	55,086.9	46,598.7
- Fixed income securities	9	17,180.7	12,955.7[(1)]
- Investment in Collective Investment Schemes	9	5,903.4	3,864.8
- Derivative financial instruments	9	343.4	218.9[(1)]
Cash and cash equivalents	9	7,280.6	7,413.1
Total assets		**90,006.0**	**75,022.1**
Liabilities			
Borrowings	12	279.9	281.4
Deferred tax liabilities	7	546.8	614.8
Insurance contract liabilities		544.6	518.2
Deferred income	8	646.3	647.6
Other provisions		20.0	17.1
Other payables	11	1,231.2	1,173.6
Investment contracts benefits	9	64,014.3	53,307.1
Derivative financial instruments	9	190.3	281.9
Net asset value attributable to unit holders	9	21,349.1	17,032.0
Income tax liabilities	7	125.3	72.7
Preference shares		0.1	0.1
Total liabilities		**88,947.9**	**73,946.5**
Net assets		**1,058.1**	**1,075.6**
Shareholders' equity			
Share capital	14	79.4	79.1
Share premium		171.7	164.5
Shares in trust reserve		(26.7)	(20.9)
Miscellaneous reserves		2.5	2.5
Retained earnings		832.1	851.2
Equity attributable to owners of the parent		**1,059.0**	**1,076.4**
Non-controlling interests		(0.9)	(0.8)
Total equity		**1,058.1**	**1,075.6**
		Pence	Pence
Net assets per share		200.0	203.9

(1) Fixed income securities and derivative financial assets have been represented in the comparative to reclassify collateralised mortgage obligations. See Note 9 Investments, Investment Property and Cash for further information.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year Ended 31 December 2017	Year Ended 31 December 2016
		£' Million	£' Million
Cash flows from operating activities			
Profit before tax for the year		342.1	486.3
Adjustments for:			
Amortisation of purchased value of in-force business	8	3.2	3.2
Amortisation of computer software	8	0.9	3.4
Depreciation		5.2	4.4
Share-based payment charge		32.7	23.9
Interest income		(23.7)	(26.6)
Interest expense		4.9	4.9
Increase in provisions		2.9	1.7
Exchange rate losses/(gains)		1.1	(3.3)
Changes in operating assets and liabilities			
Decrease in deferred acquisition costs	8	61.8	60.2
Increase in investment property		(168.5)	(117.5)
Increase in other investments		(14,876.2)	(13,109.6)
(Increase)/decrease in reinsurance assets		(2.3)	4.5
Increase in other receivables		(146.0)	(464.4)
Increase in insurance contract liabilities		26.4	54.6
Increase in financial liabilities (excluding borrowings)		10,615.8	10,207.8
(Decrease)/increase in deferred income	8	(1.3)	234.1
Increase in other payables		48.8	407.8
Increase in net assets attributable to unit holders		4,317.1	4,475.6
Cash generated from operating activities		**244.9**	**2,251.0**
Interest received		23.7	26.6
Interest paid		(4.9)	(4.9)
Income taxes paid		(181.3)	(87.7)
Net cash generated from operating activities		**82.4**	**2,185.0**
Cash flows from investing activities			
Acquisition of property and equipment		(8.6)	(19.6)
Acquisition of intangible assets	8	(0.3)	(2.1)
Acquisition of subsidiaries and other business combinations, net of cash acquired		(5.0)	(23.1)
Net cash used in investing activities		**(13.9)**	**(44.8)**
Cash flows from financing activities			
Proceeds from the issue of share capital		3.3	5.7
Consideration paid for own shares		(11.3)	(5.5)
Additional borrowings	12	100.0	100.0
Repayment of borrowings	12	(101.0)	(0.9)
Dividends paid	14	(190.0)	(155.2)
Net cash used in financing activities		**(199.0)**	**(55.9)**
Net (decrease)/increase in cash and cash equivalents		**(130.5)**	**2,084.3**
Cash and cash equivalents at 1 January	9	**7,413.1**	**5,325.1**
Exchange (losses)/gains on cash and cash equivalents		(2.0)	3.7
Cash and cash equivalents at 31 December	**9**	**7,280.6**	**7,413.1**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. ACCOUNTING POLICIES

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

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

Within the financial statements, a number alternative performance measures (APMs) are disclosed. An APM is a measure of financial performance, financial position or cash flows which is not defined by the relevant financial reporting framework, which for the Group is International Financial Reporting Standards (IFRS) as adopted by the European Union. APMs are used to provide greater insight to the performance of the Group and the way it is managed by the Directors. Information on Alternative Performance Measures is provided in the Financial Review on pages 12 to 14 which defines each APM, explains why it is used and, where applicable, how the measure can be reconciled to the IFRS financial statements.

2. OTHER ACCOUNTING POLICIES

The other accounting policies used by the Group in preparing the results are consistent with those applied in preparing the statutory accounts for the year ended 31 December 2016.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

Subsidiaries
Subsidiaries are those entities which the Group controls. Control exists if the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity (including unit trusts in which the Group holds more than 30% of the units).

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

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

- Determining the value of insurance contract liabilities;
- Determining the fair value of investment contract benefits;
- Determining the fair value of investment property; and
- Determining the value of deferred tax assets.

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

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

- The lapse assumption, which is set prudently based on an investigation of experience during the year;
- The level of expenses, which is based on actual expenses in 2016 and expected rates in 2017 and the long-term;
- The mortality and morbidity rates, which are based on the results of an investigation of experience during the year; and
- The assumed rate of investment return, which is based on current gilt yields.

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

Determining the fair value of investment contract benefits
In accordance with IFRS 13, the Group categorises unit-linked insurance contracts as financial liabilities, carried on the statement of financial position at fair value. The fair value of unit linked liabilities is assessed 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 reporting date. As the underlying net asset value is determined using inputs other than quoted prices but which are observable, either directly (that is, as prices) or indirectly (that is, derived from prices), the liability is categorised as a level 2 financial instrument.

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

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

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

4. SEGMENT REPORTING

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

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

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

Segment Revenue

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

Segment Profit

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

Underlying cash result

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

More detail is provided on pages 23 and 30 of the Financial Review.

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

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Underlying cash result after tax	**281.2**	**199.5**
Non-cash settled share based payments	(30.5)	(23.9)
Deferred tax impacts	(15.0)	(21.1)
Back-office infrastructure	(21.7)	(16.7)
Impact in the year of DAC/DIR/PVIF	(48.1)	(16.8)
Other	(20.1)	(9.3)
IFRS profit after tax	145.8	111.7
Shareholder tax	40.3	28.9
Profit before tax attributable to shareholders' returns	186.1	140.6
Tax attributable to policyholder returns	156.0	345.7
IFRS profit before tax	**342.1**	**486.3**

EEV operating profit

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

	Year Ended 31 December 2017 £'Million	Year Ended 31 December 2016 £'Million
EEV operating profit before tax	**918.5**	**673.6**
Investment return variance	340.8	537.2
Economic assumption changes	29.8	(12.4)
EEV profit before tax	**1,289.1**	**1,198.4**
Adjustments to IFRS basis		
Deduct: amortisation of purchased value of in-force	(3.2)	(3.2)
Movement in balance sheet life value of in-force (net of tax)	(586.2)	(642.7)
Movement in balance sheet unit trust and DFM value of in-force (net of tax)	(325.4)	(257.6)
Tax of movement in value of in-force	(188.2)	(154.3)
Profit before tax attributable to shareholders' returns	186.1	140.6
Tax attributable to policyholder returns	156.0	345.7
IFRS profit before tax	**342.1**	**486.3**

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

Segment Assets

Funds under management ("FUM")

FUM, as reported in Section 1 of the Financial Review on page 15 is the measure of Segment Assets which is monitored on a monthly basis by the Board.

	31 December 2017	31 December 2016
	£' Million	£' Million
Investment	28,310.0	25,880.0[(1)]
Pension	36,150.0	28,250.0[(1)]
UT/ISA and DFM	26,290.0	21,180.0
Total FUM	**90,750.0**	**75,310.0**
Exclude client and third party holdings in non-consolidated unit trusts and DFM	(4,882.5)	(4,153.9)
Other	296.7	283.7
Gross assets held to cover unit liabilities	**86,164.2**	**71,439.8**
IFRS intangible assets (see page 28 adjustment 2) including goodwill, DAC, PVIF, reinsurance and deferred Tax	811.3	917.7
Shareholder gross assets (see page 28)	3,030.5	2,664.6
Total assets	**90,006.0**	**75,022.1**

(1) Closing funds under management for Investment and Pension business at 31 December 2016 include equal and opposite adjustments of £380.0 million related to the reclassification of investment returns arising in the fourth quarter of 2016.

5. FEE AND COMMISSION INCOME

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Advice charges (post-RDR)	656.5	510.7
Third party fee and commission income	114.3	103.5
Wealth management fees	638.3	590.7
Investment management fees	62.4	52.6
Fund tax deductions	156.2	352.2
Discretionary fund management fees	9.4	5.3
Fee and commission income before DIR amortisation	**1,637.1**	**1,615.0**
Amortisation of DIR	142.7	88.9
Total fee and commission income	**1,779.8**	**1,703.9**

6. INVESTMENT RETURN AND MOVEMENT IN INVESTMENT CONTRACT BENEFITS

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

Investment return

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Investment return on net assets held to cover unit liabilities:		
Rental income	82.3	72.4
Gain/(loss) on revaluation of investment properties	79.2	(23.4)
Net investment return on financial instruments classified as fair value through profit and loss	5,545.1	7,456.8
	5,706.6	7,505.8
Attributable to unit linked insurance contract liabilities	*43.5*	*58.5*
Attributable to unit linked investment contract benefits	*5,663.1*	*7,447.3*
	5,706.6	*7,505.8*
Income attributable to third party holdings in unit trusts	1,547.8	2,094.5
	7,254.4	**9,600.3**
Investment return on shareholder assets:		
Net investment return on financial instruments classified as fair value through profit and loss	21.3	29.0[1]
Net investment return on financial instruments classified as available for sale	(1.8)	(6.1)[1]
Interest income on financial instruments held at amortised cost	8.6	6.9
	28.1	**29.8**
Total investment return	**7,282.5**	**9,630.1**

(1) The net investment return on renewal income assets has been represented in the 2016 comparative to show the £6.1 million net loss separately in the net investment return on financial instruments classified as available for sale line.

Included in the net investment return on financial instruments classified as fair value through profit and loss within investment return on net assets held to cover unit liabilities is dividend income of £825.6 million (2016: £756.2 million).

Movement in investment contract benefits

	31 December 2017	31 December 2016
	£' Million	£' Million
Balance at 1 January	53,307.1	43,159.8
Deposits	9,711.4	7,346.5
Withdrawals	(3,924.5)	(3,536.0)
Movement in unit-linked investment contract benefits	5,663.1	7,447.3
Less: fees and other adjustments for reassessment of unit liability	(742.8)	(1,110.5)
Balance at 31 December	**64,014.3**	**53,307.1**
Current	3,840.9	3,305.0
Non-current	60,173.4	50,002.1
	64,014.3	53,307.1
Movement in unit liabilities		
Unit-linked investment contract benefits	5,663.1	7,447.3
Third party unit trust holdings	1,547.8	2,094.5
Movement in investment contract benefits in consolidated statement of comprehensive income	**7,210.9**	**9,541.8**

7. INCOME AND DEFERRED TAXES

Tax for the year

	Year Ended 31 December 2017	Year Ended 31 December 2016
Current tax	£' Million	£' Million
UK corporation tax		
- Current year charge	245.7	171.8
- Adjustment in respect of prior year	(3.1)	(0.6)
Overseas taxes		
- Current year charge	6.8	4.2
- Adjustment in respect of prior year	0.1	(0.1)
	249.5	175.3
Deferred tax		
Unrealised capital (losses)/gains in unit linked funds	(55.6)	196.3
Unrelieved expenses		
- Additional expenses recognised in the year	(12.7)	(12.5)
- Utilisation in the year	17.2	18.7
Capital losses		
- Additional losses recognised in the year	-	(2.2)
- Utilisation in the year	12.1	12.6
- Adjustment in respect of prior year	0.9	0.1
DAC, DIR and PVIF	(12.7)	(11.6)
Other items	(3.5)	(4.4)
Change in tax rate	-	1.3
Overseas taxes on losses	(0.1)	0.3
Adjustments in respect of prior periods	1.2	0.7
	(53.2)	199.3
Total tax charge for the year	**196.3**	**374.6**
Attributable to:		
- policyholders	156.0	345.7
- shareholders	40.3	28.9
	196.3	**374.6**

The prior year adjustments in current tax above represents a credit of £3.8 million in respect of policyholder tax (2016: £1.4 million credit) and a charge of £0.8 million in respect of shareholder tax (2016: £0.7 million charge).

Included within the deferred tax on "other items" is a charge of £2.0 million (2016: £0.2 million charge) relating to share-based payments.

In arriving at the profit before tax attributable to shareholders' return, it is necessary to estimate the analysis of the total tax charge between that payable in respect of policyholders and that payable by shareholders. Shareholder tax is estimated by making an assessment of the effective rate of tax that is applicable to the shareholders on the profits attributable to shareholders. This is calculated by applying the appropriate effective corporate tax rates to the shareholder profits. The remainder of the tax charge represents tax on policyholders' investment returns. This calculation method is consistent with the legislation relating to the calculation of tax on shareholder profits.

Tax paid in the year

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Current tax charge for the year	249.5	175.3
Payments to be made in future years in respect of current year	(125.3)	(72.6)
Payments made in current year in respect of prior years	71.3	30.6
Other	1.1	0.1
Tax paid	**196.6**	**133.4**
Tax paid can be analysed as:		
- Taxes paid in UK	188.9	129.0
- Taxes paid in overseas jurisdictions	2.7	1.9
- Withholding taxes suffered on investment income received	5.0	2.5
Tax paid	**196.6**	**133.4**

Movement in net deferred tax balance

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Deferred tax asset	199.9	225.9
Deferred tax liability	(614.8)	(434.6)
Net deferred tax balance at 1 January	(414.9)	(208.7)
Credit/(charge) through the consolidated statement of comprehensive income	53.2	(199.3)
Arising on acquisitions during the year	(2.4)	(6.9)
Deferred tax asset	182.7	199.9
Deferred tax liability	(546.8)	(614.8)
Balance at 31 December	**(364.1)**	**(414.9)**

Reconciliation of tax charge to expected tax

	Year Ended 31 December 2017 £' Million		Year Ended 31 December 2016 £' Million	
Profit before tax	342.1		486.3	
Tax attributable to policyholders' returns [1]	(156.0)		(345.7)	
Profit before tax attributable to shareholders' return	**186.1**		**140.6**	
Shareholder tax charge at corporate tax rate of 19.25% (2016: 20%)	35.8	19.3%	28.1	20%
Adjustments:				
Tax regime differences				
Lower rates of corporation tax in overseas subsidiaries	(0.3)	(0.2%)	(0.9)	(0.6%)
Expected shareholder tax	**35.5**	**19.1%**	**27.2**	**19.3%**
Other				
Non-taxable income	(1.2)		(1.0)	
Recognition and usage of capital losses arising in the Group	-		(2.2)	
Adjustment in respect of prior year				
- Current tax	0.8		0.7	
- Deferred tax	0.8		(0.8)	
Differences in accounting and tax bases in relation to employee share schemes	(0.7)		0.7	
Disallowable expenses	2.0		1.2	
Tax losses not recognised or past losses now recognised	3.1		2.0	
Other	-		(0.2)	
	4.8	**2.6%**	**0.4**	0.3%
Change in tax rate	-		1.3	
Shareholder tax charge	**40.3**	**21.7%**	**28.9**	20.6%
Policyholder tax charge	**156.0**		**345.7**	
Total tax charge for the year	**196.3**		**374.6**	

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

Tax calculated on profit before tax at 19.25% (2016: 20%) would amount to £65.9 million (2016: £97.3 million). The difference of £130.4 million (2016: £277.3 million) between this number and the total tax of £196.3 million (2016: £374.6 million) is made up of the reconciling items above which total £4.4 million (2016: £0.8 million) and the effect of the apportionment methodology on tax applicable to policyholder returns of £126.0 million (2016: £276.5 million).

Deferred Tax Assets

	Expected utilisation Years	31 December 2017 £' Million	31 December 2016 £' Million
Unrelieved expenses (life insurance business)	6	46.4	50.9
Deferred income (DIR)	13	37.9	39.7
Capital losses (available for future relief)	8	86.0	99.0
Employee share scheme costs	3	7.5	5.5
Future capital allowances	6	3.7	4.1
Other		1.2	0.7
Total deferred tax assets		**182.7**	**199.9**

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

At the reporting date there were unrecognised deferred tax assets of £5.9 million (2016: £4.1 million) in respect of losses in companies where appropriate profits are not considered probable in the forecast period. These losses primarily relate to our Asia based businesses and can be carried forward indefinitely.

Deferred Tax Liabilities

	Expected utilisation Years	31 December 2017 £' Million	31 December 2016 £' Million
Unrealised capital gains on life insurance (BLAGAB) assets backing unit liabilities	6	445.5	501.1
Deferred acquisition costs (DAC)	13	84.0	97.8
Purchased value of in-force business (PVIF)	10	4.8	5.4
Renewal income assets	20	10.6	8.6
Other		1.9	1.9
Total deferred tax liabilities		**546.8**	**614.8**

Future Tax Changes

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

The change announced by the Chancellor in the Autumn 2017 Budget regarding the corporate indexation allowance freeze has not been reflected in the numbers in this note on the basis that this is yet to be substantively enacted. This is likely to increase relevant taxable gains in future years.

Other Tax Matters

We have considered the OECD Base Erosion and Profit Shifting ("BEPS") actions relevant to the St. James's Place Group and believe that they will not have a material impact on the financial results of the Group. We have developed our processes and procedures to enable completion of any required reporting by the relevant deadlines.

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

	Goodwill	Purchased value of in-force business	Computer software & other specific software developments	DAC	DIR
	£' Million	£' Million	£' Million	£' Million	£' Million
Cost					
At 1 January 2016	10.1	73.4	13.6	1,611.2	(1,205.0)
Additions	3.7	-	2.1	38.6	(56.0)
Addition due to reassessment of unit liability	-	-	-	-	(267.0)
At 31 December 2016	13.8	73.4	15.7	1,649.8	(1,528.0)
At 1 January 2017	**13.8**	**73.4**	**15.7**	**1,649.8**	**(1,528.0)**
Additions	**1.8**	**-**	**0.3**	**36.9**	**(141.4)**
At 31 December 2017	**15.6**	**73.4**	**16.0**	**1,686.7**	**(1,669.4)**
Accumulated amortisation					
At 1 January 2016	-	39.8	9.3	866.2	(791.5)
Charge for the year	-	3.2	3.4	98.8	(88.9)
At 31 December 2016	-	43.0	12.7	965.0	(880.4)
At 1 January 2017	**-**	**43.0**	**12.7**	**965.0**	**(880.4)**
Charge for the year	**-**	**3.2**	**0.9**	**98.7**	**(142.7)**
At 31 December 2017	**-**	**46.2**	**13.6**	**1,063.7**	**(1,023.1)**
Carrying value					
At 31 December 2016	13.8	30.4	3.0	684.8	(647.6)
At 31 December 2017	**15.6**	**27.2**	**2.4**	**623.0**	**(646.3)**
Current	-	3.2	0.9	97.7	(149.0)
Non-current	15.6	24.0	1.5	525.3	(497.3)
	15.6	27.2	2.4	623.0	(646.3)
Outstanding amortisation period					
At 31 December 2016	n/a	9 years	4 years	14 years	6-14 years
At 31 December 2017	**n/a**	**8 years**	**4 years**	**14 years**	**6-14 years**

Goodwill

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

	31 December 2017 £' Million	31 December 2016 £' Million
SJP Asia companies	10.1	10.1
Technical Connection Limited	3.7	3.7
Rowan Dartington companies	1.8	-
Balance at 31 December	**15.6**	**13.8**

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

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

Key assumptions based on experience:	Value of new business
Projection period:	5 years of detailed forecasts extrapolated into perpetuity using a long-term growth rate
Long-term growth rate based on economic forecasts:	1.3%
Pre-tax discount rate based on a risk-free rate plus a risk margin:	4.5%

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

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

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

DIR

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

9. INVESTMENTS, INVESTMENT PROPERTY AND CASH AND CASH EQUIVALENTS

Net assets held to cover unit liabilities

Included within the statement of financial position are the following assets and liabilities comprising the net assets held to cover unit liabilities.

	31 December 2017	31 December 2016
	£' Million	£' Million
Assets		
Investment property	1,630.9	1,462.4
Equities	55,086.9	46,598.7
Fixed income securities	17,134.6	12,908.0(1)
Investment in Collective Investment Schemes	4,486.6	2,997.4
Cash and cash equivalents	7,005.9	7,067.2
Other receivables	475.9	187.2
Derivative financial instruments		
- Currency forwards	*143.8*	*86.5*
- Interest rate swaps	*49.0*	*40.0*
- Index options	*70.9*	*17.7*
- Contracts for differences	*9.2*	*8.2*
- Equity rate swaps	*5.4*	*26.2*
- Foreign currency options	*19.1*	*18.7*
- Total return swaps	*41.0*	*18.7*
- Other derivatives	*5.0*	*2.9*
Total derivative financial assets	343.4	218.9(1)
Total assets	**86,164.2**	**71,439.8**
Liabilities		
Other payables	151.5	383.5
Derivative financial instruments		
- Currency forwards	*75.1*	*176.4*
- Interest rate swaps	*38.8*	*38.3*
- Index options	*24.0*	*5.9*
- Contracts for differences	*6.8*	*2.9*
- Equity rate swaps	*4.4*	*30.2*
- Foreign currency options	*22.9*	*10.1*
- Total return swaps	*3.1*	*8.1*
- Credit default swaps	*14.2*	*10.0*
- Other derivatives	*1.0*	-
Total derivative financial liabilities	190.3	281.9
Total liabilities	**341.8**	**665.4**
Net assets held to cover linked liabilities	**85,822.4**	**70,774.4**
Investment contract benefits	64,014.3	53,307.1
Net asset value attributable to unit holders	21,349.1	17,032.0
Unit linked insurance contract liabilities	459.0	435.3
Net unit linked liabilities	**85,822.4**	**70,774.4**

(1) Collateralised mortgage obligations (CMOs) are mortgage backed securities. Investment in CMOs was £510.2 million at 31 December 2016, which were recognised as derivative financial assets in prior year. CMOs have been reclassified to fixed income securities in the current year to better represent the nature of the investments.

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

Investment Property

	31 December 2017 £' Million	31 December 2016 £' Million
Balance at 1 January	1,462.4	1,344.9
Additions	88.5	131.6
Capitalised expenditure on existing properties	7.0	9.3
Disposals	(6.2)	-
Changes in fair value	79.2	(23.4)
Balance at 31 December	**1,630.9**	**1,462.4**

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

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

The historical cost of investment properties held at 31 December 2017 is £1,480.6 million (2016: £1,392.5 million). This represents the price paid for investment properties, prior to any subsequent revaluation.

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

	Year Ended 31 December 2017 £' Million	Year Ended 31 December 2016 £' Million
Rental income	82.3	72.4
Direct operating expenses	6.8	6.3

At the year-end contractual obligations to purchase, construct or develop investment property amounted to £12.5 million (2016: £4.5 million). The most significant contractual obligation is the purchase of a new investment property for £11.3 million. This property is in construction, with the contractual obligation being dependent on the property being completed to the agreed standard by an agreed date. Contractual obligations to dispose of investment property amounted to £nil (2016: £nil).

Cash and cash equivalents

	31 December 2017	31 December 2016
	£' Million	£' Million
Cash at bank	274.7	341.1
Cash held by third parties	-	4.8
Cash and cash equivalents not held to cover unit liabilities	274.7	345.9
Balances held to cover unit liabilities	7,005.9	7,067.2
Total cash and cash equivalents	**7,280.6**	**7,413.1**

All cash and cash equivalents are considered current.

10. OTHER RECEIVABLES

	31 December 2017 £' Million	31 December 2016 £' Million
Receivables in relation to unit liabilities	885.1	834.1
Other receivables in relation to insurance and unit trust business	124.0	147.3
Operational readiness prepayment	170.6	121.1
Advanced payments to Partners	39.5	31.2
Other prepayments	58.2	45.1
Business loans to Partners	263.9	212.2
Renewal income assets	71.6	58.9
Miscellaneous	7.1	23.1
Total other receivables	**1,620.0**	**1,473.0**
Current	1,168.1	1,137.9
Non-current	451.9	335.1
	1,620.0	**1,473.0**

All items within other receivables meet the definition of financial assets with the exception of prepayments and advanced payments to Partners.

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

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

Business loans to Partners are interest bearing (linked to Bank of England base rate plus a margin), repayable on demand and secured against the future renewal income streams of the Partner. The balance of lending is shown net of a £4.5 million provision (2016: £3.3 million). During the year £0.1 million of the provision was utilised (2016: £0.4 million utilised) whilst new provisions and adjustments to existing provisions increased the total by £1.3 million (2016: £0.7 million increase).

The fair value of loans and receivables included in other receivables is not materially different from amortised cost.

Movement in renewal income assets

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
At 1 January	58.9	26.8
Additions	14.5	38.2
Revaluation	(1.8)	(6.1)
Total renewal income at 31 December	**71.6**	**58.9**

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

	31 December 2017	31 December 2016
Lapse rate – SJP Partner renewal income (1)	5.0% - 15.0%	5.0% - 15.0%
Lapse rate – Non SJP renewal income (1)	15.0% - 25.0%	15.0% - 25.0%
Discount rate	5.0% - 7.5%	5.0% - 7.5%

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

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

11. OTHER PAYABLES

	31 December 2017	31 December 2016
	£' Million	£' Million
Payables in relation to unit liabilities	420.4	558.7
Other payables in relation to insurance and unit trust business	412.2	300.0
Accruals	152.3	146.9
Accruals to Partners	87.6	74.2
Miscellaneous	158.7	93.8
Total other payables	**1,231.2**	**1,173.6**
Current	1,140.4	1,123.7
Non-current	90.8	49.9
	1,231.2	**1,173.6**

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

Included within miscellaneous is a Contract Payment of £92.5 million (2016: £49.8 million) which is non-interest bearing and repayable on a straight-line basis over the life of a twelve-year service agreement. The repayment period commenced on 1 January 2017.

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

12. BORROWINGS AND FINANCIAL COMMITMENTS

Borrowings

	31 December 2017	31 December 2016
	£' Million	£' Million
Bank borrowings	165.8	231.3
Loan notes	114.1	50.1
Total borrowings	**279.9**	**281.4**
Current	0.8	1.3
Non-current	279.1	280.1
	279.9	**281.4**

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

- A £340 million revolving credit facility, which includes a £90 million extension agreed in 2017 to the original £250 million facility entered into with a group of UK banks in 2015. The facility is repayable over five years to 2022 with a variable interest rate. At 31 December 2017 the undrawn credit available under this facility was £179 million (31 December 2016: £25 million); and

- A US Dollar $160 million private shelf facility, also entered into in 2015. The Group authorised the issue of £50 million of loan notes during 2015, and a further issue of £64 million of loans notes during 2017 in relation to this facility. Both note issues were denominated in Sterling, eliminating any Group currency risk. The notes are repayable over ten years, ending in 2025 and 2027 respectively, with variable interest rates.

The movement in borrowings over the year are as follows:

	31 December 2017	31 December 2016
	£' Million	£' Million
Borrowings at 1 January	281.4	181.8
Additional borrowing during the year	100.0	100.0
Repayment of borrowings during the year	(101.0)	(0.9)
Costs on additional borrowings during the year	(0.9)	-
Unwind of borrowing costs	0.4	0.5
Borrowings at 31 December	**279.9**	**281.4**

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

	Loans Drawn		Facility	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	£' Million	£' Million	£' Million	£' Million
Bank of Scotland	65.4	54.0	80.0	80.0
Metro Bank plc	46.7	35.6	61.0	47.5(1)
Santander plc	55.0	47.2	75.0	50.0
Total loans	**167.1**	**136.8**	**216.0**	**177.5**

(1) The Metro Bank plc facility at 31 December 2016 has been amended to show the amount of the facility that is guaranteed by the Group, as opposed to the total facility of £95.0 million available to Partners which was previously disclosed.

The fair value of the outstanding borrowings and guarantees is not materially different from amortised cost.

Interest expense on borrowings is recognised within expenses in the consolidated statement of comprehensive income.

Financial Commitments

The Group has commitments under non-cancellable operating leases in connection with the rental of office buildings and office equipment with varying lease end dates ranging from 2017 to 2042. The following table represents the future minimum lease payments under non-cancellable operating leases:

	31 December 2017	31 December 2016
	£' Million	£' Million
Not later than one year	18.1	15.6
Later than one year and not later than five years	56.2	53.8
Later than five years	74.4	65.0
Total financial commitments	**148.7**	**134.4**

As at 31 December 2017, there was £0.2 million (2016: £0.2 million) of future minimum sublease payments expected to be received under non-cancellable sub-leases.

13. CAPITAL MANAGEMENT AND ALLOCATION

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

- Protect clients' interests;
- Meet regulatory requirements;
- Protect creditors' interests; and
- Create shareholder value through support for business development.

Within the Group, each subsidiary manages its own capital in the context of a Group capital plan. Any capital 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 position is monitored by the Finance Executive Committee on behalf of the St. James's Place plc Board.

Regulatory capital

The Group's Capital Management policy is for each subsidiary to hold the higher of:

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

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

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

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

Entity	Regulatory Body and Jurisdiction
St. James's Place (Singapore) Private Limited	Monetary Authority Singapore: A Member of the Association of Financial Advisers
Rowan Dartington & Co Limited	FCA: Investment Firm
St. James's Place EIS Limited	UK AIFM (Sub-threshold)

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

As an insurance group, St. James's Place is subject to the Solvency II regulations, which were implemented on 1 January 2016. More information about capital position of the Group under Solvency II regulations is set out in the separate Solvency and Financial Condition Report document. The overall capital position for the Group at 31 December 2017, assessed on the Standard Formula basis, is presented in the following table:

	31 December 2017	31 December 2016
	£'Million	£'Million
IFRS total assets	90,006.0	75,022.1
Less Solvency II valuation adjustments and unit linked liabilities	(88,910.9)	(73,952.1)
Solvency II net assets	1,095.1	1,070.0
Management Solvency Buffer (MSB)	*461.9*	*527.0*
Excess of free assets over MSB	*633.2*	*543.0*
Solvency II VIF	3,244.3	2,707.9
Risk margin	(946.1)	(779.2)
Standard formula SCR (A)	(2,449.2)	(2,046.5)
Sub-total	(151.0)	(117.8)
Solvency II Free Assets (B)	944.1	952.2
Solvency II ratio ((A + B) / A)	139%	147%

An overall internal capital assessment is required for insurance groups. This is known as an ORSA (Own Risk and Solvency Assessment) and is described in more detail in the section on Risk and Risk Management on page 46.

The capital requirement and the associated solvency of the Group are assessed and monitored by the Finance Executive Committee, a Committee of the Executive Board. The regulatory requirements for the remaining companies within the Group are assessed and monitored by the relevant subsidiary boards.

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

IFRS capital composition

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

	31 December 2017	31 December 2016
	£' Million	£' Million
Share capital	79.4	79.1
Share premium	171.7	164.5
Shares in trust reserve	(26.7)	(20.9)
Miscellaneous reserves	2.5	2.5
Retained earnings	832.1	851.2
Shareholders' equity	1,059.0	1,076.4
Non-controlling interests	(0.9)	(0.8)
Total equity	1,058.1	1,075.6

The above assets do not all qualify as regulatory capital. The required minimum regulatory capital and analysis of the assets that qualify as regulatory capital are outlined in Section 4 of the Financial Review on page 36, which demonstrates that the Group has met its internal capital objectives. The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the year.

14. SHARE CAPITAL, EARNINGS PER SHARE AND DIVIDENDS

Share Capital

	Number of Ordinary Shares	Called up Share Capital
		£' Million
At 1 January 2016	**524,665,212**	**78.7**
- Issue of share capital	108,819	-
- Exercise of options	2,708,317	0.4
At 31 December 2016	**527,482,348**	**79.1**
- Issue of share capital	372,325	0.1
- Exercise of options	1,223,223	0.2
At 31 December 2017	**529,077,896**	**79.4**

The total authorised number of ordinary shares is 605 million (2016: 605 million), with a par value of 15 pence per share (2016: 15 pence per share). All issued shares are fully paid.

Included in the issued share capital are 4,210,906 (2016: 3,954,525) shares held in the Shares in Trust Reserve with a nominal value of £0.6 million (2016: £0.6 million). The shares are held by the SJPC Employee Share Trust and the St. James's Place 2010 SIP Trust to satisfy certain share based payment schemes. The trustees of the SJPC Employee Share Trust retain the right to dividends on the shares held by the Trust but have chosen to waive their entitlement to the dividends on 1,755,831 shares at 31 December 2017 and 1,330,156 shares at 31 December 2016. No dividends have been waived on shares held in the St. James's Place 2010 SIP Trust in 2017 or 2016.

Earnings per share

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Earnings		
Profit after tax attributable to equity shareholders (*for both basic and diluted EPS*)	145.9	112.2
Weighted average number of shares	Million	Million
Weighted average number of ordinary shares in issue *(for basic EPS)*	524.3	522.6
Adjustments for outstanding share options	8.8	3.3
Weighted average number of ordinary shares *(for diluted EPS)*	533.1	525.9
	Pence	Pence
Earnings per share (EPS)		
Basic earnings per share	27.8	21.5
Diluted earnings per share	27.4	21.3

Dividends

The following dividends have been paid by the Group:

	Year Ended 31 December 2017	Year Ended 31 December 2016	Year Ended 31 December 2017	Year Ended 31 December 2016
	Pence per Share	Pence per Share	£' Million	£' Million
Final dividend in respect of previous financial year	20.67	17.24	108.8	90.4
Interim dividend in respect of current financial year	15.41	12.33	81.2	64.8
Total dividends	**36.08**	**29.57**	**190.0**	**155.2**

The Directors have recommended a final dividend of 27.45 pence per share (2016: 20.67 pence). This amounts to £145.2 million (2016: £108.8 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 1 June 2018 to those shareholders on the register as at 6 April 2018.

15. RELATED PARTY TRANSACTIONS

Transactions with St. James's Place unit trusts

In respect of the non-consolidated St. James's Place managed unit trusts that are held as investments in the St. James's Place life and pension funds, there was income recognised of £10.9 million (2016: £0.3 million charge) and the total value of transactions with those non-consolidated unit trusts was £38.0 million (2016: £53.0 million). Net management fees receivable from these unit trusts amounted to £15.4 million (2016: £17.0 million). The value of the investment into the non-consolidated unit trusts at 31 December 2017 was £195.5 million (2016: £198.6 million).

Transactions with key management personnel

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

Compensation of key management personnel is as follows:

	Year Ended 31 December 2017	Year Ended 31 December 2016
	£' Million	£' Million
Short-term employee benefits	7.4	5.4(1)
Post-employment benefits	0.5	0.4
Share-based payment	6.6	6.3(2)
Total	**14.5**	**12.1**

(1) £1.9 million of bonus costs have been reclassified from other long-term benefits to short-term benefits in the 2016 comparative.

(2) The 2016 share-based payment amount has been represented to show the share based payment charge recognised in the consolidated statement of comprehensive income during 2016, rather than the amount of bonus deferred into shares.

The total value of Group funds under management held by related parties of the Group as at 31 December 2017 was £36.1 million (2016: £26.5 million). The total value of St. James's Place plc dividends paid to related parties of the Group during the year was £1.4 million (2016: £1.4 million).

16. NON-STATUTORY ACCOUNTS

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2016, but is derived from those accounts. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

17. ANNUAL REPORT

The Company's annual report and accounts for the year ended 31 December 2017 is expected to be posted to shareholders by 13 April 2018. Copies of both this announcement and the annual report and accounts will be available to the public at the Company's registered office at St. James's Place House, 1 Tetbury Road, Cirencester GL7 1FP and through the Company's website at www.sjp.co.uk.

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

The Directors confirm to the best of their knowledge that:

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

On behalf of the Board

Andrew Croft Chief Executive	Craig Gentle Chief Financial Officer

27 February 2018

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