



ST. JAMES'S PLACE PLC

# ST. JAMES'S PLACE

ANNUAL REPORT & ACCOUNTS 2018

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We are a leading wealth manager focused on delivering value for all stakeholders. The success of St. James's Place is built on establishing and maintaining long lasting, highly personal relationships with, and between, our Partners and clients. We seek to achieve the best possible outcome for our clients through sound financial planning advice provided by our highly skilled advisers, together with our distinctive investment management approach.

.....

**ANDREW CROFT**, Chief Executive  
andrew.croft@sjp.co.uk

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## WE ARE ST. JAMES'S PLACE

St. James's Place plc is a FTSE 100 financial services group that provides high-quality wealth management services to businesses and individuals across the UK. St. James's Place is well established as one of the UK's leading wealth managers.

The strength of the Group's adviser-led approach to wealth management, twinned with a proven investment management proposition, leaves St. James's Place uniquely positioned to benefit from favourable long-term demographic and market opportunities in wealth management.

# 682,000

**CLIENTS**

# 96%

**CLIENT  
RETENTION  
RATE**

# 94%

**CLIENT  
ADVOCACY  
SCORE**

# 3,954

**TOTAL ST. JAMES'S PLACE ADVISERS  
(UP 8%), SUPPORTED BY 5,540 PARTNER  
SUPPORT STAFF, AND 2,484 EMPLOYEES**

# 2,489

**PARTNER PRACTICES**

# 39

**INVESTMENT  
FUNDS**

# 9

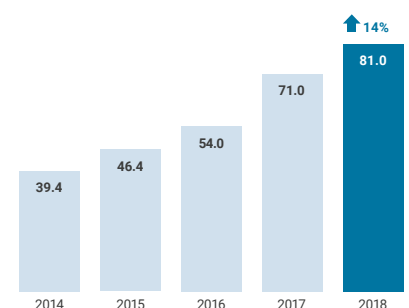
**INVESTMENT  
PORTFOLIOS**



**ST. JAMES'S PLACE**  
CHARITABLE FOUNDATION

# £81.0m

**TOTAL AMOUNT RAISED AND  
DISTRIBUTED TO GOOD CAUSES  
THROUGH THE ST. JAMES'S PLACE  
CHARITABLE FOUNDATION SINCE 1992**



## 2018 PERFORMANCE HIGHLIGHTS

St. James's Place performed well in 2018, reporting a good set of results that delivered growth in all of our key business and financial metrics. These outcomes demonstrate the resilience of our business in what was a more challenging year.

# £15.7bn

**GROSS INFLOWS, UP 8%**

2017: £14.6 billion

# £10.3bn

**NET INFLOWS, UP 8%**

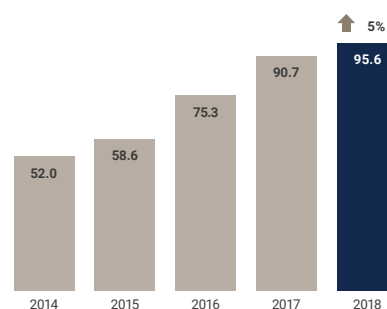
2017: £9.5 billion

# £95.6bn

**FUNDS UNDER MANAGEMENT, UP 5%**

2017: £90.7 billion

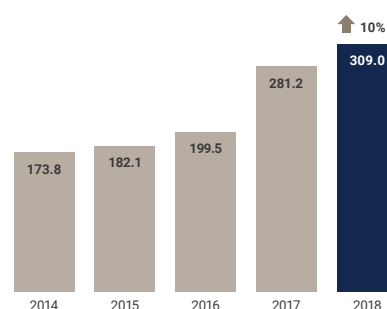
▶ Find out more on page 8



# £309.0m

**UNDERLYING CASH RESULT, UP 10%**

2017: £281.2 million



# 48.22p

**DIVIDENDS PER SHARE, UP 12.5%**

2017: 42.86 pence

▶ Find out more on page 9

# £1,002.0m

**EUROPEAN EMBEDDED VALUE (EEV) OPERATING PROFIT, UP 9%**

2017: £918.5 million

## WE ARE A SOUND INVESTMENT

**We are a leading wealth manager focused on delivering value for all stakeholders.**

Already established as a leading wealth manager in our chosen markets, the strength of our adviser-led approach to wealth management and our proven investment management proposition, means we are well positioned to benefit from favourable long-term demographic and market opportunities in wealth management.

# 1.

**We are strong.**

We are a financially strong, FTSE 100 Group driving growth underpinned by a resilient balance sheet.

We are an advice-led wealth management business that strives to deliver positive outcomes for clients. Achieving this contributes to strong client retention and helps attract new client assets. Our principal source of income is the receipt of fees on client funds under management. This results in a cash generative financial model with relatively low capital requirements. This means we are able to deploy capital to invest in the future growth of the business and the development of our client proposition, while also providing stable and growing returns to shareholders.

▶ See page 24 for further information

# 2.

**We are distinctive.**

We are a vertically integrated wealth management business, offering clients an end-to-end wealth management proposition.

We offer clients access to our full range of wealth management products and services exclusively via the Partnership, our own 3,954-strong force of self-employed advisers. Client funds are managed using our distinctive Investment Management Approach (IMA) whereby we use our scale and expertise to carefully select a number of external managers from across the globe to manage our range of funds.

▶ See page 22 for further information

# 3.

## We are growing.

We have a clear growth strategy to enable us to capitalise on the long-term market opportunity in advice-led UK wealth management and drive growth in funds under management.

We aim to grow gross client inflows by 15-20% per annum over the medium term through a focus on growing the size of the Partnership, improving adviser efficiency, and broadening and enriching our client proposition. In addition, we focus on ensuring strong client retention through delivering a high-quality service to advisers and clients, driving good investment performance, and ensuring we remain a robust and resilient business that clients trust and recommend.

▶ See page 16 for further information

# 4.

## We are investing.

We continue to invest in our capacity and infrastructure so we are well placed to capitalise on growth opportunities ahead.

We have a programme of investment that is supporting our ambition to double our funds under management over the next five years. This includes our investment into the St. James's Place Academy and Next Generation Academy programmes; widening our geographic presence via St. James's Place Asia; our expansion of Rowan Dartington, our discretionary fund management business, across the UK and into Asia; and Bluedoor, our new back-office administration system.

▶ See page 28 for further information

# 5.

## We are responsible.

We are a business built on trust. That means we invest and behave in a responsible manner with a focus on 'doing the right thing' for all our stakeholders.

We protect our reputation by ensuring all our people and the Partnership embrace the core culture and values that underpin our business. This means putting client interests first, and emphasising quality, service and relationships above everything else. We also aspire to be a good corporate citizen through enhancing our stewardship of client funds and making clear our commitment to our communities and good causes through our Corporate Responsibility programme and the St. James's Place Charitable Foundation.

▶ See page 56 for further information

# 01

## STRATEGIC REPORT

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# WE SEE THINGS DIFFERENTLY

Already established as a leading wealth manager in our chosen markets, the strength of our adviser-led approach to wealth management and our proven investment management proposition, means we are well positioned to benefit from favourable long-term demographic and market opportunities in wealth management.

**682,000**

CLIENTS

**3,954**

TOTAL ST. JAMES'S PLACE  
ADVISERS

**£95.6bn**

FUNDS UNDER MANAGEMENT  
AT 31 DECEMBER 2018 – A 5%  
INCREASE ON 2017

## CHIEF EXECUTIVE'S REPORT



**ANDREW CROFT**, Chief Executive  
andrew.croft@sjp.co.uk

**“The business has performed well during the year, building on an exceptional outcome in 2017 and despite a difficult external environment in the last quarter of the year.”**

**£95.6bn**

**FUNDS UNDER MANAGEMENT**  
(2017: £90.7bn)

**£15.7bn**

**GROSS INFLOWS**  
(2017: £14.6bn)

**£10.3bn**

**NET INFLOWS**  
(2017: £9.5bn)

### Introduction

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

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

### Business performance and dividend

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

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

The financial performance of the business reflects the progression of funds under management together with the contribution of new inflows, resulting in good growth across all the key metrics measured by the Board. The Chief Financial Officer's Report and Financial Review on pages 28 to 46 provide a comprehensive analysis of the financial performance for the year.

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

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

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

## Clients

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

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

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

# 142

## ACADEMY AND NEXT GENERATION ACADEMY GRADUATES IN 2018

(2017: 124)

## The St. James's Place Partnership

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

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

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

## CHIEF EXECUTIVE'S REPORT CONTINUED

## Investment Management Approach (IMA)



Red lines indicate fund managers from whom all the strategies we offer are exclusive to St. James's Place clients in the UK retail space.

## Investment markets and our Investment Management Approach

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

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

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

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

complementary managers in GMO and Jennison have been appointed as co-managers of the Balanced Managed fund. These two bring increased diversity and flexibility, as well as scalability in the case of GMO, to our range of managers.

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

## Investment for growth

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

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

## Back-office infrastructure

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

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

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

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

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

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

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

Further details of our CR activities are set out on pages 56 to 69.

## Board changes

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

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

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

## Our community

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

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

## Outlook

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

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

**ANDREW CROFT**  
Chief Executive

26 February 2019

## MARKET OVERVIEW

### The UK wealth market.

#### Rising affluent wealth

Total UK retail wealth is large and growing, with third-party data suggesting that retail liquid assets alone account for some £3.2 trillion (as at the end of 2018), of which around 70% is controlled by those individuals with £50,000 to £5 million of liquid assets.

The Office for National Statistics (ONS) suggests that 50% of total UK personal wealth is concentrated in the hands of savers between the ages of 45 and 64, with an additional 37% controlled by those aged 65 and above (as at 2016). This illustrates the extent of asset decumulation ahead and the potential scale of intergenerational wealth transfer to come. This presents a significant opportunity for skilled and experienced financial advisers able to build long-term, trusted relationships across client generations.

#### Increasing demand for financial advice

While there has been a proliferation of new direct-to-consumer and 'robo' propositions in recent years, we see growing demand for personal, face-to-face advice from individuals with neither the time, inclination or ability to manage their financial affairs, or those with more complex finances.

Factors driving this continued demand for advice include:

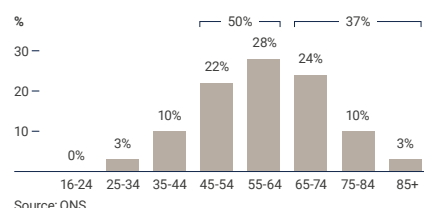
- the decline of defined benefit pension schemes;
- the flexibilities and complexities afforded to individuals via 'pensions freedoms';
- the scale and projected growth of the UK savings gap;
- the complexity of personal taxation; and
- the desire to transfer wealth across generations.

Despite growing demand for advice, the population of financial advisers across the UK has only modestly increased in recent years. As a result, an 'advice gap' persists.

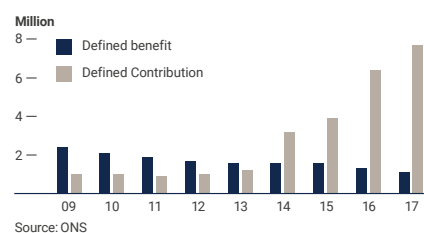
Against this backdrop, St. James's Place is established as the leading advice-led wealth management business in the UK with 3,954 qualified advisers at the end of 2018.

Based on the 2018 Private Asset and Wealth Managers (PAM) Directory, we ranked first by assets under management for the fourth year in succession, as well as the fastest growing asset manager, in absolute terms, for both assets under management and client accounts, over one, three and five years.

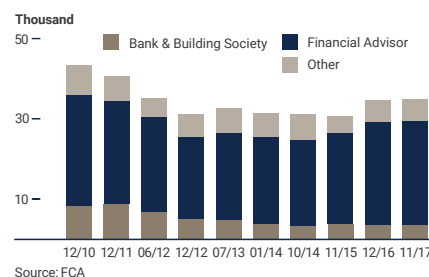
UK aggregate wealth distribution by age



Active membership of private sector occupational pension schemes by benefit structure



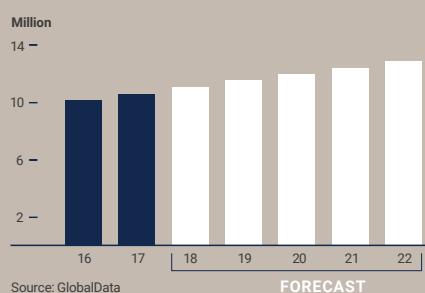
Number of retail investment advisers



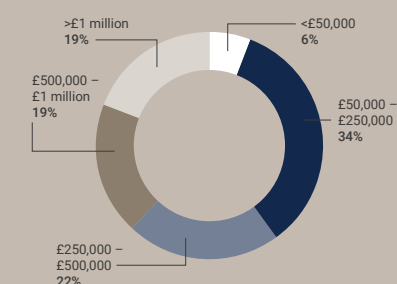
### Our core market

St. James's Place's core target market is UK individuals with between £50,000 and £5 million in investable assets. There were estimated to be 11.0 million such individuals at the end of 2018, and this number is projected to grow to 12.8 million by 2022. The liquid assets of this group are projected to increase from £2.2 trillion to £2.6 trillion in this time. While there are no typical St. James's Place clients, what all share is a desire for trusted, face-to-face financial advice.

UK individuals with between £50,000 and £5 million of investable wealth



SJP clients by FUM value band 31 December 2018



# Market trends

The UK wealth management market is constantly evolving, providing both opportunities and challenges to market participants. Below are five key trends that are shaping the UK wealth management landscape of tomorrow:

## 1. EVOLVING COMPETITIVE LANDSCAPE

From direct-to-consumer platforms, to 'robo-advisers', life insurance companies and traditional advice firms, market participants are seeking to build both advice and online service propositions. Much of this advice growth is currently centred on telephone-based, transactional advice, to support clients who are uncomfortable with a wholly online process. Whilst this may appear to help address the advice gap for a segment of the market, few large businesses are committed to building long-term, face-to-face, adviser-client relationships.

## 2. REGULATORY DEVELOPMENTS

The Financial Conduct Authority (FCA) recognises that there remains an advice gap, and has focused on creating an environment that allows firms to deliver affordable and accessible advice and guidance, including automated solutions developed through the 'Regulatory Sandbox'. Such innovation is welcome and can support advisers' engagement with clients and efficiency, but there is a danger that standalone automated solutions fail to take account of clients' wider financial planning needs.

Much regulatory focus has been on disclosure of costs and charges. This has put more information in the hands of clients and is a welcome drive to disclose the total cost of investing.

## 3. TECHNOLOGY AND INNOVATION

Across the industry, the deployment of technology to deliver operational and administrative efficiency and scalability, to cater for clients' preferred communication channels and to improve their experience, continues apace. Client expectations are rising, based on the user experience they receive from leading online businesses such as Amazon. This experience is based not only on ease of interaction, but also the tailoring of content to the individual. Industry initiatives such as Open Banking offer the opportunity for providers to make strides in this area in the coming years, but establishing client trust remains a clear barrier for pure technology-driven investment services.

## 4. PENSIONS ENVIRONMENT

The industry volume of defined benefit pension transfers has increased over the medium term as scheme trustees and sponsoring companies have sought to reduce onerous scheme liabilities, while some scheme members have sought to benefit from additional flexibilities afforded by pensions freedoms.

It is anticipated that defined benefit transfer activity will continue across the market in the years ahead but, given the complexities and risks associated with providing advice in such an area, we welcome regulatory efforts to ensure that all industry participants deliver suitable advice, that client interests are best served, and that the industry's reputation is protected.

## 5. INTERGENERATIONAL PLANNING

Pension freedoms, increasing life expectancy and complex tax rules continue to drive individuals at or approaching retirement to seek financial advice, both to put in place a plan for the future and to manage that plan over the coming years. A 65-year-old today requires a long-term relationship with an adviser who can not only advise 'at retirement', but also advise them and their families on drawdown and investment risk, planning for long-term care, tax-efficient wealth transfer, estate administration, legal services and possibly equity release and annuities. Research suggests that £2.8 trillion of the wealth of those aged 55 or more, with more than £50,000 of investable assets, will be available to be transferred in the next 30 years.

## Opportunities for St. James's Place

The UK wealth management landscape is evolving so we will focus on adapting and enhancing our business to better serve our clients and advisers in the years ahead. This means, for example, that we will need to continue to embrace

technology and develop our proposition so that we and our advisers are even better at forging strong relationships with the next generation of St. James's Place clients.

However, ours is an advice-led wealth management business, built on the foundation of long-term, trusted adviser-client relationships. As the landscape evolves further, we believe that demand

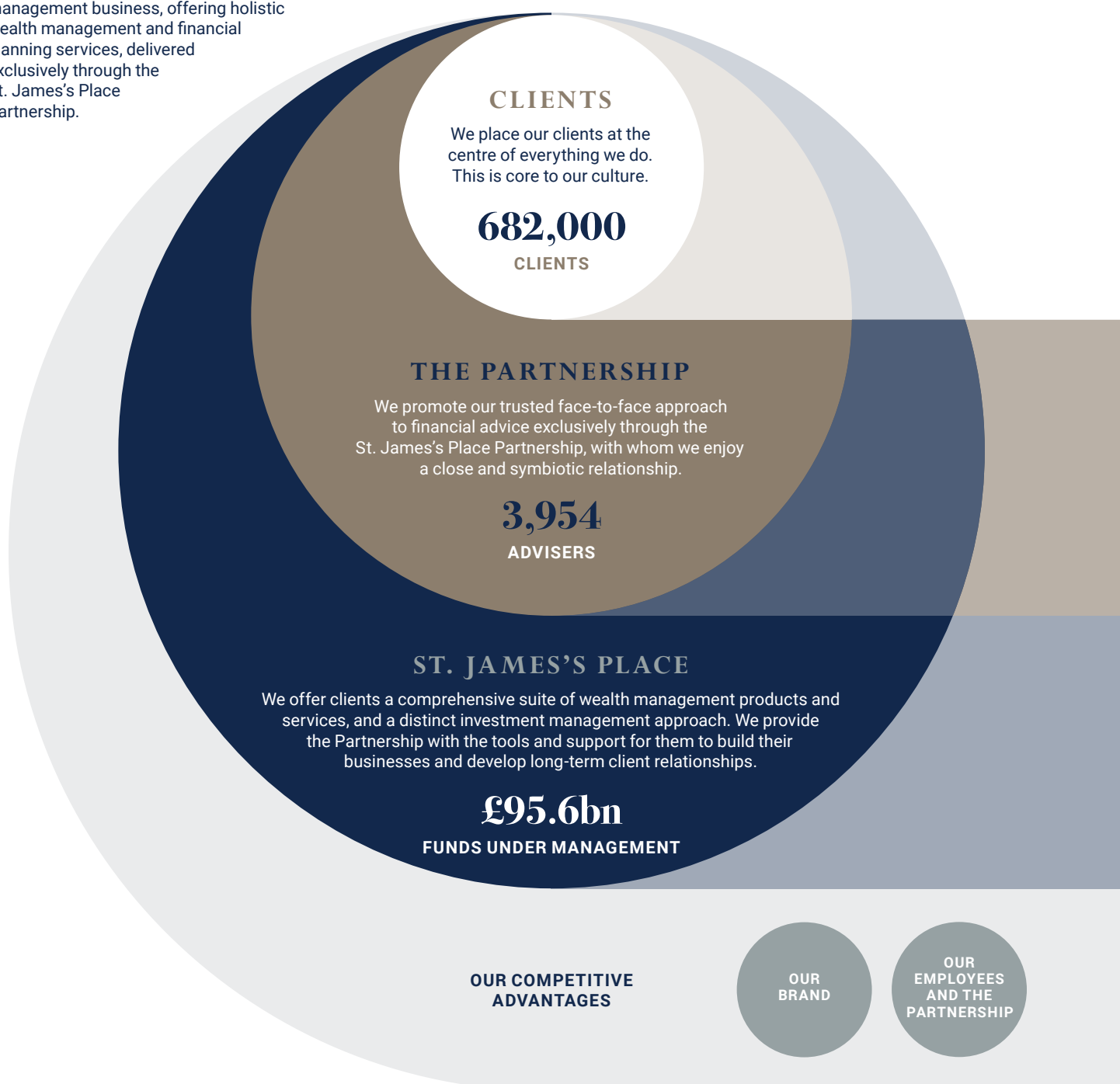
for personal, face-to-face advice will increase, not diminish, so we will remain committed to our approach while adapting so that we can capture the market opportunities ahead.

► Find out more about risks on page 47

## OUR BUSINESS MODEL

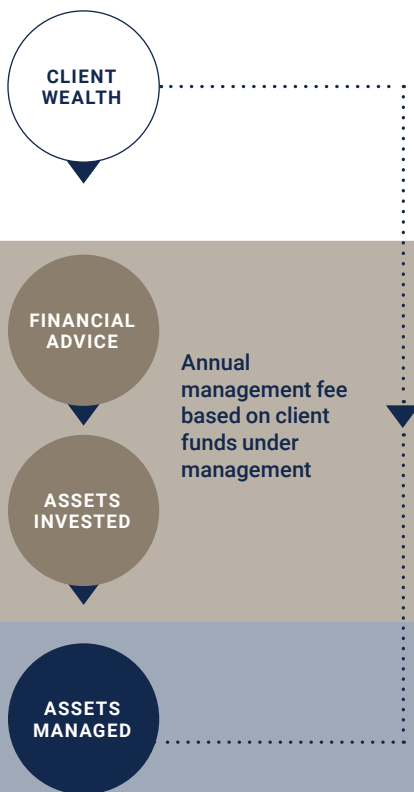
### What makes us different

We are a vertically integrated wealth management business, offering holistic wealth management and financial planning services, delivered exclusively through the St. James's Place Partnership.



## We generate

We operate a fee-based income model where we receive fees based on the level of client funds under management.



## We enhance

### WE ATTRACT

We offer a comprehensive investment, product and service proposition that is exclusive to the St. James's Place Partnership and clients, and a support proposition that allows Partner businesses to thrive.

### WE RETAIN

We forge close, trusted relationships with our advisers and make their relationships with clients our priority. We evolve and adapt our Investment Management Approach to reinforce client outcomes, and improve the adviser and client experience.

### WE IMPROVE

We engage with stakeholders to better understand the strength of our proposition as well as areas for improvement. We develop our back-office infrastructure and embrace technology. We provide Partner-specific support to underpin business ambitions.

### WE INVEST

We sow the seeds for long-term growth through targeted investment. We continue to expand our Academy initiatives, build out our new back-office administration system, and invest in St. James's Place Asia and Rowan Dartington.

## We deliver

# 94%

**2018 CLIENT ADVOCACY SCORE**  
2017: 97%

▶ Find out more on page 18

# 8%

**2018 GROWTH IN ADVISERS**  
2017: +7%

▶ Find out more on page 20

# 82%

**2018 EMPLOYEE ENGAGEMENT SCORE**  
2016: 86%

▶ Find out more on page 20

# 12.5%

**2018 DIVIDEND GROWTH**  
2017: +30%

▶ Find out more on page 9

# £81.0m

**AMOUNT RAISED FOR THE ST. JAMES'S PLACE CHARITABLE FOUNDATION SINCE INCEPTION**

▶ Find out more on page 71



## OUR STRATEGY

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### Our key business aim

Our key aim is to attract, retain and grow client funds under management (FUM) through offering a high-quality service to the Partnership and clients. We therefore pursue a simple growth and support strategy, underpinned by a series of clear and focused strategic objectives.

### How we achieve this

**Our  
key aim  
is to grow  
funds under  
management**

**8%**

**2018 GROWTH IN  
GROSS INFLOWS**

#### Our growth strategy

Our growth strategy for delivering increasing Gross Inflows involves:

- Growing the size of the Partnership.
- Improving adviser efficiency.
- Broadening our client proposition.

**96%**

**2018 RETENTION  
RATE OF CLIENT FUM**

#### Our support strategy

Our support strategy for delivering sustained retention of FUM involves:

- Delivering high quality service to advisers and clients.
- Driving consistently good investment performance.
- Ensuring we remain a robust and resilient business that clients trust.

## Our strategic objectives



## CLIENTS

# We are delivering positive outcomes to clients.

### Our approach

Putting clients at the heart of everything we do is core to our culture and enables us to work together to run a genuinely client-focused business. We focus on building long-term relationships anchored in trust and mutual respect, where advice is tailored to our clients' individual circumstances.

If we and our advisers do this well, our clients will not only remain with St. James's Place, but they will typically become advocates. Indeed, our clients frequently continue their relationship with their adviser over many years, appreciating a source of trusted advice as their financial needs evolve over time.

Through the Partnership, clients of St. James's Place have access to a wealth of financial solutions, including the provision of funds and investment portfolios, and expert advice around retirement planning, intergenerational wealth and protection.

To complement our own range of solutions, clients also have access to carefully selected external providers for other services such as protection, general insurance or investment into venture capital trusts.

Clients benefit from the security of investing with a business of St. James's Place's scale. We have the capacity to perform in-depth due diligence as part of our Investment Management Approach as well as undertake rigorous quality assurance on the advice delivered by the Partnership. This gives us the confidence to guarantee the suitability of advice delivered by the Partnership, thereby providing clients with additional peace of mind.

Our focus on high-quality, advice-led wealth management, means that St. James's Place now has more than 682,000 clients, based in all corners of the UK as well as in Hong Kong, Shanghai and Singapore. There is no such thing as a 'typical' St. James's Place client. All are unique. Yet common to them all is the desire to have a trusted, skilled and experienced professional adviser to look after them and their families.

### Delivering value for clients

In recent times there has been much attention on costs and charges across the UK wealth management industry, and we remain confident that our charges are below our peer average when assessed on a true like-for-like basis. With new disclosures required as a result of the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD), we will need to remain focused on continuing to deliver, and indeed articulate, the value that we deliver for clients of St. James's Place.

That means that as a minimum we need not only to continue to deliver good, long-term investment performance, but we must deliver exceptional client service, help clients maximise their outcomes through effective financial planning, and ensure that clients experience the benefits of having a personal relationship with an adviser that they can trust.

### 2018 development

In 2018, we launched our Diversified Assets Fund of Alternative Investment Funds (FAIF), managed by KKR, to enrich our IMA. We also added several providers to our protection panel including Guardian and The Exeter, as well as Medicash to our healthcare panel.

We have also improved our client administration and service standards, not least through further progress in our transition onto Bluedoor, our new back-office administration system, as well as enhanced the functionality of our digital wealth portal – the Online Wealth Account.

### Our focus for 2019

- Employ technology to enhance our Online Wealth Account, including facilities such as online payments and document sharing.
- Optimise our back-office administration systems to achieve service excellence.
- Expand the services provided by third-party providers for our clients, supporting the provision of holistic financial advice.
- Explore the development of complementary products and tools to support advice on asset decumulation.

### How we engage

It is imperative that we continue to achieve positive client outcomes and deliver client experiences that exceed expectations. To do so we monitor all areas of the business that can affect the client experience, including the suitability of advice, administration, investment experience, client feedback and client complaints. We also conduct a client Wealth Account survey, commission independent client research, and monitor our Net Promoter Score.

## Enhancing the Online Wealth Account

It is important that we are flexible in the way we service clients of St. James's Place, providing them with the ability to receive and analyse information about their investments in a format that suits them.

Complementing our paper-based reporting, we have focused in recent years on upgrading our digital client-facing reporting via our Online Wealth Account (OLWA). A secure online portal, the OLWA enables clients to monitor all of their St. James's Place investments; providing information on, among other things, plan details, investment allocation by fund and asset class, and client-specific investment performance. It also provides functionality for multi-currency reporting and serves as a digital document library.

We have plans to develop the OLWA further, with innovation focused on enhancing client communication, and facilitating electronic payments online.

### KEY PERFORMANCE INDICATORS

## Objective: Deliver positive outcomes to an increasing population of clients

### PROGRESS DURING 2018

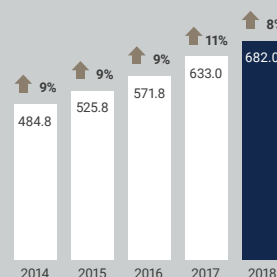
2018 was another successful year as the business continued to grow. Client numbers grew by 8% contributing to the increase in investment of new funds. The quality of client outcomes, as reflected in client retention and feedback, continued to be very strong.

The graphs below set out St. James's Place (SJP) client related KPIs. Further information about why these KPIs are important can be found in the Glossary of Key Performance Indicators on page 226.

# 8%

### INCREASE IN CLIENT NUMBERS FOR 2018

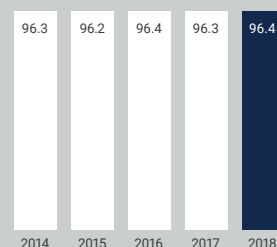
Client numbers (thousands)



# 96%

### CLIENT RETENTION FOR 2018

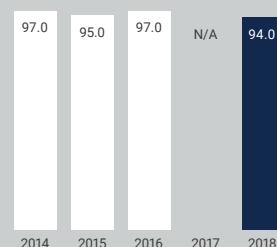
Client retention (percentage)



# 94%

### OF CLIENTS WOULD RECOMMEND ST. JAMES'S PLACE

Client advocacy<sup>1</sup>  
(% that would recommend SJP to someone else)



<sup>1</sup> Client advocacy data is unavailable for 2017 as, from 2017 onwards, the Wealth Account survey is undertaken biennially.

## THE PARTNERSHIP

# We are growing and developing the Partnership.

### Our Partnership approach

We have chosen to promote our services exclusively through the Partnership, reflecting the confidence we have in our advisers' ability to build and maintain long-term working relationships with their clients, and so be able to provide sound financial advice. The exclusive arrangement also provides clients with clarity of responsibility in relation to their financial dealings. St. James's Place works hard to support these client-adviser relationships, placing them at the heart of all we do.

We give Partner practices the freedom to organise their businesses in a way that suits them, but we provide support to them in areas such as advice and technical guidance, marketing and client literature, professional development, investment and product solutions, business processing, risk, and technology. In addition, Partner practices benefit from our distinctive Investment Management Approach and their association with a strong and recognised brand that guarantees the suitability of the advice they give

when recommending any of the wealth management products and services provided by companies in the Group.

Today, the St. James's Place Partnership comprises 3,954 advisers across 2,489 Partner practices, reflecting growth in multi-adviser practices, and our traditional strength in the UK is now complemented by a growing capability in Asia. Importantly, the Partnership is becoming more diverse, better reflecting the communities in which it operates.

### Growing the Partnership

Increasing the number of advisers within the St. James's Place Partnership is core to our growth plans and we have three principal routes to achieving this. We have a dedicated central recruitment team that seeks to identify experienced financial advisers across the UK with the right skills, experience and cultural fit to complement the Partnership. In recent years we have also seen applications increase from individuals referred from Partner practices that are seeking to grow their own businesses.

Finally, we have our Academy and Next Generation Academy initiatives where we provide an opportunity for second-careerists or younger potential advisers, respectively, to develop as wealth professionals and join the Partnership with us. Currently we have four UK centres for our Academies: in Edinburgh, London, Manchester and Solihull.

### Developing the Partnership

Reflecting our shared objectives, we commit to providing ongoing support so that advisers and Partner practices can grow and develop over time. At its simplest, this can include providing online, workplace, or classroom-based professional development and coaching opportunities to ensure our advisers remain appropriately qualified, technically able and equipped to deliver a first-class service. We also encourage and provide support for advisers who choose to pursue further qualifications, with many having already progressed to Chartered status, while others have gained an MSc degree in Wealth Management as part of our collaboration with the University of Loughborough Business School.

### 2018 development

In 2018 we welcomed a net 293 new advisers to St. James's Place. Around 170 were as a result of experienced adviser recruitment, while 142 in total graduated from our St. James's Place Academy and Next Generation Academy programmes during the year. In addition, 50 Partner support staff became fully diploma-qualified having passed through our Paraplanning Academy.

We enrolled 230 new students into our Academy and Next Generation Academy in 2018, helping to underpin our future growth ambitions.

### Our focus for 2019

- Continue to attract high-quality, experienced advisers to join the Partnership.
- Expand our Academy programme to 14 annual intakes and graduate 170 advisers (including Next Generation advisers).
- Improve adviser retention, particularly new joiners to the Partnership.
- Expand our regional hubs, bringing together specialist support from our head office in Cirencester and our field management team to deliver enhanced support for Partner practices.

### How we engage

Our communication and engagement approach with the Partnership has two dimensions: information that is delivered directly to them via our electronic weekly bulletin, special bulletins on key topics, and our intranet site; and face-to-face engagement activity led by St. James's Place management. The latter can range from individual meetings to regional conferences and our Annual Company Meeting. We also host regular Partner Consultation Meetings where we seek the views of the Partnership on key topics.

## Building a multi-adviser Partner practice

Based in Wrexham, Hadlow Edwards was formed in 2006 when Warren Hadlow and Medwyn Edwards merged their single Partner practices. Since then, Hadlow Edwards has expanded rapidly with the support of St. James's Place. The original directors have been joined by James Parry, who is also a shareholder having acquired an equity stake using bank funding facilitated by St. James's Place. The advisory team has grown significantly too, with a further six advisers joining the business. Three of these advisers graduated from our Next Generation Academy and another is a former Partner who, with our help, was able to sell his business to Hadlow Edwards and focus his efforts on advising clients.

This nine-strong adviser team is now also supported by nine paraplanners, a further nine operational staff, and an Operations Director.

In just 12 years, Hadlow Edwards has built a business delivering trusted, personal advice and high standards of service to some 2,900 clients with c.£370 million of funds under management.



### KEY PERFORMANCE INDICATORS

## Objective: Continue to grow and develop the Partnership

### PROGRESS DURING 2018

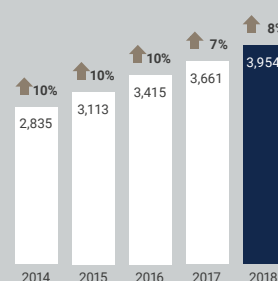
Our proposition continued to be attractive to advisers in the year. The Partnership also welcomed graduates from our Academy initiatives and new recruits in Asia.

The graphs below set out St. James's Place Partnership-related KPIs. Further information about why these KPIs are important can be found in the Glossary of Key Performance Indicators on page 226.

# 8%

### INCREASE IN ADVISER NUMBERS FOR 2018

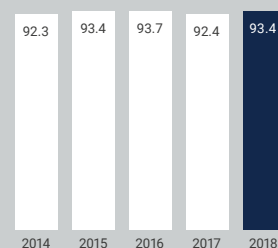
Number of advisers



# 93%

### ADVISER RETENTION FOR 2018

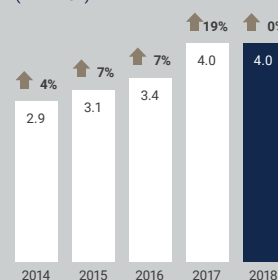
Adviser retention (percentage)



# £4.0m

### GROSS INFLOWS PER ADVISER FOR 2018

Gross inflows per adviser (£' Million)



## FUNDS

# We are increasing funds under management.

### Our core Investment Management Approach

Successful investment is critical to the future financial wellbeing of our clients, but it is a field which presents a unique problem: future performance is unpredictable. Clearly, the best investment talent is not confined to one firm or location. We want the freedom and flexibility to access the skills of the best investment managers around the globe to help our clients achieve their financial goals. For that reason, we do not employ in-house investment managers. Instead, we carefully select and contract a number of external managers to manage our range of funds.

In doing so, we are able to provide our clients with unique access to fund management expertise that is often only available to large institutional investors or overseas retail investors. These exclusive relationships are what help sets our approach apart, providing clients with diversification and expertise on a global scale that is beyond many wealth managers.

The St. James's Place Investment Committee 'manages the fund managers' on behalf of our clients. The Committee comprises three senior members of the St. James's Place Investment Division and four independent members, who bring a broad range of knowledge and experience. The Committee is further supported by specialist investment consultancy firms – including Stamford Associates and Redington – each contracted for their expertise in particular investment markets.

### Complementary Rowan Dartington offering

In addition to our core Investment Management Approach, a range of complementary investment planning solutions is available through Rowan Dartington, the discretionary fund management and stockbroking arm of St. James's Place. Working together with St. James's Place advisers, Rowan Dartington can create and manage bespoke share portfolios designed to match client

risk profiles and meet specific investment needs or preferences, thereby enriching the proposition available to our clients.

### Research, analysis and monitoring

The data below illustrates the breadth of the research, analysis and monitoring conducted during 2018 by the various functions that support the Investment Committee, which includes the teams at Stamford Associates, Redington and at our head office in Cirencester.

|                                                                                     | 2018 | 2017 |
|-------------------------------------------------------------------------------------|------|------|
| Fund manager monitoring meetings conducted in the UK and overseas                   | 492  | 363  |
| Investment Committee meetings held during 2018                                      | 21   | 20   |
| Investment professionals working exclusively on behalf of St. James's Place clients | 59   | 54   |
| Years of industry experience of Investment Committee members                        | 240+ | 240+ |

### 2018 development

After identifying an opportunity to provide clients with exposure to private assets, a key addition to our fund range in 2018 was the launch of our Diversified Assets (FAIF) managed by KKR in New York. We also improved our Environmental, Social and Governance (ESG) proposition by relaunching our Ethical fund as the Sustainable and Responsible Equity fund, now managed by Impax Asset Management in London. This fund replaces a traditional 'negative screening' process with an 'ESG for alpha' process in the belief that ESG factors are additive to potential investment returns.

### Our focus for 2019

- Refine our IMA including our 'select, monitor and change' processes, to achieve better client outcomes.
- Explore opportunities to broaden the investment proposition and increase fund capacity.
- Further enhance our Responsible Investing capabilities and credentials.
- Continue to grow Rowan Dartington, both organically and through consideration of small, bolt-on acquisitions.

### How we engage

Core to our Investment Management Approach is the ongoing monitoring of our fund managers to ensure they continue to meet our expectations, especially on risk and performance. We interact with our managers primarily through a programme of regular, scheduled engagement meetings with key investment management personnel. These meetings, which are conducted across the world, involve experts from our Investment Committee, the St. James's Place investment analyst team, and our external investment consultants.

## Launch of the Diversified Assets (FAIF)

For many years, investment solutions available to retail investors have focused on traditional equity and bond asset classes. Broadening our investment proposition to provide clients with exposure to private assets was the vision behind our Diversified Assets (FAIF).

This project began in June 2016 with the team at Redington conducting a global search to identify managers with four characteristics: expertise across infrastructure, real estate, private equity, private credit and high-yield credit; a corporate structure facilitating effective management across these asset classes; the desire to adopt a partnership approach with St. James's Place to ensure alignment and transparency; and an ability to offer a competitive fee. The initial research saw Redington engage with ten managers before presenting four potential candidates to St. James's Place.

Further extensive investment and operational due diligence was then undertaken on the shortlisted managers by both St. James's Place and Redington, finally resulting in KKR being formally appointed as the manager of the fund, which was successfully launched in October.

### KEY PERFORMANCE INDICATORS

## Objective: Increase Funds Under Management (FUM)

### PROGRESS DURING 2018

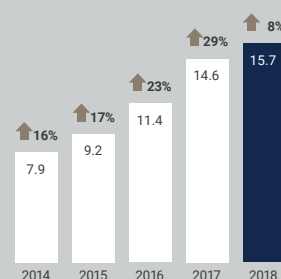
In another successful year, new business from clients, combined with the impact of investment market returns, resulted in an increase in total FUM of £4.8 billion, growth of 5% over the year. This growth feeds directly through to the financial performance in the year.

The graphs below set out St. James's Place fund-related KPIs. Further information about why these KPIs are important can be found in the Glossary of Key Performance Indicators on page 226.

# 8%

### INCREASE IN GROSS INFLOWS IN 2018

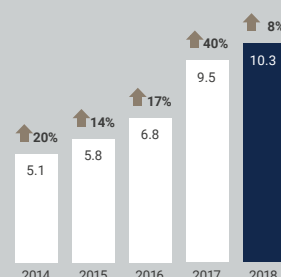
Gross inflows (£' Billion)



# 8%

### INCREASE IN NET INFLOWS IN 2018

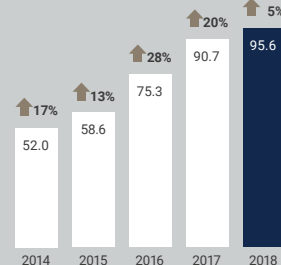
Net inflows (£' Billion)



# 5%

### INCREASE IN FUNDS UNDER MANAGEMENT IN 2018

Funds Under Management (£' Billion)



## FINANCIALS

# We are driving profitable growth.

### Our approach

Our financial business model is straightforward. We attract and then retain funds under management (FUM) on which we receive an annual management fee. This is the principal source of income for the Group, out of which we meet the overheads of the business and invest in growing the Partnership and acquiring new FUM.

The level of income we receive is dependent on the value of our FUM. As a result, growth in FUM is a strong positive indicator of future growth in profits. Due to the structure of some of our products, approximately half of our new business does not generate net Cash result profits in the first six years after it is written. This means that the benefit of these gross inflows into FUM for a given year will not be seen until six years later, as the business becomes cash generative.

The deferral of cash generation on these products means the business always has six years' worth of funds in the 'gestation' period. More information about our fees on FUM can be found in Section 1 of the Financial Review on page 31.

Group expenditure is carefully managed with clear targets set for growth in the core costs of running the Group's infrastructure, which are known as 'Establishment expenses'. Many other expenses increase with business levels and are met from margins in the products. The Group also invests in order to:

- continue building adviser capacity and attracting new funds;
- enhance the Group's future capability to grow over the long-term through the Academy, our discretionary fund management proposition, and St. James's Place Asia; and

- develop administration systems and processes that will accommodate growth, contribute to future improvements in Partner and client experience, and reduce the cost of business processing. Our most significant investment in this area is our new Bluedoor administration platform; further details on the progress we have made migrating to Bluedoor is set out overleaf.

### Performance measurement

Whilst our financial business model is straightforward, the impact of having a life insurance company at the heart of the Group results in accounting complexity under our International Financial Reporting Standards (IFRS) statutory reporting framework. For this reason, we continue, in our Financial Review on pages 30 to 46, to supplement IFRS information with the disclosure of alternative performance measures (APMs). A full Glossary of APMs is provided on page 227, in which we define each APM, explain its use and, if applicable, explain how the measure can be reconciled to the IFRS financial statements. The key APMs used by the Group are set out below.

### 1. Operating, Underlying and Cash results<sup>1</sup>

The Cash results are used by the Board to monitor the annual level of cash profit generated by the business, as they exclude certain non-cash items that are included under IFRS, such as deferred tax and non-cash-settled share option costs. Operating cash shows the emergence of cash from business operations. Underlying cash additionally reflects the cash impact of strategic investments such as Asia. The Cash result includes all other cash items, along with the short-term costs associated with our Bluedoor project.

### 2. European Embedded Value (EEV)

Both the IFRS and Cash results report the financial performance for the year. However, as our business is long term, we supplement these metrics with EEV. Under EEV methodology, the future cash flows expected to arise from the in-force business are modelled and discounted back to present value. This provides the long-term economic value of the business in-force.

<sup>1</sup> The Cash result should not be confused with the IAS 7 consolidated statement of cash-flows, which is presented on page 157.

### How we engage

We maintain close relationships with institutional shareholders and sell-side analysts primarily through direct dialogue and frequent meetings throughout the year. We receive routine feedback from corporate brokers on the views of institutional shareholders, and in 2018 we also commissioned Makinson Cowell, a leading capital markets advisory business, to undertake independent research into shareholder perspectives of the Group and present the findings to the Board.

## Bluedoor

Development of the Bluedoor administration platform has been part of a multi-year investment programme to ensure our future systems and processes can support our overall business objectives. In 2018, we made further significant progress in our programme. During the year we successfully migrated a £24 billion tranche of our accumulation-stage pensions business as well as all of our £5 billion pensions drawdown book. As a result, we now administer around 77% of all new business on Bluedoor, and 63% of total FUM, meaning that we are already benefitting from our investment into this new system.

Looking ahead, 2019 will be another year of intense activity as we focus first on launching new investment bonds on the platform, then on migrating the remaining tranches of our accumulation-stage pensions business, and, finally, migrating our existing investment bond business.

### KEY PERFORMANCE INDICATORS

## Objective: Achieve sustainable growth in reported profit on all measures

### PROGRESS DURING 2018

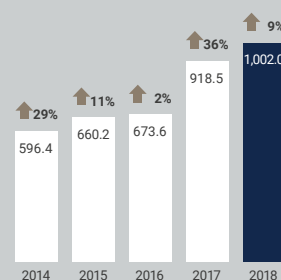
Our business model is simple and is aligned with the needs of both our clients and the Partnership. We have continued to grow FUM through attracting new client assets to the business and maintaining high retention levels, partially offset by weaker investment markets. Growth in FUM is the principal driver of the financial results, and so we are pleased to report a continuation of the trend of recent years.

The graphs below set out St. James's Place financial KPIs. Further information about why these KPIs are important can be found in the Glossary of Key Performance Indicators on page 226.

# 9%

### INCREASE IN EEV OPERATING PROFIT BEFORE TAX IN 2018

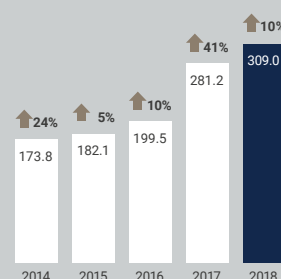
EEV operating profit before tax (£' Million)



# 10%

### INCREASE IN UNDERLYING CASH RESULT IN 2018

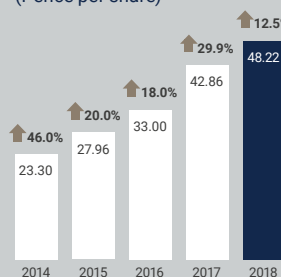
Underlying cash result (£' Million)



# 12.5%

### INCREASE IN FULL YEAR DIVIDEND IN 2018

Dividends (Pence per share)



## PEOPLE

# We are attracting, retaining and developing talent.

### Our employees

Our ability to attract and retain talent is critical to ensuring we can meet both our existing and future business needs and continue delivering exceptional service to the Partnership and their clients. We now have approximately 2,500 employees throughout the Group, working in collaboration with our outsourced providers, the Partnership and their 5,540 support staff. We believe our employees are a key competitive advantage. Therefore, it is important that we create an environment where staff feel valued, have clarity of purpose, believe they can have a fulfilling career full of challenge and opportunity, and where we champion diversity and inclusivity. This environment has contributed to creating a highly engaged workforce where staff turnover is low, underpinning the quality and sustainability of our proposition to advisers and clients alike.

### Our Partnership

Delivering an excellent service to our clients depends on all stakeholders within our community working together with the common purpose of delivering the best outcomes for our clients. We therefore extend our support, culture and values to individuals beyond our employee base and into our Partner practices. An example of this in action is our launch in 2018 of a new development programme for Partner support staff, which was given Chartered Insurance Institute accreditation. The programme involves providing face-to-face coaching, e-learning, webinars, audio presentations and reading packages. This helps to upskill Partner practice back-office teams, while at the same time instilling our unique St. James's Place culture more deeply into the Partnership.

### Our culture and values

St. James's Place is a relationship-focused business and the recognition that people are our most important asset is key to

our culture and a fundamental element of our success. Members of our community tend to share core values that are highly compatible with the values that are central to the business and established at the outset – expertise, integrity and discretion. They are passionate about our business and believe in hard work and dedication. Age, race, colour, creed, sexuality, disability and gender are irrelevant: merit and experience are of greatest importance. They treat each other with mutual respect, openness and fairness, and are driven by a desire to 'do the right thing' by all our stakeholders. We also have a shared commitment to the St. James's Place Charitable Foundation.

As our business grows it is essential that we protect our culture while ensuring that it maintains its relevance. The Board is committed to being consistent and clear-sighted in its leadership and support of the culture, and in particular the principle that 'St. James's Place will seek to do the right thing for its clients and all its stakeholders'. In a world where the reputation of the financial services industry is constantly under pressure, we aspire to create an authentic alternative that clients and suppliers can trust, and which the communities we are part of can appreciate and respect.

### 2018 development

Recognising that we are in a privileged position to be able to support our employees' overall wellbeing, in 2018 we enhanced the support we offer on mental health, including the provision of counselling through our Employee Assistance Programme and mental health first aid training for a group of employees who have now become 'Mental Health Allies'. We have also made progress in our commitment to improve diversity and inclusion. We established a Diversity and Inclusion Steering Group that has driven much activity, including our becoming signatories to the Women in Finance Charter and the 30% Club.

### Our focus for 2019

- Build on our work focusing on employee wellbeing and mental health at work.
- Further develop our employee value proposition and achieve greater diversity in our applicants and hires.
- Invest further in management and leadership training and establish renewed focus on employee career development.
- Improve our reward offering by ensuring alignment with our meritocratic culture and expand our flexible benefits proposition.
- Develop a rolling three-year diversity and inclusion implementation plan.

### How we engage

We utilise a variety of physical and digital channels to communicate with employees, from our Annual Company Meeting to Directors' lunches, or social media site Yammer and our intranet portal. Our biennial employee survey measures the success of these engagement activities and highlights what our staff value most about being a St. James's Place employee. We are proud of our 2018 results, which saw a 90% response rate and overall engagement score for the Group of 82%.

## Early Careers and Engagement

We have placed significant emphasis during 2018 on investing in our talent of tomorrow with the establishment of our Early Careers programmes, covering our Graduate, Apprentice and Internship schemes which have run alongside Early Engagement activities within schools, colleges and universities. This year we provided 50 paid internship opportunities to students who are still in full-time education, employed 21 new apprentices and eight new rotational graduates. After four years we are proud to have retained 100% of our graduates and after seven years we have retained 91% of our apprentices.

Through our programme of Career Insight days at our head office and our Early Engagement outreach programme within schools, colleges and other organisations which focus on youth employability and social mobility, we have reached in excess of 3,000 pupils and shared with them the exciting opportunities that a career at St. James's Place can offer.

### KEY METRICS

Objective: Attract, retain and develop talent

**88%**

**OF OUR EMPLOYEES FEEL PROUD TO WORK FOR ST. JAMES'S PLACE**

versus the 81% financial services (FS) average.

**85%**

**OF OUR EMPLOYEES SAY THAT WORKING AT ST. JAMES'S PLACE MAKES THEM WANT TO DO THE BEST THEY CAN**

versus the 83% FS average.

**83%**

**OF OUR EMPLOYEES WOULD RECOMMEND ST. JAMES'S PLACE AS A GREAT PLACE TO WORK**

versus the 78% FS average.



## CHIEF FINANCIAL OFFICER'S REPORT



**CRAIG GENTLE**, Chief Financial Officer  
craig.gentle@sjp.co.uk

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

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

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

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

### Financial results

Whilst our financial business model remains straightforward, the impact of having a significant life insurance company at the heart of the Group results in accounting complexity under IFRS. For this reason, in our Financial Review on pages 30 to 46, we continue to supplement IFRS information with EEV information as well as further detail on the way in which cash emerges within the business.

The detailed results are presented in the Financial Review which shows strong results on every measure, but there are a number of factors that merit emphasis:

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

# £309.0m

**UNDERLYING CASH RESULT**  
(2017: £281.2m)

# £1,002.0m

**EEV OPERATING PROFIT**  
(2017: £918.5m)

# 48.22 pence per share

**FULL YEAR DIVIDEND**  
(2017: 42.86 pence per share)

## Dividend

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

## Capital and solvency

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

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

We provide information on our Solvency II position on page 45. Our solvency ratio at 31 December 2018, prior to the payment of the proposed final dividend, is 137% (31 December 2017: 139%) which demonstrates the financial strength of the business.

## Concluding remarks

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

**CRAIG GENTLE**  
Chief Financial Officer  
26 February 2019

## Key financial information

|                                                      | Page<br>reference | Year ended<br>31 December<br>2018 | Year ended<br>31 December<br>2017 |
|------------------------------------------------------|-------------------|-----------------------------------|-----------------------------------|
| <b>FUM-based metrics</b>                             |                   |                                   |                                   |
| Gross inflows (£'Billion)                            | 31                | <b>15.7</b>                       | 14.6                              |
| Net inflows (£'Billion)                              | 31                | <b>10.3</b>                       | 9.5                               |
| Total FUM (£'Billion)                                | 31                | <b>95.6</b>                       | 90.7                              |
| Total FUM in gestation (£'Billion)                   | 32                | <b>33.5</b>                       | 30.6                              |
| <b>IFRS-based metrics</b>                            |                   |                                   |                                   |
| IFRS profit before shareholder tax (£'Million)       | 33                | <b>211.9</b>                      | 186.1                             |
| IFRS profit after tax (£'Million)                    | 34                | <b>173.5</b>                      | 145.8                             |
| Underlying profit before shareholder tax (£'Million) | 34                | <b>278.6</b>                      | 245.1                             |
| IFRS basic earnings per share (EPS) (Pence)          |                   | <b>33.0</b>                       | 27.8                              |
| IFRS diluted EPS (Pence)                             |                   | <b>32.4</b>                       | 27.4                              |
| IFRS net asset value per share (Pence)               |                   | <b>192.5</b>                      | 200.0                             |
| Dividend per share (Pence)                           |                   | <b>48.22</b>                      | 42.86                             |
| <b>Cash result-based metrics</b>                     |                   |                                   |                                   |
| Operating cash result (£'Million)                    | 36                | <b>342.8</b>                      | 308.6                             |
| Underlying cash result (£'Million)                   | 36                | <b>309.0</b>                      | 281.2                             |
| Cash result (£'Million)                              | 36                | <b>268.7</b>                      | 252.6                             |
| Underlying cash result basic EPS (Pence)             |                   | <b>58.7</b>                       | 53.6                              |
| Underlying cash result diluted EPS (Pence)           |                   | <b>57.8</b>                       | 52.7                              |
| <b>EEV-based metrics</b>                             |                   |                                   |                                   |
| EEV operating profit (£'Million)                     | 41                | <b>1,002.0</b>                    | 918.5                             |
| EEV operating profit after tax basic EPS (Pence)     |                   | <b>158.0</b>                      | 143.9                             |
| EEV operating profit after tax diluted EPS (Pence)   |                   | <b>155.4</b>                      | 141.5                             |
| EEV net asset value per share (Pence)                |                   | <b>1,109.0</b>                    | 1,067.5                           |
| <b>Solvency-based metrics</b>                        |                   |                                   |                                   |
| Solvency II net assets (£'Million)                   | 45                | <b>1,108.0</b>                    | 1,095.1                           |
| Management solvency buffer (£'Million)               | 45                | <b>491.0</b>                      | 461.9                             |
| Solvency II free assets (£'Million)                  | 45                | <b>1,060.1</b>                    | 944.1                             |
| Solvency ratio (Percentage)                          | 45                | <b>143%</b>                       | 139%                              |

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

## FINANCIAL REVIEW

### THIS FINANCIAL REVIEW PROVIDES ANALYSIS OF THE GROUP'S FINANCIAL POSITION AND PERFORMANCE.

The Review is split into the following sections:

#### Section 1: Funds under Management (FUM)

- 1.1 FUM analysis
- 1.2 Gestation

As set out on page 24, Funds under Management (FUM) is a key driver of ongoing profitability on all measures, and so information on growth in FUM is provided in Section 1.

► Find out more on pages 31 to 33

#### Section 2: Performance measurement

- 2.1 International Financial Reporting Standards (IFRS)
- 2.2 Cash result
- 2.3 European Embedded Value (EEV)

Section 2 analyses the performance of the business using three different bases: International Financial Reporting Standards (IFRS), the Cash result, and European Embedded Value (EEV).

► Find out more on pages 33 to 44

#### Section 3: Solvency

Section 3 addresses Solvency, which is an important area given the multiple regulated activities carried out within the Group.

► Find out more on pages 44 to 46

## The financial model

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

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

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

## Section 1: Funds Under Management

### 1.1 FUM analysis

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

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

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

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

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

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

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

<sup>1</sup> Other movements in 2017 related to the matching strategy disinvestment, and in 2016 related to the acquisition of the Rowan Dartington Group.

## FINANCIAL REVIEW CONTINUED

### 1.1 FUM analysis continued

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

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

### 1.2 Gestation

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

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

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

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

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

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

|      | Proportion of gross<br>inflows into gestation<br>% |
|------|----------------------------------------------------|
| 2018 | 59.4                                               |
| 2017 | 56.5                                               |
| 2016 | 53.8                                               |
| 2015 | 53.5                                               |
| 2014 | 51.5                                               |

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

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

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

## Section 2: Performance measurement

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

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

APMs are not defined by the relevant financial reporting framework (which for the Group is IFRS), but we use them to provide greater insight to the financial performance, financial position and cash flows of the Group and the way it is managed. A complete Glossary of Alternative Performance Measures is set out on pages 227 to 229, in which we define each APM used in our Financial Review, explain why it is used and, if applicable, explain how the measure can be reconciled to the IFRS financial statements.

### 2.1 International Financial Reporting Standards (IFRS)

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

- Profit before shareholder tax; and
- Underlying profit.

Further information on these IFRS-based measures is set out below, on pages 33 to 35.

#### PROFIT BEFORE SHAREHOLDER TAX

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

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

## FINANCIAL REVIEW CONTINUED

### 2.1 International Financial Reporting Standards (IFRS) continued

The following table demonstrates the way in which profit before shareholder tax is presented in the IFRS consolidated statement of comprehensive income on page 154:

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

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

#### UNDERLYING PROFIT

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

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

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

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

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

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

### Net impact of DAC

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

### Net impact of DIR

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

## 2.2 Cash result

The Cash result is used by the Board to assess and monitor the level of cash profit (net of tax) generated by the business. It is based on IFRS with adjustments made to exclude certain non-cash items, such as DAC, DIR, deferred tax and non-cash-settled share option costs. Further details, including the full definition of the Cash result, can be found in the Glossary of Alternative Performance Measures on pages 227 to 229. Although the Cash result should not be confused with the IAS 7 consolidated statement of cash-flows, it provides a helpful supplementary view of the way in which cash is generated and emerges within the Group.

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

|                                       | Year ended<br>31 December 2018 |               | Year ended<br>31 December 2017 |           |
|---------------------------------------|--------------------------------|---------------|--------------------------------|-----------|
|                                       | Before<br>shareholder tax      | After tax     | Before<br>shareholder tax      | After tax |
|                                       | £'Million                      | £'Million     | £'Million                      | £'Million |
| <b>Underlying profit</b>              | <b>278.6</b>                   | <b>227.9</b>  | 245.1                          | 193.9     |
| Non-cash-settled share-based payments | <b>33.4</b>                    | <b>33.4</b>   | 30.5                           | 30.5      |
| Deferred tax impacts                  | –                              | <b>31.8</b>   | –                              | 15.0      |
| Other                                 | <b>(24.8)</b>                  | <b>(24.4)</b> | 14.7                           | 13.2      |
| <b>Cash result</b>                    | <b>287.2</b>                   | <b>268.7</b>  | 290.3                          | 252.6     |

The increase in **non-cash-settled share-based payments** reflects the recent strong performance of the Group, and more detail can be found in Note 19 on pages 197 to 201.

The most significant **deferred tax impact** in 2018 and 2017 is recognition in the Cash result of the benefit from realising tax relief. This has already been recognised under IFRS, and hence Underlying profit, through the establishment of deferred tax assets. More information can be found in Note 7 on pages 171 to 173.

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

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

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

## FINANCIAL REVIEW CONTINUED

## 2.2 Cash result continued

## CONSOLIDATED CASH RESULT (PRESENTED POST-TAX)

|                                              | Note | Year ended<br>31 December 2018 |                           |                    | Year ended<br>31 December<br>2017 |
|----------------------------------------------|------|--------------------------------|---------------------------|--------------------|-----------------------------------|
|                                              |      | In-force<br>£'Million          | New business<br>£'Million | Total<br>£'Million | Total<br>£'Million                |
| <b>Operational</b>                           |      |                                |                           |                    |                                   |
| Net annual management fee                    | 1    | 633.4                          | 61.2                      | 694.6              | 623.2                             |
| Reduction in fees in gestation period        | 2    | (306.5)                        | –                         | (306.5)            | (266.1)                           |
| <b>Net income from FUM</b>                   | 3    | 326.9                          | 61.2                      | 388.1              | 357.1                             |
| Margin arising from new business             | 4    | –                              | 140.8                     | 140.8              | 129.4                             |
| Establishment expenses                       | 5    | (17.3)                         | (153.3)                   | (170.6)            | (150.4)                           |
| Operational development expenses             | 5    | –                              | (20.1)                    | (20.1)             | (15.6)                            |
| Regulatory fees and FSCS levy                | 5    | (2.1)                          | (18.8)                    | (20.9)             | (23.9)                            |
| Academy <sup>1</sup>                         | 5    | –                              | (8.4)                     | (8.4)              | (6.6)                             |
| Shareholder interest                         | 6    | 14.1                           | –                         | 14.1               | 9.9                               |
| Tax relief from capital losses               | 7    | 29.7                           | –                         | 29.7               | 12.1                              |
| Miscellaneous                                | 8    | (9.9)                          | –                         | (9.9)              | (3.4)                             |
| <b>Operating cash result</b>                 |      | 341.4                          | 1.4                       | 342.8              | 308.6                             |
| Asia                                         | 9    | –                              | (16.7)                    | (16.7)             | (15.1)                            |
| DFM                                          | 9    | –                              | (10.1)                    | (10.1)             | (6.9)                             |
| Strategic development costs                  | 9    | –                              | (7.0)                     | (7.0)              | (5.4)                             |
| <b>Underlying cash result</b>                |      | 341.4                          | (32.4)                    | 309.0              | 281.2                             |
| Back-office infrastructure development costs | 9    |                                |                           | (35.8)             | (21.7)                            |
| Variance                                     | 10   |                                |                           | (4.5)              | (6.9)                             |
| <b>Cash result</b>                           |      |                                |                           | 268.7              | 252.6                             |

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

### Notes to the Cash result

1. The **net annual management fee** is the net manufacturing margin that the Group retains from FUM after payment of the associated costs (for example, investment advisory fees and Partner remuneration). Broadly speaking the Group receives an average net annual management fee of 0.77% (post-tax) of FUM (2017: 0.77% (post-tax)).
2. As noted on page 32 however, our investment and pension business product structure means that these products do not generate net Cash result (after the initial margin) during the first six years, (the gestation period). This is reflected in the **reduction in fees in gestation period** line. Further information is provided on pages 32 and 33.
3. **Net income from FUM** reflects Cash result income from FUM that has reached maturity.
4. **Margin arising from new business** is the net positive Cash result impact of new business in the year, reflecting gross inflows and production related expenses. The driver for this income line is gross inflows and the result is expected to move broadly in line with the pattern of gross inflows attracted.
5. **Establishment expenses, operational development expenses, regulatory fees and FSCS levy** represent the expenses of running the Group. **Academy** expenses represent the cost of running our Academy and Next Generation Academy. More detail is provided in Section 2.2.2.
6. **Shareholder interest** is the income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the Group.
7. In recent years, a deferred tax asset has been established in IFRS for historic capital losses which are regarded as being capable of utilisation over the medium-term. The tax asset is ignored for Cash result purposes as it is not fungible, but instead the cash benefit realised when losses are utilised is shown in the **tax relief from capital losses** line. Utilisation during the year of £29.7 million tax value (2017: £12.1 million) was ahead of our expected rate of c. £10-12 million benefit in a year, largely because investment market conditions have meant that accelerated relief has been available.
8. **Miscellaneous** represents the cash flow of the business not covered in any of the other categories. It includes ongoing administration expenses and associated policy charges, utilisation of the deferred tax asset in respect of prior years' unrelieved expenses (due to structural timing differences in the life company tax computation) and movements in the fair value of renewal income assets.
9. **Asia, DFM, strategic development costs** and **back-office infrastructure costs** reflect significant investments in developing our business for the future. Each of these investments are expected to result in either additional funds (Asia and DFM) or operational improvements (back-office infrastructure) in the future. Advice margin and fund management fees generated in Asia, and all fees generated by DFM, are also reflected in these lines.
10. **Variance** reflects a number of small non-recurring items incurred during the year. In 2017 this specifically included 25th anniversary costs, such as the impact of double matching for the Charitable Foundation.

## FINANCIAL REVIEW CONTINUED

### 2.2 Cash result continued

#### 2.2.1 DERIVATION OF THE CASH RESULT

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

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

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

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

**Adjustment 1** nets out the policyholder interest in unit-linked assets and liabilities.

**Adjustment 2** comprises adjustment to the IFRS statement of financial position in line with Solvency II requirements, including removal of DAC, DIR, PVIF and their associated deferred tax balances, goodwill and other intangibles.

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

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

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

## 2.2.2 EXPENSES

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

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

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

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

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

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

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

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

## FINANCIAL REVIEW CONTINUED

### 2.2 Cash result continued

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

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

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

#### Reconciliation to IFRS expenses

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

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

The following table reconciles the expenses presented explicitly in the Cash result to the IFRS expenses as set out in the statement of comprehensive income on page 154:

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

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

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

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

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

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

## 2.3 European Embedded Value (EEV)

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

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

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

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

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

### Notes to the EEV result

#### 1. Funds management business EEV operating profit

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

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

## FINANCIAL REVIEW CONTINUED

### 2.3 European Embedded Value (EEV) continued

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

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

#### 2. Distribution business

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

#### 3. Investment return variance

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

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

#### 4. Economic assumption changes

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

### NEW BUSINESS MARGIN

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

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

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

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

## ECONOMIC ASSUMPTIONS

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

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

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

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

## EEV SENSITIVITIES

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

|                                                                                              | Note | Change in new<br>business contribution |                       | Change in European<br>Embedded Value |
|----------------------------------------------------------------------------------------------|------|----------------------------------------|-----------------------|--------------------------------------|
|                                                                                              |      | Pre-tax<br>£'Million                   | Post-tax<br>£'Million | Post-tax<br>£'Million                |
| <b>Value at 31 December 2018</b>                                                             |      | <b>852.7</b>                           | <b>707.1</b>          | <b>5,871.5</b>                       |
| 100bp reduction in risk-free rates, with corresponding change in fixed interest asset values | 1    | (23.4)                                 | (19.5)                | (95.4)                               |
| 10% increase in withdrawal rates                                                             | 2    | (60.3)                                 | (50.0)                | (302.3)                              |
| 10% reduction in market value of equity assets                                               | 3    | –                                      | –                     | (586.5)                              |
| 10% increase in expenses                                                                     | 4    | (20.6)                                 | (17.2)                | (70.7)                               |
| 100bp increase in assumed inflation                                                          | 5    | (25.3)                                 | (21.1)                | (108.3)                              |

### Notes to the EEV sensitivities

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

## FINANCIAL REVIEW CONTINUED

### 2.3 European Embedded Value (EEV) continued

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

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

#### ANALYSIS OF THE EEV RESULT

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

|                                  | 31 December<br>2018<br>£'Million | 31 December<br>2017<br>£'Million |
|----------------------------------|----------------------------------|----------------------------------|
| Value of in-force business       | 4,763.5                          | 4,552.6                          |
| Solvency II net assets           | 1,108.0                          | 1,095.1                          |
| <b>Total embedded value</b>      | <b>5,871.5</b>                   | <b>5,647.7</b>                   |
|                                  | Pence                            | Pence                            |
| <b>Net asset value per share</b> | <b>1,109.0</b>                   | <b>1,067.5</b>                   |

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

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

## Section 3: Solvency

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

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

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

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

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

1 After payment of year-end intra-group dividend.

2 Before payment of the Group final dividend.

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

## Solvency II Balance Sheet

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

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

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

1 After payment of year-end intra-group dividend.

2 Before payment of the Group final dividend.

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

## FINANCIAL REVIEW CONTINUED

### Solvency II sensitivities

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

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

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

#### Notes to the Solvency II sensitivities

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

## RISK AND RISK MANAGEMENT

# Risk management is embedded within our culture and therefore is a core aspect of decision-making.

### Overview and culture

The St. James's Place Group is exposed to a wide variety of risks due to its business activities and the industry in which it operates. In addition, the Group is also exposed to a number of external factors and threats. Under the leadership, direction and oversight of our Board, these risks are carefully managed, contributing to our competitive advantage and helping us to achieve our client and business objectives (as set out on pages 18 to 25).

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

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

### Risk appetite

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

In particular, it articulates risks that are:

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

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

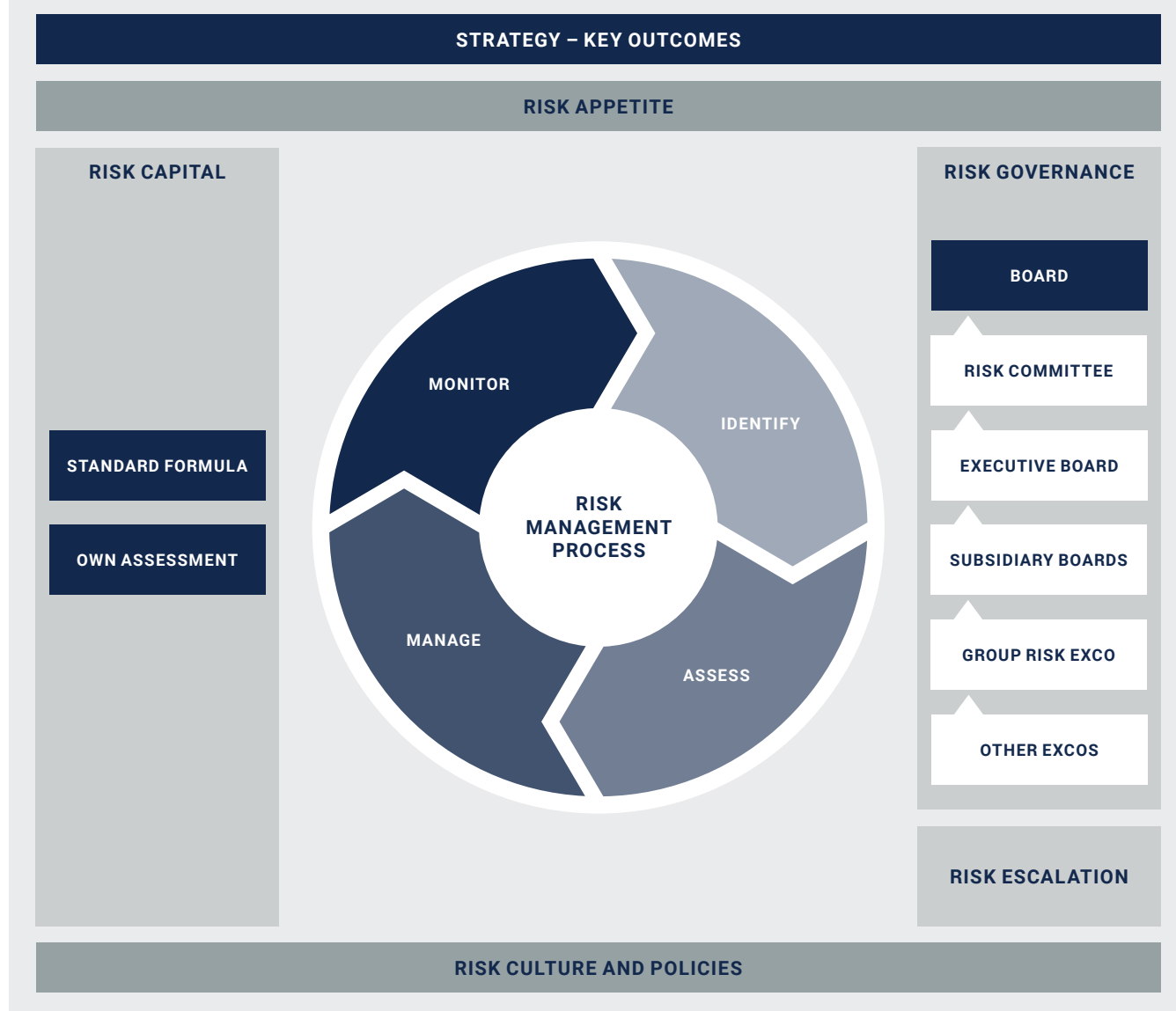
The Risk Appetite Statement includes a risk appetite scale. This scale has several risk acceptance levels, ranging from no appetite for taking risk at all, through to acceptance of a risk. The level of risk we are willing to accommodate will vary dependent on individual risk scenarios. The decisions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

## RISK AND RISK MANAGEMENT CONTINUED

### Risk Management Framework

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

The Group's Own Risk and Solvency Assessment (ORSA) is a central part of this framework, the main elements of which are shown in the following diagram.



The Risk Committee comprises Independent Non-executive Board members and is responsible for ensuring a risk culture (of effective risk identification and management) is fostered across the Group. The Risk Committee report on pages 106 to 110 provides further detail. A report of its activity during the year can be found on pages 108 and 109.

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

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

#### CLIENTS

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

#### PARTNERSHIP

That we continue to grow and develop the Partnership.

#### PEOPLE

That we treat all of our stakeholders well.

#### REGULATORS

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

#### FINANCIALS AND SHAREHOLDERS

That we deliver sustainable growth in reported profits on all measures.

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

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

### ‘Three lines of defence’ model

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

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

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

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

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

## RISK AND RISK MANAGEMENT CONTINUED

### Own Risk and Solvency Assessment (ORSA)

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

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

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

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

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

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

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

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

### Internal control

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

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

### CONTROL SELF-ASSESSMENT (CSA)

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

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

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

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

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

## FINANCIAL REPORTING PROCESSES

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

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

## Principal risks and uncertainties

The following tables summarise the principal risks and uncertainties that are inherent within both the Group's business model and the market in which we operate. These are the risks which could have a material impact on the key strategic outcomes in the five areas set out on page 49. The Board and the boards of the insurance entities have responsibility for assessing their main risks and these are monitored on a regular basis by the Risk Committee, the Executive Board, the SJPUK and SJPI boards, the SJPI Risk and Compliance Committee, the SJPI Singapore Branch Executive Management Committee and the Board of SJPI (Hong Kong) Limited.

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

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

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

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

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

## RISK AND RISK MANAGEMENT CONTINUED

## Non-financial risks

| Risk                                       | Description                                                                                                                                                                                                                                                                                                                                | Outcome                                        | Management and controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Systemic advice failure</b>             | Clients rely on their SJP advisers for the provision of initial and ongoing advice. Failures in the quality of advice or documentation of advice could lead to redress costs, reputational damage and regulatory intervention.                                                                                                             | Clients                                        | There are many processes in place to mitigate this risk, including detailed advice guidance with appropriate governance around changes and updates, appropriate incentive structures, adviser training and accreditation, compliance procedures, monitoring processes and quality checking. The Group guarantees the suitability of advice given by advisers and also has appropriate professional indemnity insurance in place.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Outsourcing failure</b>                 | The Group's business model involves the outsourcing of administration and custodial services to third parties. Poor service from, or failure of, one of these third parties could lead to disruption of services to clients, reputational damage and profit impacts.                                                                       | Clients, Financials and Shareholders           | <p>We maintain close working relationships with our outsourcing partners, who are central to our business model. This enables us to work effectively and efficiently together. Service level agreements are in place and performance is monitored against these.</p> <p>With any significant migration programme such as the Bluedoor administration system, implementation is backed up with a project focus on outcomes and an understanding of associated operational risks. Group Risk and Internal Audit work closely with the programme teams, with the Executive Board overseeing project readiness risk assessments and audits along with contingency plans.</p> <p>We also work closely with our outsourcing business partners to understand any material changes to their businesses which may impact us, with regular reviews including monitoring of the outsourced company's financial strength. In the case of an extreme event, all our relationships are governed by formal agreements with notice periods. The business continuity arrangements of each outsourcer are also regularly tested and improved, and scenario analysis is carried out.</p> |
| <b>Cyber risk and information security</b> | Cyber risk, which could include loss of data, system control or system availability, continues to be one of the top risks facing individuals and organisations. A successful cyber-attack could result in disruption or distress for clients, advisers, and employees, as well as resulting in reputational damage and regulatory censure. | Clients, Advisers, Financials and Shareholders | The leading cause of information security incidents are individuals unknowingly or inadvertently enabling the attack, so awareness is the most effective defence. We maintain an active and on-going awareness programme on information security threats and how to prevent or respond to them for employees and advisers. This is supported by system maintenance, data leakage (prevention and detection) technologies and vulnerability testing. In addition an incident reporting system ensures a rapid response if an incident does occur. We also ensure our outsourcing partners have robust information security programmes in place and use secure means for transmitting data to and from these organisations.                                                                                                                                                                                                                                                                                                                                                                                                                                             |

| Risk                                                     | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Outcome                     | Management and controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Investment performance fails to meet client expectations | Our approach to investment management may fail to deliver expected returns to clients of the Group or the range of products and services offered may become inappropriate for client needs.                                                                                                                                                                                                                                                                                                                                                                           | Clients                     | We offer a broad range of funds and portfolios, which allows client diversification and mitigates our new business, persistency and market risks. We actively manage and monitor the performance of our investment managers through the Investment Committee (which is supported by respected independent investment research consultancies) and review the ongoing suitability of portfolio asset allocation through the Portfolio Committee. We perform ongoing due diligence and appropriateness reviews on third-party products at least annually.                                                                                                                                                                                                                                                                                               |
| Adviser proposition, recruitment and retention           | Group products are distributed, and ongoing advice is provided, exclusively through the SJP Partnership. Inadequacies in the adviser proposition, range of products, technology or services offered to the Partnership may result in inefficiencies and frustration, with consequent loss of advisers and client impact, or inability to recruit sufficient, high-quality new advisers or field management.                                                                                                                                                           | Advisers                    | The adviser proposition is an area of continual focus, with outputs from regular adviser surveys and other adviser feedback being reflected on an ongoing basis. We employ a number of specialist managers specifically to manage the recruitment and retention of high-quality advisers, and a dedicated senior management team oversees the SJP Academy, which broadens our recruitment streams. Formal retention strategies are in place to ensure that, wherever possible, we retain good quality and experienced advisers. All recruitment and retention activity is closely monitored. Business Sale and Purchase Agreements incentivise Partners to build up high-quality sustainable practices and enable the Company to manage succession of the Partnership, thereby ensuring continuity of service to clients and funds under management. |
| Regulatory, legislative and tax environment              | <p>The nature of the Group is such that it falls under the influence of regulators and legislators in multiple jurisdictions. Transformative regulatory, or indeed political changes, could impact adversely on our current business model.</p> <p>The Group could face a fine or regulatory censure from failure to comply with current and/or future regulations, with increased supervisory intrusion, disruption to business and potential for changes to the business model.</p>                                                                                 | Regulators                  | Regulatory and legislative change is largely a risk which cannot be mitigated, although the Group seeks to engage with regulators and policy makers in an open and constructive manner, with the aim that key issues impacting the Group are taken into consideration in the drafting of changes. Our governance structures, management committees and compliance monitoring activities seek to ensure we remain compliant with regulation.                                                                                                                                                                                                                                                                                                                                                                                                          |
| Competition and charge pressure                          | The competitive environment in which we operate continues to evolve with the need for dependable wealth management advice increasing whilst regulation and technology are changing the nature and accessibility of available information. Competitor activity in the adviser-based wealth management market may result in a reduction in new business volumes, reduced retention of existing business with the resulting impact on ongoing advice fees, pressure on margins for both new and existing business, and the potential loss of advisers and key employees. | Financials and Shareholders | This risk is mitigated through ensuring our business is run efficiently, being responsive to the needs of our clients and advisers and seeking continual improvements to processes. Charges are benchmarked against competitors and competitor activity is monitored allowing action to be taken in a timely manner if required. The Group offers a diversified product range, including manufactured and third-party products. We have a proven track record in adviser and employee acquisition and retention. Our more established advisers often have significant equity stakes in their practices and their ability to access these is structured to aid retention. Similarly, variable remuneration of key employees is structured to aid retention.                                                                                           |

## RISK AND RISK MANAGEMENT CONTINUED

## Non-financial risks continued

| Risk                 | Description                                                                                                                                                                                                                                                                                        | Outcome                     | Management and controls                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Funding availability | Pressure on funding availability may limit the Group's ability to provide business loans to Partners to make strategic investments.                                                                                                                                                                | Financials and Shareholders | A debt funding policy is in place, with committed funds available through the revolving credit facility and securitisation. Credit approved bank lending facilities are available to support business loans to Partners. Further corporate borrowing requires approval at Board level.                                                                                                                  |
| People and culture   | People and the distinctive culture of the Group play an important part in its success. Poorly managed recruitment, expansion, succession, culture and resourcing may lead to loss of valued individuals, lack of diversity, increased risk of errors, and failure to deliver on the business plan. | People                      | This risk is mitigated through effective recruitment processes, leadership, succession planning, the implementation of executive and management development initiatives and regular surveys and consultation groups. The latter enable us to monitor the sentiment of our staff and advisers and identify any potential adverse impacts upon, or trends within, our culture, and respond appropriately. |

## Financial risks

Financial risks relating to credit, liquidity, market and currency risk are explored in Note 16 on pages 183 and 184.

However, should some of the non-financial risks materialise or environmental factors influence our business, it may give rise to a further financial risk, as set out below:

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

## Viability Statement

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

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

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

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

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

From the principal risks on pages 52 to 54 for the purposes of assessing the resilience of the Group's business model, the key risks have been identified. The assessment indicated that none of the identified individual key risks in isolation would compromise the Group's viability financially but could indirectly impact areas such as client satisfaction or reputation.

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

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

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

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

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

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

## CORPORATE RESPONSIBILITY REPORT

# 7.0

### HOURS

Average number of hours our employees gave during working hours in support of our CR activities and the Charitable Foundation.

2017: 5.5 hours

# £853,194

### TOTAL VALUE

Total value of the time our employees gave during working hours.

2017: £672,000



Find out more in our Corporate Responsibility report at [www.sjp.co.uk/cr2018](http://www.sjp.co.uk/cr2018)

# 5.1

### HOURS

Average number of hours our employees gave of their own time in support of our CR activities and the Charitable Foundation.

2017: 7.0 hours

# 17,330

### HOURS

Total number of hours our employees gave of during working hours in support of our CR activities and the Charitable Foundation.

2017: 12,148 hours

# 14

### HOURS

Number of hours our employees receive per year for community support in working hours.

2017: 14 hours

# £7.1m

### INVESTED IN COMMUNITIES

Total cash value we invested this year in supporting our communities and good causes through our corporate responsibility programmes and the Charitable Foundation.<sup>1</sup>

2017: £13.1 million

### PROUD TO BE MEMBERS OF

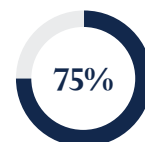


# 97.5%

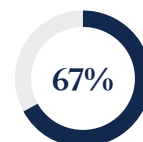
### INVOLVEMENT

Percentage of Group employees involved in supporting our communities and good causes

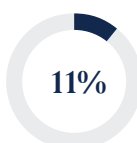
2017: 97.0%



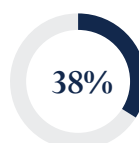
Staff who give monthly through payroll



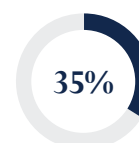
Staff who give through one-off donations



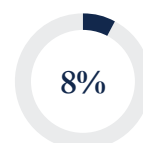
Staff who organise Charitable Foundation activities



Staff who participate in Charitable Foundation fundraising events



Staff who participate in corporate responsibility activities in working hours



Staff who participate in corporate responsibility activities in their own time

# 3.3%

### INVESTED

Percentage of profit before tax invested in supporting our communities and good causes<sup>1</sup>

2017: 7.1%

<sup>1</sup> In 2017, the amount invested benefitted from the Group double matching all funds raised by the St. James's Place community for the Charitable Foundation, to mark the Group's 25th anniversary year.

“Are we changing lives? Are we having a lasting impact? For us it is not about how many people we reach or how many people know about it, but rather considering the depth of change we can create for those we support.”

**ANDREW CROFT**  
Chief Executive

## Having a lasting impact.

### Our approach

Corporate Responsibility (CR) is at the core of our culture. As a business that seeks to do the right thing for all its stakeholders, St. James's Place is committed to acting in a way that considers the long-term economic, social and environmental impacts of what we do. Acting responsibly is also important to all our stakeholders – shareholders, clients, the Partnership, employees, suppliers and the communities in which we operate. As a result, our people demonstrate extremely high levels of CR engagement, both in their work and their own wider community engagement.

Our commitment to CR was established in the founding principles of the Company and is expressed in both the 'Our approach' document, shared with all members of our community, and the 'What it means to be a member' brochure, setting out expectations for Partnership advisers. We actively encourage our people to live by this philosophy through regular Company meetings, newsletters, internal publications and a wide range of prominent fundraising and volunteering events.

All new employees complete a two-day induction programme including learning about the history and culture of our Company, our CR strategy, the St. James's Place Charitable Foundation and how employees can contribute.

Our continued inclusion in the FTSE4Good Index recognises our positive culture and ongoing commitment to CR, and we remain members of Business in the Community, which recognises our support in promoting CR excellence.

### Non-financial information statement

We set out in this Annual Report detail of the approach we take to employees, social matters, respect for human rights, anti-corruption and bribery and the environment, demonstrating our commitment in these areas. To the extent that it is necessary for readers to form an understanding of the development, performance or position of the Company's business activities, we have included further details in this Corporate Responsibility Report on policies pursued and risks that arise from the Company's operations.

### Governance

Responsibility for maintaining our culture, including our CR strategy, is a key focus of the Executive Board, with oversight by the full Board. The Executive Board is supported in this objective (as in all of its work) by a number of sub-committees:

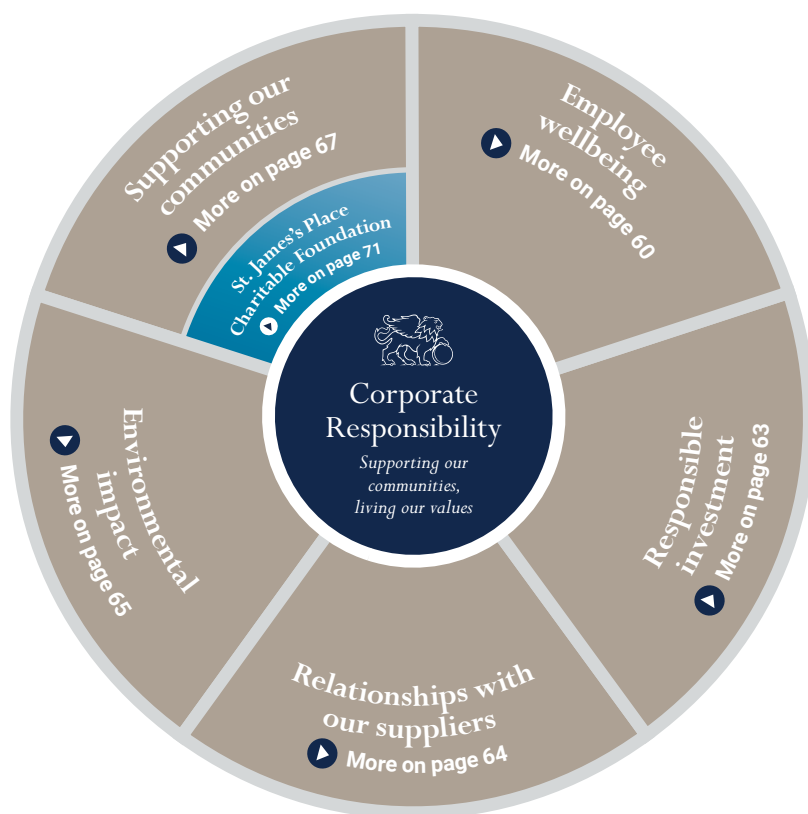
| Responsibility                                       | Managing Committee                        | Executive Board member                           | Remit                                                                                                                                         |
|------------------------------------------------------|-------------------------------------------|--------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Culture and Employee Wellbeing                       | <b>EXECUTIVE BOARD</b>                    | Andrew Croft                                     | To ensure the strength and maintenance of the unique culture throughout our community, and to lead and manage our employees.                  |
| Corporate Responsibility Management and Oversight    | <b>CORPORATE RESPONSIBILITY COMMITTEE</b> | Andrew Croft                                     | To co-ordinate the Group's approach to CR strategy, with particular focus on promoting support for our communities and environmental matters. |
| Responsible Investment                               | <b>INVESTMENT COMMITTEE</b>               | David Lamb<br>(Robert Gardner from 1 March 2019) | To manage our Investment Management Approach and oversee our fund managers, including our approach to responsible investing.                  |
| St. James's Place Charitable Foundation <sup>1</sup> | <b>CHARITABLE FOUNDATION TRUSTEES</b>     |                                                  | To manage the St. James's Place Charitable Foundation, including overseeing grant-making and compliance with the charity's objectives.        |

<sup>1</sup> St. James's Place Charitable Foundation is an independent charity, managed by its Trustees.

## CORPORATE RESPONSIBILITY REPORT CONTINUED

## Our desire to do the right thing by all our stakeholders.

Our CR strategy encompasses the following areas:



### Our strategy

Our CR strategy and approach is integral to St. James's Place's culture and way of working. We look to employ good practice in all areas, understanding that this is an ever-changing target that drives us to always push our ambitions.

St. James's Place is a relationship-focused business and the recognition that our people are our most important asset is both a core cultural belief and a fundamental driver of the success for our Group. Much of our CR strategy is designed to support them as a responsible employer and utilise their skills and passion for community support.

Each of our strategic areas is explored in more detail in this report. However, there are some core strategic principles we apply to all our CR activities:

- To identify specific groups of people in need through our work with local communities, and to change or transform their lives for the better. We strive to have a high impact.
- To place our employees and advisers at the heart of what we do, leveraging their skills and experience to change lives for the better. We look to involve all our employees and all within the Partnership.
- To act in a way that makes our employees proud to work at St. James's Place and inspires them to do more, maintaining our culture of community support.
- To do the right thing using best CR industry practice to support our effectiveness. We do not seek brand awareness, awards or commercial gain from our CR activities.
- To take a long-term sustainable view and measure and evidence the value of what we do, always looking to continuously improve.

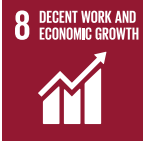
### Our focus for 2019

- To develop a new long-term plan for the future of CR excellence at St. James's Place.
- To establish a volunteering programme for the Partnership based on financial awareness and education – direct to schools, and to people in need through national charities.
- To also support the charities the St. James's Place Charitable Foundation gives funds to, through volunteering the skills and experience of our people.
- To achieve the Business in the Community (BITC) Community Mark as a standard for excellence in community investment.
- To continue to progress our ESG and responsible investment activities.



## United Nations Sustainable Development Goals (UNSDGs)

The UNSDGs provide a blueprint to achieve a better and more sustainable future for all. We seek to align ourselves with the UNSDGs through our CR strategy. We take a strategic approach to CR, using focused work to maximise our impact in the areas most relevant to our business. Through this approach, we look to contribute towards the UNSDGs highlighted below locally, nationally and around the world.

| Sustainable Development Goal                                                                                                 | The global challenge                                                                                                                            | Our role                                                                                                                                                                                                                                                                                                                                                                                                                  | St. James's Place in action                                                                                                                                                                                                                                                                      |
|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <b>4</b> QUALITY EDUCATION                 | Obtaining a quality education is the foundation to creating sustainable development.                                                            | To support schools delivering financial education programmes to year 9 and sixth-form students, with tailored programmes to meet students' needs. These programmes are delivered by our employees, advisers and teachers, following training.                                                                                                                                                                             | In the past three years we have reached 9,500 young people in 90 school sessions, with over 450 employee volunteers giving 2,800 hours in work time to support the schools and colleges local to our offices. Over 120 advisers also gave over 450 hours of their own time in support.           |
|  <b>8</b> DECENT WORK AND ECONOMIC GROWTH | Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.                           | We invest in the personal and professional development of our employees and are committed to supporting early careers by providing work experience, internship, apprentice and graduate programmes.                                                                                                                                                                                                                       | Our employability programme supports individuals in the wider community, before they embark on their careers. We also provide mentor support to local schools and colleges, including National Star College placement students.                                                                  |
|  <b>10</b> REDUCED INEQUALITIES           | To reduce inequalities, policies should be universal in principle, paying attention to the needs of disadvantaged and marginalised populations. | We raise and donate funds to the St. James's Place Charitable Foundation, which enables it to support those in need, making a positive and lasting difference to people's lives. The main focus of grant giving is for children and young people who have additional needs through illness or disability or are disadvantaged in other ways, people affected by cancer or mental health issues, and the hospice movement. | The Charitable Foundation is keen to support small to medium-sized charities that can benefit substantially from relatively small grants. Since 1992 the Charitable Foundation has raised and distributed over £81 million to thousands of these charities. Refer to pages 71 to 75 for details. |
|  <b>13</b> CLIMATE ACTION                 | Climate change is a global challenge that affects everyone, everywhere.                                                                         | Although we are a relatively low-impact business, we recognise that even our business can influence climate change and we manage our business activities to reduce this impact where possible.                                                                                                                                                                                                                            | Our emissions are calculated in line with the Greenhouse Gas Protocol. We continue to purchase renewable electricity in the UK. We remain rated as 'Grade B, Management' by the CDP.                                                                                                             |

## CORPORATE RESPONSIBILITY REPORT CONTINUED

## Our employees are at the heart of what we do.

### Leadership and people development

Building on our long-standing culture of providing a great place for people to develop their careers, in 2018 we have invested in more structured development programmes to accelerate the progression of our most talented employees at all levels. We now have a sequence of four levels of programme, from 'Emerging Talent' through to our Senior Leadership Programme for those aspiring to Executive Board appointments. All programmes follow similar design principles, providing a diverse talent pipeline with the opportunity for participants to develop their individual leadership capability as well as enhance their internal networks. These talent programmes complement the Early Career programmes offered for school leavers and graduates.

We also offer a broad range of development opportunities for all employees covering personal and team development through a range of delivery methods including

a mentoring scheme. In addition, we provide support for employees studying for professional qualifications, and a range of bespoke technical programmes exist across all areas of our business. Employees are supported in developing their careers by their line managers, through regular meetings as well as an annual Personal Development Review process.

We believe our commitment to employee development and providing opportunities for career progression contribute to our low turnover rate (8.5% in 2018).

### Human rights

We are committed to managing our business in an ethical manner and recognise that responsible management is important to all our stakeholders – shareholders, clients, Partners, employees, suppliers and the communities in which we operate. We will not tolerate or condone abuse of human rights (including modern slavery) in any part of our business, and we are committed to minimising the risk of slavery or human trafficking in any part of our supply chain.

All employees receive a copy of our Code of Ethics and our equal opportunities policy, which makes it clear that we oppose all forms of unfair discrimination or victimisation. Our bullying and harassment policy sets out our approach in relation to allegations of harassment and/or bullying. Harassment, in general terms, is defined as unwanted conduct affecting the dignity of people in the workplace. It may be related to age, sex, race, disability, religion, nationality or any personal characteristics of the individual and may be persistent or an isolated incident.

### Anti-bribery and corruption

St. James's Place has a zero-tolerance approach to bribery and corruption. The Board has responsibility for oversight of the Group's anti-bribery and corruption policy and procedures and annually carries out a review of their adequacy. Employees and Partners are provided with training with regards to money laundering, financial crime, fraud, bribery and corruption via online training programmes, the completion of which is compulsory. The anti-bribery and corruption Policy is available on our website, [www.sjp.co.uk](http://www.sjp.co.uk).

### Why this is important

Our people are our most valuable asset and a core reason for our continued success, and this is reflected in the identification of 'People and Culture' as one of our principal risks (see page 54). We look to support them in their professional development and their wellbeing in the workplace. We look to retain our talent for the long term and have a supportive and inclusive culture. We believe that a diverse and inclusive culture is important to the success of our business. Having a diverse community of people from a wide variety of backgrounds, and with a range of experiences, skills and approaches, will help us better understand and meet the needs of clients and advisers, making our business stronger and driving continued growth and innovation.

### Our focus for 2019

- Extend our focus beyond gender diversity by rolling out an internal diversity workshop across our business, to complement the Inclusive Leadership training we run for our Directors and the diversity and inclusion awareness which is built into our high-potential leadership programmes.
- Continue to promote our new approach to flexible working and rolling out training to enable managers to operate in a more agile environment, helping us attract and retain greater diversity.
- Further enhance our employee development proposition for all employees through greater and more flexible access to development.
- Continue to provide a comprehensive range of development programmes to our Partnership businesses, including developing a version of our Senior Leadership Programme for leaders in some of our Partner practices, and providing a professional qualifications framework.

## 'A Great Place to Work'

In October 2018 our Investment Division organised 'A Great Place to Work' week, which focused on staff wellbeing and personal development and kick started the division's 2019 commitment to completing 1,000 hours of community giving. This 'journey' will be mapped against the 1,000 hours walking distance to travel to Gunjur, in The Gambia, the destination of our international community programme.

During the week, 30 people from the division donated at least an hour of their time at the local food bank and contributed some 250kg of food donations, equivalent to 225 food parcels for people in need. In addition, employees were encouraged to go outside or to the local leisure centre during their lunch break, and to arrange walking one-to-one meetings with managers and teams to support both their physical and mental wellbeing.



## CORPORATE RESPONSIBILITY REPORT CONTINUED

### Our employees are at the heart of what we do continued

#### Diversity and inclusion

We have made progress in our approach and culture with our Diversity and Inclusion Steering Group. With an initial focus on gender, we have signed up to the Women in Finance Charter and joined the '30% Club'. We have made a commitment to an improved representation of women on shortlists when recruiting for senior roles. As a result, our proportion of female external appointments into senior roles has increased from 13% in 2017 to 53% in 2018. We have also extended the range of development programmes we offer specifically to support the development of women both in SJP and, externally, as part of the 30% Club mentoring scheme.

More generally, we are committed to equal opportunities for all. We strive to give full and fair consideration to applications from and promotions of disabled people, having regard to their aptitudes and abilities. Where appropriate, we will consider modifications to the working environment so they can take up opportunities or enhance their role, and we aim to assist employees who become ill or disabled, for example, by arranging appropriate training or making adjustments to their role and/or working environment.

As at 31 December 2018 we employed 2,484 people across the world (2,263 in the UK) and the breakdown of our workforce by gender was:

|                              | Female |       | Male  |       |
|------------------------------|--------|-------|-------|-------|
|                              | 2018   | 2017  | 2018  | 2017  |
| Board Directors              | 1      | 2     | 7     | 7     |
| Managers and decision-makers | 166    | 119   | 535   | 478   |
| Total employees              | 1,255  | 1,021 | 1,229 | 1,134 |

#### Employee wellbeing

We provide a comprehensive formal and informal support structure for employees, including private medical, permanent health insurance, critical illness and life cover for all employees. We also provide an employee assistance programme, access to a second opinion referral service and counselling. In 2018, we trained our first cohort of employees on how to identify signs of mental health issues amongst our staff and to sign post where to find support through the national recognised mental health first aid training programme. In addition, through our development we also provide workshops on building resilience and dealing with stress, and we are looking to develop these further.

Underpinning all of this is our belief in a healthy, supportive working culture, where everyone is comfortable to raise issues and problems.

#### Employee engagement

The Group has a calendar of regular communication with employees which includes weekly electronic newsletters, weekly conference call meetings for Managers, and monthly 'Directors Lunches'. Significant business performance communications are managed through a mixture of face-to-face and written channels. In addition, different parts of the business adopt their own local engagement events throughout the year to supplement the corporate messages and reflect the nature of the community; these give all employees the opportunity to give their views on relevant matters. This is over and above our biennial employment engagement survey, which captures the views of our employees across a range of themes and seeks their views on how they feel about working for St. James's Place. The engagement results are shared openly across the business and business leaders work with their teams to discuss the results and together create and implement action plans to address their teams' feedback.

Employees are encouraged to raise issues with their managers or through HR, and we are developing direct means of involvement through company-wide social media. The right to collective bargaining has not been exercised by any of the Group's employees, however were they to do so the Group would look to comply with due process. For further detail refer to the Relations with Stakeholders section of the Corporate Governance Report on page 84.

#### Reward and benefits

Reward is a critical element of our employment proposition for driving delivery of business objectives. We provide market competitive rewards and benefits, that are regularly benchmarked and reviewed. We provide competitive levels of pay and are committed to meeting the living wage for all our employees in the UK (and equivalent initiatives overseas, where relevant). Our bonus arrangements, which all of our employees participate in, recognise and reward contribution to the growth of the business and help drive performance through stretching targets, with clear checks and balances in place to ensure that business goals are only achieved in line with our values, and do not encourage inappropriate behaviour or risk taking.

We provide meaningful protection and wellbeing benefits, including generous pension arrangements, which we regularly review and improve. In 2018, the Company introduced a new flexible benefits scheme, providing our staff with the ability to tailor their benefits package to suit their needs, delivered through a new technology platform which provides access to a wide range of discounts from a number of retailers and also Total Reward illustrations so our staff can see the overall value of their reward package. Over 2,000 employees registered on our flexible benefits platform and over £180,000 was spent by employees on benefits since launching in September.

We also believe it is important that our staff build a sense of ownership as well as sharing in the success of the business and we do this by encouraging employee equity participation through our SAYE and SIP schemes. In fact, it is so popular that over 80% of employees participate.

## Investing responsibly.

### Our approach

The growth in responsible investing strategies – those which include the integration of environmental, social and governance (ESG) factors into investment processes and decision-making – has been one of the most important recent trends in the investment industry and now accounts for \$20 trillion – around a quarter of all professionally-managed assets.

We will be continuing to promote responsible investment principles as a core pillar of our Investment Management Approach. There is good evidence that supporting ESG and responsible investment practices has positive implications, both through the provision of enhanced risk management and, for those investors that have skill, the generation of attractive long-term returns. In addition, awareness of and alignment with ESG and responsible investment principles can be a source of additional, non-financial benefits: helping us to build a better future.

### Governance

Our Responsible Investment Committee is committed to promoting the principles of responsible investing through discussions

with our range of external fund managers and investment consultants. This is evidenced through a programme of engagement and monitoring, such as our annual Responsible Investing and ESG due diligence questionnaires and ESG specific meetings. We have also introduced minimum standards across all of our managers. These standards include the requirement for a robust responsible investing policy statement or document, a named senior individual with responsibility for policy implementation and continuous improvement of ESG practice over time.

Another key step this year has been our active engagement with industry bodies. In February 2018, St. James's Place became a signatory to both the United Nations Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code. We were awarded the highest assessment ratings by both organisations based on the quality of our disclosure and activities. In addition to this, we have become members of the Investment Association's Sustainability and Responsible Investing Committee, which involves working with our peers to further promote sustainable investing within the industry.

### Why this is important

The way in which corporations respond to risks (such as climate change), create sustainable business models, or ensure that all shareholders are fairly treated, are instructive means of assessing the likelihood of continued performance. Incorporating these factors can also lead to a better experience for clients, enabling them to understand how the company's investment strategies may impact the environment, the economy, and their communities.

### Our focus for 2019

Whilst we have made progress over the past 12 months, our activities in this area will continue to expand as we add resources and experience to the team.

Further success will be achieved with the principles of responsible investing at the core of our investment approach. In 2019 we will:

- further integrate the work of the Responsible Investment Committee alongside our Investment Management Approach, with a particular focus on manager assessment and monitoring, portfolio construction and reporting activities;
- continue to engage with key investment stakeholders, notably our external fund managers, but also wider industry players; and
- highlight the importance of our work in this area through better engagement with the Partnership, our clients, and the broader investment community.



### Impax

A tangible example of how responsible investing considerations are reflected in our fund range is the appointment of Impax Asset Management to run our recently renamed Sustainable & Responsible Equity fund. The fund's strategy will explicitly incorporate ESG factors into its investment process as it looks to invest in a portfolio of around 50 companies which are well-positioned for the transition to a globalised sustainable economy.

Kirsteen Morrison, co-manager of the fund, describes how their approach can provide 'an insight into the 'character' of a company and a flavour of how their business model can manage ESG risks and plan for the future'. A thorough analysis of a company's ability to combat emergent threats and establish well-formulated competitive advantages can help make reasoned assessments about the opportunities it presents for sustainable growth.

## \$20 trillion

**TOTAL ASSETS SUBJECT TO RESPONSIBLE INVESTING STRATEGIES ACROSS THE INDUSTRY**

## CORPORATE RESPONSIBILITY REPORT CONTINUED

## Building relationships with our suppliers.

At St. James's Place, we believe in treating all our stakeholders fairly. We also believe in the benefits to be gained from building long-term relationships based on mutual trust. As a result, many of our suppliers have been associated with the Group for a number of years and we have been able to cultivate very strong and mutually beneficial relationships.

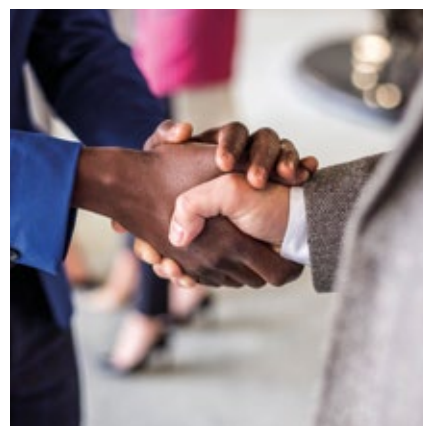
We are committed to managing our business in an ethical manner and recognise that responsible management is important to all our stakeholders. We have implemented procurement policies which not only support us in meeting our regulatory obligations, but also create and promote an internal awareness of how our suppliers should be managed and the legislation which should be complied with.

Our procurement policy requires due diligence to be conducted on new supplier relationships, using a risk-based approach, and ongoing due diligence on an annual basis for critical/key suppliers. We look to work with our suppliers to support good practice. For example, we have been a member of the Real Living Wage Foundation since 2014 and encourage our suppliers to adopt the same approach or, where applicable, an overseas equivalent, ([www.livingwage.org.uk](http://www.livingwage.org.uk)).

We are particularly pleased that many of our suppliers share our desire to make a positive and lasting difference to the lives of those less fortunate than ourselves, and we are very grateful to all those who have provided support to the St. James's Place Charitable Foundation, both through donations and through active participation in many fundraising events.

St. James's Place has always placed great reliance on the support of third-party suppliers. We are pleased to remain signatories of the Prompt Payment Code, which is encouraged by the Department for Business, Energy and Industrial Strategy (BEIS), and demonstrates a commitment to good payment practices between ourselves and our suppliers, as well as providing a defined route for any escalations should the need arise.

During 2019 we will be looking to review opportunities to use social enterprise suppliers, in keeping with our CR approach of doing the right thing.



### Commercial Ltd

St. James's Place have sourced office supplies through Commercial for over 15 years. Where possible, supplies are sourced through the Commercial Foundation, a social enterprise founded by Commercial in 2015 to support disadvantaged young people, helping them to improve their lives and get into work.

"Our two businesses are very aligned in terms of values, especially in relation to sustainability and social value," says Simone Hindmarch, co-founder and managing director of Commercial. "We share joint cultural values, and the belief that 'good business' is a vital part of doing business. We have inspired each other on our journey, and St. James's Place were part of the conversation before we set up the Commercial Foundation."

**"We both believe in giving something back through social enterprise, whether via our Foundation's No Limits programme, or the Young Gloucestershire charity, through which we both support local disadvantaged young people."**

**SIMONE HINDMARCH**

Co-founder and Managing Director, Commercial Ltd.



## Managing our environmental impact.

### Our approach

St. James's Place and our employees are committed to managing our environmental impact through effective monitoring of energy systems, travel, water usage, waste reduction and waste recycling. We remain rated as 'Grade B, Management' by the CDP (formerly Carbon Disclosure Project).

Oversight of our environmental strategy is through a Corporate Responsibility Committee, with ultimate responsibility resting with St. James's Place Chief Executive, Andrew Croft. The Committee regularly reviews environmental performance and is supported by an operational Environmental Committee.

### Our impact

We collect and report our environmental data from October to September. The tables on the following page summarise our targets and progress, expressed in terms of both absolute and normalised carbon dioxide equivalent (CO<sub>2</sub>e) emissions for our core business activities in recent years. Core business activities are defined as those within 'operational control'. Our emissions are calculated in line with the Greenhouse Gas Protocol using the 2018 emission factors provided by the Department for Education, Food and Rural Affairs (DEFRA).

The emissions were calculated by our external sustainability partner, EcoAct.

As our business continues to grow, we have worked to integrate our acquired entities and our offices in Asia into the Company-wide environmental reporting. We are committed to recycling, with furniture recycled from our Solent and Witham offices saving 12,457kg/CO<sub>2</sub>e from going to landfill during the year. During 2018 we have initiated several employee engagement activities, including removing most plastic from our head office canteens, with any remaining plastic being either compostable or both recycled and recyclable, replacing paper towels with energy-efficient hand dryers, and appointing environmental champions in each of our locations.

We continue to purchase our electricity in the UK from renewable sources, reflecting best practice and driving demand in the renewable energy market.

# 12,457kg

**AMOUNT OF CARBON DIOXIDE EQUIVALENT SAVED FROM GOING TO LANDFILL THROUGH FURNITURE RECYCLING**

### 'Print less' August

In August, we launched a month-long challenge across our UK locations to encourage our employees to reduce the amount they print. This involved challenging employees to be as paperless as possible, encouraging them to utilise technology to share or retain information rather than through hard copies. Through this initiative we were able to reduce printing by 30% on average across all our UK locations over the month. The location which achieved the highest level of reduction was our City office, which reduced its printing by 87% over the month. To recognise this achievement, the City office will complete a tree planting team challenge in 2019.



### Why this is important

Although a relatively low-impact business, we recognise that we still have an effect on climate change and recognise it to be one of the major challenges facing the world. As a company that looks to support its clients for the long-term and across generations, we manage our business activities to reduce our carbon impact using good practice where possible.

### Our focus for 2019

- Continue to explore carbon reduction opportunities in our Scope 3 operations.
- Grow our employee engagement and awareness, and initiatives on reducing, reusing and recycling.
- Maintain our CDP 'Grade B, Management' score.
- Identify and review recommendations from the Energy Savings Opportunity Scheme (ESOS) Phase 2.

## CORPORATE RESPONSIBILITY REPORT CONTINUED

## Managing our environmental impact continued

## 1. Targets

## ABSOLUTE EMISSIONS TARGETS

| ID   | Scope                | Description                         | % of emissions in scope | % decrease from base year | Base year | Base year emissions | Target year |
|------|----------------------|-------------------------------------|-------------------------|---------------------------|-----------|---------------------|-------------|
| Abs1 | 1 & 2 (Market based) | Gas, owned vehicles and electricity | 100%                    | 50%                       | 2016      | 2,809               | 2020        |

## 2. Progress

## ABSOLUTE EMISSIONS PROGRESS

| ID   | Scope                | Actual emissions in year (tonnes CO <sub>2</sub> e) | % variance from target | Comment                                                                                                                                                                                                                                                                                                                                                     |
|------|----------------------|-----------------------------------------------------|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Abs1 | 1 & 2 (Market based) | 1,002                                               | -29%                   | In 2016, we set an ambitious target to reduce our Scope 1 & 2 emissions by 50% by 2020 based on our 2016 emissions. In 2018, we purchased 100% renewable electricity for our UK operations, exceeding our target. We will continue to purchase renewable electricity in the UK, reflecting best practice and driving demand in the renewable energy market. |

The table below illustrates the changes in our absolute emissions over the past three years. During this time, we have taken steps to improve our data quality and calculation methodology. This has enabled us to gain a more accurate understanding of our environmental impact and take appropriate mitigating actions.

## 3. Gross emissions

| Scope            | Activity                                                                       | Gross emissions (tonnes CO <sub>2</sub> e) |        |        |
|------------------|--------------------------------------------------------------------------------|--------------------------------------------|--------|--------|
|                  |                                                                                | 2016                                       | 2017   | 2018   |
| 1                | Gas and owned vehicles                                                         | 683                                        | 876    | 835    |
| 2 (Market Based) | Electricity                                                                    | 2,126                                      | 130    | 167    |
| 3                | Business travel, waste, hotel stays, electricity transmission and distribution | 4,847                                      | 8,875  | 8,830  |
| 3                | Property trust and WTT                                                         | 12,130                                     | 15,101 | 13,019 |
| Total            |                                                                                | 19,786                                     | 24,982 | 22,851 |

## NORMALISED EMISSIONS

| Scope            | Normalised emissions in prior year (tonnes CO <sub>2</sub> e per '000 sq ft) | Normalised emissions in year (tonnes CO <sub>2</sub> e per '000 sq ft) | Comment                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------|------------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1                | 2.14                                                                         | 2.04                                                                   | Our Scope 1 intensity has decreased, largely driven by a reduction in the amount of fuel used in Company vehicles. Despite being 100% renewable in the UK, Scope 2 intensity has increased due to increased activity in our Asia offices. Trends in Scope 3 emissions are difficult to predict due to high variability in emissions from business travel and conferences. This year, our intensity has marginally decreased due to a slight reduction in conference emissions. |
| 2 (Market based) | 0.32                                                                         | 0.41                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 3                | 21.64                                                                        | 21.59                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

## Supporting our communities.

### Our approach to engagement

We are proud to be a leading company when it comes to employee engagement with our communities; 97.5% of our employees engaged in our community programmes during 2018. Our activities are separated into the distribution of funds and grants through our Charitable Foundation and support for active engagement and skills-based volunteering by our people through our Community Engagement and Volunteering department. We look to offer a wide range of opportunities with something to suit everyone, and to support them, whether to volunteer for the first time or to become a regular giver of their time and skills.

All our employees are entitled to two volunteering days a year in work time. These days can be used to support the Charitable Foundation, to get involved in our own CR activities or to give their skills directly to a charity or community organisation of their choice. During 2018 30.2% of employees used one of their days, with 13.7% using both or more of their two days.

In addition to these two days, we offer team challenges located in the local community. As these are typically low-skill activities, we do not set targets, but rather look to only set up challenges that meet a genuine need so are often one-off projects. We also link with charities supported by our Charitable Foundation to give employees and Partners across the Group the chance to see their money in action. We also recognise employees' personal volunteering with £300 grants for the charities they support in their own time: 129 grants were given in 2018.

Separately, we have entered the third year of our holistic charity partnership programme, working with a range of charities around our head office in Cirencester to support people in need. We have set up five-year relationships with these charities, giving both unrestricted funds and business expertise aimed to support the charities to become more sustainable and impactful. This year we added a range of cultural grants to our offer, aiming to reduce cultural isolation.

# 97.5%

**OF OUR EMPLOYEES ENGAGED IN  
OUR COMMUNITY PROGRAMMES  
DURING 2018**

### Employability and financial education

As one of the leading providers of financial advice to individuals and business owners in the UK, we recognise the importance and value of financial education and this remains a core focus of our CR programme. During 2018 we again significantly increased the resourcing and delivery of our year 9 and sixth-form financial education courses with schools. Offering a mix of full day, half day and flexible modular programmes we have built a new range of one-hour courses to tailor delivery to meet different schools' needs. We now also offer support for the Partnership to deliver to schools local to them, and in this pilot year reached 1,313 students through 39 of our advisers. We additionally now offer a primary school half day programme in partnership with the charity RedSTART.

We know that our employees cannot volunteer in every school, so through grants we support charities including Young Enterprise, The Money Charity, Career Ready, Urban Stars and The Duke of Edinburgh's Award to reach disadvantaged young people to bridge the gap between education and work. We also look to bring young people into our offices to raise their aspirations and give them experience and skills in finance.

### Why this is important

We are proud of our deeply rooted culture of giving and volunteering, and feel a responsibility to ensure that this effort is used for the biggest impacts. As set out in 'Our approach' on page 57, we look to change the people's lives and use the skills of our highly trained people. The quality of our community investment is a source of pride for people, a regular part of their working time and a reason to work at St. James's Place.

### Our focus for 2019

- Support 35% of our employees to give one day of volunteering in work time.
- Extend our network of CR champions to all our office locations.
- Maintain our exceptionally high levels of employee engagement.
- Expand our head office holistic charity partnership programme to our office locations.

## CORPORATE RESPONSIBILITY REPORT CONTINUED

## Supporting our communities continued

## The St. James's Place Charitable Foundation

Giving is a strong part of our culture with over 75% of our employees donating each month through their wages to our Charitable Foundation. We are proud to match, pound for pound, donations to the Charitable Foundation and, as a result, in 2018 St. James's Place gave £4.5 million.

The Charitable Foundation has been supporting those in need since 1992, making a positive and lasting difference to the lives of children and young people who are disadvantaged economically, socially or through disability, people affected by cancer or poor mental health, and the hospice movement. The Charitable Foundation specialises in funding and developing small grass-roots charities. Further information is provided on pages 71 to 75.

In 2018, research was commissioned on the Charitable Foundation's 2016 grants. The research evidenced the effectiveness of our ambition to reach out to those most in need and change their lives: in 2016 we gave grants to 686 different organisations, 60% of which have fewer than ten employees, in all reaching nearly 350,000 direct beneficiaries and 1.2 million indirect beneficiaries. Importantly, 28% of beneficiaries reported some substantive improvement in their lives with another 56% reporting they had made a transformation. For every 100 people supported, 28 developed a positive change in behaviour or attitude and another 28 developed new skills; overall, 97 reported an positive impact on the quality of life.

# £4.5m

IN DONATIONS TO THE CHARITABLE FOUNDATION MATCHED POUND FOR POUND BY ST. JAMES'S PLACE

## KEY PROGRAMME STATISTICS

We have had another impressive year with significant growth in our volunteering programmes across the Group. In measuring our CR community investment and support activities we use the LBG measurement methodology.

## Team challenges

During 2018, 24.6% of employees took part in a team challenge.

We look to work with local charities which need help with a specific activity that a team of our employees can support. As this is not skills-based volunteering, we use these challenges to give people a taste for volunteering and inspire them to do more in the community, both with us and in their own time.

## Employee financial education

During 2018, 2,952 students were reached.

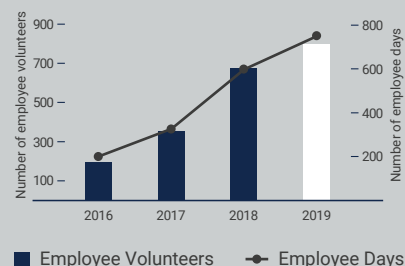
Employees from our head office work in local schools with year 9 and sixth-form students to develop young people's financial confidence and awareness. By working alongside teachers in the classroom, our employees bring a range of financial experiences to the day and can also talk about their own journey from school into the world of work.

## Volunteering

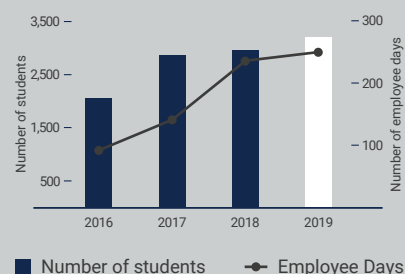
During 2018, 30.2% of employees gave at least one day.

We aim to be supporting at least 35% of our employees to volunteer for at least one day a year by 2020. We give all our employees two days a year for volunteering, in addition to team challenge days, and actively encourage employees to use them both, if not more.

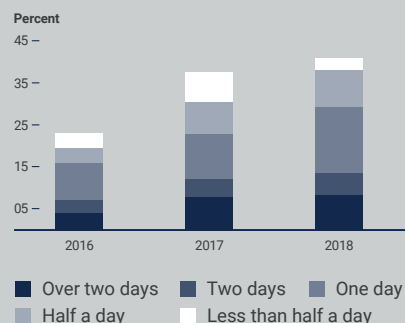
## Team challenges 2016–18 plus 2019 target



## Employee led financial education 2016–18 plus 2019 target



## Percentage of employees volunteering during working hours 2016–18





## The Gambia

Three charity teams of ten employees went to live and work for a week in the fishing town of Gunjur in The Gambia. In partnership with The Marlborough Brandt Group (MBG), which has operated in this one community for 37 years, the teams worked on a sustainable women's livelihoods allotment which aims to provide an independent income and improved diet for 200 women and their families. They worked alongside local builders and volunteers on the project and stayed with local families during the trip. To make the trips fully accessible, they were run in work time and fully funded by the Group, with participants challenged to raise money for our Charitable Foundation.

In addition, we are working with MBG, Disability Africa, United Purpose, and a local non-governmental organisation (NGO) called TARUD to deliver a holistic range of long-term programmes in Gunjur, including micro-finance, education and a disability centre, to mirror our work in UK communities.

## APPROVAL OF THE STRATEGIC REPORT

---

As part of the Annual Report by the Directors it is a statutory requirement to produce a Strategic Report.

The purpose of the report is:

‘to inform members of the Company and help them assess how the Directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the success of the Company).’

The objective of the report is to provide shareholders with an analysis of the Company’s past performance, to impart insight into its business model, strategies, objectives and principal risks and to provide context for the financial statements in the Annual Report.

The Directors consider that the report, comprising pages 2 to 69 of this document, meets the statutory purpose and objectives of the Strategic Report.

On behalf of the Board:

**ANDREW CROFT**  
Chief Executive

26 February 2019

**CRAIG GENTLE**  
Chief Financial Officer

## ST. JAMES'S PLACE CHARITABLE FOUNDATION

# 5,546

**HOURS OF TIME DONATED BY  
EMPLOYEES IN WORK TIME**

(2017: 6,000)

# £81.0m

**TOTAL AMOUNT RAISED AND DISTRIBUTED  
TO GOOD CAUSES SINCE INCEPTION**

(2017: £71.0m)

# 80%

**PERCENTAGE OF  
ADVISERS AND  
EMPLOYEES WHO  
DONATE EACH MONTH**

(2017: 79%)

# £10.0m

**AMOUNT RAISED IN 2018**

(2017: £16.8m)<sup>1</sup>

# 26

**YEARS OF  
GIVING**

(2017: 25)

# 1,011

**TOTAL GRANTS MADE DURING 2018**

(2017: 962)

The Charitable Foundation makes individual grants to carefully chosen charities and organisations committed to making a real difference to the lives of children and young people in the UK and abroad. Here are just some of the recipients of grants made during the year:



# 780,000

**LIVES DIRECTLY BENEFITED  
SINCE INCEPTION**

(2017: 500,000)



<sup>1</sup> In 2017, the amount raised benefitted from the Group double matching all funds raised by the St. James's Place community, to mark the Group's 25th anniversary year.

## ST JAMES'S PLACE CHARITABLE FOUNDATION CONTINUED

## A grant-making charity with a difference.

### The Charitable Foundation is a fundamental part of the Group's culture.

The Charitable Foundation's funds are raised and donated by the St. James's Place community. There are three primary sources of funding:

1. regular monthly donations from St. James's Place advisers and employees;
2. fundraising events or challenges run by the St. James's Place community; and
3. pound-for-pound matching by the Group.

Since 1992, the Charitable Foundation has raised over £80 million in support of thousands of charities. Some 80% of advisers and employees of St. James's Place now give to the Charitable Foundation through their pay or earnings.

In addition, many advisers and employees become involved in a diverse range of fundraising activities, whether that's a charity golf day or cake bake, to cycling, running or trekking or the annual triathlon

event. Some key events in 2018 were a cycle ride from London to Amsterdam which saw over 100 of the St. James's Place community take part; our annual Big Walk in the Peak District, where over 200 people took part; a successful charity Golf Day in Hong Kong and a Harvest Moon Charity Ball in the South East. The monies raised from these activities are then matched by St. James's Place Group, resulting in £10.0 million being raised in 2018 to support the grant making programmes. The Group also support the day to day running costs of the Charitable Foundation.

Firmly established as one of the most successful corporate charities in the UK, the Charitable Foundation is now in the Top 10 of Corporate Foundations.<sup>2</sup> Over the last 26 years the Charitable Foundation has been committed to fostering a culture of 'giving back' to those who need it most, by donating to small grass-root charities operating across four core themes:

1. supporting children and young people who are disadvantaged economically, socially, or through disability;
2. supporting people affected by cancer;
3. supporting the hospice movement; and
4. supporting those affected by poor mental health.

Some of our grants also extend overseas, including Asia, Eastern Europe, Africa and Central America, supporting projects under the same core themes as in our UK grant making programmes.

Our grants support charities in a number of different ways. For example, they can provide funding for:

1. individuals working directly with beneficiaries, such as by covering the salary costs for a particular role. This is how we have supported Jamie's Farm and Maggie's Merseyside, charities aimed at helping disadvantaged young people and those affected by cancer respectively. Further details are provided on the following pages;
2. specific development projects aimed at increasing the quality of life of beneficiaries in the future. For example, during 2018 we made grants to projects aimed at helping family carers via the Hospice UK network. Further details are provided on the following pages; and
3. the purchase of capital items which provide immediate benefit.

<sup>2</sup> Association of Charitable Foundations – Foundation Giving Trends 2018 report.

### The impact we make

Research carried out during 2018 has shown the enormous impact our grant-giving has had on the lives of hundreds of thousands of people over the last 26 years. Over 780,000 lives have been changed for the better and the ripple effect is even bigger, with an estimated 2.6 million indirect beneficiaries.<sup>3</sup>

Our focus on small grass-roots charities means that we have made a transformational difference to so many organisations, offering support where it is needed most by strengthening grantees' organisational confidence, security, innovation and growth.

<sup>3</sup> Bean Research – Impact Evaluation of 2016 Grants made by the Charitable Foundation received in August 2018.

### Our focus for 2019

Looking ahead to 2019 we will:

- Continue to support charities operating across our four core themes both in the UK and overseas who can deliver real impact and a transformational difference to the people they support.
- Continue to grow and develop our fundraising activities across the St. James's Place community, providing new and exciting ways for them to get involved.
- Add value and help to make a lasting difference to the thousands of charitable organisations by building strong partnerships through our donations and volunteering support, helping them to reach their goals.



ST. JAMES'S PLACE  
CHARITABLE FOUNDATION

## We are supporting children and young people.

We work with charities which support disadvantaged and disabled young people under the age of 25 in a number of areas, including those with physical or mental health difficulties, life threatening or degenerative conditions, young carers, and those who are socially or economically disadvantaged.

### Jamie's Farm – Empowering disadvantaged young people

The Charitable Foundation first started supporting Jamie's Farm in 2012 with a grant of £10,000. Since then a strong relationship has built between the two organisations, and recently we awarded a further £150,000 to this unique and inspiring charity. Jamie's Farm acts as a catalyst for change by enabling disadvantaged young people aged 10–16 who are at risk of social and academic exclusion to engage with education. They achieve this through a unique one-week residential experience and follow-up programme which combines 'Farming, Family and Therapy'.

Jamie's Farm had three farms across the south of England and, to meet increasing demand for their services, in 2017 they acquired a fourth farm in Monmouthshire which opened its doors in January 2018. The grant awarded by the Charitable Foundation funded an Education Manager to lead the team and programme at this new farm over the next three years.

Education Managers at each of the farms play a crucial role in upholding high standards of practice and ensuring outcomes for children remain high.

£10,000

INITIAL GRANT IN 2012

£150,000

GRANT PROVIDED IN 2018



**“Education Managers are vital to the success of each of our farms. They set the culture, manage a team of around six full time staff who ensure the safety and progression of all visiting staff and children, and oversee all the visits. It is a challenging and wide-reaching role. Education Managers are rigorously held to account over a number of KPIs which include the impact we achieve with young people, school retention rates and meeting budgets. We are so grateful to the St. James's Place Charitable Foundation for supporting this post and allowing transformational opportunities for around 450 disadvantaged young people per year at Jamie's Farm Monmouth.”**

**JAMIE FEILDEN**  
CEO, Jamie's Farm

## ST JAMES'S PLACE CHARITABLE FOUNDATION CONTINUED

## We are working to support people affected by cancer.

The Charitable Foundation supports local charities which provide help and support to those living with or affected by cancer.



### Maggie's Merseyside – Supporting people with cancer

Every year, over 300,000 people are diagnosed with cancer in the UK. They face tough questions, exhausting treatment and difficult emotions. These challenges affect not only those with cancer, but their family and friends too. Built in the grounds of NHS cancer hospitals, Maggie's Centres are places with professional staff on hand to offer the support people need.

One of the additional stresses for anyone suffering from cancer is the impact it has on their finances. Patients often face a dramatically reduced income coupled with an increase in bills as a direct result of their illness.

The Charitable Foundation provided a grant of £80,495 to fund the position of a Benefits Adviser for a three-year period commencing in 2018. The Benefit Adviser will guide patients, their friends and families on all aspects of their financial wellbeing, including accessing and helping to apply for benefits they may be entitled to, support with managing bills and many other financial demands that they have to deal with as a result of their illness.

This bespoke service allows some of the pressure of having cancer to be lifted from the individual, as well as from family and friends.

**“The practical support to help with the financial issues from not being able to work is a lifeline. You are really not equipped to deal with this when you are going through the overall upheaval and treatment of life with cancer.”**

Beneficiary

**“The generosity of the St. James's Place community goes from strength to strength and as such we continue to make a transformational difference to thousands of peoples' lives across the UK and overseas.”**

CATHERINE IND

Head of the St. James's Place Charitable Foundation



ST. JAMES'S PLACE  
CHARITABLE FOUNDATION

## We are helping hospices.

We are proud to support hospices through Hospice UK (formerly known as Help for Hospices), the umbrella organisation supporting independent hospices in the UK, which distributes funds to hospices on our behalf.



### Hospice UK – Supporting and transforming care for children and adults

The Charitable Foundation is proud to have been working in partnership with Hospice UK for over ten years.

For the last five years the Foundation has committed £500,000 a year to support development projects within the hospice network. Each year representatives from the Hospice UK team and the Charitable Foundation discuss and agree a 'theme' for the funding. For 2018 the chosen funding theme was 'family carers' to recognise the often-hidden support and responsibility of the thousands of family carers supporting a person through their illness.

The development projects under this theme were chosen because they demonstrated the strongest impact in terms of innovation in their field, and were wide-reaching in terms of the numbers of people that would benefit.

## We are supporting people affected by mental health issues.



The Charitable Foundation is proud to support mental health charities across the UK. We are working with selected charities to help people of all ages affected by mental health issues.

In 2018 the St. James's Place Charitable Foundation committed £1.1 million to charities working in this field. The projects the Charitable Foundation will be supporting include:

- **BEAT** which will provide training and ongoing support to 'first responder' professionals in Yorkshire and Humber, helping them to build their knowledge of eating disorders;
- **Young Minds** which will be developing a new programme using innovative technology to better reach parents and carers, and give them greater understanding and guidance in supporting a child with mental health issues;
- The **Anna Freud National Centre for Children and Families** which will be developing a new National Trauma Centre to build an effective response to mental health and emotional issues in children and young people connected to a largescale traumatic event, such as a terror related atrocity;
- **The Mix**, which provides free counselling services to children and young people presenting all mental health conditions nationally. The services are developing to use trusted technology to help those in need reach relevant information, and to enable counselling sessions to be booked online; and
- **CALM (Campaign Against Living Miserably)** which will be expanding its direct engagement team by recruiting an Outreach Manager to reach young men at high risk of suicide, offering targeted and timely support and helping to reduce the growing incidence of suicide in the UK.

# 02

## GOVERNANCE

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# WE PROVIDE SUPPORT

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Effective and sustainable governance underpins our business model and ongoing review and refinement of our governance framework ensures we are best placed as a Board to oversee the delivery of our strategy.

## BOARD OF DIRECTORS



### Iain Cornish

Chair

#### Date of appointment

Chair

October 2018.

Non-executive Director

October 2011.

RK

NC

#### Experience

Iain brings experience from both the financial and regulatory environments. He was a senior consultant at KPMG, specialising in the banking and finance sector, and then served as Chief Executive of the Yorkshire Building Society. In recent years he has been chair of Shawbrook Group plc and an independent director of the Prudential Regulation Authority.

#### External appointments

Non-executive director of Leeds Building Society and Arrow Global Group plc and Treasurer of Macmillan Cancer Support.



### Andrew Croft

Chief Executive

#### Date of appointment

Chief Executive

January 2018.

Joined St. James's

Place 1993 and

appointed to the Board

September 2004.

#### Experience

Andrew joined the Company in 1993 and was Chief Financial Officer from 2004 to 2017. Having trained as an Accountant with Deloitte Haskins and Sells (now part of PricewaterhouseCoopers) he then worked in the financial services sector. Since joining St. James's Place he has held a number of roles within the Finance department, assuming the role of Finance Director in 2002 and being appointed as the Chief Executive in January 2018. He is a Trustee of the St. James's Place Charitable Foundation.

#### External appointments

Lay member of the Audit and Risk Committee and Finance and Investment Committee of the Royal College of Surgeons of England.



### Ian Gascoigne

Managing Director

#### Date of appointment

Executive Director

January 2003.

Joined St. James's

Place 1991 and

appointed to the Board

January 2003.

#### Experience

Ian is Managing Director responsible for the management and development of the Partnership. He has worked in the financial services industry since 1986 and has considerable experience in the financial advisory space. Ian is a Trustee of the St. James's Place Charitable Foundation.

#### External appointments

Member of the Strategic Advisory Board of Loughborough University School of Business and Economics.



### Craig Gentle

Chief Financial Officer

#### Date of appointment

Chief Financial Officer

January 2018.

Joined St. James's

Place 2016 and

appointed to the Board

January 2018.

#### Experience

Craig joined the Company in 2016 as the Chief Risk Officer. Prior to this, Craig spent 22 years at PricewaterhouseCoopers, 12 of which were as a Partner. During his time at PricewaterhouseCoopers, Craig held a number of roles, including as a senior audit partner.

Craig qualified as a Chartered Accountant in 1993.

#### External appointments

Member of the Board, Trustee and Honorary Treasurer for the Bristol Music Trust.

**Committee key:**

**AC** Member of Audit Committee

**RK** Member of Risk Committee

**●** Denotes Chair of Committee

**NC** Member of Nomination Committee

**RM** Member of Remuneration Committee

**Simon Jeffreys**

**Independent  
Non-executive Director**

**Date of appointment**

Non-executive Director  
January 2014.

**Experience**

Simon brings experience of the auditing world and financial services. He was a senior audit partner with PricewaterhouseCoopers LLP from 1986 to 2006 where he also led their Global Investment Management practice. Between 2006 and 2014, Simon was CFO and Chief Administrative Officer at Fidelity International and then CFO and Chief Operating Officer at the Wellcome Trust.

**External appointments**

Chair of Aon UK Limited and Henderson International Income Trust plc and a non-executive director and chair of the Audit Committees of Templeton Emerging Markets Investment Trust plc and SimCorp A/S, a listed Danish financial services software company. Simon is also a non-executive director and chair of the Audit and Risk Committee of the Crown Prosecution Service.

**Baroness  
Wheatcroft**

**Independent  
Non-executive Director**

**Date of appointment**

Non-executive Director  
April 2012.

**Experience**

Baroness Wheatcroft brings experience of the media and also the legislature. Her career has included editorial roles at both the Sunday Telegraph and The Times, as well as being Editor-in-Chief at the Wall Street Journal, Europe. She is a member of the House of Lords. Her financial services experience includes previous appointments as a non-executive director of Barclays Group plc and Shaftesbury plc.

**External appointments**

Non-executive director of Fiat Chrysler Automobiles. Chair of the Financial Times Appointments and Oversight Committee. Member of the House of Lords.

**Roger Yates**

**Senior Independent  
Non-executive Director  
(SID)**

**Date of appointment**

Senior Independent  
Non-executive Director  
October 2018.

Non-executive Director  
January 2014.

**Experience**

Roger brings over 30 years of investment management experience. He started his career with GT Management Limited in 1981 and has subsequently held positions at Morgan Grenfell, Invesco and Henderson Group plc, where he was Chief Executive Officer. Most recently, he was chair of Electra Private Equity plc and a non-executive director of IG Holdings plc.

**External appointments**

Senior Independent non-executive director (SID) of Mitie Group plc and non-executive director of Jupiter Fund Management PLC and J.P. Morgan Elect plc.

Full biographical details of each Director can be found on the corporate website at [www.sjp.co.uk](http://www.sjp.co.uk)

## CHAIR'S REPORT



**IAIN CORNISH**, Chair  
chair@sjp.co.uk

**“Our business model remains adaptable and robust.”**

**48.22 pence**  
per share

**FULL YEAR DIVIDEND**  
(2017: 42.86 pence per share)

**£10.0m**

**RAISED FOR THE ST. JAMES'S  
PLACE CLIENT FOUNDATION BY THE  
ST. JAMES'S PLACE COMMUNITY,  
INCLUDING MATCHING**  
(2017: £16.8 million)

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

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

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

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

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

## Succession

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

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

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

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

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

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

## Corporate Governance and our wider corporate responsibilities

The Board has long recognised the Group's responsibilities to all its stakeholders, including shareholders, clients, the Partnership, colleagues, third-party suppliers, the environment and of course wider society. We have always viewed the St. James's Place Charitable Foundation as a core component of our strategy and a key vehicle through which we make a contribution to wider communities. Members of the St. James's Place community raised £10.0 million in 2018, including Group matching. We have also continued to broaden our corporate responsibility activities and these are reported on pages 56 to 69.

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

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

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

I report more fully on Corporate Governance on pages 82 to 93.

## Concluding remarks

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

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

**IAIN CORNISH**  
Chair

26 February 2019

If you would like to discuss any aspect of my report or the Corporate Governance Report please feel free to email me on: [chair@sjp.co.uk](mailto:chair@sjp.co.uk)

# CORPORATE GOVERNANCE REPORT



**IAIN CORNISH**, Chair  
chair@sjp.co.uk

**This report explains how your Board leads the Company's approach to corporate governance and explains how the principles of the Financial Reporting Council's UK Corporate Governance Code have been applied in practice.**

On 8 October 2018 Sarah Bates retired as a Director and Chair of the Board and Iain Cornish was elected as her successor. As a consequence, the Non-executive Directors (NEDs), excluding the Chair, accounted for less than half the Board, meaning that the Company did not comply with Provision B.1.2 throughout 2018. However, following David Lamb's retirement as a Director on 26 February 2019, the Non-executive Directors now account for half of the Board, excluding the Chair. Further details on the Board's succession planning can be found in the Nomination Committee Report on page 113.

Other than as stated above, the Board considers that the Company has complied with all of the other provisions of the UK Corporate Governance Code (the 'Code', available at: [www.frc.co.uk](http://www.frc.co.uk)) during 2018. Detailed reporting on remuneration, as required by the Code, can be found in the Directors' Remuneration Report.

## Leadership and culture

### Safeguarding our culture and setting the tone from the top

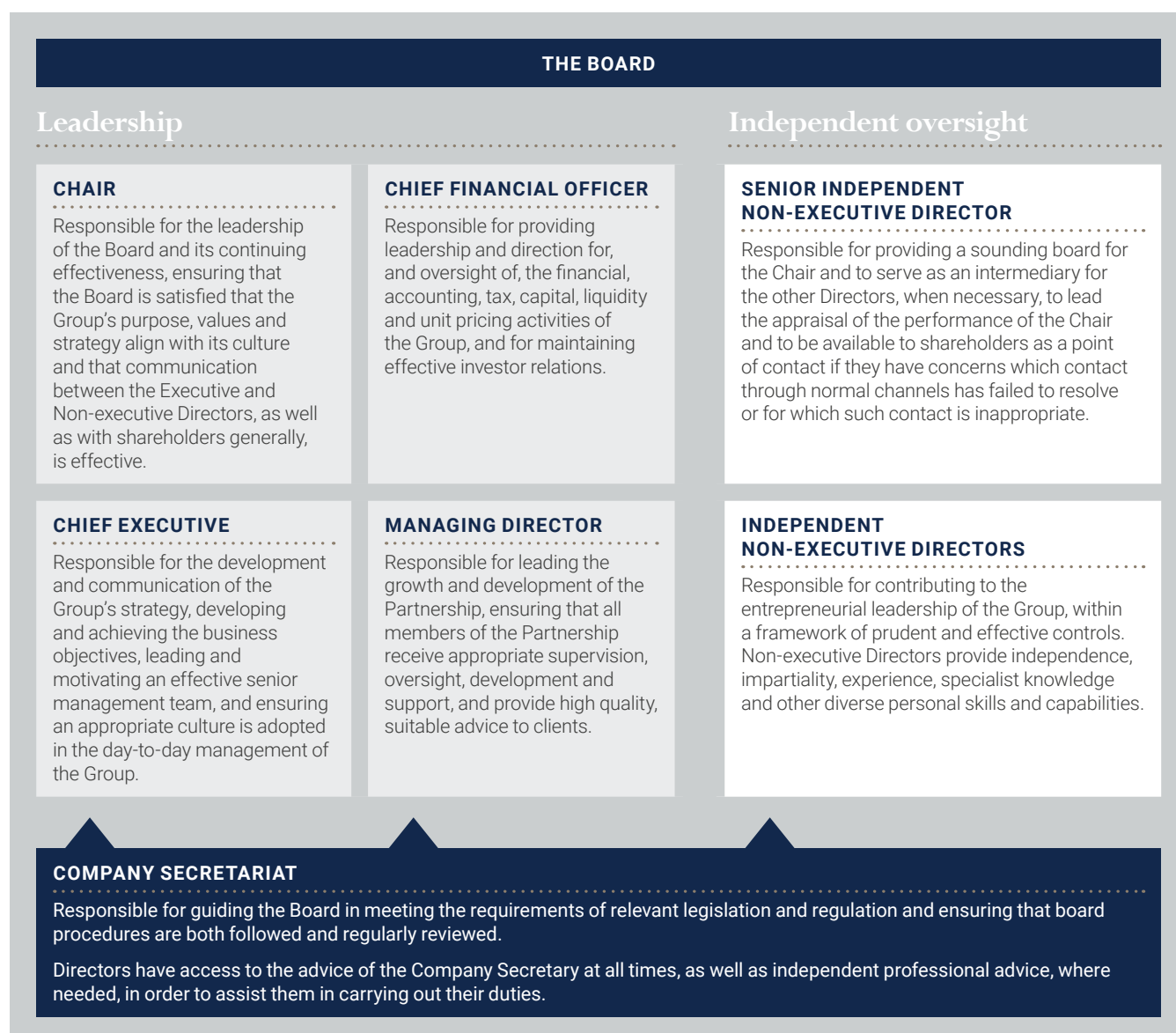
The Board is collectively responsible for the long-term success of the Company and the Group by:

- providing entrepreneurial leadership and direction to the Group in setting out its strategic aims, visions and values and overseeing delivery against these;
- monitoring financial performance and reporting and approving/recommending payments of dividends;
- setting the Company's risk appetite, assessing the principal risks facing the Company and ensuring that adequate controls are in place to manage risk effectively;
- ensuring that appropriate and effective succession planning arrangements and remuneration policies are in place;
- implementing appropriate corporate governance procedures;
- reviewing and approving major transactions or initiatives proposed by the Executives; and
- determining the Company's policy on charitable and political donations.

Our unique culture (as described on page 26) has been central to the success of the Group since its formation, and the Board recognises its continued importance if the Group is to continue this success in the long-term. Culture has always been viewed as a core element of the Group's strategy. As such the Board recognises its essential role in setting the tone from the top in the way it behaves and the decisions which it makes, and it regularly considers how the commitment to culture is maintained across colleagues, the Partnership and key third parties. Inevitably as the Group expands our approach to retaining our culture has to evolve, and in 2019 the Board intends to lead further work in refreshing its approach to the assessment of culture and ensuring continuity across the St. James's Place community. Further details of how we approach the safeguarding of our culture and monitor the views and adherence by those within the St. James's Place community can be found in the Corporate Responsibility Report on pages 56 to 69 and under Principal Risks and Uncertainties on pages 51 to 54.

## Division of responsibility

The job descriptions of each Director, including the Chair and Chief Executive, and the division of responsibilities between them are clearly defined and agreed by the Board. The responsibilities of each of the Directors and the role of Secretary are summarised below.



## CORPORATE GOVERNANCE REPORT CONTINUED

### Relations with stakeholders

The Board recognises that the business has a broad range of stakeholders, and its duties to them are reflected in our strategy which has a fundamental and clear focus on each stakeholder, including our workforce, the Partnership, our clients, shareholders, third-party suppliers, regulators and wider society. This is not an exhaustive list and the Board ensures that its activity extends to engagement with a broad range of stakeholders when planning the year ahead. More detail on how we engage with specific stakeholders can be found in the Strategic Report, in particular in the 'How we engage' sections on pages 18 to 26.

People have been at the core of our business model since our formation and this has been reflected in the high level of engagement with our workforce. The requirement of the new Code in 2019 for a formal workforce engagement method has provided us an opportunity to revisit how we can build on how we engage directly with our people, and responsibility for oversight of our workforce engagement framework is to be vested in a senior individual who reports directly to the Chief Executive. That person will take responsibility for establishing and managing the engagement with the Board, under the supervision of the Non-executive Directors, led by Baroness Wheatcroft, whom the Board intends to appoint as its nominated Non-executive Director for workforce engagement. We will continue to refine our approach to engagement with colleagues into the future.

We continue to maintain close relationships with institutional shareholders through direct dialogue and frequent meetings, and we also meet regularly with the Group's brokers who facilitate meetings with investors and their representatives. During 2018, shareholder interaction has included holding shareholder roadshows, where the Chief Executive and the Chief Financial Officer presented the Company's full year and half year results to investors, attending investor conferences, holding Capital Markets days for investors and analysts addressing a wide range of strategic and operational topics, investor meetings and conference calls.

During the year, the Board commissioned an investor study which provided an opportunity to assess in more detail its investor base, investor behaviour, drivers of share price performance and investors' perception of a number of key aspects of our business model. In addition, following his appointment in October, the Chair invited the Group's largest institutional investors to meet with him. The outcomes of the investor study and the Chair's investor meetings, combined with attendance at engagement events and updates from all other activity, have provided valuable assistance to the Board in understanding the views and expectations of investors.

Regular dialogue is an important way of staying abreast of the views of investors and periodic meetings with investors will provide an insight into the considerations that drive their views on us an organisation. The Board is actively considering if additional channels would enhance shareholder engagement, and would welcome the views of shareholders.

The Chair, SID and other Non-executive Directors are available for consultation with shareholders on request and will be available after the Company's Annual General Meeting which will be held on Tuesday 14 May 2019, further details of which are set out in the Notice of Annual General Meeting.

## How the Board operates

### Powers of Directors

The powers of the Directors are set out in the Company's Articles of Association (the 'Articles'), prescribed by Special Resolutions of the Company and codified in UK company law. The Articles contain, for example, specific provisions and restrictions concerning the Company's power to borrow money. They also provide Directors with authority to allot unissued shares, up to pre-determined levels set and approved by shareholders in general meetings. The Articles can be amended by a special resolution of the members of the Company, and a copy can be found on the Company's website. Our shareholders have granted the Directors authority to make charitable donations, and further details on the donations made can be found on page 144.

At the 2018 AGM, shareholders granted authority to the Directors for the purchase by the Company of its own shares, with such authority expiring at the end of the 2019 AGM, or 30 June 2019, whichever is the earlier. The Directors will propose the renewal of this authority at the 2019 AGM. During the year, the Company did not purchase any of its own shares.

Further to the powers granted above, the Board maintains a full schedule of matters reserved to it together with a Group Management Responsibilities Map which sets out the senior manager functions, prescribed responsibilities and control functions within each subsidiary of the Group (as applicable). The Group Management Responsibilities Map includes, inter alia, terms of reference for the various Board Committees, a schedule of the Company's policies and detailed job descriptions for each of the Executive Directors and Non-executive Directors.

## Planning and preparing

The Chair is responsible for setting the Board agenda together with the Chief Executive and the Company Secretary. Each year, the Chair and CEO discuss the forward Board agenda for the year, based on themes from the Business Plan and the Group's strategy, and potential topics are identified for strategy sessions and discussions on specific topics. The Board's forward agenda is also co-ordinated with those of its Committees to ensure that topics are given sufficient coverage in the most appropriate forums. The Chairs of the various Committees report on their activity at Board meetings and liaise with the Chair to ensure items escalated from the Committees get sufficient time and focus in Board meeting agendas. The Board and other key Directors forums are explained in more detail below:

|                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>SCHEDULED BOARD MEETINGS</b> | <p>Scheduled Board meetings follow an agreed format with the final agenda being set by the Chair, Chief Executive and Company Secretary by reference to the forward agenda and having considered key developments since the previous meeting. This approach ensures coverage of the Board's key responsibilities and strategic priorities, whilst also providing the flexibility to address topical matters.</p> <p>The papers for each meeting, which include an Executive Report covering key developments and performance indicators, are sent to the Board a week ahead of the meeting. This ensures that the information is timely and that the Directors have sufficient time to prepare for the meetings.</p> |
| <b>BOARD DINNERS</b>            | <p>Throughout the year, Board dinners are held on the nights before Board meetings allowing the Directors greater time to discuss matters of a material or more discursive nature with additional internal and external participants.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>STRATEGY MEETINGS</b>        | <p>Focused strategy meetings are held to enable the Board and management to reflect, debate, refine and agree on the Group's strategy.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>NED MEETINGS</b>             | <p>The independent Non-executive Directors meet privately with the Chair four times during the year, to consider matters arising from Board meetings and also meet once without the Chair.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>DEVELOPMENT SESSIONS</b>     | <p>Directors are provided with development sessions on specific topics during the year. Further details can be found in the Effectiveness of the Board section on pages 92 and 93.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>OTHER MEETINGS</b>           | <p>In 2018 the Board also participated in a 'red team' simulation which afforded them the opportunity to test the controls and procedures in place to respond in the event of a focused cyber security attack. The Board also appoints ad hoc committees from time to time to manage procedural matters relating to decisions it has made.</p>                                                                                                                                                                                                                                                                                                                                                                       |

The Board's activity during 2018 is set out in more detail on the following pages, and the work undertaken by the Board Committees is provided in their individual committee reports.

## CORPORATE GOVERNANCE REPORT CONTINUED

## The Board and its Committees

### Composition

The Board currently comprises three Executive Directors, three independent Non-executive Directors and the Chair (who was independent on appointment). Sarah Bates and David Lamb retired from the Board on 8 October 2018 and 26 February 2019 respectively. All of the other Directors were in office throughout the financial year and up to the date of the report, and their biographical details, including their membership of Board Committees, are set out on pages 78 to 79. During the limited period between Sarah and David's retirements the number of independent Non-executive Directors fell to three, below the number of Executive Directors. This situation arose because of an unforeseen delay in the appointment of a new Non-executive Director who would also serve as chair of the Risk Committee. During this period the Chair of the Board also remained as chair of the Risk Committee and will continue to do so pending the finalisation of a further appointment. As part of the long-term succession planning to ensure that the Board has the right depth and diversity of skills to oversee the business into the future, the Board expects to increase the number of independent Non-executive Directors.

### Independence

When determining whether a Non-executive Director is independent, the Board considers each individual against the criteria set out in the Code and also considers how they conduct themselves in Board meetings, including how they exercise judgement and independent thinking. Taking these factors into account, the Board believes that all the Non-executive Directors continue to demonstrate their independence.

As previously reported, the Board remains satisfied that Simon Jeffreys' role as chair of Aon UK Ltd has no bearing on his independence or that of New Bridge Street or Aon Consulting (advisers to the Remuneration and Investment Committees). Aon UK Ltd, Aon Consulting and New Bridge Street are part of the Aon group of companies. When considering their relationships to the Aon Group, the Board took into account the fact that Aon UK Ltd, Aon Consulting and New Bridge Street operate in different divisions of a large group and their reporting and ownership lines to the Aon Group board are entirely segregated.

There are four wholly Non-executive Committees of the Board. The Chair of the Board is a member of, and Chairs, the Risk and Nomination Committees. All of the other members of these Committees are independent Non-executive Directors. Further information on these Committees can be found in their separate reports on pages 94 to 141.

#### OUR NON-EXECUTIVE BOARD COMMITTEES

##### AUDIT COMMITTEE

▶ Report on page 94

##### RISK COMMITTEE

▶ Report on page 106

##### NOMINATION COMMITTEE

▶ Report on page 111

##### REMUNERATION COMMITTEE

▶ Report on page 117

|                       | Director                                                | Board | OUR NON-EXECUTIVE BOARD COMMITTEES |      |            |              |
|-----------------------|---------------------------------------------------------|-------|------------------------------------|------|------------|--------------|
|                       |                                                         |       | Audit                              | Risk | Nomination | Remuneration |
| ATTENDANCE IN 2018    | <b>IC</b> Iain Cornish (Chair)                          | 6/6   | 4/4                                | 5/5  | 6/6        | –            |
|                       | <b>AC</b> Andrew Croft (CEO)                            | 6/6   | –                                  | –    | –          | –            |
|                       | <b>IG</b> Ian Gascoigne                                 | 6/6   | –                                  | –    | –          | –            |
|                       | <b>CG</b> Craig Gentle                                  | 6/6   | –                                  | –    | –          | –            |
|                       | <b>SJ</b> Simon Jeffreys                                | 6/6   | 6/6                                | 5/5  | –          | 5/5          |
|                       | <b>BW</b> Baroness Wheatcroft                           | 6/6   | 2/2                                | 5/5  | 6/6        | 5/5          |
|                       | <b>RY</b> Roger Yates (SID)                             | 6/6   | 6/6                                | 5/5  | 1/1        | 5/5          |
| <b>Past Directors</b> |                                                         |       |                                    |      |            |              |
|                       | <b>SB</b> Sarah Bates (stepped down on 8 October 2018)  | 6/6   | –                                  | –    | –          | –            |
|                       | <b>DL</b> David Lamb (stepped down on 26 February 2019) | 6/6   | –                                  | –    | –          | –            |

This table provides details of scheduled meetings held in the 2018 financial year and the attendance at each meeting of the members of each Board/Committee. The Directors also attended meetings of Committees that they were not members of, when invited by the chairs of the respective Committees.

## Other committees

### Executive Committees reporting to the Board

In addition to the wholly Non-executive Committees, the Board has also delegated specific responsibilities to three further Committees, the members of which are Executive Directors. The terms of reference of the Committees are regularly reviewed and are included in the Management Responsibilities Map.

#### EXECUTIVE BOARD

Comprises the Executive Directors of the Board and other members of senior management. It is via the Executive Board that operational matters are delegated to management. The Executive Board is responsible for communicating and implementing the Group's business plan objectives, ensuring that the necessary resources are in place in order to achieve those objectives, and managing the day-to-day operational activities of the Group.

#### DISCLOSURE COMMITTEE

Comprises the Chief Executive and Chief Financial Officer and is responsible for identifying and determining matters to be disclosed to the market.

#### SHARE SCHEME COMMITTEE

Comprises the Executive Directors and its purpose is to assist the Board in fulfilling its responsibilities for operating and administering Executive, Employee, Partner and Restricted share plans.

### Other Executive Committees

A number of Committees have also been established by the main Executive Board assisting it in executing its responsibilities. They each have Terms of Reference which set out clearly their delegated authorities and a right of escalation of matters outside that remit to the Executive Board.

#### ASIA EXCO

#### DISTRIBUTION EXCO

#### FINANCE EXCO

#### GROUP RISK EXCO

#### INVESTMENT EXCO

#### OPERATIONS EXCO

#### PRODUCT EXCO

#### ROWAN DARTINGTON

## CORPORATE GOVERNANCE REPORT CONTINUED

### Highlights of activities at 2018 Board meetings

#### FEBRUARY

- Approval of the 2018 Business Plan
- 2017 Annual Results, Annual Report and Accounts and regulatory returns
- The notice for the Company's 2018 Annual General Meeting
- Progress with pilot initiatives focusing on enhancing oversight of, and support to, the Partnership
- Central London Property strategy
- Executive succession planning

#### JULY

- Board Development and Board focus
- Half year results and the declaration of an interim dividend
- Investment management monitoring
- Investor study and investor perceptions
- Administration Service Provider Strategy
- Investment Consultant Strategy

#### APRIL

- Administration platform strategy
- 2025 strategy
- Investment performance in the year to date
- Succession planning for leadership of the Investment Division
- Refining the senior leadership team's structure
- Strategic growth initiatives

#### SEPTEMBER

- Growing the Partnership and the Market Environment
- Purpose, Business Model and 2025 strategy
- Administration platform migration progress and future plans
- Securitisation of Partner loans
- Employee survey results
- Approval of the ORSA and Risk appetite statements

#### MAY

- The Company's Annual General Meeting
- Board succession, in particular the Chair's successor
- Plans to utilise securitisation to support Partner lending
- The implications of the change in ownership of DST
- Annual Whistleblowing Report
- The Group's Slavery and Human Trafficking Statement

#### DECEMBER

- Board Effectiveness Review
- Progress with the migration of the Administration Platform
- 2025 strategy, including the approach to operational excellence
- 2019 Business plan framework
- Strategic growth initiatives
- Corporate governance reform and workforce engagement
- Group governance model

## Key strategic considerations during the year included:

The strategy and performance against the strategy are discussed in the Chief Executive's Report, the Chair's Report and the Strategic Report, but a summary of significant topics considered by the Board during 2018 are set out below:

### 1. ADMINISTRATION

During 2018, the Group successfully completed the migration of a significant proportion of business that remained on legacy systems onto the Bluedoor platform. The Directors closely monitored each project and, as the migration of all the core books of business onto Bluedoor nears completion, reflected on the progress to date and considered the medium to long-term administration platform strategy. During the year DST, the outsourced provider for the Group's administration functions of its UK life insurance company, unit trust manager, and investment administration company, was acquired by SS&C. Given the significance of the service DST provides to the Group, the Board focused on the implications of this change in ownership for the Group.

### 2. CLIENTS

Ensuring our client proposition remains relevant and appropriate is fundamental to our business model. In 2018, the Board oversaw the launch of the Group's new Diversified Assets (FAIF). Further information can be found on page 23.

### 3. PARTNERSHIP

As reported last year, a number of pilot initiatives were established with the principal aims of preserving the existing relationship-based culture, keeping the business safe and helping Partners to operate as business people with professionalism. The Board has closely monitored the progress of these initiatives and considered the changing needs of the Partnership and the market environment so as to adapt the strategy to support the growth of the Partnership.

### 4. BORROWING/SECURITISATION

In September, we successfully completed our first securitisation of Partner loans. Supporting our Partners to grow their own businesses is essential if we are to continue to grow the Group and the Board is confident that, subject to the appetite of external lenders, the high quality of Partner loans will provide a highly scalable funding mechanism that will grow with the Group.

### 5. PEOPLE AND DIVERSITY

We carried out our biennial employee survey in 2018 and were pleased to see a strong response rate of 90% and an overall engagement score of 82%, which was significantly higher than our benchmark. Whilst the Board is very happy with the high response rate and overall level of engagement, we were keen to focus on the areas where we could make improvements. Our first Gender Pay Gap Report was published in 2018 and our results served to emphasise the importance of the diversity initiatives we reported upon last year. More detail on the progress made during the year can be found in the Nomination Committee's Report on pages 111 to 115.

### 6. BOARD AND MANAGEMENT SUCCESSION

The Board announced the retirements of Sarah Bates and David Lamb during the year and succession has been a central theme. At Board level, the focus has been on establishing a clear succession plan for all of the NEDs, particularly in light of the revisions to the Code. At the management level we have overseen the appointment of Robert Gardner, who will take over many of David Lamb's executive responsibilities, and have concentrated on developing a diverse pipeline of talented future leaders, providing options for the Board and future boards when selecting successors to the existing management team.

### 7. CYBER RISK AND INFORMATION SECURITY

Cyber and information security continues to be high on the agenda for both the Board and the Risk Committee. We have made significant investments into our systems and into raising the awareness and understanding of our employees and have supported our Partners to increase their own knowledge and systems capabilities. During 2018 we achieved the UK Government's Cyber Essentials Plus accreditation. Although the vast majority of our attention is on preventing incidents, the Board recognise that we should not ignore the importance of being prepared to deal with an incident should one occur. Consequently, we undertook a 'red team' simulation to help identify areas where we could strengthen our existing procedures.

## CORPORATE GOVERNANCE REPORT CONTINUED

### Key strategic considerations during the year **continued**

#### 8. REGULATION

The pace of regulatory change remains intense and the Board and its Committees continue to spend considerable time assessing developments, in particular their impact upon the business. During 2018, the Board has overseen the Group's response to the introduction of GDPR and continues to monitor the implications of MiFID II, IDD and PRIIPs. The extension of the Senior Managers and Certification Regime to financial services organisations other than banks will impact a number of our Group companies, and the Board directly, and has been another area of focus, particularly in the latter half of the year.

#### 9. RISK MANAGEMENT

In conjunction with the work of the Risk Committee, the Board undertook a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

#### 10. 2025 STRATEGY

With management, the Board devoted considerable time to reviewing the medium term strategic direction of the Group to 2025, and more generally the overall strategic appetite of the Group.

#### 11. CORPORATE GOVERNANCE AND WORKFORCE ENGAGEMENT

Following the publication of the revised Code and the introduction of the Companies (Miscellaneous Reporting) Regulations 2018, the Board agreed key actions that would ensure that the Board continued to meet, both the letter and the spirit of the Code. A key focus was the establishment of a formalised workforce engagement mechanism, to support our existing employee engagement programme. The Board considered proposals and will oversee the introduction of the final agreed mechanism in 2019.

#### 12. BREXIT

Although it is anticipated that Brexit will not have a material direct impact on the Group, the Board has been careful to ensure that the business is prepared for all eventualities and has considered all potential areas of impact. For further information, refer to the Risk and Risk Management section on pages 47 to 55.

## Effectiveness of the Board

### Appointment, replacement and re-election of Directors

The Articles permit Directors to appoint additional Directors and to fill casual vacancies and any Directors appointed must stand for election at the first Annual General Meeting ('AGM') following their appointment. All other Directors will stand for re-election at each AGM. Directors can be removed from office by an ordinary resolution of shareholders or in certain other circumstances as set out in the Articles.

Before a Director is proposed for re-election by shareholders, the Chair considers whether his or her performance continues to be effective and whether they demonstrate commitment to the role. After careful consideration, the Chair is pleased to support the re-election of all Directors at the forthcoming AGM. Each Director brings significant skills to the Board as a result of their varied careers and we believe that this diversity is essential to contributing to the appropriate mix of skills and experience needed by the Board and its Committees in order to protect the interests of the Company's shareholders. As in previous years, the Board is recommending to shareholders that all the Directors retiring at the forthcoming Annual General Meeting be re-elected.

### Duration of appointments

Non-executive Directors, other than the Chair, are appointed for a specified term and the Executive Directors have service contracts (copies of the terms and conditions of appointment of all Directors are available for inspection at the registered office address and will be available for inspection at the Company's AGM).

### Executive Directors' service agreements

The Executive Directors all have service contracts with the Company that provide for termination on 12 months' notice from either the Company or the Director (except in certain exceptional recruitment situations where a longer notice period from the Company may be set, provided it reduces to a maximum of 12 months within a specified time limit). Service contracts do not contain a fixed end date. The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions in the Company's share schemes may, in certain circumstances, cause share awards granted to employees under such schemes to vest on a takeover.

### Directors' and officers' indemnity and insurance

The Company has taken out insurance covering Directors and officers against liabilities they may incur in their capacity as Directors or officers of the Company and its subsidiaries. The Company has granted indemnities to all of its Directors in their capacities as Directors of the Company and, where applicable, subsidiary companies on terms consistent with the applicable statutory provisions. Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the financial year ended 31 December 2018, and remain in force at the date of this Report.

### Time commitments

Non-executive Directors are expected to commit sufficient time to enable them to undertake their responsibilities and, as explained in the Report of the Nomination Committee, their capacity to fulfil their responsibilities is reviewed on an ongoing basis so that the Board can be satisfied that each Non-executive Director commits sufficient time to the business of the Company.

Iain Cornish was appointed as Chair in October 2018 and devotes a significant proportion of his time to the role. In conjunction with the SID, he regularly assesses his commitments and continues to manage his portfolio of other activities to ensure that he has sufficient time to meet the requirements of the position. He currently holds non-executive roles in Arrow Global Group PLC and Leeds Building Society. He has a full attendance record at the Company's Board meetings in 2018 and has also attended 22 Board Committee meetings in addition to spending a substantial amount of time engaging with the business outside formal Board and Committee meetings. The Board is satisfied that he commits sufficient time to the business of the Company.

### Conflicts of interest

The Board has in place procedures for the management of conflicts of interest. In the event a Director was to become aware that they had an actual or potential conflict of interest, they must disclose this to the Board immediately. The Board then considers the potential conflict of interest based on its particular facts, and decides whether to authorise the existence of the potential conflict and/or impose conditions on such authority if it believes this to be in the best interests of the Company. Internal controls also exist whereby regular checks are conducted to ensure that the Directors have disclosed material interests appropriately.

Except as stated in the Directors' Remuneration Report, no Director has, or has had during the year under review, any material interest in any contract or arrangement with the Company or any of its subsidiaries.

## CORPORATE GOVERNANCE REPORT CONTINUED

### Succession planning and diversity

The Board has a responsibility to ensure that appropriate succession plans are in place for the Board, the Executive Board and senior management. Details of progress made in the year can be found in the Report of the Nomination Committee.

### Inductions for new Directors

An appropriate induction programme is designed to enable all new Directors to meet senior management, understand the business and future strategy, visit various office locations and speak directly to Partners and staff around the country as well as being introduced to other key stakeholders. Induction plans are tailored to meet the specific requirements of incoming Directors. To support his transition when taking on the role of Chair, a programme of activities was also established for Iain Cornish.

### Continuing professional development

The Chair and Company Secretary ensure the continuing professional development for all Directors, based on their individual requirements.

Training attended by Directors includes presentations on topical issues, specific teach-ins, visits to head office and other locations to meet with staff and members of the Partnership and attending seminars or other events taking place throughout the year. Ad hoc training is also set up to deal with individual requests, external advisers are invited to deliver presentations, and the Non-executive Directors are able to attend seminars or conferences which they consider will assist them in carrying out their duties. A list of training received during the year is maintained by the Company Secretary. Specific NED Development sessions are held four times a year and the Audit Committee also receives scheduled development sessions addressing complex and topical areas within its remit. NED Development sessions held in 2018 covered topics that included the new Diversified Assets (FAIF), the extension of the Senior Managers and Certification Regime and developments in the cyber threat environment.

During the year all the Directors identified and undertook relevant training based on their individual requirements. Where relevant individual and group sessions are also held with third-party advisers, Partners and employees, and Directors attend externally facilitated events that are relevant to their own circumstances.

## 2018 Board Effectiveness Review

### Scoping the Review

The Board carries out an evaluation of its performance and that of its Committees every year, with an externally facilitated evaluation being carried out at least every three years. In 2018, following a market review, the Board, led by Iain Cornish (in his roles as Senior Independent Director and latterly as Chair), selected Dr Tracy Long of Boardroom Review Limited (Boardroom Review) to independently facilitate the evaluation. In a year that has seen the appointment of a new Chair and Chief Executive, an externally facilitated review provided an ideal opportunity to evaluate the Board's effectiveness and establish a clear plan of how it should develop in the coming years. The review also helped identify key considerations for the Board and the Nomination Committee when planning for succession by assisting the Board's identification of the skills, knowledge and experience that it was important to retain and attract when recruiting future Directors.

### Completing the Review

Having chosen Boardroom Review, the Chair met with Dr Long and agreed a comprehensive scope and established a timetable for the various activities:

#### INTERVIEWS

One-to-one confidential interviews were held with all Board members and certain executives.

#### OBSERVATIONS

Dr Long attended and observed meetings of the Board and its principal Committees, including private sessions.

#### BRIEFING

A detailed discussion document containing the key findings from the review and identifying areas for focus and recommendations was issued to the Board in December.

#### FEEDBACK AND DISCUSSION

The Board met collectively and individually with Dr Long following the issuance of the briefing to reflect upon the findings and agree priorities and actions. From this meeting the Board agreed a detailed action plan for 2019.

#### FOLLOW UP

Within 6-12 months of the delivery of the briefing, Dr Long will follow up with the Chair to assess implementation of the actions agreed.

The Feedback and Discussion session held in December 2018 provided an opportunity for Dr Long to highlight her findings and for the Board to agree actions to focus on in 2019, both of which are summarised overleaf.

## Observations from the Review

**Board dynamics** – The Review recognised that the foundations of an effective Board are in place, providing a basis from which to provide strong leadership of the Group in the coming years. A positive corporate culture is evident in the boardroom where debate is open, supportive and of high quality, supported by good information, the quality of which is receiving increasing focus.

**The work of the Board** – Each of the Directors is fully engaged with the strategic focus and there is a shared perspective of the current external landscape. The Board pays attention to the risk and control framework, and has good visibility of and access to the lines of defence. Relationships with external stakeholders are strong, underpinned by open communication channels and mutual respect.

**Effective use of time** – The Board's Committees are effectively chaired by experienced Non-executive Directors, with a focus on: their priorities; making the most of the time available; and maintaining a high quality of information. A balanced agenda exists between the Audit and Risk Committees, and the Remuneration Committee pays proper attention to the alignment of expectation and reward.

## Actions agreed by the Board

The review also identified challenges and recommended areas of focus which helped the Board shape a Board effectiveness action plan. The actions the Board has set itself for 2019 have been summarised below:

**Improving the Board's preparation for the future** – Recognising the importance of providing the Board with a solid base from which to deliver value, we will focus on: ensuring the Board has visibility and can understand the external landscape; continuing to make improvements to the quality of reporting to the Board; broadening the range of presenters to the Board (including external parties); and keeping the Board's focus in this respect under continuous review.

**Improving the composition and development of the Board** – Focusing on the Board's continuous development we will look to improve the Board's relevancy; ensure diversity of perspective and experience; and develop the role of the Nomination Committee.

**Improving the Board's input into leadership transition** – In order to maintain an organisation which is sustainable for the future we will focus on: the management of future leadership transitions; enhancing the Board's visibility of the make-up of the workforce; and formalising the Board's monitoring of culture and its engagement with the workforce.

The Board is not expecting to carry out an externally facilitated review in 2019, but recognises the value that the process delivers and is keen to ensure that the structure of the 2019 internally facilitated review will highlight progress against the above actions, as well as identifying further areas for improvement.

By order of the Board:

**IAIN CORNISH**

Chair

26 February 2019

## REPORT OF THE AUDIT COMMITTEE



**SIMON JEFFREYS**, Chair of the Audit Committee

### Key objective of the Committee

The Committee's primary purpose is to provide oversight of the financial reporting process, the internal and external audit processes and the Group's systems of internal controls.

### Role of the Committee in summary

- To be responsible for the accuracy and integrity of the Group's financial statements.
- To oversee the appointment and monitor the independence and objectivity of the external auditor.
- To receive and act upon the reports of the external auditor.
- To monitor the work of the Internal Audit function and ensure its effectiveness.
- To monitor the effectiveness of the systems of internal control and risk management.
- To review, and where relevant refer to the Board, significant control weaknesses or failures.
- To monitor arrangements whereby employees and others, may in confidence, raise matters of concern (whistleblowing), and ensure appropriate follow up action occurs.

### Priorities for 2019

- Reporting relating to IFRS 16 Leases.
- Monitoring financial controls relating to platform migrations.
- Further enhancing the clarity of reporting.
- Maintaining the Internal Audit framework.
- Further enhancing the internal controls framework.
- Ensuring compliance with the new UK Corporate Governance Code.

Last year I provided an update on the progress made by the Committee in determining the likely impact of new reporting standards on our financial statements, and 2018 has seen the first of those standards come into force. Whilst neither IFRS 9 Financial Instruments nor IFRS 15 Revenue from Contracts with Customers has had a material impact on our consolidated financial statements we have focused on ensuring the presentational changes to the Notes to the financial statements are clear and concise. IFRS 16 Leases will come into force for the next financial year and we have set out in Note 1 the expected impact on our financial statements. IFRS 17 Insurance Contracts will not be adopted until 2021 and we will continue to assess the implications for the Group, although we expect the impact to be small.

Whilst our business is in many ways straightforward, we comply with a vast array of reporting requirements which have the potential to make our Annual Report and Accounts a challenge to read. The Committee has tasked itself and management to continue to focus on simplifying the messaging where possible, as well as responding to investor feedback on areas that could be improved. In this year's report we have sought to improve our explanatory narrative and use other tools, including diagrams and schematics to explain some of the more complex aspects of the business. For an example of this, refer to Our Business Model on pages 14 and 14.

Key projects that the Committee has overseen during the year included the successful migrations to Bluedoor, where the Committee continues to monitor the costs and the savings being realised as we head towards the conclusion of the project. Following the completion of our first securitisation transaction we dedicated time outside our formal meetings to understand the transaction and its impact upon our financial statements ahead of approving the disclosures.

Jared Whitehouse took over as Head of Internal Audit in 2018 and has worked with his team to enhance the internal audit planning and delivery framework. This has included making improvements to the reporting to the Committee. To ensure we have access to sufficient resource and expertise to deliver a robust internal audit programme, our in-house team has worked with providers of co-sourced services. During 2018 the Company reviewed the basis of the arrangement and the incumbent providers. A competitive tender process was subsequently held and we agreed to re-appoint Deloitte as our co-source partner and look forward to strengthening the depth of the relationship in the coming years.

In 2017 we approved changes to the Group's control frameworks which included the introduction of a rolling programme of control effectiveness reviews which now supplement the control self assessments completed by management. Regular reporting covering the outcome of these reviews throughout 2018 has provided the Committee with further evidence of the alignment of controls with key risks and the overall effectiveness of those controls. Enhancements to our control self assessment programme have also contributed to our overall review of the control environment. Further details on these developments can be found in the case study on page 105.

### **SIMON JEFFREYS**

On behalf of the Audit Committee

26 February 2019

## Committee membership

| Member                            | Joined         |
|-----------------------------------|----------------|
| <b>SJ</b> Simon Jeffreys (Chair)  | 1 January 2014 |
| <b>BW</b> Baroness Wheatcroft     | 8 October 2018 |
| <b>RY</b> Roger Yates (SID)       | 1 July 2014    |
| Other members serving during 2018 | Stepped down   |
| <b>IC</b> Iain Cornish            | 8 October 2018 |

The Committee's terms of reference set out the Committee's role and authority as Audit Committee for the Company and certain subsidiaries. They can be found on the corporate website at [www.sjp.co.uk](http://www.sjp.co.uk).

## Operation and performance of the Committee

The Committee comprises three independent Non-executive Directors. Following his appointment as Chair of the Board on 8 October 2018, Iain Cornish stepped down as a member of the Committee and was replaced by Baroness Wheatcroft. The Committee's effectiveness has been reviewed by the Board as part of its overall assessment of its effectiveness (see pages 92 and 93) and it remains satisfied that the Committee as a whole has the experience and qualifications necessary to successfully perform its role, noting in particular that the Chair of the Committee is a qualified accountant and former auditor, and other members also have recent and relevant experience and expertise in the financial services sector.

Regular attendees at Committee meetings during the year included the: Chair; Chief Financial Officer; Director – Internal Audit; Executive Director – Finance (Chief Actuary); and Senior Statutory Auditor. The Committee also invited the following to attend meetings where appropriate: the Chief Executive; the Chief Risk Officer; members of the Finance, Internal Audit and Controls teams; and representatives from the external auditors. Private sessions are held with the Executive Director, Internal Audit and the external auditor after all relevant meetings, providing a channel for them to raise concerns in the absence of management and enabling the Senior Statutory Auditor to feed privately into the work of the Committee.

At each scheduled meeting the Committee receives reporting and information that provides valuable reference points that support its exercising of governance responsibilities and inform the Committee's plans for future periods. This includes:

- receiving updates from the external auditor on progress with ongoing activities;
- receiving updates on progress with the internal audit plan, including the findings from individual audits;
- receiving summaries of control effectiveness reviews completed since the last meeting;
- being provided with an update from the Finance department, including details of audit and non-audit services undertaken by PricewaterhouseCoopers (PwC) in the year to date, a summary of developments in financial reporting, a summary of capital management in the Group, and details of any financial controls breaches since the last meeting;
- receiving an update on any fraud activity since the last meeting;
- being provided with a report on any whistleblowing activity; and
- reviewing proposed changes to relevant policies for the Committee to recommend to the Board for adoption.

In addition to receiving updates from management, members of the Committee attend and contribute in industry briefings and workshops to ensure they stay abreast of topical subjects for audit committees. One such example is Simon Jeffreys' membership of the FRC's Technical Advisory Group. Separate development sessions, focusing on complex and topical items, are held for Committee members at least twice per year to support them in maintaining their knowledge. The Chair liaised with Baroness Wheatcroft prior to her joining the Committee regarding topics that would support her induction. As a result, topics were added to planned development sessions.

The Committee maintains a forward agenda which aims to ensure that the Committee's workload is balanced across the year and that key areas of focus are considered at appropriate times.

The Audit Committee was responsible for carrying out the function required under the FCA's Disclosure and Transparency Rule DTR7.1.3R (Audit committees) and complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 throughout the year ended 31 December 2018.

## Whistleblowing

The Chair of the Committee is a key contact in the whistleblowing policy and is the whistleblowers' champion. The Committee reviewed whistleblowing arrangements during the year and concluded that the arrangements were appropriate and consistently in force across the entire Group.

## REPORT OF THE AUDIT COMMITTEE CONTINUED

### Committee activities during 2018

The Committee held six scheduled meetings during the year and the key topics considered at those meetings are summarised below:

#### JANUARY

- **Year-end preparation** – Reviewed and approved accounting judgements and actuarial assumptions, and received an update on progress with the 2017 year-end external audit.
- **Corporate reporting** – Reviewed draft statutory and regulatory reports for the Group and St. James's Place UK plc and confirmed to management support for the approach to be taken.
- **Asset valuation** – Considered a review of the external audit of the SJP Unit Trusts and the half-yearly review of the oversight and monitoring of the activities of service providers, probing the robustness of the framework upon which valuations included in the consolidated Group accounts were based.
- **Internal Audit Plan** – Approved the final 2018 Internal Audit Plan.

#### FEBRUARY

- **Final Results** – Reviewed and recommended to the Board the draft Final Results announcement and draft Group, Company and SJPUK Annual Report and Accounts for 2017, including the viability statement.
- **External Audit** – Received the report of the external auditor on the results of their audit and concurred with management's response to the recommendations identified.
- **Internal controls** – As part of its ongoing monitoring of the effectiveness of internal controls, reviewed output from the Control Self Assessment Process and the annual Internal Controls Evaluation carried out by Internal Audit.
- **Solvency II** – Reviewed compliance with the Solvency Directive, and approved the publication of the 2017 Year End Solvency and Financial Condition Report (SFCR) and the submission of the 2017 Regular Supervisory Reporting (RSR) to the Regulator.

#### APRIL

- **Year-end review** – Undertook a review of the 2017 year-end process, recognising improvements made and highlighting areas for further enhancement. Evaluated the performance of the external auditor and carried out an annual review of the Committee's terms of reference, agreeing changes that clarified the Committee's role in relation to SJPUK.
- **Internal Audit** – Reviewed the performance of the Internal Audit function during 2017 and agreed refinements to the audit planning process, grading structure and reporting.
- **Bribery and fraud review** – Received an annual review of the Group's systems and controls for bribery and fraud.
- **Annual Whistleblowing Report** – Approved the Annual Whistleblowing Report to be presented to the Board.

#### MEMBERS PRESENT



#### MEMBERS PRESENT



#### MEMBERS PRESENT



## JULY

- **Half-year results** – Reviewed and recommended to the Board the draft 2018 Half-year Results announcement.
- **External Audit** – Received and considered the external auditor's review for the half year to 30 June 2018.
- **Asset valuation** – Received the half-yearly review of the oversight and monitoring of the activities of service providers working on the SJP Unit Trusts, considering the valuation methodologies adopted and examining the approach to be adopted for valuing the new Diversified Assets (FAIF).
- **Internal Audit performance** – Reviewed the impact of the new grading and reporting, and assessed the adequacy of the skills and resource within the Internal Audit Department against current and future demands.

## MEMBERS PRESENT



## OCTOBER

- **Internal Audit Plan** – Considered the proposed 2019 internal audit plan and recommended additional areas of coverage.
- **Year-end preparation** – Received an outline of the planning and key considerations for the 2018 year end (a development session covering key changes arising from the securitisation programme and new Financial Reporting Standards was held following the meeting).
- **External Audit Plan** – Received and agreed the external auditor's plan for the audit of the 2018 year-end.

## MEMBERS PRESENT



## NOVEMBER

- **Year-end preparation** – Considered key developments, material accounting judgements and actuarial basis proposals, agreeing in principle the key assumptions to be adopted when preparing the 2018 year-end Annual Report and Accounts.
- **External Audit** – received an update from the external auditors on progress with the 2018 year-end audit.
- **Controls** – evaluated with management and the external auditor the implications of GDPR on the year end process and the adequacy of controls relating to the opening of bank accounts.
- **Internal Audit Plan** – Approved the final 2019 Internal Audit Plan.

## MEMBERS PRESENT



## REPORT OF THE AUDIT COMMITTEE CONTINUED

### Significant issues considered relating to the Group's financial reporting

The Committee's deliberations during the year have included taking account of the following areas of focus, paying particular attention to the implications for the Group's financial reporting, the risk of mis-statement of the financial statements, and also by assessing the scale of risk in the business:

| Area of focus                                          | Activity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Fraud in revenue recognition</b>                    | During the course of its regular work, the Committee continued to review the relevant policies and receive regular reports from management and internal/external audit on the controls. This enabled the Committee to continue to scrutinise the controls in place and gain assurance of their adequacy.                                                                                                                                                                                                                                                                                                                |
| <b>Financial controls</b>                              | Regular reports assessing the adequacy and performance of the financial controls were received during the year end, providing the Committee with assurance and enabling them to identify and address areas of potential weakness.                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Asset valuation</b>                                 | The Committee received half-yearly reports on the oversight and monitoring of the activities of service providers working on the SJP Unit Trusts, and was able to challenge management on the valuation framework and methodologies adopted. A key area of the Committee's focus during the year was the valuation methodology that would be adopted for the new Diversified Assets (FAIF).                                                                                                                                                                                                                             |
| <b>Accounting judgements and actuarial assumptions</b> | As part of reviewing the half-year and year-end reporting the Committee required management to identify and explain the key judgements and assumptions, and in particular any significant changes. During the year, key accounting judgements agreed by the Committee included the value of the provision held against business loans to Partners, and the deferred tax assets recognised. The valuation of the operational readiness prepayment continued to be a key area of focus.                                                                                                                                   |
| <b>APMs – Underlying profit, EEV and Cash result</b>   | Recognising the FRC's ongoing focus on alternative performance measures (APMs), the Committee reassessed with management the appropriateness of the APMs presented in the accounts. The Committee noted the consistency of reporting from year to year and management confirmed that analysts and other market participants continue to place strong value on the Company's use of the Cash result and EEV. The Committee reviewed the use of APMs in the revised presentation of the CFO's report and Financial Review, and was reassured that these were not given undue prominence by comparison with IFRS measures. |
| <b>IFRS developments and accounting policies</b>       | The Committee requested and received regular updates on developments in financial reporting, with particular focus during the year on IFRS 9, IFRS 15, IFRS 16 and IFRS 17. The Committee members received a focused development session enabling them to challenge the approach to be taken to reporting against standards coming into force in 2018 (IFRS 9 and IFRS 15) and to enable them to evaluate the potential impact of those yet to come into force (IFRS 16 and IFRS 17). The disclosures made in this year's financial statements can be found on pages 158 to 160.                                        |

## ‘Fair, balanced and understandable’ opinion

The UK Corporate Governance Code requires the Board to give its opinion as to whether it considers the Company’s Annual Report and Accounts, taken as a whole are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company’s position and performance, business model and strategy.

To aid the Board, the Audit Committee carried out a formal review of the Annual Report and Accounts in relation to this requirement, including a consideration of the results of activities and information described above. The Committee took account of investor feedback, commentary from the FRC’s annual review of corporate reporting and received a detailed review of management’s assessment, concentrating on key questions, the conclusions from which have been summarised below.

Following this review, the Committee was able to advise the Board that the Company’s Annual Report and Accounts for the year ended 31 December 2018 are fair, balanced and understandable.

| Fair, balanced and understandable | Questions                                                                                                                                                                                                               | Committee’s conclusions                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>FAIR</b>                       | Does the report present the whole story, including challenges and issues faced as well as Company achievements?                                                                                                         | The Annual Report and Accounts, reflect the positive growth in gross and net new business. The Strategic Objectives, detail developments in 2018 and areas of focus for 2019. The combination of disclosures presents a fair reflection of the position and performance of St. James’s Place.                                                                                             |
| <b>BALANCED</b>                   | Does the report achieve consistency between the financial statements and the narrative sections?                                                                                                                        | The Annual Report and Accounts is consistent between the financial statements and narrative sections. Where Alternative Performance Measures are included, explanation of their purpose and benefit is included along with a reconciliation to IFRS. There is consistency, or rationale for differences, in the identification of areas of Audit Committee and / or External Audit focus. |
|                                   | Are appropriate performance measures included and clearly explained? Is there balance between statutory and alternative performance measures with appropriate explanation of any adjustments?                           |                                                                                                                                                                                                                                                                                                                                                                                           |
|                                   | Are key judgements and estimation uncertainties in the financial statements appropriately explained and are they consistent with the Audit Committee report and the risks the external auditor addresses in its report? |                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>UNDERSTANDABLE</b>             | Does the overall document have a clear and cohesive structure?                                                                                                                                                          | Revisions made in the year to the Annual Report and Accounts have increased its clarity with clear referencing between relevant sections. Explanation of the Business model, strategies and accounting policies is given along with several Glossaries to aid the understanding of the Annual Report and Accounts.                                                                        |
|                                   | Is the report readable and are the important messages highlighted appropriately?                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                           |
|                                   | Are explanations of business models, strategies and accounting policies clear?                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                           |

## REPORT OF THE AUDIT COMMITTEE CONTINUED

### External Auditor

#### ACTIVITY DURING THE YEAR

As in previous years, the external auditor attended all Committee meetings and met privately with the Committee regularly. The Chair of the Committee met regularly with the Senior Statutory Auditor both to receive updates on progress and also to discuss any private matters. The external auditor was also able to provide insight on topical issues as appropriate during the year.

The Committee received and discussed the findings of the year end audit and the review of the half year results. These were considered under the headings of the major risks as set out in the original audit plan and Committee members applied their understanding of the scope of work, findings, judgements and conclusions of the external audit in their evaluation that the financial statements had been properly prepared. Particular areas of the work of the external auditor that the Audit Committee focused on during the early part of 2018 included:

- new disclosures arising from the introduction of new Financial Reporting Standards;
- the prominence of non-GAAP measures in the Annual Report and Accounts;
- the Client Assets ('CASS') Audit, particularly the processes of the third-party administration outsource providers; and
- the risk of misstatement of the operational readiness prepayment asset.

#### INDEPENDENCE AND NON-AUDIT SERVICES

The Committee carried out its annual review of the Policy on Auditor Independence during the year and remained committed to ensuring that the policy only permits our auditor to carry out limited non-audit work, where there is no risk of compromising independence, and the external auditor is the only supplier who could reasonably carry out the engagement. The Committee considers proposals for non-audit services as they arise and receives updates at each meeting on fees incurred with PwC for all services, along with details of 'trivial' non-audit services which the Committee has authorised management to approve. In their Audit Report to the Committee, PwC confirmed that they remain independent of the Group and, having carried out its own assessment, the Committee concluded that PwC remained independent and objective. The Policy on Auditor Independence is available on the Company's website and details of the non-audit services provided by PwC during the year can be found on page 169.

#### EFFECTIVENESS

A tender process was carried out in 2016 and PwC were reappointed as the Group's external auditor. This ensured that we continued to meet the relevant requirements and recommendations relating to the tenure of appointment set out in The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the 'Order'), Regulation (EU) No 537/2014 and the FRC's revised Ethical Standard June 2016.

PwC has served as the Company's external auditor since 2009 and regulations require that we change our audit firm by no later than the 2027 audit, although Jeremy Jensen, steps down as our Senior Statutory Auditor in 2019 after five years in the role. The Chair of the Committee met with PwC during the year to consider Jeremy's replacement, and the Committee has confirmed that from 2019 Andy Moore will take on the role.

The slightly different rules in Dublin, which limit auditors' tenure to a maximum of ten years mean that we have to change our auditor in Dublin for the 2019 audit. The Committee liaised with SJPI's audit committee on agreeing the selection criteria for a tender for a new auditor, including focusing on ensuring a strong working relationship with the Group auditor and the operational resilience, and technical capability, of the short-listed firms. At the conclusion of the tender, SJPI's audit committee recommended the appointment of Grant Thornton Ireland. The Committee received regular updates throughout the tender and concurred with the decision to appoint Grant Thornton Ireland.

The Committee's annual review of the external auditor concluded that the audit service of PwC was fit for purpose and provided a robust evaluation of the risks underlying the Company's financial statements. PwC have indicated their willingness to continue in office and the Board have agreed that a Resolution that they be re-appointed until the end of the 2020 Annual General Meeting will be put to shareholders at the forthcoming Annual General Meeting.

Key considerations during the year that enabled the Committee to satisfy itself that the audit was effective and that the external auditors remain independent and objective are set out in the table below:

| Area of focus                               | Activity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Auditor effectiveness and quality</b>    | <ul style="list-style-type: none"> <li>• The findings of the annual review by the FRC of the main auditing firms, which did not highlight any adverse findings that were relevant to the Group or required follow up.</li> <li>• The Audit Quality Review report specifically on PricewaterhouseCoopers LLP.</li> <li>• The experience and knowledge of the team (with due regard to the requirement for regular rotation of audit team members).</li> <li>• The professional scepticism demonstrated by the external auditor.</li> <li>• The results of an internal review of auditor performance.</li> <li>• The findings of the external auditor's own internal reviews of both the firm and our audit.</li> </ul> |
| <b>Auditor independence and objectivity</b> | <ul style="list-style-type: none"> <li>• Review of the nature and extent of other 'non-audit' work undertaken to confirm compliance with our policy.</li> <li>• Review by St. James's Place to confirm no links or investments with the Company by the audit team.</li> <li>• The robustness and appropriateness of PwC's challenging of management when considering significant issues.</li> <li>• PwC's willingness to raise issues (and the nature thereof) with the Committee, including in Committee meetings and private sessions held in the absence of management.</li> <li>• Regular rotation of the audit team.</li> </ul>                                                                                  |
| <b>Level of fees</b>                        | Detailed information on the break-down of fees paid to our external audit firm (see Note 5 on page 169).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

## REPORT OF THE AUDIT COMMITTEE CONTINUED

### Internal Audit

The annual Internal Audit Plan was approved by the Audit Committee at the start of the year and was determined using a two-part planning process. The first was a bottom-up risk assessment of the Group's Audit Universe which methodically assessed the risks faced by each area of the business. The second was a top-down assessment which identified the key current risks to the Group's operating environment. The resulting Audit Plan of 45 audits was a blend reflecting both of these assessments.

In addition to identified risks, the Audit Plan addressed three key themes throughout:

| Theme                            | Description                                                                                                                                                                                                                                                                                                         | Example audits undertaken                                                                                                                                                                                                                                                              |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Client and Partner</b>        | This theme focused on the Group's process for ensuring appropriate client outcomes, overseeing the continued growth and expansion of the Partnership and its compliance with the Group's advice standards, and recognised the importance of the field management team in delivering the required control solutions. | <ul style="list-style-type: none"> <li>• Partnership Recruitment and Regulatory Authorisation</li> <li>• Partnership Accreditation and Development</li> <li>• Partnership Support Specialists</li> <li>• Proposition Governance Framework</li> </ul>                                   |
| <b>Operational integrity</b>     | This theme looked at the robustness and effectiveness of the Group's core operational processes, the impact of continued growth and increased complexity and the impact of major change initiatives. This theme accounted for the largest number of audits in the Audit Plan.                                       | <ul style="list-style-type: none"> <li>• Retirement Account Operations</li> <li>• Partner Lending</li> <li>• IT Incident Management</li> <li>• Unit Pricing</li> <li>• Alternative Investment Governance</li> <li>• Business Continuity Management and IT Disaster Recovery</li> </ul> |
| <b>Regulation and compliance</b> | This theme recognised the changing regulatory environment, the importance of compliance across the Group's increasingly complex operations and the emphasis on the role of second line monitoring.                                                                                                                  | <ul style="list-style-type: none"> <li>• Management Accountability Regimes</li> <li>• MiFID II and IDD Implementation</li> <li>• GDPR</li> <li>• Client Money</li> </ul>                                                                                                               |

The delivery of the Audit Plan is the responsibility of the Director of Internal Audit, who is accountable to the Audit Committee and has one-to-one meetings with the Chair of the Audit Committee and the Chair of the Board. Progress of plan delivery was monitored by the Audit Committee through regular Internal Audit Progress Reports submitted to each meeting. These reports inform the Committee of the overall status of the Audit Plan, summaries of audits issued in the period and updates on the position of remedial actions allocated to management. In addition, points arising under each of the above themes are included in these reports each quarter, which are also collated together as a key part of the annual Internal Control Effectiveness attestation.

The effectiveness of the Internal Audit function is externally assessed every five years as a minimum, with the latest assessment completed by Protiviti in 2015. In intervening years, the output of the function's ongoing Quality Assurance process is reported to the Committee for their consideration. This is supplemented with six monthly reporting to the Committee of the skills and experience of the function's members, and resourcing levels. Internal Audit have also continued their co-sourcing agreement with Deloitte LLP following a competitive tender process completed in the year. The Chair of the Committee represented the Committee throughout the process and attended the tender presentations. This co-sourcing agreement provides specialist expertise and additional resources to maintain and enhance the level of assurance provided to the Audit Committee.

## Refresh of the Audit Universe

The Audit Universe maps out the organisational structure and breaks the Group down into individual components, each of which is individually risk assessed. For the 2019 Audit Plan, the universe has been refreshed to align with the latest Group structure, and to explicitly include key stages of the client service and product life cycles as individual components and also to re-size all components so that each can be a single audit. This significantly simplified the number of components, allowing for the development of a regular cycle of risk-focused core assurance activity.



## REPORT OF THE AUDIT COMMITTEE CONTINUED

### Systems of internal control

The Board has overall responsibility for ensuring that management maintains comprehensive systems of internal control and for assessing their effectiveness. Such systems are designed to identify, evaluate and manage within appetite, rather than eliminate, the risk of failure to achieve business objectives and hence provide reasonable but not absolute assurance against material misstatement or loss. St. James's Place is committed to operating within strong systems of internal control that enable business to be executed and risk taken without exposing itself to unacceptable potential losses or reputational damage.

The most significant internal control assurance activities considered by the Committee during 2018 are outlined below:

| Area                                  | Activity                                                                                                                                                                                     | Matters addressed                                                                                                                                         | Role of the Committee                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Operations</b>                     | <ul style="list-style-type: none"> <li>Management Control Self-Assessment (CSA) Attestation.</li> <li>CEO attestation to the Committee on the integrity of first line operations.</li> </ul> | The effectiveness of the overall control environment, including the status of any material control issues and the progress of specific remediation plans. | <ul style="list-style-type: none"> <li>Monitored the status of control issues identified by management through regular reports from the Head of Internal Controls.</li> <li>Assessed the progress of the enhancements being made to the CSA process.</li> </ul> <p>The Committee has continued to use the output from the CSA process in its review of the control environment. While the Committee welcomed the improvements made in the year to give a reasonable overview of the control environment, the Committee reviewed plans to introduce increased regularity and rigour which should provide more timely visibility on controls requiring remediation and associated risks.</p> |
| <b>Risk management and compliance</b> | <ul style="list-style-type: none"> <li>Reports from the Risk Committee.</li> <li>CEO attestation to the Committee on the second line, risk management functions.</li> </ul>                  | The effectiveness of the control environment in respect of design and effectiveness of St. James's Place risk management systems.                         | <ul style="list-style-type: none"> <li>Evaluated reports from the Risk Committee on the internal control environment.</li> <li>Considered the role of the second line of defence in the oversight of operational risk controls.</li> </ul> <p>The Committee received reports from the Risk Committee with its conclusions on the design and effectiveness of SJP's risk management systems.</p>                                                                                                                                                                                                                                                                                            |
| <b>Internal controls</b>              | <ul style="list-style-type: none"> <li>Control Effectiveness reviews.</li> <li>Review of the CSA system led by the Head of Internal Controls.</li> </ul>                                     | The effectiveness of the design and operation of key control activities in respect of the most pervasive business risks.                                  | <ul style="list-style-type: none"> <li>Monitored issues arising from Control Effectiveness reviews to identify pervasive themes.</li> <li>Evaluated reports on the internal control environment from the Head of Internal Controls.</li> </ul> <p>The Committee received summary reports on the conclusions of Control Effectiveness reviews carried out by Internal Controls, which provided an additional layer of independent assurance. The Committee will continue to monitor the outputs from this assurance programme in 2019.</p>                                                                                                                                                  |
| <b>Internal Audit</b>                 | <ul style="list-style-type: none"> <li>Internal Control Annual Evaluation.</li> </ul>                                                                                                        | The effectiveness of the overall control environment, including the status of any material control issues.                                                | <ul style="list-style-type: none"> <li>Discussed the opinion provided by Internal Audit on the effectiveness of St. James's Place internal control framework in 2018.</li> </ul> <p>The Committee received and discussed the annual evaluation of the internal control environment from Internal Audit.</p>                                                                                                                                                                                                                                                                                                                                                                                |

External Audit acts as a further check on the Company's processes.

These sources of assurance assist the Committee in completing its annual review and enable the Committee to attest on behalf of the Board that it has been able to properly review the effectiveness of St. James's Place's system of internal control in accordance with the 2014 FRC Guidance on risk management, internal control and related financial and business reporting. The Committee did not identify any 'significant failings or weaknesses' and it has ensured that corrective action is being taken on matters arising from the review.

Improvement of the Internal Control System assessment continued to be a theme in 2018. The management Control Self-Assessment (CSA) process has been redeveloped from the ground up to provide a greater level of granularity and robustness. This enhancement has been achieved by underpinning the SJP CSA Framework with the 2013 COSO Framework and developing a greater alignment between the CSA Universe, the Audit Universe and the Risk Management Framework. These improvements have been dovetailed with independent, objective Control Effectiveness reviews by Internal Controls to offer a greater level of rigour and challenge to management. This combination of activities proactively assists the identification of controls that require remediation in a timelier manner.

**ST. JAMES'S PLACE**  
 WEALTH MANAGEMENT  
**CONTROL SELF ASSESSMENT SUMMARY**  
 Operations

CHA Owner  
 Date Completed  
 Overall Assessment

A.N. Oiler  
 25<sup>th</sup> December 2021  
 Effective

**Rationale for overall assessment**  
 The control activities are designed and are operating effectively to appropriately mitigate the team's key risk exposures to retain the documented risk appetite. Management have planned activities in 2019 for further enhancing the effectiveness of the key control activities which will help further the robustness of the current controls however none of these are required to address fundamental weaknesses in the control environment.

| Risk                                              | Key Risks and Control Activities* | Key Control Activity | Assessment |
|---------------------------------------------------|-----------------------------------|----------------------|------------|
| Reduced Oversight (Business Engagement)           | Rules for Group functions         |                      | Effective  |
| Use of Resource (Resource Involvement)            | Human resources                   |                      | Effective  |
| Compliance and Regulatory (Breach of Regulations) | Compliance function scanning      |                      | Effective  |
| Resource Involvement                              | Over training of employees        |                      | Effective  |
| Control Environment                               | Overall Control Environment       |                      | Effective  |
| Risk Assessment                                   | Control Principle                 |                      | Effective  |
| Control Activities                                |                                   |                      | Effective  |
| Information and Communications                    |                                   |                      | Effective  |
| Monitoring Activities                             |                                   |                      | Effective  |
|                                                   |                                   | Overall Assessment   | Effective  |
|                                                   |                                   | Effective            | Effective  |
|                                                   |                                   | Effective            | Effective  |
|                                                   |                                   | Effective            | Effective  |
|                                                   |                                   | Effective            | Effective  |

**Management disclosures:**  
 In completing this Control Self Assessment management confirms the following statements:  
 - All relevant controls have been identified and the evaluation of the effectiveness is an accurate reflection of actual control environment in operation.  
 - All control failures (including frauds) leading to a loss event or a near miss have been disclosed, reflected in the loss event reporting.

\* Further detail in the risks and control activities can be found on the relevant Risk Register

## REPORT OF THE RISK COMMITTEE



**IAIN CORNISH**, Chair of the Risk Committee

### Key objective of the Committee

The Committee's primary role is to provide guidance and advice to the Board (and where appropriate other boards and committees in the Group) in relation to the Group's risk appetite, attitude to risk and to provide oversight of its risk management framework.

### Role of the Committee in summary

- To foster a culture of effective risk identification and management throughout the Group.
- To provide leadership, direction and oversight of the Group's management of risk.
- To review the principal and emerging risks affecting the Group and the ways in which the risks are controlled, managed and/or mitigated.
- To direct and oversee the Own Risk and Solvency Assessment ('ORSA') process and the Group's approach to capital adequacy and capital management.
- To report any material areas of concern to the Board and the boards of the Group's subsidiary companies.

### Priorities for 2019

- Continue to oversee migration to Bluedoor.
- Data security and cyber threat resilience.
- Strategic risks, including growth and technology.
- Operational resilience (including outsourcing).
- Assurance reporting and coverage.
- Responding to political and economic uncertainty, including any Brexit impacts.
- Conduct risks.
- Capital adequacy.
- Consideration of regulatory changes.

Mark Sutton took over from Craig Gentle as Chief Risk Officer on 1 January 2018 and has overseen a continuation of the development of the Group's Risk Management framework and Risk and Compliance function. Through his regular Chief Risk Officer's Report and specific reporting from the Risk and Compliance function, the Committee is provided with comprehensive reporting on key risk developments and activity across the Group. The relevance and quality of the reporting during the year has supported the Committee in:

- reviewing and interrogating the principal risks and uncertainties affecting the Group in the context of the Group's strategy;
- considering risk appetite;
- monitoring and reviewing the effectiveness of the Group's risk management framework and its implementation across the Group;
- assessing the adequacy of management's responses to risk management actions;
- monitoring ongoing interactions with the Group's regulators and the implementation of new regulations, including GDPR, MiFID II, PRIIPs and IDD;
- examining with members of senior management their business areas' management of the associated risks; and
- overseeing and challenging the activities underpinning the ORSA and risk and capital assessments of Group companies, together with other documents aligned with those processes.

In addition, focused reports from senior executives on specific topics impacting the Group support the Committee's assessment of its principal risks. Attendance by senior management during the consideration of these reports provides the Committee with opportunities to explore the management of the associated risks and challenge the executives responsible.

During the year, further enhancements have been made to the reporting of key risks, in particular bringing first line commentary on risks alongside key risk indicators and comments/conclusions of the second line. Our monitoring of risk priorities and emerging risks have also developed further, which will assist the Committee in ensuring appropriate coverage is given to each of these risks at future meetings.

To ensure continuity, I have agreed that I will continue to chair the Committee during the process to appoint a new independent Non-executive Director. When the new Director is appointed, it is intended that at an appropriate point in time, that Director will chair the Committee and I will step down as a member.

### IAIN CORNISH

On behalf of the Risk Committee

26 February 2019

## Committee membership

| Member                         | Joined         |
|--------------------------------|----------------|
| <b>IC</b> Iain Cornish (Chair) | 1 October 2011 |
| <b>SJ</b> Simon Jeffreys       | 1 January 2014 |
| <b>BW</b> Baroness Wheatcroft  | 2 April 2012   |
| <b>RY</b> Roger Yates          | 1 January 2014 |

The Committee's terms of reference set out the Committee's role and authority and can be found on the corporate website at [www.sjp.co.uk](http://www.sjp.co.uk).

## Operation and performance of the Committee

The Committee comprises the Chair of the Board and three independent Non-executive Directors and membership has remained unchanged during the year. The Committee's effectiveness has been reviewed by the Board as part of its overall assessment of its effectiveness (see pages 92 and 93) and it remains satisfied that all members have appropriate financial, risk and/or other relevant experience and as a whole the Committee has the experience and qualifications necessary to successfully perform its role.

Regular attendees at Committee meetings during the year included the Chair, Chief Executive, Chief Financial Officer, Managing Director (Distribution) and Chief Risk Officer. Subject matter experts and other members of senior management are invited to attend and present on specific topics throughout the year.

At each scheduled meeting the Committee receives a formal report from the Chief Risk Officer that includes:

- updates on material risks that have been prominent in the period since the previous meeting;
- interactions with Regulators during the period;
- updates on the impact and implementation of new regulations, political developments (e.g. Brexit) and significant changes in the risk environment;
- updates on the operation, performance and planning of the Risk and Compliance function;
- key risk metrics (including conduct risk management information); and
- summaries of thematic reviews carried out by the Group's first and second line assurance functions.

The Committee maintains a rolling forward agenda which ensures that the key responsibilities of the Committee are carried out across the year and that significant and emerging risks are considered at appropriate times. Key risk policies are reviewed throughout the year and there is a standing item at each meeting to allow the Committee to recommend relevant policies to the Board for adoption.

The Chair of the Committee meets regularly with the Chief Risk Officer, Chief Executive and Chief Financial Officer, individually and together to discuss key risk topics.

## REPORT OF THE RISK COMMITTEE CONTINUED

### Committee activities during 2018

The Committee held five scheduled meetings during the year and a summary of some of the key topics considered is set out below:

#### FEBRUARY

- **Client Money and Client Assets (CASS)** – The Committee received a report from the Head of the CASS Oversight Operation function addressing the key management of risks associated with CASS and the oversight of third-party administrators' compliance with the FCA's CASS rules.
- **Complaints handling** – The Committee considered a deep dive review of the Group's complaints handling processes which outlined the operation of those processes and evaluated the impacts of particular patterns and trends thereon.
- **ORSA** – The Committee approved the proposed ORSA strategy for 2018.
- **Defined benefit transfers** – The Committee received an update on business volumes and considered the businesses' proposals for ensuring future defined benefit transfer cases continued to remain within the Group's risk appetite.
- **The Partnership** – The Committee received presentations from the Head of Field Risk and the Head of a field office in relation to the principal risks associated with the Partnership and potential enhancements being piloted for Partner training and competency supervision.

#### APRIL

- **Defined benefit transfers** – Following up on discussions at the previous meeting, the Committee endorsed acceptance criteria for new defined benefit transfer applications.
- **Vulnerable clients** – An update on the measures taken to safeguard vulnerable clients provided the Committee with an overview of the initiatives being considered to further enhance the Group's existing approach.
- **Business Assurance** – The Committee considered the performance of the Business Assurance function, which is responsible for risk-based checking of advice suitability. This included the risks impacting the function in its day-to-day engagement with the Partnership and planned future developments.
- **Investment Risk** – The Committee received an update on the activity of the Investment Risk Committee and the performance of the custodian and trustee of the Group's funds. The Committee also examined the monitoring of fund composition and performance.
- **Diversified Assets (FAIF)** – The Committee considered a risk assessment carried out on the fund and highlighted risks that required further investigation prior to its launch.
- **Cyber security** – The Committee received an update on the maturity of the Group's cyber resilience and noted that emphasis in future planning was centred around increasing the awareness of employees and the Partnership.
- **Anti-money laundering** – The Group's Money Laundering Reporting Officer presented her annual report to the Committee.
- **ORSA** – The Committee assessed the results of stress and scenario testing carried out as part of the ORSA process.

#### JULY

- **Partner and adviser recruitment** – The Committee received a presentation on the existing recruitment model and, having noted the main risks, evaluated opportunities for reinforcing the acquisition processes and retaining key recruiters.
- **Discretionary Fund Management** – The Risk and Compliance Director of Rowan Dartington presented an assessment of Rowan Dartington's top risks and the Committee assessed progress made in embedding enhanced first and second line assurance processes.
- **Risk Appetite Statement** – The Committee reviewed and agreed to recommend an updated Group Risk Appetite Statement to the Board.
- **ORSA 2018** – The Committee considered the draft ORSA Summary Report, including underlying operational risk assessments and stress tests carried out alongside financial projections.

#### MEMBERS PRESENT



#### MEMBERS PRESENT



#### MEMBERS PRESENT



## SEPTEMBER

- **The Group's Investment Management Approach** – The Committee considered the key risks relating to the Group's investment management approach focusing on the evolution of the investment strategy and the potential impact of Brexit.
- **Diversified Assets (FAIF)** – The Committee received an update on progress with the launch of the fund and the Committee satisfied itself that the risks that had been highlighted at the April meeting had been addressed.
- **Client service** – The Committee received a presentation on risks associated with ensuring the Partnership was servicing all clients appropriately and discussed the activity being undertaken by the Group to safeguard client service levels.
- **Employee remuneration risks** – The Committee considered and agreed an annual assessment of the Group's remuneration risks and discussed the strategic initiatives being adopted to help tackle the Group's gender pay gap.
- **2018 ORSA** – The Committee approved the revised ORSA Policy and considered the final draft of the 2018 ORSA document, before agreeing to recommend it to the Board for approval.
- **Capital Adequacy** – The Committee reviewed the summary output from the draft Internal Capital Adequacy Assessment Process carried out for St. James's Place Investment Administration Limited (SJPIA) and recommended it to the board of SJPIA for approval.

## MEMBERS PRESENT

IC SJ BW RY

## NOVEMBER

- **Partner remuneration risks** – The Committee reviewed the structure of Partner remuneration and considered an annual assessment of associated risks.
- **Brexit** – The Chief Risk Officer provided an update on management's assessment of the potential impact of Brexit on the business and the Committee explored the timeline for engaging with clients and Partners.
- **Capital Adequacy reviews** – The Committee reviewed the output of reviews undertaken on certain regulated subsidiaries and endorsed the basis of preparation of the reviews.
- **ORSA** – The Committee approved the proposed stress and scenario testing and operational risk assessments for the 2018 ORSA cycle.

## MEMBERS PRESENT

IC SJ BW RY

## REPORT OF THE RISK COMMITTEE CONTINUED

### ORSA

One of the key areas of focus for the Committee continues to be the Own Risk and Solvency Assessment (ORSA). Although the ORSA was born of a regulatory requirement, it has become embedded within the Group and has proved to be a useful tool to support the Board and its Committees in the consideration of specific risks. The Committee remains responsible for setting the strategy for the performance of a single, Group-wide, ORSA and has continued involvement in this process throughout the year, with the timetable geared around engagement on key elements at each meeting. It is responsible for agreeing and proposing the ORSA Policy, and all other key risk management policies, to the boards of Group companies, and for challenging the underlying bases and assumptions and determining the extent of stress and scenario testing to be applied. Management presents the results of stress and scenario tests and the assessments of operational risks and then works with the Committee to finalise the content of the ORSA report which is recommended to the Board for approval.

### Oversight of risk

Oversight of the risk management framework is key to delivery of the responsibilities of the Committee and further information on this can be found on pages 48 and 49. The risk management framework and associated documents are subject to annual review. During 2018 the presentation of the Group's principal risks has continued to develop, although these risks remain largely unchanged. The risks are mapped to the Basel framework and a 'bottom-up' risk assessment process, to provide assurance that the list provides comprehensive coverage. This list, and the set of indicators used by the Committee to regularly monitor performance against risk appetite, have both been regularly reviewed by the Committee during the year and will continue to develop during 2019.

The Committee is supported in its oversight of the risk management framework by the Group Risk and Compliance function and teams at Group and local levels. The Committee spends a significant proportion of its time receiving updates from the Chief Risk Officer and senior members of the Risk and Compliance function, who have direct access to the Chair of the Risk Committee should the need arise. The Committee also considers on a regular basis the risk and compliance plan and the adequacy of resources committed to its delivery.

The Committee is also able to review and provide challenge on the implementation of risk mitigation in the business. When certain risks have crystallised during the year the Committee has reviewed the circumstances, confirmed the causes and assessed the response of management. None of the risks that have crystallised during the year have had a material adverse impact. During the year, the Committee continued to receive and review reports from a number of Executive Committees and other functions in the Group including:

- reports relating to relevant topics discussed at Group Risk Executive and Finance Executive Committee meetings, where executive oversight is given to the appropriateness and observance of the Group's Risk Appetite;
- reports produced by second line (Compliance Assurance) and first line (Business Assurance) functions in respect of thematic reviews carried out into specific areas of the Group's business;
- reports from the Chief Risk Officer on the effectiveness of the Group's risk management systems and the structure and operation of the Risk and Compliance function; and
- an annual report from the Group's Money Laundering Reporting Officer on the anti-money laundering, bribery and fraud activities taking place within the Group.

As noted above, since most of the activity within the Group is regulated, the Committee also receives regular updates on regulatory developments and the Group's ongoing interactions with regulators, which provides further context from which it can interrogate and challenge the performance of the Group's first and second line risk functions. The Group's interaction is principally with the Prudential Regulation Authority, Financial Conduct Authority, Information Commissioner's Office, Central Bank of Ireland, Monetary Authority of Singapore, Hong Kong Securities and Futures Commission and Office of the Commissioner of Insurance in Hong Kong. Wider regulatory interactions also take place with firms in the financial services marketplace, and collectively these updates assist the Committee in monitoring the Group's ongoing compliance with regulation.

# REPORT OF THE NOMINATION COMMITTEE



**IAIN CORNISH**, Chair of the Nomination Committee

## Key objective of the Committee

The Committee has overall responsibility for planning Board and senior management succession, leading the process for new appointments and ensuring that these appointments bring the required skills, experience and diversity to the organisation. As part of this, the Committee reviews the governance framework, including the structure, size and composition of the Board and its Committees to ensure they are made up of the right people with the necessary skills and experience to direct the Company in the successful execution of its strategy.

## Role of the Committee in summary

- To review regularly Board and Committee composition and structure.
- To identify, report on and recommend for Board approval suitable candidates for appointment to the Board.
- To review the Group's approach to diversity and inclusion and oversee the governance structures of the Group and the Board evaluation process.
- To consider and review succession planning for Directors and senior management, ensuring that a diverse pipeline exists.
- To report to the Board on the work of the Committee.

## Priorities for 2019

- Recruitment of a Non-executive Director/Chair of Risk Committee.
- Medium-term succession planning for the Chair and NEDs.
- Diversity.
- Executive succession.
- Group governance framework.

I was privileged to take over as Chair from Sarah Bates in October and I am personally grateful to her for the support which she gave me during the transition, and for the very strong legacy which she has left me. Following the appointment of Andrew Croft as Chief Executive at the start of 2018, the Committee's primary focus during the year was appointing successors to: Sarah Bates as Chair; David Lamb as Head of the Investment Division and myself as Chair of the Risk Committee. The latter has taken longer than anticipated, and it is an important priority for the Committee.

In this regard, the timing of the introduction of a new nine-year tenure rule for Chairs in the revised Code, albeit on a 'comply or explain' basis, was not ideal and the Board recognises that my term as Chair is likely to be shorter than had been anticipated when selecting me. However, it has served as a further catalyst to establish a medium-term pipeline of succession for all of the Non-executive roles on the Board.

During the year, the Committee also oversaw the appointment of Robert Gardner to our Executive Board (with effect from 1 March 2019). Robert brings a wealth of experience from outside the organisation and his close working relationship with St. James's Place over the years means he is already familiar with the business and its unique culture.

Having successfully managed changes to the Chair, Chief Executive and Chief Financial Officer in the last two years, the Committee is very clear that a key objective over the next couple of years will be to continue to focus on the succession plans for the Board and senior management. Key to this will be ensuring that individuals with the skills and attributes necessary at those levels are identified and developed, providing a strong and diverse pipeline that gives us

options when it comes to selecting the next generation of leaders for the business.

The opportune timing of the external Board effectiveness review carried out in 2018 provided the Committee with an independent view of what the Board does well and could do better. This will be invaluable information when considering what key skills and experience need to be factored into succession plans.

A central theme of our current and future activity is our focus on diversity. The Committee is acutely aware of the importance of ensuring greater diversity of talent, particularly at senior levels, and the subject has been high on the agenda of both the Committee and the Board throughout the year. We are making progress but there remains a significant amount still to do on the initiatives we reported on last year, as described in more detail in this Report.

## IAIN CORNISH

On behalf of the Nomination Committee

26 February 2019

## REPORT OF THE NOMINATION COMMITTEE CONTINUED

### Committee membership

| Member                                   | Joined              |
|------------------------------------------|---------------------|
| <b>IC</b> Iain Cornish (Chair)           | 1 October 2011      |
| <b>SJ</b> Simon Jeffreys                 | 4 December 2018     |
| <b>BW</b> Baroness Wheatcroft            | 1 January 2014      |
| <b>RY</b> Roger Yates                    | 8 October 2018      |
| <b>Other members serving during 2018</b> | <b>Stepped down</b> |
| <b>SB</b> Sarah Bates                    | 8 October 2018      |

The Committee's terms of reference set out the Committee's role and authority and can be found on the corporate website at [www.sjp.co.uk](http://www.sjp.co.uk).

### Operation and performance of the Committee

The Committee comprises the Chair of the Board and all the independent Non-executive Directors. Following Sarah Bates' retirement in October, Iain Cornish was appointed as Chair of the Committee, and Roger Yates joined the Committee. In light of the changes to the Code and the heightened focus on NED succession, the Board agreed that all of the Non-executive Directors should be members of the Committee, and Simon Jeffreys was added to its membership in December. The Committee's effectiveness has been reviewed by the Board as part of its overall assessment of its effectiveness (see pages 92 and 93) and it remains satisfied that, as a whole, the Committee has the experience and qualification necessary to perform its role.

Given the topics discussed, the Committee invited the Non-executive Directors who were not members of the Committee earlier in the year, to join all or part of Committee meetings held in the year. In addition, the following people attended to present on relevant topics during the year: the Chief Executive, Chief Financial Officer and Chief Risk Officer.

### Chair succession

As part of its medium-term Board succession planning, the Committee selected Korn Ferry, a signatory to the Voluntary Code of Conduct for Executive Search Firms with regard to Board diversity, to facilitate a search for an additional Non-executive Director with one of the criteria being a potential Chair successor. The Committee was provided with a long-list of candidates and, following a detailed review, concluded that there were no outstanding external candidates for the role of Chair of the Board. Shortly thereafter, Sarah Bates informed the Board of her intention to retire, having served on the Board since 2004, and invited the existing Non-executive Directors to be considered for the role.

Following this, a sub-committee of the Committee, made up of non-conflicted Non-executive Directors, was formed and chaired by Baroness Wheatcroft. This sub-committee approved a job description for the Chair of the Board and reviewed whether external candidates should be considered and evaluated potential internal candidates. The sub-committee concluded that the new Chair of the Board should be appointed exclusively from internal candidates given the appropriateness of their fit and experience. The sub-committee then met with the internal candidates, focusing on their suitability and their capacity to meet the time commitments, before ultimately concluding and recommending to the Board that Iain Cornish should be appointed as Chair of the Board when Sarah Bates retired.

### Committee activities during 2018

The Committee held six meetings during the year and the key topics considered at those meetings are summarised below.

#### MARCH

- Board and senior management succession planning
- Diversity
- Director training and development

#### APRIL

- Board composition and succession

#### JUNE

- Selection of Board effectiveness review provider

#### MEMBERS PRESENT



#### MEMBERS PRESENT



#### MEMBERS PRESENT



## Board and Executive succession

Continuity and stability of leadership has been a significant factor in St. James's Place's success, but the Board is also mindful of the importance of our Non-executives maintaining their independence. Over the next four years, all of the Non-executive members of the Board will reach nine years' tenure, a threshold seen by many as a limit beyond which independence is difficult to maintain. With this in mind the Committee is focused on establishing clear plans to manage the significant transition in Non-executive Board membership over the next few years.

As stated above, we value continuity and stability, so in order to ensure we maximise knowledge transfer and avoid disrupting the effectiveness of the Board's performance, the existing Non-executive Directors are likely to continue on the Board alongside their successors for short periods. The overlap will also ensure that incoming directors are able to seek counsel from long-standing colleagues who are more familiar with the nuances and unique elements of our culture. Increasing diversity, in general, at Board level will be an important factor in the Committee's planning, and the recruitment process will only employ the services of search firms which have signed up to the Voluntary Code of Conduct on gender diversity, with at least 50% of candidates on the recruitment long lists being women.

During 2018, in addition to selecting the new Chair of the Board, the Committee also recommended to the Board the appointment of Roger Yates as Senior Independent Director, and a number of changes to the membership of the Board's principal Committees, detail of which are set out in the individual reports of those Committees.

In the last couple of years the Committee has overseen the selection of a new Chief Executive, a new Chief Financial Officer, a new Chief Risk Officer and a new Head of the Investment Division, and remains focused on the development of a diverse pipeline of talent that will provide a broad range of options when selecting new senior managers and Executive Directors. When planning for succession the Committee recognises the importance of introducing external

experience and perspectives in avoiding 'group think'. However, where possible we want to promote from within, enabling our people to grow with the organisation and contributing to the Board's aim to safeguard our unique culture. To support this, leadership programmes have been established at all levels to enable the organisation to identify and nurture our senior management and Executive Directors of the future.

The Committee aims to establish clear succession plans for each Executive Board member, with the plans for each taking account of the specific needs of the role. When making appointments to those roles, our selection processes will take account of the specific role and the diversity and inclusion policy we have set, more details of which can be found below.

## Group governance

Recognising the rapid growth of the business and the evolving regulatory environment, the Committee is keen to ensure that St. James's Place continues to have a sustainable and effective governance framework to underpin its business model. During the year, the Committee, working with the Executive Board, considered the Group's governance framework with the aim of clearly articulating a scalable model that would apply across the Group whilst preserving the fundamental aspects of our vertically integrated model, which has been a key component of our success.

The Committee considered a proposed governance model, based upon a number of high-level principles which took account of best practice and requirements introduced by the Senior Managers and Certification Regime and the Asset Management Market Study. Going forward, the Committee will continue to closely monitor the governance model and oversee the relationships between the Board's Committees and the boards and committees of Group subsidiaries.

### JULY

- Board succession

### MEMBERS PRESENT



### OCTOBER

- Chair succession
- Board succession
- Board and Committee composition

### MEMBERS PRESENT



### NOVEMBER

- Board and senior management succession
- Non-executive Directors' independence and time commitments
- Diversity
- Governance framework

### MEMBERS PRESENT



## REPORT OF THE NOMINATION COMMITTEE CONTINUED

### Diversity and inclusion

2018 saw the publication of the first gender pay gap reports and, as many commentators expected, the financial services sector posted figures significantly above the national average, with the average gender pay gap of 22% lagging the national average of 9.7%. Our own gender pay gap report highlighted a greater disparity, which has underlined to the Board the scale of the effort that will be required in the coming years. As stated previously, the Board is clear that a diverse and inclusive community will make our business stronger and drive continued growth and innovation and, unless we take action, we risk not attracting and retaining the high-calibre people we want and need to deliver our strategy.

As mentioned above, the Committee is establishing a clear plan for the succession of Non-executive Directors, including the Chair, over the coming years, and this provides an ideal opportunity to address the Board's own gender balance and to increase its overall diversity. In respect of Non-executive Director and senior management appointments, we have set out a number of targets and commitments to ensure that we promote diversity of gender, social and ethnic backgrounds, cognitive thought and personal strengths:

- new Directors only to be recruited through search firms which have signed up to the Voluntary Code of Conduct on gender diversity;
- at least 50% women on NED recruitment long lists;
- signing up to HM Treasury's Women in Finance Charter (achieved in 2018);
- 30% of senior positions held by women by 2023;
- at least 33% women on senior recruitment shortlists;
- training and workshops;
- 90% maternity return rate; and
- wellbeing and flexible working.

The Committee has been closely monitoring our performance against these targets which have been factored into Executive team bonus performance criteria and Board KPIs, and in 2018 we began to see progress against them. However, the Board, the Executive Board and the Committee recognise that more can be done to help the initiatives gather momentum and to broaden the focus to diversity in its widest sense. This has been reflected in the Diversity Policy approved by the Board in 2018 and the adoption of a Strategic Approach and a set of priorities for 2019, as proposed by the Diversity and Inclusion Steering Group (the 'DISG') which is led by Ian Gascoigne.

The 2019 priorities have been brought together in a proposed action plan under the following themes:

| Theme                                                              | Actions include                                                                                                                                                          |
|--------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Leadership</b>                                                  | Recognising the importance of this agenda, Andrew Croft will join the DISG and the Executive Board will have specific objectives in relation to diversity and inclusion. |
| <b>Talent development</b>                                          | Introducing development support for women at an earlier stage in their careers to ensure we build a more diverse pipeline for senior roles.                              |
| <b>Communication and development</b>                               | Building an internal communications strategy to enable collaboration across diversity channels.                                                                          |
| <b>Embedding in our employee life cycle policies and practices</b> | Extending our focus on diverse shortlists for recruitment to include more junior pipeline roles.                                                                         |
| <b>External accreditation</b>                                      | Building on the progress made in relation to gender diversity, introducing benchmarks and establishing targets through the LGBT Great framework.                         |

The DISG leads and drives the diversity programme throughout the Group and the Partnership, implementing initiatives and monitoring progress against agreed measures. The DISG reports to the Executive Board and ultimately to the St. James's Place Board, through the Nomination Committee. Progress against each of the diversity objectives and initiatives set by the Board is regularly reviewed by the Executive Board, the Nomination Committee and the Board. Clear sponsorship and accountability at Board and Executive Board level, underpinned by the alignment of specific performance targets via personal and strategic objectives, ensures that there is a clear link between diversity and inclusion and our strategy. Diversity and inclusion are also key themes in the 2025 strategy the Board has been developing.

## Board effectiveness

The Committee has reviewed detailed analysis as to the significant other commitments of the Non-executive Directors and how much time they were spending on the Company's business and affairs. The Committee and the Board are satisfied that the Non-executive Directors are able to, and do, commit sufficient time and attention to the Company's business. In addition, the Committee reviewed and approved an assessment of the independence of each of the Non-executive Directors, concluding that each of the Non-executive Directors demonstrated that they remained independent in character and judgement.

During the year, Boardroom Review were selected to undertake an independent evaluation of the Board's (and its Committees') effectiveness. More detail on the process followed and output from the review can be found on pages 92 and 93. As well as providing a comprehensive assessment of the Board's effectiveness, the review carried out by Boardroom Review has provided the Committee with a clear indication of strengths and weaknesses, including desirable skills, attributes and experience that will form the basis of future succession plans.



## Engaging the workforce

In early 2018 we developed an interactive workshop to help educate our employees on the business case for diversity and inclusion, as well as develop their awareness of unconscious bias. The workshops begin with a structured introduction to set out our strategic approach to diversity and inclusion before opening up into a series of open discussions based around specific topics. The topics are introduced through questions that aim to explore the regulatory framework for equality, and employees are presented with case studies that encourage them to appreciate and share their individual perspectives. The workshop is delivered to teams who can later reflect and consider actions pertinent to their own area, enabling all employees to contribute to improvements in our inclusiveness.

## REMUNERATION AT A GLANCE

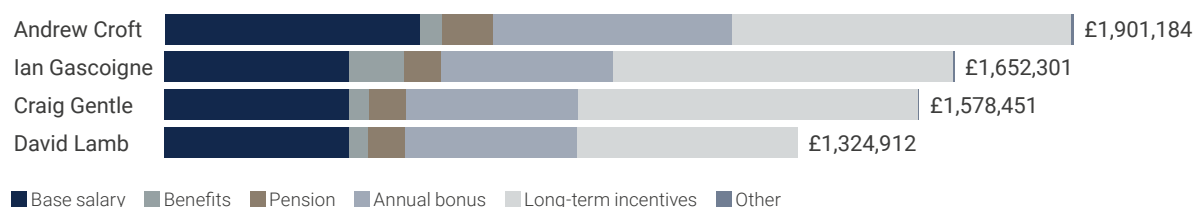
How did we perform in the year?

# £1,002.0m

EEV OPERATING PROFIT



### How were our Executive Directors rewarded?



▶ For more information, see page 122

### How Executive Director pay supports alignment with shareholders

# 50%

OF BONUS DEFERRED AND HELD IN THE COMPANY'S SHARES FOR THREE YEARS

# 100%

PSP AWARDS HAVE TO BE HELD FOR AN EXTRA 2 YEARS POST VESTING<sup>1</sup>

<sup>1</sup> and cannot be sold other than to settle tax on vesting or exercise

# 200%

SHAREHOLDING REQUIREMENT (% OF SALARY)

# 50%

OF ALL VESTED SHARES FROM PSP ARE REQUIRED TO BE HELD UNTIL SHAREHOLDING REQUIREMENT IS MET

▶ For more information, see pages 138 to 141

# REPORT OF THE REMUNERATION COMMITTEE

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## 1. Remuneration overview

### Introduction

On behalf of the Remuneration Committee (the Committee) and the Board, I am pleased to present the Directors' Remuneration Report for 2018 (the Report).

At the AGM held on 4 May 2017, shareholders approved the Remuneration Policy (the Policy) with 99.6% of votes cast in favour. No changes are proposed to the Policy for 2019 and therefore there will only be a single advisory vote at the 2019 AGM to cover this annual statement together with the Annual Report. The full Policy can be found on our website at [www.sjp.co.uk](http://www.sjp.co.uk) and a summary is set out on pages 138 to 141 together with details as to how each element of the Policy supports the Group's strategy.

### Review of 2018

This Report includes disclosure of performance targets and the outcome for the annual bonus for 2018. The Committee determined that 62% of the maximum annual bonus should be payable for 2018, reflecting the good financial results for 2018 and excellent progress against strategic objectives set by the Committee at the start of the year, which are fully explained in the Report. Fifty percent of the bonus is deferred into shares for three years.

2018 has been another year of good performance and our Executives' remuneration for 2018 reflects this. Based on the three-year performance to the end of 2018, 85.3% of the Executive Directors' Performance Share Plan awards granted in 2016 will vest in March 2019, as a result of relative Total Shareholder Return (TSR) being between median and upper quartile and Earnings Per Share (EPS) growth being above the upper end of the performance range set by the Committee.



**ROGER YATES**, Chair of the Remuneration Committee

### Key objective of the Committee

To ensure that remuneration arrangements support the strategic aims of the business as well as the recruitment, motivation and retention of senior executives whilst also complying with regulatory requirements.

### Role of the Committee in summary

- Determine and review the Policy for the Executives (including Code Staff).
- Review and approve the implementation and operation of the Policy.
- Determine the discretionary bonus schemes for Executives for each year and review performance against these.
- Determine the design and targets for any performance-related plans and the grant of awards made under these plans.
- Set termination arrangements for Executives.
- Monitor and review the remuneration policies and trends for employees across the Group.
- Appoint, set the terms of engagement for, and review the performance of, remuneration advisers.

### Priorities for 2019

- Review the Policy in preparation for the triennial review in 2020.
- As part of the above review, consider the relevant aspects of the new UK Corporate Governance Code and other appropriate regulatory and other requirements.
- Review the remuneration structure for employees.
- With the Board Risk Committee, continue to monitor and review any risks and mitigants in relation to remuneration.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**“Our remuneration policy supports and is aligned to the business strategy, and the remuneration outcomes for 2018 reflect the good performance of the business.”**

### Remuneration for 2019

The Committee considered the overall remuneration arrangements for the Executive Directors in 2019 in accordance with the Policy and has decided to award an increase of 3% in the base salaries of the Executive Directors for 2019, which is in line with the overall increase of base salaries for the workforce. Despite this increase, the base salaries remain below market median for a company of our size both in Financial Services and General Industry.

The maximum annual bonus opportunity and maximum performance share awards for 2019 will remain at the same levels as 2018. No discretion to override variable pay outcomes has been exercised during the year.

Following a review of the fee levels for our Non-executive Directors, the fees of the Chair for 2019 will increase to £215,250 (5% increase), the base fees of the Non-executive Directors will increase to £66,950 (3% increase), the Committee Chair fees will increase to £22,403 (3% increase) and the Senior Independent Director fees will increase to £6,031 (3% increase). Recognising the increased workload, regulatory responsibilities and the size of the Group as well as a benchmarking review which revealed that the fee is below median level for companies of our size, the Committee has decided that the Chair's fee will be increased over the next few years to the extent necessary to bring this fee in line with the relevant benchmarks.

### Malus and clawback, shareholding requirements and pension allowance – changes to practice

To ensure malus and clawback provisions remain aligned with best practice, the Committee reviewed our approach in 2018. Following this review, the triggers for which malus and clawback may be applied have been extended to include wider range of scenarios. The new malus and clawback policy will apply to variable pay in relation to awards made from 1 March 2019 for all participants and also, for Executive Directors and the senior leadership team, to the cash element of the annual bonus. Further details are set out on page 136.

As mentioned last year, the Committee decided, (with effect from 2018), to change the practice in relation to the shareholding requirement for Executive Directors so that 200% of salary has to be held in the Company's shares (rather than 150% in the Company's shares and the remaining 50% in the Company's shares and/or one or more St. James's Place fund portfolios). Further details are set out on page 133.

The practice in relation to the pension contribution for Executive Directors has also been changed so that, for any new Executive Director joining the Board with effect from the 2018 AGM, the pension contribution shall be aligned to that of the workforce, which is 10% of salary on joining. Please see page 136 for further details.

## Changes to the Board

As announced in May and October 2018, Sarah Bates retired as Chair of the Board of Directors and has been succeeded by Iain Cornish with effect from 8 October 2018. On the same date, we confirmed that David Lamb was stepping down from the Board of Directors on 26 February 2019 and further details of his new role with the Company are set out on page 123 of this Report.

## Engagement with shareholders and best practice

The Committee is regularly updated on the latest views of major shareholders and investor representative bodies and best practice. Any views expressed by shareholders at general meetings of the Company or otherwise will be considered by the Committee as part of any review of the Policy. The Committee understands the important and increasing focus on clear and transparent disclosure of remuneration outcomes demonstrating the alignment of remuneration and performance, and the Committee believes it provides complete disclosure in this Report.

## Corporate developments and regulatory change

The Committee is closely monitoring developments in remuneration regulations from European and UK authorities (including the recent changes to the UK Corporate Governance Code) and will be considering any necessary changes to the Policy in light of these changes. The Report includes details of our CEO Pay Ratio to other employees, which the Committee decided to include for the first time this year rather than in next year's report when it becomes a regulatory requirement.

## Summary

We are confident that the Policy supports our corporate objectives and the remuneration awards reflect the good performance of the Company and management.

I encourage you to support the remuneration resolution to be proposed at the next AGM and if, in the meantime, you have any questions regarding remuneration then my colleagues on the Committee and I will be pleased to address them.

### ROGER YATES

On behalf of the Remuneration Committee

26 February 2019

## Committee membership

| Member                        | Joined         |
|-------------------------------|----------------|
| <b>RY</b> Roger Yates         | 1 January 2014 |
| <b>SJ</b> Simon Jeffreys      | 1 January 2014 |
| <b>BW</b> Baroness Wheatcroft | 3 May 2012     |

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

## 2. Directors' Remuneration Report

This Annual Report on Remuneration will be put to an advisory shareholder vote at the 2019 AGM. This part of the Report explains the work of the Remuneration Committee, how we implemented our Policy during 2018 and how we intend to implement our Policy in 2019. The information on pages 120 to 137 has been audited where indicated.

### Remuneration Committee

#### ROLE, ACTIVITIES AND PERFORMANCE OF THE COMMITTEE

The Committee's primary purpose is to ensure that there is a clear link between reward and performance and that the Policy structure and levels of remuneration for both Executive Directors, FCA Remuneration Code Staff and Solvency II Staff (the latter two are referred to as 'Code Staff') are appropriate. In particular, the Committee reviews the list of those employees who are considered to be Code Staff and monitors compliance with the Remuneration Codes in relation to that population. The key responsibilities of the Committee are set out on page 117. The full terms of reference for the Committee can be found on the Company's website [www.sjp.co.uk](http://www.sjp.co.uk).

#### Committee activities during 2018

The key topics that were discussed by the Committee during 2018 were:

##### JANUARY

- Performance of Executives against 2017 objectives
- Initial proposals for 2018 annual bonus for Executives
- Final Total Shareholder Return results, Earnings Per Share results and proposed 2015 PSP Award for Executives
- 2018 salary reviews for Executives and other employees
- 2018 Remuneration Policies
- Update on regulatory developments
- Risks and mitigants in relation to Remuneration Policies and their implementation
- Review of the Chair's fee

##### MEMBERS PRESENT:

RY SJ BW

##### FEBRUARY

- Approving the following in relation to Executives:
  - 2017 annual bonus
  - 2018 financial and strategic objectives
  - The total vesting amount in relation to 2015 PSP awards
  - The conditions to be met in relation to 2018 PSP awards
  - 2018 base salaries
- Reviewing and approving the 2017 Directors' Remuneration Report

##### MEMBERS PRESENT:

RY SJ BW

##### OCTOBER

- Update on performance by Executives against 2018 objectives
- Update on performance against 2016 PSP award metrics
- Reviewing employee remuneration structures with potential risks arising and mitigants
- Approving changes to senior executive remuneration
- Discussing proposed malus and clawback policy and operation
- Considering trends and practice in UK executive remuneration
- Approving the remuneration package for a senior executive
- Reviewing the performance of the Committee's advisers and appointing advisers for 2019
- Reviewing the Committee's terms of reference and coverage of these during 2018

##### MEMBERS PRESENT:

RY SJ BW

##### DECEMBER

- Update on performance by Executives against 2018 objectives
- Considering 2019 annual bonus and PSP awards structure
- Reviewing 2019 Executive salaries
- Approving the new malus and clawback policy and operating manual
- Approving the Policy for 2019 for recommendation to the Board
- Reviewing and setting the Chair's fee for 2019

##### MEMBERS PRESENT:

RY SJ BW

Note: 'Executives' includes Executive Directors and Code Staff

The Committee's effectiveness was reviewed by the Board as part of its overall assessment of its effectiveness (see pages 92 and 93) and the Board remains satisfied that, as a whole, the Committee has the experience and qualifications necessary to successfully perform its role.

#### COMMITTEE MEMBERSHIP AND ATTENDANCE IN 2018

This is set out on page 86. The Chair of the Board also attended all the Committee meetings during the year and the CEO and CFO were invited to attend appropriate agenda items. No Director was present when their own remuneration was considered or agreed.

#### ADVISERS TO THE COMMITTEE

The Committee appointed independent remuneration consultants from the Executive Compensation Practice of Aon plc (Aon), to advise on remuneration matters generally. Aon is a signatory to the Remuneration Consultants' Code of Conduct which requires its advice to be impartial and Aon has confirmed its compliance with the Code to the Committee.

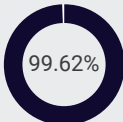
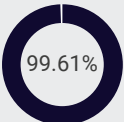
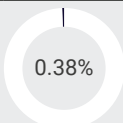
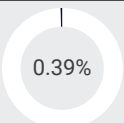
The total fees paid to Aon for the advice provided to the Committee during the year were £83,558 (excluding VAT). Fees are charged on a 'time spent' basis.

Certain subsidiaries of Aon have provided some investment advisory services to certain subsidiaries in the Group during 2018 for which the fees were £50,000 (excluding VAT). The Committee has been advised of the basis on which Aon's Executive Compensation Practice is organised and managed as part of the wider Aon organisation and the basis on which its staff are remunerated and is satisfied that the additional services provided by other Aon group companies did not in any way compromise the independence of advice provided to the Committee.

Towards the end of 2018 the Committee reviewed its advisers, following which Aon was re-appointed as the advisers to the Committee for 2019, with the Committee noting that Aon has confirmed its compliance with the Remuneration Consultants' Code of Conduct and therefore remaining satisfied that Aon's advice was, and is, objective and independent. Given his connection with Aon, Simon Jeffreys excluded himself from the review process and the decision to re-appoint Aon.

#### VOTING AT THE 2018 ANNUAL GENERAL MEETING

The votes cast at the 2018 Annual General Meeting in respect of the resolution on the Report of Directors' Remuneration and the votes cast at the 2017 Annual General Meeting in respect of the resolution on the Policy are summarised below.

|                              | Annual remuneration votes (2018 AGM)                                                        | Policy votes (2017 AGM)                                                                     |
|------------------------------|---------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| <b>Votes for:</b>            | 415,662,589 <sup>1</sup>                                                                    | 405,277,386 <sup>1</sup>                                                                    |
| % of votes cast              |  99.62% |  99.61% |
| <b>Votes against:</b>        | 1,565,604                                                                                   | 1,591,694                                                                                   |
| % of votes cast              |  0.38% |  0.39% |
| <b>Total votes cast:</b>     | 417,228,193                                                                                 | 406,869,080                                                                                 |
| <b>Total votes withheld:</b> | 15,118,178                                                                                  | 5,529,114                                                                                   |

<sup>1</sup> Including 'for' discretionary votes lodged in favour of the Chair.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

## How the Policy was applied in 2018

## REMUNERATION PAYABLE IN RESPECT OF PERFORMANCE IN 2018 (AUDITED)

## Summary of total remuneration

The remuneration received by Executive Directors in respect of the years ended 31 December 2017 (except for Craig Gentle who was not an Executive Director during 2017) and 2018 is set out below.

| Elements of remuneration | Andrew Croft     |                  | Ian Gascoigne    |                  | David Lamb       |                  | Craig Gentle     |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                          | 2018             | 2017             | 2018             | 2017             | 2018             | 2017             | 2018             |
|                          | £                | £                | £                | £                | £                | £                | £                |
| Basic salary             | 533,000          | 374,125          | 385,392          | 374,125          | 385,392          | 374,125          | 385,392          |
| Benefits                 | 47,655           | 38,614           | 115,232          | 83,112           | 41,556           | 40,704           | 39,990           |
| Pension                  | 106,600          | 74,825           | 77,078           | 74,825           | 77,078           | 74,825           | 77,078           |
| Annual Bonus             | 498,108          | 545,200          | 360,170          | 545,200          | 360,170          | 545,200          | 360,170          |
| Long-term incentives     | 710,619          | 709,376          | 710,619          | 709,376          | 710,619          | 709,376          | 462,282          |
| Other                    | 5,202            | 179              | 3,810            | 179              | 3,636            | –                | –                |
| <b>Total</b>             | <b>1,901,184</b> | <b>1,742,319</b> | <b>1,652,301</b> | <b>1,786,817</b> | <b>1,578,451</b> | <b>1,744,230</b> | <b>1,324,912</b> |

Notes:

**Benefits**

Benefits for the Executive Directors comprise the entitlement to a company car or cash equivalent, fuel, private health care, life and critical illness cover, permanent health insurance, health screening and travel costs where deemed taxable and, for Ian Gascoigne, a housing allowance to facilitate working across multiple locations, and are generally the amounts which are returned for taxation purposes.

**Pension contributions**

Pension contributions, being 20% of base salary were capped by legislation and so a non-pensionable salary supplement was paid to the Executive Directors in full for Andrew Croft, David Lamb and Ian Gascoigne and for the balance for Craig Gentle, who had a £10,000 contribution to the money purchase group pension scheme. All Executive Directors appointed after the 2018 AGM will receive a pension contribution of 10% of salary on joining increasing to 12.5% after five years and 15% after 10 years of service.

**Annual bonus**

As explained on page 139, half of the annual bonus is paid in cash, with the other half in the form of a conditional award of Company's shares which are subject to forfeiture for three years under the terms of the Deferred Bonus Scheme (DBS).

**Long-term incentives**

The value of the long-term incentives is the value of shares for the award where the performance period ends in the year together with the value of the dividends that would have been received during the three-year performance period. The gross value of those dividends is £70,372 for Andrew Croft, Ian Gascoigne and David Lamb and £39,308 for Craig Gentle. The long-term incentive figures for 2018 have been calculated using the average of the Company's share price in the three-month period to 31 December 2018, being £10.15, as the actual vesting date of the PSP award is on 24 March 2019 and 26 September 2019 for Craig Gentle's award. The figures for 2017 have been updated from the three-month average figures used in last year's report (being £764,842 for Andrew Croft, Ian Gascoigne and David Lamb) to take into account the Company's share price on the date of vesting on 26 March 2018, being £10.80. These awards are subject to a two-year post-vesting holding period.

**Other**

These amounts relate to (i) the gain of the SAYE options exercised by Andrew Croft (exercised on 1 May 2018 when the mid-market price of the Company's shares was £11.51), and Ian Gascoigne and David Lamb (who both exercised on 1 November 2018 when the mid-market price of the Company's shares was £10.17) and (ii) the value of the Matching shares (one for every ten Partnership shares) under the Share Incentive Plan (SIP) for Andrew Croft and Ian Gascoigne, whereby 16 shares were purchased on 29 March 2018 at £10.87 and 17 shares were purchased on 24 March 2017 at £10.51.

David Lamb was a non-executive director of The Henderson Smaller Companies Investment Trust plc during the year and was paid and retained a fee of £23,000 in connection with that role (2017: £23,000). As this is not remuneration from St. James's Place, this is not included in the remuneration above.

### Payments to retiring Director

As we announced in August and October 2018, David Lamb has decided to step down from the Board effective 26 February 2019.

Following his retirement from the Board, Mr Lamb is continuing as an employee of the Company. He will Chair the Investment Committee, the Manager Monitoring Committee and the Investment Consultants Committee. Further he will continue to undertake Manager visits and support Robert Gardner's transition into the Director of Investments role. This will enable the Company to continue to benefit from Mr Lamb's considerable experience in financial services including 27 years as an Executive with the Group.

In this new role, Mr Lamb will receive a total remuneration package of £200,000 per annum (which includes basic salary and the monetary value of any Company fringe benefits). He will cease to be eligible for annual bonus, long-term incentive (Performance Share Plan (PSP)) awards or pension allowance.

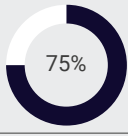
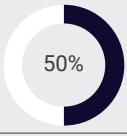
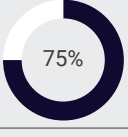
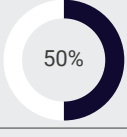
Mr Lamb remains eligible for an annual bonus in respect of the 2018 financial year, subject to the usual performance conditions under the bonus plan; half of the bonus will be deferred into shares, in accordance with the Policy. He will not receive a PSP grant in 2019.

In accordance with the relevant plan rules, he will retain the deferred bonuses he holds which are 27,294 shares (in respect of the 2015 Deferred Bonus Scheme Award), 24,344 shares (in respect of the 2016 Deferred Bonus Scheme Award), 23,930 shares (in respect of the 2017 Deferred Bonus Scheme Award) and a number of shares to be determined (in respect of the 2018 Deferred Bonus Scheme Award). He will also retain (in accordance with the plan rules) the PSP awards he holds which are 73,874 shares (in respect of the 2016 PSP Award), 71,405 shares (in respect of the 2017 PSP Award) and 69,890 shares (in respect of the 2018 PSP Award). These awards remain subject to existing vesting dates, performance conditions (PSP) and post-vesting holding requirements (PSP).

### Details of variable pay earned in the year

#### Summary of total annual bonus for 2018 performance

The performance conditions and weightings which applied to the annual bonus and the resulting payout were as follows:

| Measure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Weighting<br>(% of salary)                                                          | Weighting<br>(% of maximum)                                                         | Threshold<br>(EEV operating<br>profit)<br>(20% payable)                   | Maximum value<br>(100% payable) | Actual  | Payout<br>(% of salary) | Payout<br>(% of maximum<br>total bonus) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------|---------------------------------|---------|-------------------------|-----------------------------------------|
| Financial                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |  | £990m                                                                     | £1,080m                         | £1,002m | 23%                     | 15.33%                                  |
| Strategic                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |  | Assessment by the Committee of the performance of the Executive Directors |                                 |         | 70%                     | 46.67%                                  |
| <b>Total payout</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                     |                                                                                     |                                                                           |                                 |         | <b>93%</b>              | <b>62%</b>                              |
| <p>1 The Committee has the discretion to scale back the annual bonus payable in respect of the strategic measures if it considers it inappropriate in the context of the overall financial results of the Group. The Committee reviewed the Group's performance and agreed that no scale-back was appropriate.</p> <p>2 The Committee retains the discretion to amend each element of the bonus, up or down, within the overall cap of 150% of salary, to take into account other relevant factors such as the Group's performance compared to competitor organisations or, for instance, an exceptional positive or negative event which impacts the Group. The Committee reviewed the Group's performance as well as competitors and the external market at the end of the performance period and agreed that no adjustment was required.</p> <p>3 Half of the bonus is paid in cash, with the remainder being invested in the Company's shares and deferred for three years, under the Group's deferred bonus plan.</p> |                                                                                     |                                                                                     |                                                                           |                                 |         |                         |                                         |

In setting the operating profit target for the year it was assumed that the combined operating experience variance and operating assumption changes would have a neutral impact on the outcome for the year. The actual outcome for the year included a combined positive impact of £50.4 million to the operating profit and therefore had a positive effect on the base figure on which bonuses are calculated. The Committee concluded that this positive outcome was as a result of management action during the year and should therefore be included when assessing the bonus payout for the year.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### Summary of payout for Executive Directors

| Executive Director | Payout<br>(% of salary) | Payout<br>(% of maximum) | Final payment<br>(Cash)<br>£ | Final payment<br>(Deferred)<br>£ |
|--------------------|-------------------------|--------------------------|------------------------------|----------------------------------|
| Andrew Croft       | 93                      | 62                       | 249,054                      | 249,054                          |
| Ian Gascoigne      | 93                      | 62                       | 180,085                      | 180,085                          |
| Craig Gentle       | 93                      | 62                       | 180,085                      | 180,085                          |
| David Lamb         | 93                      | 62                       | 180,085                      | 180,085                          |

### Annual bonus strategic targets performance assessment

As described in other parts of the Annual Report and Accounts, the Company delivered good performance in 2018 for our clients, shareholders and other stakeholders. The Committee considered these three groups when setting the strategic targets for 2018, together with other objectives set out in the 2018 business plan. In serving our clients well, developing our employees and the Partnership for the future and striving to improve the effectiveness of our organisation, the Company will be best placed to meet our long-term business objectives, and create additional value for our shareholders. The Company also focuses on the importance of safe and sustainable growth through prudent management of risk and the highest standards of regulatory compliance.

The Committee assessed how well the Executive team had performed in relation to the objectives set at the start of the year. The Committee did not place fixed weightings on the factors assessed, but made a judgement based on the Committee's view of the relative importance and impact of those factors over the course of the year. For some factors, the Committee put in place quantitative metrics, and for others qualitative judgements were made, depending on the nature of the strategic objective.

The Committee took into account the following:

## 1. CLIENTS

- An on-line survey was undertaken and, although the response rate was lower than a full survey, it was consistent with the results of the previous full survey in that 91% of clients said that they would recommend SJP;
- Clients continued to benefit from above average performance across the majority of funds and portfolios over a range of time periods. Across all ten-year periods, the equity fund managers outperformed their benchmark, on average, 85% of the time. Over the three and five-year periods, the equivalent average outperformance rate was 56% and 71% respectively. For the range of eight Growth and Income portfolios available to clients, outperformance (compared to the relevant Asset Risk Consultants (ARC) Private Client Index peer group) occurred in 81% of all three-year periods on average;
- As part of continued enhancements and refreshment of the Investment Management Approach, five fund manager changes were made during the year and the Diversified Assets (FAIF) was successfully launched;
- Continued focus on customer outcomes with very encouraging results against measures in relation to disclosures and quality of documentation and in particular good results in relation to suitability of defined benefit pension transfers;
- The number of advice-related complaints remained very low relative to our overall scale;
- The Group won a number of industry awards; many of these were voted on by clients; and
- The above factors, together with good service levels, generally contributed to excellent retention of funds under management, with 96% of existing funds being retained (excluding regular income withdrawals) and client numbers increasing by 8% (see pages 31, and 18 and 19 respectively for further details on Funds Under Management and clients).

## 2. RISK MANAGEMENT

- Continuing positive and constructive engagement with the Group's regulators and responding effectively to key regulatory initiatives including the Insurance Distribution Directive and MiFID II with significant preparation for the new annual cost and charge disclosure being implemented from January 2019;
- Completing various objectives designed to continue to enhance and strengthen the monitoring and mitigation of key regulatory risks impacting the Group particularly in relation to systems and processes.



## 4. OTHER OBJECTIVES

- Continuing to support Partners in building sustainable businesses (particularly in relation to IT and systems) and significant progress made in relation to Partners achieving chartered status;
- Dealing effectively with the significant change agenda and the associated complexities;
- Evolution of the Group's range of funds, the range of fund managers available to clients and the effective operation of the Investment Committee; and
- The ongoing success of the Group's Corporate Responsibility objectives, including raising more than £10 million (including matching) for the Charitable Foundation and expanding the volunteering opportunities available to employees.

## 3. LONG-TERM SUCCESS

- The growth in the size of the Partnership (including Partners and Advisers in the UK and Asia) of more than 8%;
- The success of the Academy in attracting suitable candidates to the courses run in 2018 with more than 379 active students in the Academy programme. 142 students graduated from the Academy during the year;
- Successfully completing three major migrations involving a total of 400,000 plans for 209,000 clients and £29.5 billion Funds Under Management. Following these migrations approximately £62 billion of Funds Under Management is held on Bluedoor with 77% of new business and 66% of existing business now processed on Bluedoor;
- Continuing to develop the Asia and Rowan Dartington operations;
- Good progress on building a productive relationship with SS&C following their acquisition of DST;
- Successfully executing the first tranche of securitisation of a portfolio of Partner loans with Santander;
- Delivering some significant actions in relation to our people strategy, including launching our senior leadership programme and additional training and development opportunities for the senior management team, the Partnership and the workforce generally;
- Positive results from our biennial Employee Survey with 90% of employees responding and an overall engagement score of 82%;
- High levels of retention for both employees and members of the Partnership;
- Appointment of a highly experienced Director of Investment Management to succeed David Lamb;
- Committing to the Her Majesty's Treasury (HMT) Women in Finance Charter with some clear objectives to be achieved in relation to diversity, continuing to build the necessary foundations to deliver these objectives and making progress in relation to areas such as an increased number of senior female appointments; and
- Continuing to maintain and reinforce the Group's distinctive culture.

Taking all the above strategic objectives into account, the Committee awarded a bonus of 70% of salary (46.7% of the maximum) in relation to the strategic element of the annual bonus scheme, recognising that a high proportion of the strategic objectives were graded as 'outstanding' or 'above stretch' and that nearly all of the major business plan objectives had been satisfactorily completed.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**Long-term incentive awards*****Vesting of Performance Share Plan (PSP) awards (audited)***

On 31 December 2018, the awards made on 24 March 2016 under the PSP reached the end of their three-year performance period. These will vest on 24 March 2019, being the third anniversary of the date of grant. The vested shares for Executive Directors are subject to a two-year post-vesting holding period other than to sell shares to settle tax on vesting or exercise. The performance conditions which applied to the 2016 PSP awards, and the actual performance achieved against these conditions, are set out in the tables below:

| Performance level hurdle | TSR relative to the FTSE 51 to 150 <sup>1</sup> |                                 | Average annual adjusted EPS growth (including the unwind of the discount rate) in excess of RPI <sup>2</sup> |                                 | Average annual adjusted EPS growth (excluding the unwind of the discount rate) in excess of RPI <sup>3</sup> |                                 |
|--------------------------|-------------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------|---------------------------------|
|                          | Performance required                            | % of one third of award vesting | Performance required                                                                                         | % of one third of award vesting | Performance required                                                                                         | % of one third of award vesting |
| Below threshold          | Below Median                                    | 0%                              | Below 5%                                                                                                     | 0%                              | Below 5%                                                                                                     | 0%                              |
| Threshold                | Median                                          | 25%                             | At least 5%                                                                                                  | 25%                             | At least 5%                                                                                                  | 25%                             |
| Stretch or above         | Upper Quartile or above                         | 100%                            | 16% or above                                                                                                 | 100%                            | 16% or above                                                                                                 | 100%                            |
| Actual Achieved          | 33 out of 82 companies                          | 56.1%                           | 25.1%                                                                                                        | 100%                            | 32.1%                                                                                                        | 100%                            |

1 FTSE 51-150 index excluding investment trusts and companies in the FTSE oil, gas and mining sectors.  
2 The first EPS performance condition is calculated by reference to the post-tax EEV operating profit (on a fully diluted basis). This measure excludes the direct impact of the stock market fluctuations and changes in economic assumptions on the final year's performance.  
3 The second EPS performance condition is calculated by reference to an adjusted post-tax EEV operating profit, which strips out the unwind of the discount rate. The adjustment is intended to remove indirect impacts of stock market fluctuations and economic assumptions from all years, thus removing any impact from the opening value of in-force and the risk-free rate in the final year's performance.  
4 Straight line vesting occurs in between threshold and maximum vesting.  
5 No discretion was exercised by the Committee to override the outcome referred to above.

Therefore, the total percentage of the 2016 PSP awards vesting was 85.3%, which resulted in the following awards to the Executive Directors:

| Director      | Total number of shares granted | Percentage of awards vesting % | Number of shares vesting | Value of shares vesting £000 <sup>1</sup> |
|---------------|--------------------------------|--------------------------------|--------------------------|-------------------------------------------|
| Andrew Croft  | 73,874                         | 85.3                           | 63,063                   | 640                                       |
| Ian Gascoigne | 73,874                         | 85.3                           | 63,063                   | 640                                       |
| Craig Gentle  | 48,805                         | 85.3                           | 41,662                   | 423                                       |
| David Lamb    | 73,874                         | 85.3                           | 63,063                   | 640                                       |

1 As these awards will not actually vest until 24 March 2019, a deemed share price is used to calculate the value of shares vesting for the purposes of this Report. This is taken as the three month average to 31 December 2018 being £10.15.

### Granting of PSP awards in 2018

Details of PSP awards (at nil cost option) granted to the Executive Directors in 2018 is set out in the table below.

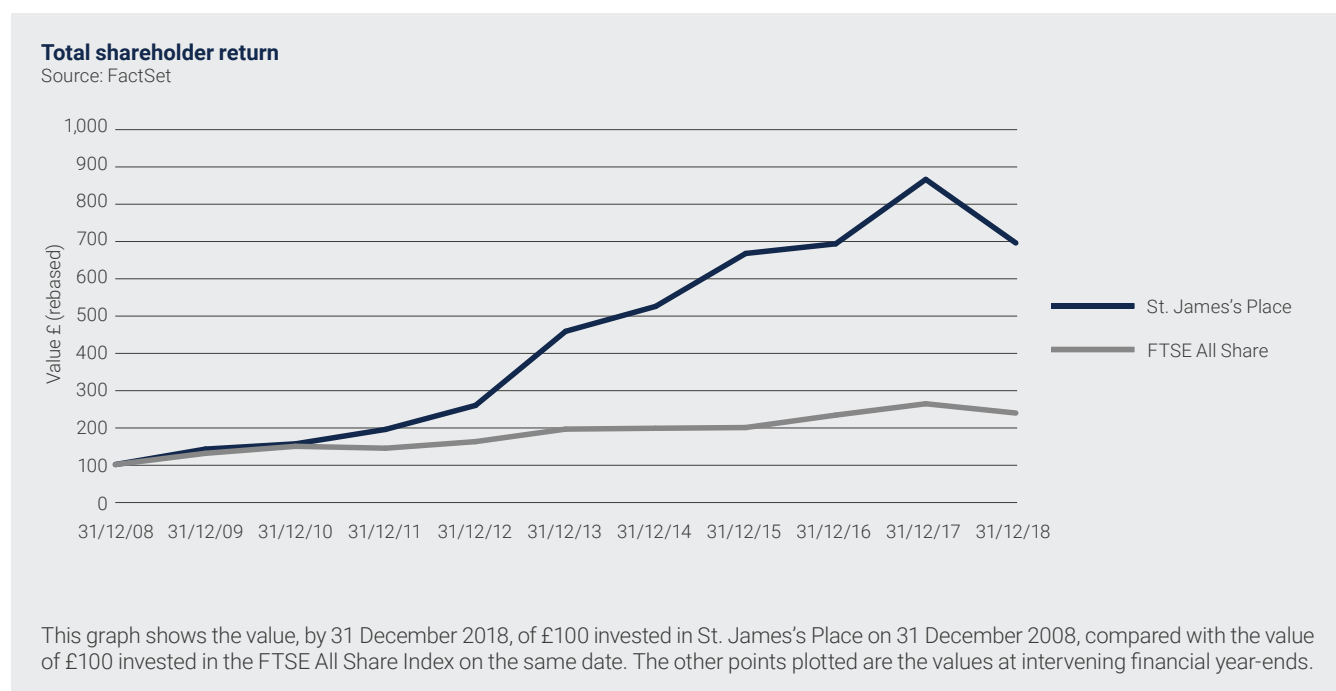
| Director      | Type of award   | Basis of award granted     | Average share price at date of grant | Number of SJP shares over which award was granted <sup>1</sup> | Face value of award £'000 | % of face value that would vest at threshold performance |
|---------------|-----------------|----------------------------|--------------------------------------|----------------------------------------------------------------|---------------------------|----------------------------------------------------------|
| Andrew Croft  | Nil cost option | 200% of salary of £535,600 | £11.08                               | 96,656                                                         | £1,071                    | 25%                                                      |
| Ian Gascoigne | Nil cost option | 200% of salary of £387,280 | £11.08                               | 69,890                                                         | £775                      | 25%                                                      |
| Craig Gentle  | Nil cost option | 200% of salary of £387,280 | £11.08                               | 69,890                                                         | £775                      | 25%                                                      |
| David Lamb    | Nil cost option | 200% of salary of £387,280 | £11.08                               | 69,890                                                         | £775                      | 25%                                                      |

1 The number of shares awarded was calculated based on the average share price over a period of three days prior to the date of grant on 26 March 2018, being £11.08 per share. The face value of the award figure is calculated by multiplying the number of shares awarded by the average share price figure of £11.08.

2 PSP awards are structured as nil cost options and there is therefore no exercise price payable on exercise. Dividend equivalents accrue to the Executive Directors between the date of grant and exercise of the award (up to a maximum of six years from date of grant), but are released only to the extent that awards vest. Further details of the performance conditions which apply to the awards are set out in Notes 1, 2 and 3 to the table on page 126 and in the Policy. These awards also have a post-vesting holding period of two years from the vesting date. During this period, the vested shares cannot normally be sold, other than to the extent necessary to settle tax on vesting or exercise.

### Total shareholder return performance and CEO pay over the same period

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



## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

The table below shows the total remuneration figure for the Chief Executive over the last ten financial years. The total remuneration figure includes the annual bonus and long-term incentive awards which vested based on performance in those years (and ending in that year for PSP scheme awards).

|                                | Year ended 31 December |            |            |            |            |            |            |            |            |                      |
|--------------------------------|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|----------------------|
|                                | David Bellamy          |            |            |            |            |            |            |            |            |                      |
|                                | 2009                   | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       | 2017       | Andrew Croft<br>2018 |
| Total remuneration             | £1,039,723             | £1,495,600 | £1,998,758 | £2,410,380 | £3,362,651 | £3,646,514 | £3,115,230 | £2,631,667 | £2,458,020 | <b>£1,901,184</b>    |
| Annual bonus<br>(% of maximum) | 92%                    | 96%        | 63%        | 46%        | 98%        | 95%        | 93.3%      | 96.67%     | 96.67%     | <b>62%</b>           |
| LTIP vesting<br>(% of maximum) | 0%                     | 57%        | 83%        | 87%        | 95%        | 96%        | 100%       | 100%       | 87.94%     | <b>85.3%</b>         |

1 The deemed value of the PSP award in the table above for 2018 is £710,619. Of this, £66,216 is due to increases in the Company's share price over the vesting period, being an increase of 12% (the share price of the PSP award on the date of grant was £9.10 and the deemed share price on the date of vesting was £10.15 calculated as set out in Note 2 below).

2 As the actual vesting date for the PSP (performance period ending 31 December 2018) is not until 24 March 2019, a deemed value has been used. This is the average of the Company's share price in the three-month period to 31 December 2018, being £10.15. The 2017 figure for total remuneration has been updated by substituting the three-month average figure used to calculate the value of long-term incentive awards in last year's report by a revised figure based on the Company's share price on the date of vesting on 26 March 2018, being £10.80.

3 David Bellamy stepped down from the position of Chief Executive effective 31 December 2017. Andrew Croft was appointed as the new Chief Executive on 1 January 2018.

### Percentage change in CEO remuneration compared to average employee

The table below shows the percentage movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for the average Group employee.

| Remuneration element | % change 2017 to 2018 |                  |
|----------------------|-----------------------|------------------|
|                      | CEO                   | Average employee |
| Salary               | 3                     | 4.3 <sup>2</sup> |
| Benefits             | -1.68 <sup>1</sup>    | -0.94            |
| Bonus                | -33.93%               | -50.91           |

1 See the Benefits note on page 122 for further details.

2 This figure is higher than the average salary increase of the workforce set out on page 118 due to salary increases in respect of promotions and role changes being taken into account.

## CEO Pay Ratio

| Year | Method   | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|------|----------|---------------------------|------------------|---------------------------|
| 2018 | Option C | 62:1                      | 42:1             | 21:1                      |

|           | CEO pay<br>£ | P25 pay<br>£ | P50 pay<br>£ | P75 pay<br>£ |
|-----------|--------------|--------------|--------------|--------------|
| Salary    | 533,000      | 26,000       | 37,734       | 58,750       |
| Total pay | 1,901,184    | 30,871       | 45,559       | 88,830       |

Although the new reporting regulations do not come into force until the Annual Report for 2019, St James' Place has elected to disclose the CEO Pay Ratio for 2018 in line with our commitment to shareholders on clear and transparent disclosure.

To calculate the ratio in accordance with the regulations, we ranked all our UK employees by their annualised full-time equivalent salary as at 31 December 2018. From this we identified the three individuals at the 25th, 50th and 75th percentiles (known as P25, P50 and P75, respectively). We then calculated the total remuneration figure (known as Y25, Y50 and Y75, respectively) for each of these employees for the year ending 31 December 2018, in line with the same reporting regulations that apply to our Executive Directors. This is known as Option C under the regulations.

As very few companies have so far published a ratio, it is not possible to precisely compare this to our peers. However, we expect our median ratio of 42:1 is relatively low by comparison with many companies in the FTSE 100, where disclosure to date indicates this is typically between 50:1 and 100:1.

The median ratio is consistent with our pay, reward and progression policies for employees which relate pay levels to performance and market benchmarks. In 2018, 64% of our Chief Executive's total remuneration was delivered through variable pay schemes (as shown in the bar chart below). These are directly linked to the Company's performance as well as share price movements over the longer-term. Whilst none of the three employees identified at the 25th, 50th and 75th percentiles are eligible to receive PSP Awards, all three received a bonus within the year and are invited to participate in the SIP and SAYE on the same terms as the Chief Executive.

|     |                                                                                     |                                            |
|-----|-------------------------------------------------------------------------------------|--------------------------------------------|
| P25 |  | 95% fixed pay; 5% bonus                    |
| P50 |  | 96% fixed pay; 4% bonus                    |
| P75 |  | 86% fixed pay; 14% bonus                   |
| CEO |  | 36% fixed pay; 26% bonus; 38% share awards |

■ Fixed pay ■ Bonus ■ Share awards

## Relative importance of spend on pay

The following table sets out the percentage change in profit, dividends and overall spend on pay in the year ending 31 December 2018, compared to the year ending 31 December 2017.

|                                             | 2017<br>£'Million | 2018<br>£'Million | Percentage change<br>% |
|---------------------------------------------|-------------------|-------------------|------------------------|
| IFRS profit after tax <sup>1</sup>          | 145.8             | 173.5             | +19                    |
| EEV operating profit after tax <sup>1</sup> | 754.4             | 831.0             | +10                    |
| Dividends                                   | 226.4             | 255.1             | +13                    |
| Employee remuneration costs                 | 183.9             | 184.4             | 0                      |

<sup>1</sup> Both prior year comparatives include positive one-offs (see Financial Review).

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### Share awards

The tables below set out details of share awards that have been granted to individuals who were Executive Directors during 2018 and which had yet to vest or be exercised at some point during the year.

#### Performance Share Plan awards outstanding (audited)

| Director      | Date of grant     | Market price at grant | Share originally awarded | Face value £ <sup>1</sup> | Shares vested | Vesting date      | Remaining unexercised at 31 December 2018 |
|---------------|-------------------|-----------------------|--------------------------|---------------------------|---------------|-------------------|-------------------------------------------|
| Andrew Croft  | 24 March 2016     | £9.10                 | 73,874                   | 672,253                   | –             | 24 March 2019     | 73,874                                    |
|               | 27 March 2017     | £10.57                | 71,405                   | 754,751                   | –             | 27 March 2020     | 71,405                                    |
|               | 26 March 2018     | £10.80                | 96,656                   | 1,043,402                 | –             | 26 March 2021     | 96,656                                    |
| Ian Gascoigne | 26 March 2015     | £9.45                 | 68,932                   | 651,407                   | 60,618        | 26 March 2018     | 60,618                                    |
|               | 24 March 2016     | £9.10                 | 73,874                   | 672,253                   | –             | 24 March 2019     | 73,874                                    |
|               | 27 March 2017     | £10.57                | 71,405                   | 754,751                   | –             | 27 March 2020     | 71,405                                    |
|               | 26 March 2018     | £10.80                | 69,890                   | 754,463                   | –             | 26 March 2021     | 69,890                                    |
| Craig Gentle  | 26 September 2016 | £9.53                 | 48,805                   | 465,112                   | –             | 26 September 2019 | 48,805                                    |
|               | 27 March 2017     | £10.57                | 23,741                   | 250,942                   | –             | 27 March 2020     | 23,741                                    |
|               | 26 March 2018     | £10.80                | 69,890                   | 754,463                   | –             | 26 March 2021     | 69,890                                    |
| David Lamb    | 24 March 2016     | £9.10                 | 73,874                   | 672,253                   | –             | 24 March 2019     | 73,874                                    |
|               | 27 March 2017     | £10.57                | 71,405                   | 754,751                   | –             | 27 March 2020     | 71,405                                    |
|               | 26 March 2018     | £10.80                | 69,890                   | 754,463                   | –             | 26 March 2021     | 69,890                                    |

1 The face value is calculated by using the market price of the shares at grant multiplied by the number of shares originally awarded.

2 In respect of the 2018 PSP Awards for all of the Directors (except Craig Gentle) up to 2,346 shares can be exercised via a linked award under an approved share option scheme with an exercise price of £11.08.

#### Deferred Bonus Scheme – shares held during 2018 (audited)

The table below sets out details of the awards held by the Directors under the deferred element of the annual bonus scheme during 2018:

| Director      | Balance at 1 January 2018 | Released during year <sup>1</sup> | Awarded during year <sup>2</sup> | Balance at 31 December 2018 <sup>3</sup> | Vesting date  |
|---------------|---------------------------|-----------------------------------|----------------------------------|------------------------------------------|---------------|
| Andrew Croft  | 26,955                    | 26,955                            | –                                | –                                        | 26 March 2018 |
|               | 27,294                    | –                                 | –                                | 27,294                                   | 24 March 2019 |
|               | 24,344                    | –                                 | –                                | 24,344                                   | 27 March 2020 |
|               | –                         | –                                 | 23,930                           | 23,930                                   | 26 March 2021 |
| Ian Gascoigne | 26,955                    | 26,955                            | –                                | –                                        | 26 March 2018 |
|               | 27,294                    | –                                 | –                                | 27,294                                   | 24 March 2019 |
|               | 24,344                    | –                                 | –                                | 24,344                                   | 27 March 2020 |
|               | –                         | –                                 | 23,930                           | 23,930                                   | 26 March 2021 |
| Craig Gentle  | 9,431                     | –                                 | –                                | 9,431                                    | 27 March 2020 |
|               | –                         | –                                 | 23,930                           | 23,930                                   | 26 March 2021 |
| David Lamb    | 26,955                    | 26,955                            | –                                | –                                        | 26 March 2018 |
|               | 27,294                    | –                                 | –                                | 27,294                                   | 24 March 2019 |
|               | 24,344                    | –                                 | –                                | 24,344                                   | 27 March 2020 |
|               | –                         | –                                 | 23,930                           | 23,930                                   | 26 March 2021 |

1 These deferred share awards were awarded on 26 March 2015 equal in value to 50% of the Director's 2014 total annual bonus. The Company's share price on the date of the award was £9.45 and the exercise price on 26 March 2018 was £10.80.

2 These deferred share awards were awarded on 26 March 2018, equal in value to 50% of the Director's 2017 total annual bonus. These shares will be held for a restricted period ending on 26 March 2021. The price used to calculate the award was the three-day average prior to the invitation (9, 12 and 13 March 2018) which was £11.39.

3 Outstanding awards at the year-end relate to deferred share awards awarded in 2016, 2017 and 2018 (see (2) above). The share price used to calculate the 2016 award was £9.13 and the 2017 award was £10.87.

The table below sets out further details of the Executive Directors' Deferred Share bonus award.

| Director      | Date of grant | Award           | Type <sup>2</sup> | No. of shares | Value of the award<br>£ | % of salary <sup>1</sup> |
|---------------|---------------|-----------------|-------------------|---------------|-------------------------|--------------------------|
| Andrew Croft  | 26 March 2018 | Deferred Shares | Conditional award | 23,930        | 272,564                 | 72.85                    |
| Ian Gascoigne | 26 March 2018 | Deferred Shares | Conditional award | 23,930        | 272,564                 | 72.85                    |
| Craig Gentle  | 26 March 2018 | Deferred Shares | Conditional award | 23,930        | 272,564                 | 72.85                    |
| David Lamb    | 26 March 2018 | Deferred Shares | Conditional award | 23,930        | 272,564                 | 72.85                    |

1 The percentage of salary is calculated using the salary as at 1 January 2018.

2 The awards are not subject to performance conditions but are subject to continued service.

Further details of the deferred element of the annual bonus scheme are set out on page 139. Dividends accrue to the Directors during the three-year period while the shares are subject to forfeiture and details of these dividends are set out on page 139.

#### **SAYE share option scheme – shares held during 2018 (audited)**

Details of the options held by the Directors in 2018 under the SAYE scheme and any movements during the year are as follows:

| Director      | Options held at<br>1 January<br>2018 | Granted<br>in year | Lapsed<br>in year | Exercised<br>in year | Options held at<br>31 December<br>2018 | Exercise<br>price | Dates from which<br>exercisable  |
|---------------|--------------------------------------|--------------------|-------------------|----------------------|----------------------------------------|-------------------|----------------------------------|
| Andrew Croft  | 1,219                                | 987                | –                 | 1,219                | 987                                    | £9.11             | 1 May 2021 to 31 October 2021    |
| Ian Gascoigne | 1,243                                | 993                | –                 | 1,243                | 993                                    | £9.06             | 1 November 2021 to 30 April 2021 |
| Craig Gentle  | 1,066                                | –                  | –                 | –                    | 1,066                                  | £8.44             | 1 May 2020 to 31 October 2020    |
| David Lamb    | 1,243                                | 993                | –                 | 1,243                | 993                                    | £9.06             | 1 November 2021 to 30 April 2021 |

At 31 December 2018 the mid-market price for the Company's shares was £9.44. The range of prices between 1 January 2018 and 31 December 2018 was between £12.71 and £9.14.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

**Share Incentive Plan – shares held during 2018 (audited)**

The table below sets out details of the awards held by the Directors under the Share Incentive Plan during 2018:

| Director      | Balance at<br>1 January<br>2018 | Partnership<br>shares<br>allocated<br>during year <sup>1</sup> | Matching<br>shares<br>allocated<br>during year <sup>2</sup> | Dividend<br>shares<br>allocated<br>during year <sup>3</sup> | Balance at<br>31 December<br>2018 | Holding period<br>(matching shares) |
|---------------|---------------------------------|----------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|-----------------------------------|-------------------------------------|
| Andrew Croft  | 642                             | –                                                              | –                                                           | –                                                           | 642                               | 26 March 2010 to 26 March 2013      |
|               | 325                             | –                                                              | –                                                           | –                                                           | 325                               | 26 March 2013 to 26 March 2016      |
|               | 167                             | –                                                              | –                                                           | –                                                           | 167                               | 26 March 2015 to 26 March 2018      |
|               | 174                             | –                                                              | –                                                           | –                                                           | 174                               | 24 March 2016 to 24 March 2019      |
|               | 188                             | –                                                              | –                                                           | –                                                           | 188                               | 24 March 2017 to 24 March 2020      |
|               | –                               | 165                                                            | 16                                                          | –                                                           | 181                               | 29 March 2018 to 29 March 2021      |
| Ian Gascoigne | 502                             | –                                                              | –                                                           | –                                                           | 502                               | 28 March 2011 to 28 March 2014      |
|               | 210                             | –                                                              | –                                                           | –                                                           | 210                               | 26 March 2014 to 26 March 2017      |
|               | 167                             | –                                                              | –                                                           | –                                                           | 167                               | 26 March 2015 to 26 March 2018      |
|               | 174                             | –                                                              | –                                                           | –                                                           | 174                               | 24 March 2016 to 24 March 2019      |
|               | 188                             | –                                                              | –                                                           | –                                                           | 188                               | 24 March 2017 to 24 March 2020      |
|               | –                               | 165                                                            | 16                                                          | –                                                           | 181                               | 29 March 2018 to 29 March 2021      |
| Craig Gentle  | 188                             | –                                                              | –                                                           | –                                                           | 188                               | 24 March 2017 to 24 March 2020      |

1 Partnership shares are shares awarded in return for an investment of between £10 and £1,800. Partnership shares were awarded for both Andrew Croft and Ian Gascoigne on 29 March 2018 at a price of £10.87 per share, in return for £1,800 being deducted from pre-tax salary.

2 For every ten Partnership shares acquired, the Company awards one matching share. Matching shares were also awarded on 29 March 2018 in relation to the Partnership shares mentioned above.

3 The Partnership, dividend and matching shares will be held by an employee benefit trust on behalf of the Director. The matching and dividend shares must be held for a minimum period of three years from the date of the award.

Between 2 January 2019 and 27 February 2019 there were no exercises or other dealings in the Company's share awards by the Directors.

## Shareholding requirements and Directors' share interests (audited)

### Shareholding requirements

As from 2018, the Executive Directors are required to build up a shareholding equivalent to 200% of salary in Company shares. All of the Executive Directors, except for Craig Gentle, have met the shareholding requirements (as shown in the table below). As Craig Gentle joined the Board on the 1 January 2018, under the Policy, he has five years in which to build up his shareholding to meet the requirements. The Committee are aware of the new requirement to develop a formal post-employment shareholding requirement for Executive Directors and this will be considered as part of the review of the Policy during 2019.

| Director                 | Shares held at<br>1 January<br>2018 | Shares held at<br>31 December<br>2018 | % of base salary held<br>in SJP shares as at<br>31 December 2018 <sup>1</sup> |
|--------------------------|-------------------------------------|---------------------------------------|-------------------------------------------------------------------------------|
| Andrew Croft             | 700,133                             | 730,564                               | 1,288                                                                         |
| Ian Gascoigne            | 759,286                             | 771,939                               | 1,882                                                                         |
| Craig Gentle             | 9,619                               | 33,549                                | 82                                                                            |
| David Lamb               | 501,623                             | 516,897                               | 1,260                                                                         |
| Sarah Bates <sup>2</sup> | 13,500                              | N/A                                   |                                                                               |
| Iain Cornish             | –                                   | 6,500                                 |                                                                               |
| Simon Jeffreys           | 18,364                              | 18,364                                |                                                                               |
| Baroness Wheatcroft      | 2,500                               | 2,500                                 |                                                                               |
| Roger Yates              | 20,000                              | 20,000                                |                                                                               |

1 Calculated using the mid-market price at 31 December 2018 of £9.44.

2 Sarah Bates retired from the Board on 8 October 2018.

3 The interests of the Executive Directors set out above include Deferred Bonus Scheme awards held in trust for the Directors, details of which are set out on pages 130 and 131. The interests of the Executive Directors also include awards under the Share Incentive Plan, details of which are set out on page 132.

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

5 Disclosure of the Directors' interests in share awards is given on pages 130 to 132 and also in Note 22 – Related Party Transactions.

Between 2 January 2019 and 27 February 2019 there were no transactions in the Company's shares by the Directors.

### Executive Directors' shareholdings and outstanding share awards

| Executive Director | Beneficially<br>owned at<br>31 December<br>2018 <sup>1</sup> | Outstanding<br>PSP awards<br>(performance<br>conditions) <sup>2</sup> | SAYE options<br>(no performance<br>conditions) <sup>3</sup> | Outstanding<br>DBS awards<br>(no performance<br>conditions) <sup>4</sup> | SIP shares<br>(no performance<br>conditions) <sup>5</sup> |
|--------------------|--------------------------------------------------------------|-----------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------------------------------------|
| Andrew Croft       | 730,564                                                      | 241,935                                                               | 987                                                         | 75,568                                                                   | 1,677                                                     |
| Ian Gascoigne      | 771,939                                                      | 275,787                                                               | 993                                                         | 75,568                                                                   | 1,422                                                     |
| Craig Gentle       | 33,549                                                       | 142,436                                                               | 1,066                                                       | 33,361                                                                   | 188                                                       |
| David Lamb         | 516,897                                                      | 215,169                                                               | 993                                                         | 75,568                                                                   | –                                                         |

1 Beneficially owned shares include those DBS Awards and SIP Shares set out in columns (4) and (5) above.

2 Details of the PSP awards are set out on page 130.

3 Details of the SAYE options are set on page 131.

4 Details of DBS awards are set out on page 130 and 131.

5 Details of the SIP shares are set out on page 132.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### Dilution

Dilution limits agreed by shareholders at the time of shareholder approval of the various long-term incentive schemes allow for up to 10% of share capital in ten years to be used for grants to employees and members of the St. James's Place Partnership under all share schemes i.e. both the employee and Partner share schemes; and up to 5% of share capital in ten years to be used for grants to employees under discretionary schemes.

The table below sets out, as at 31 December 2018, the number of new ordinary shares in the Company which have been issued, or are capable of being issued (subject to the satisfaction of any applicable performance conditions), as a result of options or awards granted under the various long-term incentive schemes operated by the Company in the ten years prior to 31 December 2018.

| Share scheme            | Number of new ordinary shares of 15 pence each | % of total issued share capital as at 31 December 2018 |
|-------------------------|------------------------------------------------|--------------------------------------------------------|
| SAYE schemes            | 4,943,601                                      | 0.93%                                                  |
| Executive share schemes | 9,587,378                                      | 1.81%                                                  |
| Partners' share schemes | 15,173,778                                     | 2.86%                                                  |
| <b>Total</b>            | <b>29,704,757</b>                              | <b>5.60%</b>                                           |

In addition, as at 31 December 2018, the Group's Employee Share Trust held 3,068,778 shares in the Company which were acquired to meet awards made under the PSP, Company Share Option Plan, the Deferred Bonus Scheme and the Restricted Share Plan. The number of shares in the Company held in the Share Incentive Plan Trust as at 31 December 2018 was 435,148.

### Chair and Non-executive Director remuneration

The remuneration paid to the Chair and Non-executive Directors in respect of the financial years ended 31 December 2017 and 31 December 2018 are as follows:

| Element of remuneration | Sarah Bates    |                | Iain Cornish   |               | Simon Jeffreys |               | Baroness Wheatcroft |               | Roger Yates   |               |
|-------------------------|----------------|----------------|----------------|---------------|----------------|---------------|---------------------|---------------|---------------|---------------|
|                         | 2018           | 2017           | 2018           | 2017          | 2018           | 2017          | 2018                | 2017          | 2018          | 2017          |
|                         | £              | £              | £              | £             | £              | £             | £                   | £             | £             | £             |
| Fees                    | 158,159        | 195,700        | 118,589        | 87,905        | 86,750         | 82,345        | 65,000              | 61,745        | 88,104        | 82,345        |
| Expenses                | 1,131          | 3,271          | 14,607         | 8,801         | 2,284          | 2,948         | 1,735               | 1,635         | —             | —             |
| <b>Total</b>            | <b>159,290</b> | <b>198,971</b> | <b>133,196</b> | <b>96,706</b> | <b>89,034</b>  | <b>85,293</b> | <b>66,735</b>       | <b>63,380</b> | <b>88,104</b> | <b>82,345</b> |

1 Expenses are for reimbursement of taxable travel expenses grossed up for the tax payable thereon.

2 Sarah Bates retired from the Board with effect from 8 October 2018. Iain Cornish was appointed as the new Chair of the Board with effect from that date and Roger Yates was also appointed as the new Senior Independent Director with effect from the same date.

3 With effect from 8 October 2018 Iain Cornish waived his fee for chairing the Board Risk Committee.

## Implementation of the Policy in 2019

### 2019 SALARY

The base salaries of the Executive Directors are being increased in 2019. The current salaries as at 1 March 2018 and from 1 March 2019 are as follows. The increase is in line with the percentage increase for the wider workforce:

| Executive Director      | Salary from<br>1 March<br>2018 | Salary from<br>1 March<br>2019 | % increase |
|-------------------------|--------------------------------|--------------------------------|------------|
|                         | £                              | £                              |            |
| Andrew Croft            | 535,600                        | 551,668                        | 3          |
| Ian Gascoigne           | 387,280                        | 398,898                        | 3          |
| Craig Gentle            | 387,280                        | 398,898                        | 3          |
| David Lamb <sup>1</sup> | 387,280                        | —                              | —          |

<sup>1</sup> David Lamb retired from the Board on 26 February 2019.

### ANNUAL BONUS FOR 2019

The Executive Directors' maximum bonus opportunity for 2019 will be the same as for 2018 being 150% of salary. Half of the annual bonus will be determined by EEV operating profit and half by key strategic targets.

50% of the annual bonus earned for performance in 2019 will be paid in cash and the remaining 50% will be deferred in the Company's shares for a three-year period and subject to continued service.

The EEV operating profit target set by the Committee is based on a sliding scale to progressively reward incremental performance. The EEV result is calculated based on 'best estimate' assumptions and any deviation or changes from these assumptions are reported as an experience variance or an operating assumption change. In setting the operating profit target for the year it is assumed the combined operating experience variance and operating assumption changes will have a neutral impact on the outcome for the year. In setting the 2019 EEV Operating Profit target, the Committee maintained the new business and expense growth objectives at the same level as in previous years.

The Board considers that the performance targets for the annual bonus are commercially sensitive and is not disclosing them at this time. The performance metrics and performance against them will be disclosed in the 2019 Remuneration Report to the extent that they do not remain commercially sensitive at that time.

The strategic element of the 2019 annual bonus will be assessed by reference to key strategic targets based around the 2019 business plan, including elements relating to clients, shareholders and other key stakeholders. Specific objectives include: the delivery of good service to the Group's clients as measured by surveys and other client feedback; continuing to enhance the range of investment funds and maintaining strong investment performance; the successful recruitment and retention of high quality Partners and Advisers; successfully implementing the next phase of the administration systems and transferring certain existing assets onto that system; successfully controlling and mitigating the material risks that could impact the Group; and maintaining the Group's good relations with its shareholders and regulators.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### PERFORMANCE SHARE PLAN AWARDS FOR 2019

The Executive Directors will each receive a PSP award in 2019 of 200% of salary. These awards will be subject to a relative TSR performance condition for one-third of the award and earnings per share growth targets for two-thirds of the award as follows:

| Performance level hurdle | TSR relative to the FTSE 51 to 150 <sup>1</sup> |                                 | Average annual adjusted EPS growth (including the unwind of the discount rate) in excess of RPI <sup>2</sup> |                                 | Average annual adjusted EPS growth (excluding the unwind of the discount rate) in excess of RPI <sup>3</sup> |                                 |
|--------------------------|-------------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------|---------------------------------|
|                          | Performance required                            | % of one third of award vesting | Performance required                                                                                         | % of one third of award vesting | Performance required                                                                                         | % of one third of award vesting |
| Below threshold          | Below Median                                    | 0%                              | Below 5%                                                                                                     | 0%                              | Below 5%                                                                                                     | 0%                              |
| Threshold                | Median                                          | 25%                             | At least 5%                                                                                                  | 25%                             | At least 5%                                                                                                  | 25%                             |
| Stretch or above         | Upper Quartile or above                         | 100%                            | 16% or above                                                                                                 | 100%                            | 16% or above                                                                                                 | 100%                            |

1 FTSE 51 to 150, excluding investment trusts and companies in the FTSE oil, gas producers and mining sectors.

2 The first EPS performance condition is calculated by reference to the post-tax EEV operating profit (on a fully diluted basis). This measure excludes the direct impact of the stock market fluctuations and changes in economic assumptions on the final year's performance.

3 The second EPS performance condition is calculated by reference to an adjusted post-tax EEV operating profit, which strips out the unwind of the discount rate. The adjustment is intended to remove indirect impacts of stock market fluctuations and economic assumptions from all years, thus removing any impact from the opening value of in-force and the risk-free rate in the final year's performance.

4 Straight-line vesting occurs in between threshold and maximum vesting.

5 Awards are subject to a three-year performance period. Vested shares cannot normally be sold other than to the extent necessary to settle tax on vesting or exercise.

### MALUS AND CLAWBACK

All PSP awards and deferred bonus awards are subject to malus and clawback provisions to facilitate recoupment in exceptional circumstances such as material misstatement, error or misconduct. In addition to these existing triggers, additional events have been applied in respect of PSP awards and deferred bonus awards made from 1 March 2019 onwards including material failure of risk management, failure to meet appropriate standards of fitness and propriety or material breach of contract. Furthermore, these malus and clawback provisions also apply to the cash element of the annual bonus with effect from 1 March 2019 for all Executive Directors and other members of the senior leadership team.

### SHAREHOLDING REQUIREMENT

As for 2018, during 2019 the Executive Directors will be required to build and maintain a shareholding equivalent to 200% of salary in the Company's shares. The ability for 50% of this shareholding to be held in one or more St. James's Place fund portfolios was removed with effect from 2018.

### PENSION CONTRIBUTION

For any new Executive Director joining the Board after the 2018 AGM, the pension contribution will be 10% of salary on joining increasing to 12.5% after 5 years' service and 15% after 10 years' service. This aligns to the pension contribution for the wider workforce.

## FEES FOR THE CHAIR AND NON-EXECUTIVE DIRECTORS FOR 2019

The fees for the Chair and Non-executive Directors for 2019 and 2018 are as set out below. For 2019, in recognition of their increased workload, regulatory responsibilities and the size of the Group as well as a benchmarking review which revealed that fees are below the median level for companies of our size, the fees of the Chair have been increased by 5%, the Non-executive Directors' base fee has been increased by 3%, the Committee Chairs' fee has been increased by 3% and the Senior Independent Director fee has been increased by 3%. In light of the fact that the Chair's fee remains significantly below the benchmarks, the Committee has decided that the Chair's fee will be increased over the next few years to the extent necessary to bring this fee in line with the relevant benchmarks.

|                              | Fees from<br>1 January to<br>31 December<br>2018 | Fees from<br>1 January to<br>31 December<br>2019 | Percentage<br>increase<br>from 2018 |
|------------------------------|--------------------------------------------------|--------------------------------------------------|-------------------------------------|
|                              | £                                                | £                                                | %                                   |
| Chair <sup>1</sup>           | 205,000                                          | 215,250                                          | 5                                   |
| Base fee                     | 65,000                                           | 66,950                                           | 3                                   |
| Committee Chair <sup>2</sup> | 21,750                                           | 22,403                                           | 3                                   |
| Senior Independent Director  | 5,855                                            | 6,031                                            | 3                                   |

1 No Committee membership fees are payable.

2 Iain Cornish has waived his fee for chairing the Board Risk Committee.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### 3. Summary of the Policy for Directors

The following table summarises each element of the Policy, explaining how each element operates and links to corporate strategy.

#### Base salary

|                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Purpose and link to strategy</b> | <p>To provide the core reward for the role.</p> <p>Sufficient level to recruit and retain individuals of the necessary calibre, taking into account the required skills, experience, demands and complexity of the role.</p>                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Operation</b>                    | <p>Normally reviewed annually from 1 March. Influenced by:</p> <ul style="list-style-type: none"> <li>• Role, experience and performance of the individual;</li> <li>• Company performance;</li> <li>• External economic conditions;</li> <li>• Average changes in broader workforce salary; and</li> <li>• Periodic benchmarking for each role against similar UK listed companies.</li> </ul>                                                                                                                                                                                                                                          |
| <b>Maximum opportunity</b>          | <p>Percentage increases will normally be capped at the level of increases for the Company's workforce generally. Increases may be higher in exceptional circumstances, such as a change in role and/or a significant change in responsibility or role size.</p> <p>Where new appointees have been given a starting salary below mid-market level, increases above those granted to the wider workforce (in percentage terms) may be awarded, subject to individual performance and development in the role.</p> <p>The base salaries for the Executive Directors from 1 March 2019 are set out in the Annual Report on Remuneration.</p> |
| <b>Performance metrics</b>          | <p>Whilst there are no targets attached to the payment of base salary performance alongside those factors outlined above is considered in the annual salary review process.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

## Annual bonus

|                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Purpose and link to strategy including choice of performance metrics</b> | <p>Rewards the achievements of annual financial and strategic business plan targets and delivery of key, non-financial objectives.</p> <p>Deferred element aids retention, encourages long-term shareholding, discourages excessive risk taking and aligns with shareholders' interests.</p> <p>Performance metrics reflects the key performance drivers of the annual business plan, achievement of which will reflect performance in the lines with the Group's strategy.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Operation</b>                                                            | <p>Performance measures, targets and weightings are reviewed annually and set in line with the annual business plan. Bonus payments are determined by the Committee after the year-end, based on performance against the targets set.</p> <p>Performance below threshold results in zero payment. Payments are on a scale from 20% to 100% of the maximum opportunity for performance between threshold and maximum.</p> <p>50% of any bonus payable is paid in cash and the remaining 50% deferred into SJP shares, the vesting of which is normally subject to a three-year continuous service requirement but no further performance targets.</p> <p>Dividends that accrue on the deferred shares are paid to the Executive Directors during the three-year deferral period.</p> <p>All bonus payments are at the discretion of the Committee.</p> <p>The Committee has the overriding discretion to scale back payments under the non-financial performance scorecard if it deems them to be inappropriate in the context of the overall financial results of the Company.</p> <p>The Committee has the overriding discretion to adjust the bonus outcome up or down (subject to the overall 150% maximum) to take account of factors such as an exceptional positive or negative event.</p> <p>Malus and clawback provisions apply to bonus awards to facilitate recoupment in exceptional circumstances, such as a material misstatement, error, or misconduct. In addition to the existing triggers, other events have been applied relating to awards made from 1 March 2019 onwards including material failure of risk management, failure to meet appropriate standards of fitness and propriety or material breach of contract. Further, these malus and clawback provisions also apply to the cash element of the annual bonus with effect from 1 March 2019.</p> |
| <b>Maximum opportunity</b>                                                  | 150% of base salary.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Performance metrics</b>                                                  | <p>Performance is measured over one year.</p> <p>At least half of the bonus is based on financial measures, reflecting the key priorities of the business for the relevant year.</p> <p>Up to half of the annual bonus can be based on the achievement of key non-financial objectives set at the start of the year.</p> <p>Actual measures and weightings may change from year to year to reflect the business priorities at that time.</p> <p>Details of performance criteria and targets set for the year under review and performance against them are provided in the Annual Report on Remuneration.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### Performance Share Plan

|                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Purpose and link to strategy including choice of performance metrics</b> | <p>Supports long-term retention.</p> <p>Focuses the Executives on longer-term corporate performance and performance objectives.</p> <p>Aligns interests to those of shareholders.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Operation</b>                                                            | <p>Awards are normally granted annually. Vesting is usually on the third anniversary of the date of grant, dependent on the achievement of stretching performance conditions measured over a period of three financial years.</p> <p>Metrics, weighting and targets take account of the business plan and are reviewed annually to ensure they remain appropriate.</p> <p>Awards granted from 2015 are made under the Performance Share Plan approved by shareholders at the AGM in 2014, and have a post-vesting holding period of two years on the shares vesting. During this period the vested shares cannot normally be sold, other than to the extent necessary to settle tax on vesting or exercise. Dividend equivalents may accrue on awards made between the date of grant and the end of the two-year post-vesting holding period. These dividend equivalents will be released only to the extent that awards vest.</p> <p>Malus and clawback provisions apply to PSP awards to facilitate recoupment in exceptional circumstances, such as a material misstatement, error, or misconduct. In addition to the existing triggers, additional events have been applied relating to awards made from 1 March 2019 onwards including material failure of risk management, failure to meet appropriate standards of fitness and propriety or material breach of contract.</p> <p>The Committee has the discretion, in certain circumstances, to grant and/or settle an award in cash. In practice, this will only be used in exceptional circumstances for Executive Directors.</p> |
| <b>Maximum opportunity</b>                                                  | <p>The maximum annual award under the plan rules is 250% of salary as at date of grant, although the Committee will not make awards above 200% of base salary without prior consultation with the Company's major shareholders.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Performance metrics</b>                                                  | <p>Awards will vest to extent of achievement of performance metrics as set out below. The Committee may choose alternative measures and weightings between them if it deems it appropriate, taking into account the strategic objectives of the Company.</p> <p>Awards in 2019 will be based on the achievement of three equally weighted metrics below:</p> <ul style="list-style-type: none"> <li>• EPS growth based on EEV adjusted profit;</li> <li>• EPS growth as above but excluding the impact of the EEV unwind of the discount rate; and</li> <li>• Relative TSR performance.</li> </ul> <p>For each performance metric, a threshold and stretch level of performance is set. At threshold, 25% of the relevant element vests rising on a straight-line basis to 100% for attainment of levels of performance between threshold and maximum targets.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Pension</b>                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Purpose and link to strategy</b>                                         | <p>Helps recruit and retain Executives.</p> <p>Provides a discrete element of the package to contribute to retirement income.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Operation</b>                                                            | <p>Defined contribution to a pension scheme or an equivalent cash amount via non-pensionable allowance if the Executive is affected by HMRC limits.</p> <p>In response to changes in legislation or similar developments, the Company may amend the form of an Executive Director's pension arrangements.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Maximum opportunity</b>                                                  | <p>20% of base salary. For any new Executive Director joining the Board after the 2018 Annual General Meeting, the pension contribution shall be aligned to that of the wider workforce.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Performance metrics</b>                                                  | <p>N/A</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

#### Other benefits

|                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Purpose and link to strategy including choice of performance metrics</b> | Operate competitive benefits to help recruit, retain and support the wellbeing of employees.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Operation</b>                                                            | <p>Including but not limited to: Company car (or salary supplement in lieu), private medical insurance, life, critical illness and death in service cover, relocation assistance where necessary and the use of a driver for business purposes.</p> <p>Executive Directors will be eligible to participate in any all-employee share plan (e.g. SIP and SAYE) operated by the Company on the same terms as other eligible employees. The maximum level of participation is subject to limits imposed by HMRC (or a lower cap set by the Company).</p> <p>Any reasonable business expenses (including tax thereon) may be reimbursed.</p> |
| <b>Maximum opportunity</b>                                                  | Benefit costs are monitored and controlled and represent a small element of total remuneration costs.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Performance metrics</b>                                                  | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

#### Non-executive Directors' fees

|                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Purpose and link to strategy</b> | To attract high quality, experienced Non-executive Directors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Operation</b>                    | <p>The Chair is paid an all-inclusive annual fee which is reviewed periodically by the Committee.</p> <p>All Non-executive Directors receive a basic annual fee for carrying out their duties, together with additional fees being paid in respect of Board Committees and other responsibilities, with fee levels reviewed periodically by the Board. They may also be paid additional fees (calculated at an appropriate day rate) in the event of exceptional levels of additional time being required.</p> <p>Any reasonable business expenses (including tax thereon) may be reimbursed.</p> |
| <b>Maximum opportunity</b>          | There is no prescribed maximum individual fee level or annual increase. Reviews take into account market data for similar non-executive roles in other companies of a similar size and/or business to St. James's Place as well as the time commitment of its Non-executive Directors. The policy is to pay up to the mid-market level based on similar time commitments of chair and non-executives in comparable companies.                                                                                                                                                                     |
| <b>Performance metrics</b>          | Neither the Chair nor the Non-executive Directors are eligible for any performance related remuneration.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

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

#### ROGER YATES

Chair of the Remuneration Committee

26 February 2019

## DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018. This report has been prepared in accordance with requirements outlined within The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and forms part of the management report as required under the UK Financial Conduct Authority's ('FCA') Disclosure and Transparency Rule DTR4.1. Certain information that fulfils the requirements of the Directors' report can be found elsewhere in this document and is referred to below. This information is incorporated into this Directors' report by reference.

Information disclosed in accordance with the requirements of the sections of the FCA's Listing Rule LR9.8 (Annual Financial Report) that are applicable can be found in the following sections:

|                                              |                                    |
|----------------------------------------------|------------------------------------|
| Details of long-term incentive schemes       | The Directors' Remuneration Report |
| Contracts of significance                    | This Directors' Report             |
| Shareholder waivers of dividends             | This Directors' Report             |
| Shareholder waivers of future dividends      | This Directors' Report             |
| Directors' interests in the Company's shares | The Directors' Remuneration Report |
| Major shareholders' interests                | This Directors' Report             |
| Authority to purchase own shares             | Corporate Governance Statement     |

### Status of Company

The Company is registered as a public limited company under the Companies Act 2006. For details of the Company's subsidiaries and overseas branches, please see pages 201 to 204.

### Going concern

In conjunction with its assessment of longer-term viability as set out on page 55, the Board concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements as it believes the Group will continue to be in business, with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations for a period of at least 12 months from the date of approval of the Group financial statements.

### Share capital

#### STRUCTURE OF THE COMPANY'S CAPITAL

As at 31 December 2018, the Company's issued and fully paid-up share capital was 529,453,397 ordinary shares of 15 pence each. All ordinary shares are quoted on the London Stock Exchange, and can be held in uncertificated form via CREST. All shares have equal rights to dividends and to participate in a distribution on winding up. Details of the movement in the issued share capital during the year are provided in Note 18 to the financial statements on page 196.

#### VOTING RIGHTS

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

#### RESTRICTIONS ON VOTING RIGHTS

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

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

#### ARTICLES OF ASSOCIATION

The full rights and obligations attaching to the ordinary shares of the Company are set out in the Articles. Holders of ordinary shares are entitled to receive the Company's Reports and Accounts; attend, speak and exercise voting rights; and appoint proxies to attend General Meetings.

## RESTRICTIONS ON SHARE TRANSFERS

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

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

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

## Substantial shareholders

As at 25 February 2019, the Company had been notified of the following interests disclosed to the Company under Disclosure and Transparency Rule 5:

| Shareholder                                 | Holding at<br>31 Dec<br>2018 | % held at<br>31 Dec<br>2018 <sup>1</sup> | Holding at<br>25 Feb<br>2019 | % held at<br>25 Feb<br>2019 <sup>1</sup> |
|---------------------------------------------|------------------------------|------------------------------------------|------------------------------|------------------------------------------|
| BlackRock, Inc.                             | 29,461,305                   | 5.56                                     | 29,461,305                   | 5.56                                     |
| Prudential plc group<br>of companies        | 27,682,923                   | 5.24                                     | 27,682,923                   | 5.24                                     |
| Ameriprise Financial,<br>Inc. and its group | 26,288,280                   | 4.97                                     | 26,288,280                   | 4.97                                     |
| Norges Bank                                 | 21,417,462                   | 4.05                                     | 21,495,857                   | 4.06                                     |

<sup>1</sup> Percentage provided was correct at the date of notification.

The interests of the Directors, and any persons closely associated, in the issued share capital of the Company are shown on page 133.

## Results and dividends

The consolidated statement of comprehensive income is on page 154 and IFRS profit after tax for the financial year increased to £173.5 million from £145.8 million in the prior year, principally due to increased funds under management, which are a long-term driver of profit. In 2018 the Group made a loss before tax of £84.6 million compared to a profit before tax of £342.1 million in 2017. This is driven by decreases in charges deducted from life investment business in respect of policyholder tax, which is subsequently due to HMRC as explained on page 33. This movement was mainly driven by relative investment performance in the year, reflecting the fact that the investment return was negative in 2018 and positive in 2017. The profit before tax was also impacted negatively by the £66.7 million movement in DAC, DIR and PVIF balances, as explained on page 34.

An interim dividend of 18.49 pence per share, which equates to £97.7 million, was paid on 28 September 2018 (2017: 15.41 pence per share/£81.2 million). The Directors recommend that shareholders approve a final dividend of 29.73 pence per share, which equates to £157.4 million (2017: final dividend of 27.45 pence per share/£145.0 million) to be paid on 24 May 2019 to shareholders on the register at the close of business on 5 April 2019.

Details of the Dividend Reinvestment Plan ('DRP') are set out on page 222.

## Our people

Details of the Company's approach to maintaining an appropriately skilled and diverse workforce, including recruitment practices, development opportunities, employee engagement and equal opportunities can be found in the Corporate Responsibility Report on pages 56 to 69.

## Greenhouse gas emissions

Disclosures in relation to the Group's greenhouse gas emissions can be found in the Corporate Responsibility Report on pages 56 to 69.

## DIRECTORS' REPORT CONTINUED

### Significant contracts and change of control

The Company has a number of contractual arrangements which it considers essential to the business of the Company. Specifically, these are committed loan facilities from a number of banks and arrangements with third-party providers of administrative services.

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

The Group had committed facilities totalling £459.6 million as at 22 February 2019 which contain clauses which require lender consent for any change of control. In addition, the Group guarantees the obligations of loans made to Partners in connection with facilities agreed with various lenders totalling £191 million in aggregate. Should consent not be given, a change of control would trigger mandatory repayment of the said facilities.

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

### Financial instruments

An indication of the Group's use of financial instruments can be found in Note 16 to the financial statements on pages 183 to 193.

### Directors and Directors' indemnities

Details of the Directors of the Company at the date of this Report and during the year ended 31 December 2018 can be found in the Corporate Governance Report on pages 82 to 93. Details of the indemnity provisions in place for the Directors, including qualifying third-party indemnity provisions, can be found on page 91.

### Political and charitable donations

It is the Group's policy not to make any donations to political parties within the meaning of the definitions set out in the Political Parties, Elections and Referendums Act 2000 and sections 362 to 379 of the Companies Act 2006. During the year we have donated £4.5 million to the St. James's Place Charitable Foundation, more details of which can be found on pages 71 to 75.

### Annual General Meeting

The Company's Annual General Meeting will be held on Tuesday, 14 May 2019 at The Royal Aeronautical Society, 4 Hamilton Place, London W1J 7BQ at 11.30am. Full details of the resolutions to be put to shareholders at the meeting, are included in a separate Notice of Annual General Meeting, which is available on our website.

### Disclosure of information to auditors

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

- so far as each Director is aware, there is no relevant audit information of which the auditors are unaware; and
- each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

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

On behalf of the Board

**ANDREW CROFT**  
Chief Executive  
26 February 2019

**CRAIG GENTLE**  
Chief Financial Officer

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Parent Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Parent Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Parent Company's performance, business model and strategy.

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

- the Parent Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law) give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

**ELIZABETH KELLY**  
Company Secretary

26 February 2019

# 03

## FINANCIAL STATEMENTS

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# WE ARE SECURING GROWTH

The Group financial statements consolidate those of the Company and its subsidiaries. The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. These statutory IFRS financial statements have been supplemented with consolidated financial statements on a Cash result basis, which are unaudited and have been prepared by adjusting the financial statements prepared in accordance with IFRS for items which do not reflect the cash emerging from the business. In addition, financial statements for the Parent Company, St. James's Place plc, have been prepared in accordance with Financial Reporting Standard 101 (FRS 101). The business has delivered resilient growth in financials across each set of financial statements.

## £211.9m

IFRS PROFIT BEFORE  
SHAREHOLDER TAX

## £173.5m

IFRS PROFIT AFTER TAX

## 33.0 pence

IFRS BASIC  
EARNINGS PER SHARE

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST. JAMES'S PLACE PLC

### Report on the audit of the financial statements

#### OPINION

In our opinion:

- St. James's Place plc's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the consolidated and Parent Company statements of financial position as at 31 December 2018; the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated and Parent Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

#### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

Other than those disclosed in Note 5 to the financial statements, we have provided no non-audit services to the Group or the Parent Company in the period from 1 January 2018 to 31 December 2018.

#### OUR AUDIT APPROACH

##### Overview

|                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Materiality       | <ul style="list-style-type: none"> <li>• Overall Group materiality: £15.0 million (2017: £17.0 million), which represents 4.9% of underlying cash generated in the year.</li> <li>• Overall Parent Company materiality: £13.0 million (2017: £10.1 million), based on 1% of total assets.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Audit scope       | <ul style="list-style-type: none"> <li>• The Group financial statements comprise the consolidation of approximately 60 individual components, each of which represents an individual legal entity within the Group or consolidation adjustments.</li> <li>• We assessed each component and considered the contribution it made to the Group's performance in the year, whether it displayed any significant risk characteristics and/or whether it contributed a significant amount to any individual financial statement line item.</li> <li>• The above assessment resulted in us identifying nine components that required audit procedures for the purpose of the audit of the Group financial statements.</li> <li>• Eight of the nine components are based in the UK and were audited by the PwC UK audit team. The remaining component is based in the Republic of Ireland and was audited by PwC Republic of Ireland.</li> <li>• By performing audit procedures on these nine components we achieved coverage greater than 85% of each material financial statement line item within the Group's financial statements.</li> <li>• We performed a full scope audit of all material line items in the Parent Company's financial statements.</li> </ul> |
| Key audit matters | <ul style="list-style-type: none"> <li>• Valuation of investments with a judgemental valuation, being investment property and derivatives.</li> <li>• Valuation of the prepayment asset in respect of the development of an administration platform at an outsourced provider.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and Parent Company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and Irish regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority and the Central Bank of Ireland, and we considered the extent to which non-compliance might have a material effect on the financial statements of the Group and Parent Company. We also considered those laws and regulations that have a direct impact on the financial statements of the Group and Parent Company such as the Companies Act 2006, the UK and Irish tax legislation.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates specifically investments with a judgmental valuation, being investment property and derivatives and the valuation of the prepayment asset in respect of the development of an administration platform at an outsourced provider (see Key Audit Matters). The Group engagement team shared this risk assessment with the component auditors referred to in the scoping section of our report below, so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Enquiries of compliance, risk, internal audit, and the Group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Testing of the whistleblowing email address and discussion with the whistleblowing champion; and
- Reading key correspondence with the Prudential Regulation Authority, the Financial Conduct Authority and the Central Bank of Ireland in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Board, Audit Committee and Risk Committee;
- Reviewing data regarding policyholder complaints, and the Group's register of litigation and claims, in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of investments with a judgmental valuation, being investment property and derivatives and the valuation of the prepayment asset in respect of the development of an administration platform at an outsourced provider described in the related key audit matters below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- Testing disclosure Note 17 affected by the regulatory solvency requirements of the Prudential Regulation Authority.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST. JAMES'S PLACE PLC CONTINUED

### Key audit matter

#### *Valuation of investments with a judgemental valuation, being investment property and derivatives*

The Group financial statements include £84.6 billion of investments. The investments are mostly straight forward instruments and do not require significant judgement in calculating the valuation of the holdings.

However £1.8 billion of the investments are in derivatives and investment properties, which require management to use estimates and judgements in order to calculate the year-end valuation. Due to the magnitude of these balances and the level of judgement involved, this was an area of focus for our audit.

SJP outsources investment valuation activities for financial assets, including derivatives, to State Street. The investment property portfolio is managed by Orchard Street, with title deeds held by DLA Piper and regular valuations are performed by CBRE.

### How our audit addressed the key audit matter

#### *Financial assets including derivatives*

Our audit procedures focused on the evidence available over the processes outsourced to State Street.

We obtained and read the International Standard on Assurance Engagements (ISAE) 3402 'Assurance Reports on Controls at a Service Organisation' for State Street's Global Fund Accounting and Custody operations, which provided a description of the systems and controls in place and the results of testing of the operational effectiveness of those controls.

We placed reliance on the controls described in the ISAE 3402 report over the valuation of the financial investments within the portfolio.

We independently re-priced a sample of investments, including derivatives, as at the year end. We compared our independent prices to those provided by State Street.

#### *Investment properties*

We reconciled the listing of properties valued by CBRE to details provided by Orchard Street and also agreed the total valuation to that recorded by the Group.

We engaged our in house real estate valuation experts to review the methodology and key assumptions used by CBRE in valuing the property portfolio. We also agreed factual inputs to the calculations, such as rental income, to tenancy agreements on a sample basis.

From the evidence obtained we found the valuation of investments to be appropriate.

#### *Valuation of the prepayment asset in respect of the development of an administration platform at an outsourced provider*

The Group is charged costs by DST Systems Limited (DST) in respect of a new policy administration platform.

These costs are recognised as a prepayment to be unwound over the duration of the related service agreement with DST. The balance of the prepayment asset at 31 December 2018 was £236.4 million.

The maximum prepayment that can be recognised is capped at the net present value of future cost savings.

Due to the nature and magnitude of the amount arising from the contractual terms, the valuation of the prepayment asset was an area of focus for our audit.

In testing whether the asset was valued appropriately and whether an impairment was necessary we:

- agreed amounts capitalised in the year to the service agreement and cash payments to DST; and
- assessed the reasonableness of the assumptions underlying management's discounted cash flow analysis calculating the anticipated future cost savings that support the valuation of the asset.
- agreed that the cost savings had been calculated using appropriate service tariffs. We performed a sensitivity analysis on the inflation and discount rate assumptions as well as business flow levels to determine the potential impact of changes in these assumptions to check whether they would affect the carrying value of the asset.
- considered the headroom available under what we considered to be reasonably possible downside scenarios and whether additional disclosure was necessary.

We determined that the accounting, recognition and disclosure of the asset in the financial statements was supported by the evidence obtained.

We determined that there were no key audit matters applicable to the Parent Company to communicate in our report.

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured to reflect its vertically integrated wealth management business and operates predominantly within the United Kingdom. Three of the components within the Group required an audit of their complete financial information. Of these, two components (St. James's Place UK plc and St. James's Place Unit Trust Group Limited) were considered financially significant. The remaining component (St. James's Place International plc) had specific risk characteristics which led us to include in our scope an audit of its complete financial information. St. James's Place International plc is a regulated insurance company giving rise to complex accounting entries, such as the calculation of insurance reserves and DAC and DIR balances.

All components aside from St. James's Place International plc were audited by PwC UK. St. James's Place International plc is incorporated and regulated in the Republic of Ireland and was audited by PwC Republic of Ireland. At the planning stage of the audit we provided written instructions to PwC Republic of Ireland to confirm the work we required them to complete and the materiality level they should work to. We held regular phone calls and meetings with the PwC Republic of Ireland engagement leader and senior manager through the planning, execution and completion phases of the audit to inform them of developments at a Group level and to understand from them any local developments that were relevant for our audit of the Group. During the execution phase, senior members of the UK engagement team visited the Republic of Ireland and we obtained access to their electronic audit working papers and reviewed selected elements of their work, focusing on their work to address the significant and elevated risks identified.

In addition to the full scope audit of the three components noted above, we also performed specific audit procedures on certain financial statement line items within six other components. These financial statement line items were selected for testing to ensure that we had sufficient coverage of each financial statement line item within the Group financial statements.

Together with additional procedures performed at a Group level on the consolidation, the result of the above scoping was that we achieved greater than 85% coverage of each material financial statement line item within the Group financial statements, giving us the evidence we needed for our audit opinion.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

|                                        | Group financial statements                                                                                                                                                                                                                                                                                                                                                                                        | Parent Company financial statements                                                                                                                                                   |
|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Overall materiality</b>             | £15.0 million (2017: £17.0 million).                                                                                                                                                                                                                                                                                                                                                                              | £13.0 million (2017: £10.1 million).                                                                                                                                                  |
| <b>How we determined it</b>            | 4.9% of underlying cash generated in the year.                                                                                                                                                                                                                                                                                                                                                                    | 1% of total assets.                                                                                                                                                                   |
| <b>Rationale for benchmark applied</b> | The engagement team concluded that £15.0 million is the most appropriate figure when setting an overall materiality on the 2018 engagement. The quantum of £15.0 million was determined by considering the various benchmarks available to us as auditors, our experience of auditing the Group and the business performance during 2018. £15.0 million represents 4.9% of underlying cash generated in the year. | The purpose of the Parent Company is to hold investments in other Group companies. As such PwC considers it appropriate to use total assets as the benchmark for overall materiality. |

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £5.0 million and £14.5 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8 million (Group audit) (2017: £0.8 million) and £0.7 million (Parent Company audit) (2017: £0.4 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

In accordance with guidance on the audit of insurers issued in the United Kingdom issued by the Financial Reporting Council we have applied a higher materiality of £515.0 million solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities.

### Going concern

In accordance with ISAs (UK) we report as follows:

| Reporting obligation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Parent Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and, in common with other companies, it is difficult to evaluate all of the potential implications on the company's business, clients, suppliers and the wider economy, in general terms. |
| We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.                                                                                                                                                                                                                                                                                                                                                 | We have nothing to report.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST. JAMES'S PLACE PLC CONTINUED

### REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

### Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 51 and 142) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ('DTR') is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 82 to 93) with respect to the Parent Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Parent Company. (CA06)

### The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

The directors' confirmation on page 90 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

The directors' explanation on page 55 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they 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 their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit. (Listing Rules)

## Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

The statement given by the directors, on page 99, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company obtained in the course of performing our audit.

The section of the Annual Report on page 94 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

The directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

## Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### Use of this report

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

## Other required reporting

### COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

### APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the Directors on 7 December 2009 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 31 December 2009 to 31 December 2018.

### JEREMY JENSEN (SENIOR STATUTORY AUDITOR)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors

London  
26 February 2019

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|                                                                |      | Year ended<br>31 December<br>2018 | Year ended<br>31 December<br>2017 |
|----------------------------------------------------------------|------|-----------------------------------|-----------------------------------|
|                                                                | Note | £'Million                         | £'Million                         |
| Insurance premium income                                       |      | 46.5                              | 49.9                              |
| Less premiums ceded to reinsurers                              |      | (29.6)                            | (29.6)                            |
| <b>Net insurance premium income</b>                            |      | <b>16.9</b>                       | <b>20.3</b>                       |
| Fee and commission income                                      | 4    | 1,523.7                           | 1,779.8                           |
| Investment return                                              | 6    | (4,235.0)                         | 7,282.5                           |
| <b>Net (expense)/income</b>                                    |      | <b>(2,694.4)</b>                  | <b>9,082.6</b>                    |
| Policy claims and benefits                                     |      |                                   |                                   |
| – Gross amount                                                 |      | (54.0)                            | (61.1)                            |
| – Reinsurers' share                                            |      | 19.6                              | 23.3                              |
| <b>Net policyholder claims and benefits incurred</b>           |      | <b>(34.4)</b>                     | <b>(37.8)</b>                     |
| Change in insurance contract liabilities                       |      |                                   |                                   |
| – Gross amount                                                 |      | 36.5                              | (26.5)                            |
| – Reinsurers' share                                            |      | –                                 | 2.3                               |
| <b>Net change in insurance contract liabilities</b>            |      | <b>36.5</b>                       | <b>(24.2)</b>                     |
| <b>Movement in investment contract benefits</b>                | 6    | <b>4,249.2</b>                    | <b>(7,210.9)</b>                  |
| <b>Expenses</b>                                                | 5    | <b>(1,641.5)</b>                  | <b>(1,467.6)</b>                  |
| <b>(Loss)/profit before tax</b>                                | 3    | <b>(84.6)</b>                     | <b>342.1</b>                      |
| Tax attributable to policyholders' returns                     | 7    | 296.5                             | (156.0)                           |
| <b>Profit before tax attributable to shareholders' returns</b> |      | <b>211.9</b>                      | <b>186.1</b>                      |
| Total tax credit/(expense)                                     | 7    | 258.1                             | (196.3)                           |
| Less: tax attributable to policyholders' returns               | 7    | (296.5)                           | 156.0                             |
| Tax attributable to shareholders' returns                      | 7    | (38.4)                            | (40.3)                            |
| <b>Profit and total comprehensive income for the year</b>      |      | <b>173.5</b>                      | <b>145.8</b>                      |
| Loss attributable to non-controlling interests                 |      | –                                 | (0.1)                             |
| Profit attributable to equity shareholders                     |      | 173.5                             | 145.9                             |
| <b>Profit and total comprehensive income for the year</b>      |      | <b>173.5</b>                      | <b>145.8</b>                      |
|                                                                |      | Pence                             | Pence                             |
| <b>Basic earnings per share</b>                                | 18   | <b>33.0</b>                       | <b>27.8</b>                       |
| <b>Diluted earnings per share</b>                              | 18   | <b>32.4</b>                       | <b>27.4</b>                       |

The results relate to continuing operations.

The Notes and information below and on pages 158 to 205 form part of these consolidated financial statements.

As permitted by Section 408 of the Companies Act 2006, no statement of comprehensive income is presented for the Company.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|                                                                     | Note | Equity attributable owners of the Parent |                            |                                      |                                |                            | Non-controlling interests<br>£'Million | Total equity<br>£'Million |
|---------------------------------------------------------------------|------|------------------------------------------|----------------------------|--------------------------------------|--------------------------------|----------------------------|----------------------------------------|---------------------------|
|                                                                     |      | Share capital<br>£'Million               | Share premium<br>£'Million | Shares in trust reserve<br>£'Million | Retained earnings<br>£'Million | Misc reserves<br>£'Million |                                        |                           |
| At 1 January 2017                                                   |      | 79.1                                     | 164.5                      | (20.9)                               | 851.2                          | 2.5                        | (0.8)                                  | 1,075.6                   |
| Profit/(loss) and total comprehensive income/(expense) for the year |      | –                                        | –                          | –                                    | 145.9                          | –                          | (0.1)                                  | 145.8                     |
| Dividends                                                           | 18   | –                                        | –                          | –                                    | (190.0)                        | –                          | –                                      | (190.0)                   |
| Issue of share capital                                              | 18   | 0.1                                      | 4.1                        | –                                    | –                              | –                          | –                                      | 4.2                       |
| Exercise of options                                                 | 18   | 0.2                                      | 3.1                        | –                                    | –                              | –                          | –                                      | 3.3                       |
| Consideration paid for own shares                                   |      | –                                        | –                          | (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                      |
| At 31 December 2017                                                 |      | 79.4                                     | 171.7                      | (26.7)                               | 832.1                          | 2.5                        | (0.9)                                  | 1,058.1                   |
| Profit and total comprehensive income for the year                  |      | –                                        | –                          | –                                    | 173.5                          | –                          | –                                      | 173.5                     |
| Dividends                                                           | 18   | –                                        | –                          | –                                    | (242.7)                        | –                          | –                                      | (242.7)                   |
| Exercise of options                                                 | 18   | –                                        | 2.8                        | –                                    | –                              | –                          | –                                      | 2.8                       |
| Consideration paid for own shares                                   |      | –                                        | –                          | (6.0)                                | –                              | –                          | –                                      | (6.0)                     |
| Shares sold during the year                                         |      | –                                        | –                          | 9.0                                  | (9.0)                          | –                          | –                                      | –                         |
| Retained earnings credit in respect of share option charges         |      | –                                        | –                          | –                                    | 33.4                           | –                          | –                                      | 33.4                      |
| <b>At 31 December 2018</b>                                          |      | <b>79.4</b>                              | <b>174.5</b>               | <b>(23.7)</b>                        | <b>787.3</b>                   | <b>2.5</b>                 | <b>(0.9)</b>                           | <b>1,019.1</b>            |

The number of shares held in the shares in trust reserve is given in Note 18 Share capital, earnings per share and dividends on page 196.

Miscellaneous reserves represent other non-distributable reserves.

The Notes and information below and on pages 158 to 205 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|                                                     | Note | As at<br>31 December<br>2018<br>£'Million | As at<br>31 December<br>2017<br>£'Million |
|-----------------------------------------------------|------|-------------------------------------------|-------------------------------------------|
| <b>Assets</b>                                       |      |                                           |                                           |
| Goodwill                                            | 8    | 15.6                                      | 15.6                                      |
| Deferred acquisition costs                          | 8    | 558.5                                     | 623.0                                     |
| Intangible assets                                   |      |                                           |                                           |
| – Purchased value of in-force business              | 8    | 24.0                                      | 27.2                                      |
| – Computer software                                 | 8    | 1.4                                       | 2.4                                       |
| Property and equipment                              | 9    | 28.5                                      | 26.4                                      |
| Deferred tax assets                                 | 7    | 147.1                                     | 182.7                                     |
| Reinsurance assets                                  | 13   | 82.8                                      | 82.8                                      |
| Other receivables                                   | 11   | 1,952.3                                   | 1,620.0                                   |
| Income tax assets                                   |      | 9.7                                       | –                                         |
| Investments                                         |      |                                           |                                           |
| – Investment property                               | 10   | 1,820.7                                   | 1,630.9                                   |
| – Equities                                          | 10   | 56,077.9                                  | 55,086.9                                  |
| – Fixed income securities                           | 10   | 21,966.0                                  | 17,180.7                                  |
| – Investment in Collective Investment Schemes       | 10   | 4,756.1                                   | 5,903.4                                   |
| – Derivative financial instruments                  | 10   | 508.8                                     | 343.4                                     |
| Cash and cash equivalents                           | 10   | 6,877.6                                   | 7,280.6                                   |
| <b>Total assets</b>                                 |      | <b>94,827.0</b>                           | <b>90,006.0</b>                           |
| <b>Liabilities</b>                                  |      |                                           |                                           |
| Borrowings                                          | 15   | 348.6                                     | 279.9                                     |
| Deferred tax liabilities                            | 7    | 172.9                                     | 546.8                                     |
| Insurance contract liabilities                      | 13   | 508.1                                     | 544.6                                     |
| Deferred income                                     | 8    | 648.3                                     | 646.3                                     |
| Other provisions                                    | 14   | 22.7                                      | 20.0                                      |
| Other payables                                      | 12   | 1,290.8                                   | 1,231.2                                   |
| Investment contracts benefits                       | 10   | 67,796.1                                  | 64,014.3                                  |
| Derivative financial instruments                    | 10   | 517.4                                     | 190.3                                     |
| Net asset value attributable to unit holders        | 10   | 22,502.9                                  | 21,349.1                                  |
| Income tax liabilities                              | 7    | –                                         | 125.3                                     |
| Preference shares                                   |      | 0.1                                       | 0.1                                       |
| <b>Total liabilities</b>                            |      | <b>93,807.9</b>                           | <b>88,947.9</b>                           |
| <b>Net assets</b>                                   |      | <b>1,019.1</b>                            | <b>1,058.1</b>                            |
| <b>Shareholders' equity</b>                         |      |                                           |                                           |
| Share capital                                       | 18   | 79.4                                      | 79.4                                      |
| Share premium                                       |      | 174.5                                     | 171.7                                     |
| Shares in trust reserve                             |      | (23.7)                                    | (26.7)                                    |
| Miscellaneous reserves                              |      | 2.5                                       | 2.5                                       |
| Retained earnings                                   |      | 787.3                                     | 832.1                                     |
| Equity attributable to owners of the Parent Company |      | 1,020.0                                   | 1,059.0                                   |
| Non-controlling interests                           |      | (0.9)                                     | (0.9)                                     |
| <b>Total equity</b>                                 |      | <b>1,019.1</b>                            | <b>1,058.1</b>                            |
| <b>Net assets per share</b>                         |      | <b>Pence 192.5</b>                        | <b>Pence 200.0</b>                        |

The financial statements on pages 154 to 205 were approved by the Board of Directors on 26 February 2019 and signed on its behalf by:

**ANDREW CROFT**  
Chief Executive

**CRAIG GENTLE**  
Chief Financial Officer

The Notes and information on pages 158 to 205 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

|                                                                                   |      | Year ended<br>31 December<br>2018 | Year ended<br>31 December<br>2017 |
|-----------------------------------------------------------------------------------|------|-----------------------------------|-----------------------------------|
|                                                                                   | Note | £'Million                         | £'Million                         |
| <b>Cash flows from operating activities</b>                                       |      |                                   |                                   |
| (Loss)/profit before tax for the year                                             |      | (84.6)                            | 342.1                             |
| Adjustments for:                                                                  |      |                                   |                                   |
| Amortisation of purchased value of in-force business                              | 8    | 3.2                               | 3.2                               |
| Amortisation of computer software                                                 | 8    | 1.1                               | 0.9                               |
| Depreciation                                                                      | 9    | 6.5                               | 5.2                               |
| Share-based payment charge                                                        | 19   | 34.1                              | 32.7                              |
| Interest income                                                                   |      | (35.1)                            | (23.7)                            |
| Interest expense                                                                  |      | 6.1                               | 4.9                               |
| Increase in provisions                                                            | 14   | 2.7                               | 2.9                               |
| Exchange rate (gains)/losses                                                      |      | (0.3)                             | 1.1                               |
| <b>Changes in operating assets and liabilities</b>                                |      |                                   |                                   |
| Decrease in deferred acquisition costs                                            | 8    | 64.5                              | 61.8                              |
| Increase in investment property                                                   |      | (189.8)                           | (168.5)                           |
| Increase in other investments                                                     |      | (4,794.4)                         | (14,876.2)                        |
| Increase in reinsurance assets                                                    |      | —                                 | (2.3)                             |
| Increase in other receivables                                                     |      | (330.3)                           | (146.0)                           |
| (Decrease)/increase in insurance contract liabilities                             |      | (36.5)                            | 26.4                              |
| Increase in financial liabilities (excluding borrowings)                          |      | 4,108.9                           | 10,615.8                          |
| Increase/(decrease) in deferred income                                            | 8    | 2.0                               | (1.3)                             |
| Increase in other payables                                                        |      | 57.2                              | 48.8                              |
| Increase in net assets attributable to unit holders                               |      | 1,153.8                           | 4,317.1                           |
| <b>Cash generated from operating activities</b>                                   |      | (30.9)                            | 244.9                             |
| Interest received                                                                 |      | 35.1                              | 23.7                              |
| Interest paid                                                                     |      | (6.1)                             | (4.9)                             |
| Income taxes paid                                                                 |      | (213.2)                           | (181.3)                           |
| <b>Net cash generated from operating activities</b>                               |      | (215.1)                           | 82.4                              |
| <b>Cash flows from investing activities</b>                                       |      |                                   |                                   |
| Acquisition of property and equipment                                             | 9    | (8.6)                             | (8.6)                             |
| Acquisition of intangible assets                                                  | 8    | (0.1)                             | (0.3)                             |
| Acquisition of subsidiaries and other business combinations, net of cash acquired |      | (4.1)                             | (5.0)                             |
| <b>Net cash used in investing activities</b>                                      |      | (12.8)                            | (13.9)                            |
| <b>Cash flows from financing activities</b>                                       |      |                                   |                                   |
| Proceeds from the issue of share capital                                          |      | 2.8                               | 3.3                               |
| Consideration paid for own shares                                                 |      | (6.0)                             | (11.3)                            |
| Additional borrowings                                                             | 15   | 232.5                             | 100.0                             |
| Repayment of borrowings                                                           | 15   | (162.2)                           | (101.0)                           |
| Dividends paid                                                                    | 18   | (242.7)                           | (190.0)                           |
| <b>Net cash used in financing activities</b>                                      |      | (175.6)                           | (199.0)                           |
| <b>Net decrease in cash and cash equivalents</b>                                  |      | (403.5)                           | (130.5)                           |
| Cash and cash equivalents at 1 January                                            | 10   | 7,280.6                           | 7,413.1                           |
| Exchange gains/(losses) on cash and cash equivalents                              |      | 0.5                               | (2.0)                             |
| <b>Cash and cash equivalents at 31 December</b>                                   | 10   | 6,877.6                           | 7,280.6                           |

The Notes and information on pages 158 to 205 form part of these financial statements.

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

## 1. Accounting policies

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

### I. STATEMENT OF COMPLIANCE

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

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

As at 31 December 2018, the following amended standards, which the Group has adopted as of 1 January 2018, have not had any material impact on the Group's consolidated financial statements. New accounting standards which were adopted as of 1 January 2018 are covered in the section below.

IFRS 2 Amendment – Classification and Measurement of Share-based Payment Transactions

IAS 40 Amendment – Transfers of Investment Property

Annual Improvements 2014-2016 Cycle

IFRIC 22 Foreign Currency Transactions and Advance Consideration (not endorsed at 30 June 2018)

### II. ADOPTION OF NEW ACCOUNTING STANDARDS

The following new accounting standards were adopted as of 1 January 2018:

IFRS 9 Financial Instruments (and associated amendments to various other standards); and

IFRS 15 Revenue from Contracts with Customers (including subsequent IFRS 15 clarification and associated amendments to various other standards)

The impact of these new accounting standards on the Group's consolidated financial statements are set out below.

#### IFRS 9

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

##### (a) Classification and measurement of financial instruments

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

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

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

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

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

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

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

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

### **Reclassification from loans and receivables to amortised cost**

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

### **(b) Expected loss impairment model**

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

The Group has applied the three-stage impairment model to the business loans to Partners portfolio. Business loans to Partners are interest-bearing (linked to the Bank of England base rate plus a margin), either repayable on demand or in line with the repayment plan, and secured against the future renewal income streams of the Partner.

No provision is held against the other financial assets of the Group as these are either classified as FVTPL or are short-term trade receivables with insignificant risk of credit loss.

### **Definition of underperforming**

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

### **Definition of non-performing**

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

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

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

### **Write-off**

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

The provision held against business loans to Partners under the incurred loss model as required by the previous accounting standard, IAS 39, was immaterial. The provision required by applying the expected loss model from 1 January 2018, as required by IFRS 9, is also immaterial. For further information on the provision balance and gross business loans to Partners, refer to Note 11 Other Receivables.

### **IFRS 15**

The adoption of IFRS 15 had no impact on the Group, as the way that the Group's revenue from contracts with customers was recognised under the previous accounting standard, IAS 18, satisfies the requirements of IFRS 15 with no changes required to existing accounting policies. This conclusion was reached following a detailed assessment of revenue recognised by the Group in the context of the IFRS 15 five-step revenue recognition model, covering advice charges (post-RDR), third-party fee and commission income, wealth management fees, investment management fees, fund tax deductions and discretionary management fees. Further information regarding the performance obligations for each of these revenue streams is set out in Note 1 (b) Fee and Commission Income.

## **III. NEW AND AMENDED ACCOUNTING STANDARDS NOT YET ADOPTED**

As at 31 December 2018, the following new and amended standards, which are relevant to the Group but have not been applied in the financial statements, were in issue but have not yet been adopted:

IAS 28 Amendment – Long-term Interests in Associates and Joint Ventures

IFRS 10 and IAS 28 Amendments – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

IFRS 16 Leases

IFRS 17 Insurance Contracts

IFRIC 23 Uncertainty over Income Tax Treatments

Annual Improvements 2015-2017 Cycle

The Group is currently assessing the impact that the adoption of the above standards, amendments and clarifications will have on the Group's results reported within the financial statements. Further detail regarding the standards that are expected to have the most significant impact on the financial statements is given below.

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

## 1. Accounting policies continued

### IFRS 16 Leases

IFRS 16 was issued in January 2016 and is mandatory for financial years commencing on or after 1 January 2019. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed for lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are for short-term or low-value leases. The accounting for lessors will not significantly change. The standard will affect the accounting for the Group's operating leases.

The Group's lease portfolio at 31 December 2018 will transition to IFRS 16 on 1 January 2019, following the modified retrospective approach. The Group will take advantage of the exemptions offered by IFRS 16 for short-term and low-value leases. Upon transition, the Group will recognise a right-of-use asset of £92.4 million and a lease liability of £83.6 million, along with a dilapidations provision recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets of £8.8 million. The 2019 lease expense for the transitioning lease portfolio, comprising the amortisation of the right-of-use asset and interest expense on the lease liability, is expected to be £4.4 million higher under IFRS 16 than it would have been under the current lease standard, IAS 17.

The negative impact arises as the lease liability is accounted for using the effective interest method, which means that the interest expense on the lease liability reduces year on year, whereas under the current lease accounting standard the operating lease rentals are constant throughout the lease term. As the Group has a number of significant leases which are in the early stages of their lease term, the lease expense upon transition to IFRS 16 will be higher than under the current leases standard. This negative impact will reverse over time.

Note that the lease entered into on 1 January 2019, as referenced in Note 23 Post Balance Sheet Events, does not form part of the Group's lease portfolio at 31 December 2018 which transitioned to IFRS 16 on 1 January 2019. As a result, it is excluded from the numbers stated above. Upon initial recognition, the right-of-use asset for this property was £36.5 million, the lease liability was £33.9 million and the dilapidations provision recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets was £1.4 million.

### IFRS 17 Insurance Contracts

IFRS 17 incorporates revised principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The Group closed to new insurance business, as defined under accounting standards, in 2011. At 31 December 2018, the Group has £86.9 million of non-unit-linked insurance contract liabilities, which are substantially reinsured, and £421.2 million of unit-linked insurance contract liabilities. As a result, the Group's net exposure on this business is not material.

The vast majority of the business written by the Life companies within the Group is defined as investment, rather than insurance, business under accounting standards. Investment business is outside the scope of IFRS 17: refer to Note 2 for further information on the classification of contracts between insurance and investment business.

Management are currently assessing the impacts of adopting the new standard. The effective date of the standard is currently 1 January 2021, subject to EU endorsement, however in November 2018 the IASB started due process to amend the effective date to 1 January 2022.

The Group financial statements also comply with the revised Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006), to the extent that it is consistent with IFRS standards.

## IV. BASIS OF PREPARATION

The going concern basis has been adopted in preparing these financial statements.

The financial statements are presented in pounds Sterling, rounded to the nearest one hundred thousand pounds. They are prepared on a historical cost basis, except for assets classified as investment property and assets and liabilities at fair value through profit and loss.

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

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

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

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

## V. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of consolidation

The consolidated financial information incorporates the assets, liabilities and the results of the Company and of its subsidiaries. Subsidiaries are those entities 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). Further information on how control is assessed, and the judgement taken in consolidating SJP Partner Loans No.1 Limited, the Group's securitisation entity, is set out in Note 2.

Associates are all entities over which the Group has significant influence but not control, and are accounted for at fair value through the profit or loss. The Group uses the acquisition method of accounting to account for business combinations and expenses all acquisition costs as they are incurred. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Group.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 in the consolidated statement of comprehensive income.

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

Intra-group balances, and any income and expenses or unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

The St. James's Place Charitable Foundation is not consolidated within the financial information. This is because the Company does not control the Charitable Foundation in accordance with IFRS 10.

#### **(b) Fee and commission income**

Fee and commission income comprises:

- (i) advice charges paid by clients who receive advice alongside their investment in a St. James's Place or third-party retail investment product. Advice may be provided at initial investment, and on an on-going basis;
- (ii) third-party fee and commission income, due from third-party product providers in respect of products sold on their behalf;
- (iii) wealth management fees paid by clients for the ongoing administration of their investment;
- (iv) investment management fees paid by clients for all aspects of investment management, including fees taken by the Group to pay third-party investment advisers;
- (v) fund tax deductions, which are fees charged to clients to match the policyholder tax expense;
- (vi) discretionary fund management fees generated through the services provided by our DFM business; and
- (vii) the unwinding of income that has been deferred. This relates to initial product charges and dealing margins from unit trusts.

The provision of initial advice is a distinct performance obligation. As a result, initial advice charges are recognised in full on acceptance and inception of the associated policy by the relevant product provider, which may be a Group company or a third party. On-going advice charges are recognised as revenue on an on-going basis, consistent with the nature of the performance obligation being discharged, rather than at a single point in time.

Third-party fee and commission income is recognised in full on acceptance and inception of the associated policy by the relevant third-party product provider. The performance obligation is the initial advice provided to a client which leads to investment in a third-party product, hence it is appropriate that this revenue stream is recognised on the same basis as initial advice charges. Where the third-party product provider retains the right to clawback of commission on an indemnity basis, revenue on sale of these products is recognised to the extent that it is highly probable the revenue will not be clawed back. Separately, a provision is recognised for amounts received by the Group which are expected to be clawed back.

Wealth management fees, investment management fees, fund tax deductions and discretionary fund management fees relate to services provided on an on-going basis, and revenue is recognised on an on-going basis to reflect the nature of the performance obligations being discharged.

When initial product charges and dealing margins do not relate to a distinct performance obligation satisfied at inception of a contract, the income is deferred and amortised over the anticipated period in which the services will be provided.

#### **(c) Insurance and reinsurance premiums**

Unit-linked insurance contract premiums are recognised as revenue when the liabilities arising from them are recognised. All other premiums are accounted for when due for payment.

#### **(d) Insurance claims and reinsurance recoveries**

Insurance contracts death claims are accounted for on notification of death. Critical illness claims are accounted for when admitted. All other claims and surrenders are accounted for when payment is due. Reinsurance recoveries, in respect of insurance claims, are accounted for in the same period as the related claim.

#### **(e) Investment return**

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

#### **(f) Expenses**

##### **(i) Payments to Partners**

Payments to Partners comprises initial commission and initial advice fees (IAF) (paid for initial advice, at policy outset and within an initial period for regular contribution), renewal commission and renewal advice fees (payable on regular contributions) and fund fee commission or ongoing advice fee (OAF) (based on funds under management). Initial and renewal commission and advice fees are recognised in line with the associated premium income, but initial commission on insurance and investment contracts may be deferred as set out in accounting policy (k). Fund fee commission and ongoing advice fee are recognised on an accruals basis.

##### **(ii) Operating lease payments**

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

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

## 1. Accounting policies continued

### (g) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax payable by the Group in respect of policyholders and shareholders. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a taxing authority and are measured using a best-estimate approach.

#### (i) Current tax

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

#### (ii) Deferred tax

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### (iii) Policyholder and shareholder tax

The total income tax charge is a separate adjustment within the statement of comprehensive income based on the movement in current and deferred income taxes in respect of income, gains and expenses. The total charge reflects tax incurred on behalf of policyholders as well as shareholders, and so it is useful to be able to identify these separately.

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.

#### (h) Dividends paid

Dividend distributions to the Company's shareholders are recognised in the period in which the dividends are declared, that is when they are appropriately authorised and no longer at the discretion of the Company. The final dividend for the financial year is disclosed but unpaid and awaiting approval by the Company's shareholders at the Annual General Meeting.

### (i) Investment contract deposits and withdrawals

Investment contract payments in and out are not included in the statement of comprehensive income but are reported as deposits to or deductions from investment contract benefits in the statement of financial position. The movement in investment contract benefits within the statement of comprehensive income principally represents the investment return credited to policyholders.

Explicit advice charges are payable to St. James's Place Wealth Management plc by most clients who wish to receive advice with their investment in a St. James's Place retail investment product. St. James's Place facilitates the payment of these charges for the client, by arranging withdrawals from the client's policy, which are then recognised as income to St. James's Place Wealth Management plc. A proportion of the charge is then paid to the St. James's Place adviser who provides the advice (see (f)(i) Expenses).

### (j) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired entity at the date of acquisition. Where the fair value of the Group's share of the identifiable net assets of the acquired entity is greater than the cost of acquisition, the excess is recognised immediately in the statement of comprehensive income.

Goodwill is recognised as an asset at cost and is reviewed at least annually for impairment or when circumstances or events indicate there may be uncertainty over this value. If an impairment is identified, the carrying value of the goodwill is written down immediately through the statement of comprehensive income and is not subsequently reversed. At the date of disposal of a subsidiary, the carrying value of attributable goodwill is included in the calculation of the profit or loss on disposal except where it has been written off directly to reserves in the past.

### (k) Deferred acquisition costs

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

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

The periods over which costs are expected to be recoverable are as follows:

|                       |             |
|-----------------------|-------------|
| Insurance contracts:  | 6 years     |
| Investment contracts: | 12–14 years |

## (l) Intangible assets

### (i) Purchased value of in-force business

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

The estimated useful economic life of acquired in-force business is 20 years.

### (ii) Computer software

Computer software is stated at cost less accumulated amortisation and any recognised impairment loss. The carrying value is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Computer software is recognised as an intangible asset during development with amortisation commencing when the software is operational. Amortisation is charged to the statement of comprehensive income to expenses on a straight-line basis over four years, being the estimated useful life of the intangible asset.

### (m) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Land is shown at fair value, based on valuations by external independent valuers. The carrying value is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable and any assets that may have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Depreciation is charged to the statement of comprehensive income to expenses on a straight-line basis over the estimated useful lives of the property and equipment, which are as follows:

|                                          |            |
|------------------------------------------|------------|
| Fixtures, fittings and office equipment: | 5–10 years |
| Computer equipment:                      | 3 years    |

### (n) Reinsurance assets

Reinsurance assets represent amounts recoverable from reinsurers in respect of non-unit-linked insurance contract liabilities, net of any future reinsurance premiums.

### (o) Other receivables

Other receivables are initially recognised at fair value and subsequently held at amortised cost less impairment losses, except for renewal income assets which are classified as fair value through profit and loss and are initially, and subsequently, recognised at fair value. The value of any impairment recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. See accounting policy (ad) for information relating to the treatment of impaired amounts.

Other receivables include prepayments, which are recognised where services are paid for in advance of being received. The prepayment reduces, and an expense is recognised in the statement of comprehensive income, as the service is received.

Commission and advice fees in respect of some insurance and investment business may be paid to Partners in advance on renewal premiums and accelerated by up to five years. The unearned element of this accelerated remuneration is recognised as advanced payments to Partners within other receivables. Should the contributions reduce or stop within the initial period, any unearned amount is recovered.

### (p) Investment property

Investment properties, which are all held within the unit-linked funds, are properties which are held to earn rental income and/or for capital appreciation. They are stated at fair value. An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every month.

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

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

### (q) Equities, fixed income securities and investment in collective investment schemes

These financial assets are initially and subsequently recognised at fair value through profit or loss, with all gains and losses recognised within investment income in the statement of comprehensive income. The vast majority of these financial assets are quoted, and so the fair value is based on the value within the bid-ask spread that is most representative of fair value. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models.

Subsequent measurement of these financial assets at fair value through profit or loss (FVTPL) is required by IFRS 9 for debt instruments for which the objectives of the Group's business model are not met by either holding the instrument to collect contractual cash flows or selling the instruments, or where the contractual terms of the instrument do not give rise to cash flows which are solely payments of principal and interest. Where both the 'business model' and 'solely payments of principal and interest' tests are met, management have made an irrevocable decision to designate the debt instruments at FVTPL as doing so aligns the measurement of the financial assets with the measurement of their associated unit-linked liabilities.

Management have not made the irrevocable election to present changes in the fair value of equity instruments in other comprehensive income, and so all equity instruments are also designated at FVTPL.

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

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

### 1. Accounting policies continued

#### (r) Derivative financial instruments

The Group uses derivative financial instruments within some unit-linked funds, with each contract initially and subsequently recognised at fair value, based on observable market prices. All changes in value are recognised within investment income in the statement of comprehensive income.

#### (s) Cash and cash equivalents

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

Cash and cash equivalents held within unit-linked and unit trust funds are classified at fair value through profit and loss (FVTPL), as management have made an irrevocable decision to designate them as such in order to align the measurement of these financial assets with the measurement of their associated unit-linked liabilities. Therefore, these cash and cash equivalents are initially and subsequently recognised at FVTPL, with gains and losses recognised within investment return in the statement of comprehensive income.

All other cash and cash equivalents are classified as amortised cost. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses.

#### (t) Insurance contract liabilities

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

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

#### (u) Investment contract benefits

All of the Group's investment contracts are unit-linked. Unit-linked liabilities are measured at fair value by reference to the value of the underlying net asset value of the Group's unitised investment funds, determined on a bid value, at the reporting date. An allowance for deductions due to (or from) the Group in respect of policyholder tax on capital gains (and losses) in the life assurance funds is also reflected in the measurement of unit-linked liabilities. Investment contract benefits are recognised when units are first allocated to the policyholder; they are de-recognised when units allocated to the policyholder have been cancelled.

The decision by the Group to designate its unit-linked liabilities as fair value through profit and loss (FVTPL) reflects the fact that the matching investment portfolio, which underpins the unit-linked liabilities, is recognised at FVTPL.

#### (v) Deferred income

The initial margin on financial instruments (including dealing margins from unit trusts) is deferred and recognised on a straight-line basis over the expected lifetime of the financial instrument, which is between six to 14 years.

#### (w) Net asset value attributable to unit holders

The Group consolidates unit trusts in which it holds more than 30% of the units and exercises control. The third-party interests in these unit trusts are termed the net asset value attributable to unit holders and are presented in the statement of financial position. They are classified as FVTPL, hence are initially and subsequently measured at fair value. The decision by the Group to designate the net asset value attributable to unit holders as FVTPL reflects the fact that the underlying investment portfolios are recognised at FVTPL.

Income attributable to the third-party interests is accounted for within investment return, offset by a corresponding change in investment contract benefits.

#### (x) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events such that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured as the discounted expected future cash flows taking account of the risks and uncertainties associated with the specific liability where appropriate.

#### (y) Borrowings

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

#### (z) Other payables

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

#### (aa) Employee benefits

##### (i) Pension obligations

The Group operates a defined contribution personal pension plan for its employees. Contributions to this plan are recognised as an expense in the statement of comprehensive income as incurred. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

##### (ii) Share-based payments

The Group operates a number of share-based payment plans for employees, Partners and advisers. The fair value of share-based payment awards granted is recognised as an expense spread over the vesting period of the instrument which accords with the period for which related services are provided, with a corresponding increase in equity in the case of equity-settled plans and the recognition of a liability for cash-settled plans.

The total amount to be expensed is determined by reference to the fair value of the awards, measured using standard option pricing models as the fair value of the services provided by employees. Partners and advisers cannot be reliably measured. For equity-settled plans, the fair value is determined at grant date and not subsequently remeasured. For cash-settled plans, the fair value is remeasured at each reporting date and the date of settlement, with any changes in fair value recognised in the statement of comprehensive income for the period.

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

#### **(ab) Share capital**

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

#### **(ac) Product classification**

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

##### **(i) Insurance contracts**

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

##### **(ii) Investment contracts**

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

#### **(ad) Impairment**

##### **(i) Non-financial assets**

Assets that are subject to amortisation are reviewed for impairment when circumstances or events indicate there may be uncertainty over this value. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Refer to accounting policy (j) for the Group's impairment policy for goodwill.

##### **(ii) Financial assets**

Financial assets held at amortised cost are impaired using an expected credit loss model. The model splits financial assets into those which are performing, underperforming and non-performing based on changes in credit quality since initial recognition. At initial recognition financial assets are considered to be performing. They become underperforming where there has been a significant increase in credit risk since initial recognition, and non-performing when there is objective evidence of impairment. 12 months of expected credit losses are recognised within 'Expenses' in the statement of comprehensive income and netted against the financial asset in the statement of financial position for all performing financial assets, with lifetime expected credit losses recognised for underperforming and non-performing financial assets.

Expected credit losses are based on the historic levels of loss experienced for the relevant financial assets, with due consideration given to forward-looking information.

##### **(ae) Foreign currency translation**

The Group's presentation and the Company's functional currency is pounds Sterling.

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

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

##### **(af) Segment reporting**

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

##### **(ag) Current and non-current disclosure**

Assets which are expected to be recovered or settled no more than 12 months after the reporting date are disclosed as current within the Notes to the financial statements. Those expected to be recovered or settled more than 12 months after the reporting date are disclosed as non-current.

Liabilities which are expected or due to be settled no more than 12 months after the reporting date are disclosed as current within the Notes to the financial statements. Those liabilities which are expected or due to be settled more than 12 months after the reporting date are disclosed as non-current.

##### **(ah) Alternative performance measures**

Within the financial statements, a number of alternative performance measures (APMs) are disclosed. An APM is a measure of financial performance, financial position or cash flows which is not defined by the relevant financial reporting framework, which for the Group is International Financial Reporting Standards (IFRSs) as adopted by the European Union. APMs are used to provide greater insight into the performance of the Group and the way it is managed by the Directors. The Glossary of Alternative Performance Measures on pages 227 to 229 defines each APM, explains why it is used and, where applicable, explains how the measure can be reconciled to the IFRS financial statements.

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

### 2. Critical accounting estimates and judgements in applying accounting policies

#### JUDGEMENTS

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

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

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

##### Consolidation

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

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

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

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

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

As set out on page 159, business loans to Partners are considered to be non-performing, in the context of the definition prescribed within IFRS 9, if they are in default. This is defined as a loan to either:

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

The IFRS 9 presumption that default occurs when a loan is more than 90 days past due has been rebutted. Because of the quality of cash flows on which loans are secured together with the direct control exercised over them from source, management have a practice of granting flexible ongoing terms to Partners that are

investing in their own businesses. Past evidence supports the assertion that the vast majority of loans to Partners who remain in the Partnership are repaid in full, irrespective of the number of days past due the loan may be.

#### ESTIMATES

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

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

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

##### Measurement of insurance contract liabilities

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

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

Greater detail on the assumptions applied, and sensitivity analysis, is shown in Note 13.

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

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

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

The valuation of investment property is inherently subjective as it requires, among other factors, assumptions to be made regarding the ability of existing tenants to meet their rental obligations over the entire life of their leases, the estimation of the expected rental income into the future, an assessment of a property's potential to remain as an attractive technical configuration to existing and prospective tenants in a changing market and a judgement to be reached on the attractiveness of a building, its location and the surrounding environment. As such, investment properties are classified as Level 3 in the IFRS 13 fair value hierarchy because they are valued using techniques which are not based on observable inputs. Further details of the valuation of investment properties, including sensitivity analysis, is set out in Note 16.

### 3. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified, on the basis of internal reports about components of the Group that are regularly reviewed by the 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 4, which details the different types of revenue received from our wealth management business.

#### SEGMENT PROFIT

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

#### Underlying cash result

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

More detail is provided on pages 33 to 40 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<br>31 December<br>2018 | Year ended<br>31 December<br>2017 |
|----------------------------------------------------------------|-----------------------------------|-----------------------------------|
|                                                                | £'Million                         | £'Million                         |
| <b>Underlying cash result after tax</b>                        | <b>309.0</b>                      | 281.2                             |
| Non-cash-settled share-based payments                          | (33.4)                            | (30.5)                            |
| Deferred tax impacts                                           | (31.8)                            | (15.0)                            |
| Back-office infrastructure                                     | (35.8)                            | (21.7)                            |
| Impact in the year of DAC/DIR/PVIF                             | (54.4)                            | (48.1)                            |
| Other                                                          | 19.9                              | (20.1)                            |
| <b>IFRS profit after tax</b>                                   | <b>173.5</b>                      | 145.8                             |
| Shareholder tax                                                | 38.4                              | 40.3                              |
| <b>Profit before tax attributable to shareholders' returns</b> | <b>211.9</b>                      | 186.1                             |
| Tax attributable to policyholder returns                       | (296.5)                           | 156.0                             |
| <b>IFRS (loss)/profit before tax</b>                           | <b>(84.6)</b>                     | 342.1                             |

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

### 3. Segment reporting continued

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

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 31, is the measure of segment assets which is monitored on a monthly basis by the Board.

|                                                                                                               | 31 December<br>2018 | 31 December<br>2017 |
|---------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                                               | £'Million           | £'Million           |
| Investment                                                                                                    | 27,620.0            | 28,310.0            |
| Pension                                                                                                       | 40,720.0            | 36,150.0            |
| UT/ISA and DFM                                                                                                | 27,210.0            | 26,290.0            |
| <b>Total FUM</b>                                                                                              | <b>95,550.0</b>     | 90,750.0            |
| Exclude client and third-party holdings in non-consolidated unit trusts and DFM                               | (4,701.6)           | (4,882.5)           |
| Other                                                                                                         | 666.9               | 296.7               |
| <b>Gross assets held to cover unit liabilities</b>                                                            | <b>91,515.3</b>     | 86,164.2            |
| IFRS intangible assets (see page 38 adjustment 2) including goodwill, DAC, PVIF, reinsurance and deferred tax | 720.9               | 811.3               |
| Shareholder gross assets (see page 38)                                                                        | 2,590.8             | 3,030.5             |
| <b>Total assets</b>                                                                                           | <b>94,827.0</b>     | 90,006.0            |

## 4. Fee and commission income

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

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

## 5. Expenses

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

|                                                                                | Year ended<br>31 December<br>2018 | Year ended<br>31 December<br>2017 |
|--------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
|                                                                                | £'Million                         | £'Million                         |
| <b>Payments to Partners</b>                                                    | <b>781.9</b>                      | <b>709.0</b>                      |
| <b>Payments under operating leases</b>                                         | <b>20.8</b>                       | <b>17.2</b>                       |
| <b>Fees payable to the Company's auditors and its associates</b>               |                                   |                                   |
| For the audit of the Company and consolidated financial statements             | 0.1                               | 0.1                               |
| For other services:                                                            |                                   |                                   |
| – The audit of the Company's subsidiaries (excluding unit trusts)              | 0.7                               | 0.6                               |
| – Audit of the Company's unit trusts                                           | 0.3                               | 0.3                               |
| – Audit-related assurance services                                             | 0.8                               | 0.8                               |
| – Other assurance services                                                     | 0.1                               | –                                 |
| <b>Total fees payable to the Company's auditors and its associates</b>         | <b>2.0</b>                        | <b>1.8</b>                        |
| <b>Employee costs</b>                                                          |                                   |                                   |
| Wages and salaries                                                             | 140.3                             | 138.8                             |
| Social security costs                                                          | 16.2                              | 16.5                              |
| Other pension costs                                                            | 11.5                              | 9.5                               |
| Cost of employee share awards and options                                      | 16.4                              | 19.1                              |
| <b>Total employee costs</b>                                                    | <b>184.4</b>                      | <b>183.9</b>                      |
| <b>Average monthly number of persons employed by the Group during the year</b> | <b>2,302</b>                      | <b>2,014</b>                      |

All pension costs related to defined contribution schemes and cash supplements in lieu of contributions to defined contribution pension schemes. At 31 December 2018, the number of Directors to whom retirement benefits are accruing, including those receiving a cash supplement in lieu of contributions to defined contribution pension schemes is 4 (2017: 4), including the highest paid Director. Retirement benefits are accruing in defined contribution pension schemes for one (2017: zero) Director at the year end.

The above information includes Directors' remuneration. The aggregate emoluments of the highest paid Director were £0.8 million (2017: £0.9 million); cash supplement in lieu of their defined contribution pension scheme was £0.1 million (2017: £0.1 million); they exercised 61,837 share options during 2018 (2017: nil); and 26,955 shares were released to them in respect of the deferred bonus scheme (2017: 33,924). Full details of the Directors' remuneration, share options, pension entitlements and interests in shares are disclosed in the Directors' Remuneration Report on pages 120 to 137.

The aggregate gains made by Directors on the exercise of share options during the year was £2.2 million (2017: £2.6 million).

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

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

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

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

#### MOVEMENT IN INVESTMENT CONTRACT BENEFITS

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

See accounting policy (ag) for further information on the current and non-current disclosure.

## 7. Income and deferred taxes

### TAX FOR THE YEAR

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

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

Included within the deferred tax on 'other items' is a credit of £0.8 million (2017: £2.0 million charge) relating to share-based payments. Details of share-based payments are disclosed in Note 19 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.

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

### 7. Income and deferred taxes continued

#### TAX PAID IN THE YEAR

|                                                                                             | Year ended<br>31 December<br>2018 | Year ended<br>31 December<br>2017 |
|---------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
|                                                                                             | £'Million                         | £'Million                         |
| Current tax charge for the year                                                             | 81.4                              | 249.5                             |
| Refunds due to be received/(payments to be made) in future years in respect of current year | 9.7                               | (125.3)                           |
| Payments made in current year in respect of prior years                                     | 124.7                             | 71.3                              |
| Other                                                                                       | 0.7                               | 1.1                               |
| <b>Tax paid</b>                                                                             | <b>216.5</b>                      | <b>196.6</b>                      |
| Tax paid can be analysed as:                                                                |                                   |                                   |
| – Taxes paid in UK                                                                          | 211.5                             | 188.9                             |
| – Taxes paid in overseas jurisdictions                                                      | 1.5                               | 2.7                               |
| – Withholding taxes suffered on investment income received                                  | 3.5                               | 5.0                               |
| <b>Tax paid</b>                                                                             | <b>216.5</b>                      | <b>196.6</b>                      |

#### MOVEMENT IN NET DEFERRED TAX BALANCE

|                                                                   | 2018          | 2017           |
|-------------------------------------------------------------------|---------------|----------------|
|                                                                   | £'Million     | £'Million      |
| Deferred tax asset                                                | 182.7         | 199.9          |
| Deferred tax liability                                            | (546.8)       | (614.8)        |
| Net deferred tax balance at 1 January                             | (364.1)       | (414.9)        |
| Credit through the consolidated statement of comprehensive income | 339.5         | 53.2           |
| Arising on acquisitions during the year                           | (1.2)         | (2.4)          |
| Deferred tax asset                                                | 147.1         | 182.7          |
| Deferred tax liability                                            | (172.9)       | (546.8)        |
| <b>Balance at 31 December</b>                                     | <b>(25.8)</b> | <b>(364.1)</b> |

#### RECONCILIATION OF TAX CHARGE TO EXPECTED TAX

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

<sup>1</sup> Tax attributable to policyholder returns is equal to the policyholder tax charge and reflects fund tax deductions offset by policyholder tax effects on intangibles.

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

## DEFERRED TAX ASSETS

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

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

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

## DEFERRED TAX LIABILITIES

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

## FUTURE TAX CHANGES

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

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

### 8. Goodwill, intangible assets, deferred acquisition costs and deferred income

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

#### GOODWILL

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

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

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

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

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

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

#### **PURCHASED VALUE OF IN-FORCE BUSINESS/DAC/COMPUTER SOFTWARE**

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

#### **DIR**

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

## **9. Property and equipment**

|                                             | Fixtures, fittings<br>and office<br>equipment<br>£'Million | Computer<br>equipment<br>£'Million | Total<br>£'Million |
|---------------------------------------------|------------------------------------------------------------|------------------------------------|--------------------|
| <b>Cost</b>                                 |                                                            |                                    |                    |
| At 1 January 2017                           | 39.7                                                       | 4.4                                | 44.1               |
| Additions                                   | 7.1                                                        | 1.5                                | 8.6                |
| Disposals                                   | (0.6)                                                      | (0.2)                              | (0.8)              |
| At 31 December 2017                         | 46.2                                                       | 5.7                                | 51.9               |
| <b>At 1 January 2018</b>                    | <b>46.2</b>                                                | <b>5.7</b>                         | <b>51.9</b>        |
| <b>Additions</b>                            | <b>6.6</b>                                                 | <b>2.0</b>                         | <b>8.6</b>         |
| <b>Disposals</b>                            | <b>(0.1)</b>                                               | <b>–</b>                           | <b>(0.1)</b>       |
| <b>At 31 December 2018</b>                  | <b>52.7</b>                                                | <b>7.7</b>                         | <b>60.4</b>        |
| <b>Accumulated depreciation</b>             |                                                            |                                    |                    |
| At 1 January 2017                           | 19.5                                                       | 1.5                                | 21.0               |
| Charge for the year                         | 3.7                                                        | 1.5                                | 5.2                |
| Eliminated on disposal                      | (0.5)                                                      | (0.2)                              | (0.7)              |
| At 31 December 2017                         | 22.7                                                       | 2.8                                | 25.5               |
| <b>At 1 January 2018</b>                    | <b>22.7</b>                                                | <b>2.8</b>                         | <b>25.5</b>        |
| <b>Charge for the year</b>                  | <b>4.7</b>                                                 | <b>1.8</b>                         | <b>6.5</b>         |
| <b>Eliminated on disposal</b>               | <b>(0.1)</b>                                               | <b>–</b>                           | <b>(0.1)</b>       |
| <b>At 31 December 2018</b>                  | <b>27.3</b>                                                | <b>4.6</b>                         | <b>31.9</b>        |
| <b>Net book value</b>                       |                                                            |                                    |                    |
| At 1 January 2017                           | 20.2                                                       | 2.9                                | 23.1               |
| At 31 December 2017                         | 23.5                                                       | 2.9                                | 26.4               |
| <b>At 31 December 2018</b>                  | <b>25.4</b>                                                | <b>3.1</b>                         | <b>28.5</b>        |
| Amortisation period (estimated useful life) | 5–10 years                                                 | 3 years                            |                    |

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

### 10. Investments, investment property and cash and cash equivalents

#### NET ASSETS HELD TO COVER UNIT LIABILITIES

Included within the statement of financial position are the following assets and liabilities comprising the net assets held to cover unit liabilities. The assets held to cover unit liabilities are set out in adjustment 1 of the IFRS to Solvency II Net Assets Balance Sheet reconciliation on page 38.

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

Net assets held to cover linked liabilities, and third-party holdings in unit trusts, are considered to have a maturity of up to one year since the corresponding unit liabilities are repayable and transferable on demand. See accounting policy (ag) for further information on current and non-current disclosure.

## INVESTMENT PROPERTY

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

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

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

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

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

|                           | Year ended<br>31 December<br>2018 | Year ended<br>31 December<br>2017 |
|---------------------------|-----------------------------------|-----------------------------------|
|                           | £'Million                         | £'Million                         |
| Rental income             | 90.9                              | 82.3                              |
| Direct operating expenses | 7.6                               | 6.8                               |

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

## CASH AND CASH EQUIVALENTS

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

All cash and cash equivalents are considered current.

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

### 11. Other receivables

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

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

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

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

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

#### BUSINESS LOANS TO PARTNERS

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

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

Despite being securitised, the business loans to Partners remain recognised in the Group statement of financial position. For further information on the loan notes issued by the structured entity to third-party investors, see Note 15 Borrowings and Financial Commitments.

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

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

### Business loans to Partners: provision

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

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

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

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

### MOVEMENT IN RENEWAL INCOME ASSETS

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

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

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

<sup>1</sup> 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.

## 12. Other payables

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

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

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

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

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

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

### 13. Insurance contract liabilities and reinsurance assets

#### RISK

Insurance risk arises from inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. The Group assumes insurance risk by issuing insurance contracts under which the Group agrees to compensate the client (or other beneficiary) if a specified future event (the insured event) occurs. The Group insures mortality and morbidity risks but has no longevity risk as we have never written any annuity business. The Group has a medium appetite for insurance risk, only actively pursuing it where financially beneficial, or in support of strategic objectives.

| Risk              | Description                                                                                                  | Management                                                                                                                                                                                                              |
|-------------------|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Underwriting      | Failure to price appropriately for a risk, or the impact of anti-selection.                                  | The Group ceased writing new protection business in April 2011. Experience is monitored regularly. For most business the premium or deduction rates can be re-set. The Group has fully reinsured the UK insurance risk. |
| Epidemic/disaster | An unusually large number of claims arising from a single incident or event.                                 | Protection is provided through reinsurance. The Group has fully reinsured the UK insurance risk.                                                                                                                        |
| Expense           | Administration costs exceed expense allowance.                                                               | Administration is outsourced and a tariff of costs is agreed. The contract is monitored regularly to rationalise costs incurred. Internal overhead expenses are monitored and closely managed.                          |
| Retention         | Unexpected movement in future profit due to more (or less) clients than anticipated withdrawing their funds. | Retention of insurance contracts is closely monitored and unexpected experience is investigated. Retention experience has continued in line with assumptions.                                                           |

#### INSURANCE CONTRACT LIABILITIES

|                                     | 2018<br>£'Million | 2017<br>£'Million |
|-------------------------------------|-------------------|-------------------|
| Balance at 1 January                | 544.6             | 518.2             |
| Movement in unit-linked liabilities | (37.7)            | 23.6              |
| Movement in liabilities             |                   |                   |
| – New business                      | 0.1               | 0.1               |
| – Existing business                 | (1.2)             | (1.0)             |
| – Other assumption changes          | (1.2)             | 1.1               |
| – Experience variance               | 3.5               | 2.6               |
| Total movement in liabilities       | 1.2               | 2.8               |
| <b>Balance at 31 December</b>       | <b>508.1</b>      | <b>544.6</b>      |
| Unit-linked                         | 421.2             | 459.0             |
| Non-unit-linked                     | 86.9              | 85.6              |
|                                     | <b>508.1</b>      | <b>544.6</b>      |
| Current                             | 83.2              | 86.2              |
| Non-current                         | 424.9             | 458.4             |
|                                     | <b>508.1</b>      | <b>544.6</b>      |

See accounting policy (ag) for further information on the current and non-current disclosure.

As the Group closed to new insurance business in 2011, the movement in insurance contract liabilities in relation to new business represents the change in insurance contract liabilities for incremental business written during the year for existing policies.

#### REINSURANCE ASSETS

|                                                                       | 2018<br>£'Million | 2017<br>£'Million |
|-----------------------------------------------------------------------|-------------------|-------------------|
| <b>Reconciliation of the movement in the net reinsurance balance:</b> |                   |                   |
| Reinsurance assets at 1 January                                       | 82.8              | 80.5              |
| Reinsurance component of change in insurance liabilities              | –                 | 2.3               |
| <b>Reinsurance assets at 31 December</b>                              | <b>82.8</b>       | <b>82.8</b>       |
| Current                                                               | 13.6              | 13.1              |
| Non-current                                                           | 69.2              | 69.7              |
|                                                                       | <b>82.8</b>       | <b>82.8</b>       |

The overall impact of reinsurance on the profit for the year was a net charge of £10.0 million (2017: charge of £4.0 million).

## ASSUMPTIONS USED IN THE CALCULATION OF INSURANCE LIABILITIES AND REINSURANCE ASSETS

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

| Assumption                             | Description                                                                                                                                                                                                                                                                                                                                                                                             |               |                      |    |          |        |                     |         |                     |    |    |    |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------------------|----|----------|--------|---------------------|---------|---------------------|----|----|----|
| Interest rate                          | The valuation interest rate is calculated by reference to the long-term gilt yield at 31 December 2018. The specific rates used are between 0.9% and 1.3% depending on the tax regime (0.9% and 1.3% at 31 December 2017).                                                                                                                                                                              |               |                      |    |          |        |                     |         |                     |    |    |    |
| Mortality                              | Mortality is based on Group experience and is set at 72% of the TM/F92 tables with an additional loading for smokers. There has been no change since 2006.                                                                                                                                                                                                                                              |               |                      |    |          |        |                     |         |                     |    |    |    |
| Morbidity – Critical Illness           | <div>Morbidity is based on Group experience. There has been no change during 2018. Sample annual rates per £ for a male non-smoker are:</div> <table><tr><th>Age</th><th>Rate – 2017 and 2018</th></tr><tr><td>25</td><td>0.000760</td></tr><tr><td>35</td><td>0.001334</td></tr><tr><td>45</td><td>0.003189</td></tr></table>                                                                          | Age           | Rate – 2017 and 2018 | 25 | 0.000760 | 35     | 0.001334            | 45      | 0.003189            |    |    |    |
| Age                                    | Rate – 2017 and 2018                                                                                                                                                                                                                                                                                                                                                                                    |               |                      |    |          |        |                     |         |                     |    |    |    |
| 25                                     | 0.000760                                                                                                                                                                                                                                                                                                                                                                                                |               |                      |    |          |        |                     |         |                     |    |    |    |
| 35                                     | 0.001334                                                                                                                                                                                                                                                                                                                                                                                                |               |                      |    |          |        |                     |         |                     |    |    |    |
| 45                                     | 0.003189                                                                                                                                                                                                                                                                                                                                                                                                |               |                      |    |          |        |                     |         |                     |    |    |    |
| Morbidity – Permanent Health Insurance | <div>Morbidity is based on Group experience. There has been no change during 2018. Sample annual rates per £ income benefit p.a. for a male non-smoker are:</div> <table><tr><th>Age</th><th>Rate – 2017 and 2018</th></tr><tr><td>25</td><td>0.00366</td></tr><tr><td>35</td><td>0.00965</td></tr><tr><td>45</td><td>0.02092</td></tr></table>                                                         | Age           | Rate – 2017 and 2018 | 25 | 0.00366  | 35     | 0.00965             | 45      | 0.02092             |    |    |    |
| Age                                    | Rate – 2017 and 2018                                                                                                                                                                                                                                                                                                                                                                                    |               |                      |    |          |        |                     |         |                     |    |    |    |
| 25                                     | 0.00366                                                                                                                                                                                                                                                                                                                                                                                                 |               |                      |    |          |        |                     |         |                     |    |    |    |
| 35                                     | 0.00965                                                                                                                                                                                                                                                                                                                                                                                                 |               |                      |    |          |        |                     |         |                     |    |    |    |
| 45                                     | 0.02092                                                                                                                                                                                                                                                                                                                                                                                                 |               |                      |    |          |        |                     |         |                     |    |    |    |
| Expenses                               | <div>Contract liabilities are calculated allowing for the actual costs of administration of the business. The assumption has been amended to allow for changes to the underlying administration costs.</div> <table><tr><th rowspan="2">Product</th><th colspan="2">Annual cost</th></tr><tr><th>2018</th><th>2017</th></tr><tr><td>Protection business</td><td>£37.97</td><td>£37.49</td></tr></table> | Product       | Annual cost          |    | 2018     | 2017   | Protection business | £37.97  | £37.49              |    |    |    |
| Product                                | Annual cost                                                                                                                                                                                                                                                                                                                                                                                             |               |                      |    |          |        |                     |         |                     |    |    |    |
|                                        | 2018                                                                                                                                                                                                                                                                                                                                                                                                    | 2017          |                      |    |          |        |                     |         |                     |    |    |    |
| Protection business                    | £37.97                                                                                                                                                                                                                                                                                                                                                                                                  | £37.49        |                      |    |          |        |                     |         |                     |    |    |    |
| Persistency                            | <div>Allowance is made for a prudent level of lapses within the calculation of the liabilities. The rates have not changed in 2018. Sample annual lapse rates are:</div> <table><tr><th rowspan="2">2017 and 2018</th><th colspan="3">Lapses</th></tr><tr><th>Year 1</th><th>Year 5</th><th>Year 10</th></tr><tr><td>Protection business</td><td>7%</td><td>9%</td><td>8%</td></tr></table>             | 2017 and 2018 | Lapses               |    |          | Year 1 | Year 5              | Year 10 | Protection business | 7% | 9% | 8% |
| 2017 and 2018                          | Lapses                                                                                                                                                                                                                                                                                                                                                                                                  |               |                      |    |          |        |                     |         |                     |    |    |    |
|                                        | Year 1                                                                                                                                                                                                                                                                                                                                                                                                  | Year 5        | Year 10              |    |          |        |                     |         |                     |    |    |    |
| Protection business                    | 7%                                                                                                                                                                                                                                                                                                                                                                                                      | 9%            | 8%                   |    |          |        |                     |         |                     |    |    |    |

## SENSITIVITY ANALYSIS

The table below sets out the sensitivity of the profit on insurance business and net assets to changes in key assumptions. The levels of sensitivity tested are consistent with those proposed in the EEV principles and reflect reasonably possible levels of change in the assumptions. The analysis reflects the change in the variable/assumption shown while all other variables/assumptions are left unchanged. In practice variables/assumptions may change at the same time, as some may be correlated (for example, an increase in interest rates may also result in an increase in expenses if the increase reflects higher inflation). It should also be noted that in some instances sensitivities are non-linear. The sensitivity percentage has been applied in proportion to the assumption: for example, application of a 10% sensitivity to a withdrawal assumption of 8% will reduce it to 7.2%.

| Sensitivity analysis | Change in assumption | Change in profit/(loss) before tax 2018<br>£'Million | Change in profit/(loss) before tax 2017<br>£'Million | Change in net assets 2018<br>£'Million | Change in net assets 2017<br>£'Million |
|----------------------|----------------------|------------------------------------------------------|------------------------------------------------------|----------------------------------------|----------------------------------------|
| Withdrawal rates     | -10%                 | (0.9)                                                | (1.0)                                                | (0.9)                                  | (1.0)                                  |
| Expense assumptions  | -10%                 | 0.2                                                  | 0.2                                                  | 0.2                                    | 0.2                                    |
| Mortality/morbidity  | -5%                  | 0.0                                                  | 0.0                                                  | 0.0                                    | 0.0                                    |

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

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

### 14. Other provisions and contingent liabilities

|                                 | Total provisions<br>£'Million |
|---------------------------------|-------------------------------|
| At 1 January 2017               | 17.1                          |
| Additional provisions           | 20.5                          |
| Utilised during the year        | (16.2)                        |
| Release of provision            | (1.4)                         |
| At 31 December 2017             | 20.0                          |
| <b>At 1 January 2018</b>        | <b>20.0</b>                   |
| <b>Additional provisions</b>    | <b>18.9</b>                   |
| <b>Utilised during the year</b> | <b>(16.1)</b>                 |
| <b>Release of provision</b>     | <b>(0.1)</b>                  |
| <b>At 31 December 2018</b>      | <b>22.7</b>                   |
| Current                         | 12.6                          |
| Non-current                     | 10.1                          |
|                                 | <b>22.7</b>                   |

Total provisions relate to the cost of redress for complaints and clawback of indemnity commission. The provision for the cost of redress for complaints is based on estimates of the total number of complaints expected to be upheld, the estimated cost of redress and the expected timing of settlement. The clawback provision is based on estimates of the indemnity commission that may be repaid.

As more fully set out in the summary of principal risks and uncertainties on pages 51 to 54, the Group could in the course of its business be subject to legal proceedings and/or regulatory activity. Should such an event arise, the Board would consider its best estimate of the amount required to settle the obligation and, where appropriate and material, establish a provision. While there can be no assurances that circumstances will not change, based upon information currently available to them, the Directors do not believe there is any possible activity or event that could have a material adverse effect on the Group's financial position.

During the normal course of business, the Group may from time to time provide guarantees to Partners, clients or other third parties. However, based upon the information currently available to them the Directors do not believe there are any guarantees which would have a material adverse effect on the Group's financial position, and so the fair value of any guarantees has been assessed as £nil (2017: £nil).

### 15. Borrowings and financial commitments

#### BORROWINGS

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

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

- a £340 million revolving credit facility, which includes a £90 million extension agreed in 2017 to the original £250 million facility entered into with a group of UK banks in 2015. The facility is repayable over five years to 2022 with a variable interest rate. At 31 December 2018 the undrawn credit available under this facility was £179 million (31 December 2017: £179 million);
- a US Dollar \$160 million private shelf facility, also entered into in 2015. The Group authorised the issue of £50 million of loan notes during 2015, and a further issue of £64 million of loans notes during 2017 in relation to this facility. Both note issues were denominated in Sterling, eliminating any Group currency risk. The notes are repayable over ten years, ending in 2025 and 2027 respectively, with variable interest rates; and
- £70.0 million of AAA-rated securitised loan notes issued during 2018, which are backed by a portfolio of business loans to Partners (for further information refer to Note 11 Other receivables). Holders of these notes have no recourse to the Group's other assets. The notes are repayable over the expected life of the securitisation, which is estimated to be five years. This includes a two-year revolving period where cash flows arising from the securitised portfolio are used to purchase new loans into the portfolio, rather than repay the notes. The notes have variable interest rates.

The movement in borrowings over the year are as follows:

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

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

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

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

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

## FINANCIAL COMMITMENTS

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

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

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

## 16. Financial risk

### RISK MANAGEMENT OBJECTIVES AND RISK POLICIES

The Group's financial risk can usefully be considered in two categories of assets:

1. Assets backing unit liabilities (see Note 10); and
2. Shareholder assets.

In general, the policyholder bears the financial risk on assets backing the unitised business, and risk from shareholder assets is minimised through investment in liquid assets with a strong credit rating.

Exposure to the following risks for the two categories of assets is analysed separately in the following sections, in line with the requirements of IFRS 7:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Currency risk.

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

### 16. Financial risk continued

**Credit risk** is the risk of loss due to a debtor's non-payment of a loan or other line of credit. Credit risk also arises from holdings of cash and cash equivalents, deposits and formal loans with banks and financial institutions. The Group has adopted a risk averse approach to such risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives.

| Risk                       | Description                                                        | Management                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------------|--------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Shareholders' assets       | Loss of assets or reduction in value                               | Shareholder funds are predominantly invested in AAA-rated unitised money market funds, which are classified as investments in collective investment schemes (CIS), and deposits with approved banks, but may be invested in sovereign fixed interest securities such as UK gilts where regulatory constraints on other assets apply. Maximum counterparty limits are set for each company within the Group and aggregate limits are also set at a Group level.                                          |
| Reinsurance                | Failure of counterparty or counterparty unable to meet liabilities | Credit ratings of potential reinsurers must meet or exceed AA-. Consideration is also given to size, risk concentrations/exposures and ownership in the selection of reinsurers. The Group also seeks to diversify its reinsurance credit risk through the use of a spread of reinsurers.                                                                                                                                                                                                               |
| Business loans to Partners | Inability of Partners to repay loans or advances from the Group    | Loans and advances are managed in line with the Group's secured lending policy. Loans are secured on the future renewal income stream expected from a Partner's portfolio and loan advances vary in relation to the projected future income of the relevant Partner. Outstanding balances are regularly reviewed and assessed on a conservative basis. Support is provided to help Partners manage their business appropriately. Expected credit losses are recognised as provisions against the loans. |

**Liquidity risk** is the risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The Group is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other objectives.

| Risk                        | Description                                                                | Management                                                                                                                                                                                                                                                                                                                                                                                                |
|-----------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Cash or expense requirement | A significant cash or expense requirement needs to be met at short notice. | The majority of free assets are invested in cash or cash equivalents and the cash position and forecast are monitored on a monthly basis. The Group also maintains a margin of free assets in excess of the minimum required solvency capital within its regulated entities. Further, the Group has established committed borrowing facilities (see Note 15) intended to further mitigate liquidity risk. |

**Market risk** is the impact a fall in the value of equity or other asset markets may have on the business. The Group adopts a risk-averse approach to market risk, with a stated solvency policy of not actively pursuing or accepting market risk except where necessary to support other objectives. However, the Group accepts the risk that a fall in equity or other asset markets will reduce the level of annual management charge income derived from policyholder assets and the risk of lower future profits.

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

| Risk               | Description                                                                                                                                                              | Management                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Client liabilities | As a result of a reduction in equity values, the Group may be unable to meet client liabilities.                                                                         | This risk is substantially mitigated by the Group's strategic focus on unitised business, by not providing guarantees to clients on policy values and by the matching of assets and liabilities.                                                                                                                                                                                                |
| Retention          | Loss of future profit on investment contracts due to more clients than anticipated withdrawing their funds, particularly as a result of poor investment performance.     | Retention of investment contracts is closely monitored and unexpected experience variances are investigated. Retention has remained consistently strong throughout 2018, despite volatile market conditions.                                                                                                                                                                                    |
| New business       | Poor performance in the financial markets in absolute terms, and relative to inflation, leads to existing and future clients rejecting investment in longer-term assets. | The benefit to clients of longer-term equity investment as part of a diversified portfolio of assets is fundamental to our philosophy. Advice and marketing become even more important when market values fall, and greater attention is required to support and give confidence to existing and future clients in such circumstances. This is taken account of by the Group in its activities. |

The Group is not subject to any significant direct **currency risk**, since all material shareholder financial assets and financial liabilities are denominated in Sterling. However, since future profits are dependent on charges based on FUM, changes in FUM as a result of currency movements will impact future profits.

## SHAREHOLDER ASSETS

### Categories of financial assets and financial liabilities

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

|                                                          | Financial assets<br>at fair value<br>through profit<br>and loss <sup>1</sup> | Financial assets<br>measured at<br>amortised cost <sup>2</sup> | Financial<br>liabilities<br>measured at<br>amortised cost | Total          |
|----------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------|----------------|
|                                                          | £'Million                                                                    | £'Million                                                      | £'Million                                                 | £'Million      |
| <b>31 December 2018</b>                                  |                                                                              |                                                                |                                                           |                |
| <b>Financial assets</b>                                  |                                                                              |                                                                |                                                           |                |
| Fixed income securities                                  | 5.4                                                                          | –                                                              | –                                                         | 5.4            |
| Investment in Collective Investment Schemes <sup>3</sup> | 1,297.0                                                                      | –                                                              | –                                                         | 1,297.0        |
| Other receivables <sup>4</sup>                           |                                                                              |                                                                |                                                           |                |
| – Business loans to Partners                             | –                                                                            | 394.5                                                          | –                                                         | 394.5          |
| – Renewal income assets                                  | 72.1                                                                         | –                                                              | –                                                         | 72.1           |
| – Other                                                  | –                                                                            | 75.1                                                           | –                                                         | 75.1           |
| Total other receivables                                  | 72.1                                                                         | 469.6                                                          | –                                                         | 541.7          |
| Cash and cash equivalents                                | –                                                                            | 248.5                                                          | –                                                         | 248.5          |
| <b>Total financial assets</b>                            | <b>1,374.5</b>                                                               | <b>718.1</b>                                                   | <b>–</b>                                                  | <b>2,092.6</b> |
| <b>Financial liabilities</b>                             |                                                                              |                                                                |                                                           |                |
| Borrowings                                               | –                                                                            | –                                                              | 348.6                                                     | 348.6          |
| Other payables                                           | –                                                                            | –                                                              | 1,013.1                                                   | 1,013.1        |
| <b>Total financial liabilities</b>                       | <b>–</b>                                                                     | <b>–</b>                                                       | <b>1,361.7</b>                                            | <b>1,361.7</b> |

|                                                          | Financial assets<br>at fair value<br>through profit<br>and loss <sup>1</sup> | Financial assets<br>measured at<br>amortised cost <sup>2</sup> | Financial<br>liabilities<br>measured at<br>amortised cost | Total          |
|----------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------|----------------|
|                                                          | £'Million                                                                    | £'Million                                                      | £'Million                                                 | £'Million      |
| <b>31 December 2017</b>                                  |                                                                              |                                                                |                                                           |                |
| <b>Financial assets</b>                                  |                                                                              |                                                                |                                                           |                |
| Fixed income securities                                  | 46.1                                                                         | –                                                              | –                                                         | 46.1           |
| Investment in Collective Investment Schemes <sup>3</sup> | 1,416.8                                                                      | –                                                              | –                                                         | 1,416.8        |
| Other receivables <sup>4</sup>                           |                                                                              |                                                                |                                                           |                |
| – Business loans to Partners                             | –                                                                            | 263.9                                                          | –                                                         | 263.9          |
| – Renewal income assets                                  | 71.6                                                                         | –                                                              | –                                                         | 71.6           |
| – Other                                                  | –                                                                            | 540.3                                                          | –                                                         | 540.3          |
| Total other receivables                                  | 71.6                                                                         | 804.2                                                          | –                                                         | 875.8          |
| Cash and cash equivalents                                | –                                                                            | 274.7                                                          | –                                                         | 274.7          |
| <b>Total financial assets</b>                            | <b>1,534.5</b>                                                               | <b>1,078.9</b>                                                 | <b>–</b>                                                  | <b>2,613.4</b> |
| <b>Financial liabilities</b>                             |                                                                              |                                                                |                                                           |                |
| Borrowings                                               | –                                                                            | –                                                              | 279.9                                                     | 279.9          |
| Other payables                                           | –                                                                            | –                                                              | 1,079.7                                                   | 1,079.7        |
| <b>Total financial liabilities</b>                       | <b>–</b>                                                                     | <b>–</b>                                                       | <b>1,359.6</b>                                            | <b>1,359.6</b> |

1 All financial assets at fair value through profit or loss are designated as such upon initial recognition. Renewal income assets of £71.6 million, which were classified as available-for-sale financial assets at 31 December 2017, were reclassified to fair value through profit and loss upon adoption of IFRS 9 on 1 January 2018.

2 These financial assets, which were classified as loans and receivables at 31 December 2017, were reclassified to financial assets measured at amortised cost upon transition to IFRS 9 on 1 January 2018.

3 All assets included as shareholder investment in collective investment schemes are holdings of high-quality, highly liquid money market funds, containing assets which are cash and cash equivalents.

4 Other receivables exclude prepayments and unearned commission, which are not considered financial assets.

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

### 16. Financial risk continued

#### SHAREHOLDER ASSETS CONTINUED

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

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

|                                             | Financial assets<br>at fair value<br>through profit<br>and loss <sup>1</sup> | Financial assets<br>measured at<br>amortised cost <sup>2</sup> | Financial<br>liabilities<br>measured at<br>amortised cost | Total        |
|---------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------|--------------|
|                                             | £'Million                                                                    | £'Million                                                      | £'Million                                                 | £'Million    |
| <b>Year ended 31 December 2018</b>          |                                                                              |                                                                |                                                           |              |
| <b>Financial assets</b>                     |                                                                              |                                                                |                                                           |              |
| Fixed income securities                     | 0.6                                                                          | –                                                              | –                                                         | 0.6          |
| Investment in Collective Investment Schemes | 6.2                                                                          | –                                                              | –                                                         | 6.2          |
| Other receivables                           |                                                                              |                                                                |                                                           |              |
| – Business loans to Partners                | –                                                                            | 9.0                                                            | –                                                         | 9.0          |
| – Renewal income assets                     | (9.0)                                                                        | –                                                              | –                                                         | (9.0)        |
| Total other receivables                     | (9.0)                                                                        | 9.0                                                            | –                                                         | –            |
| Cash and cash equivalents                   | –                                                                            | 1.2                                                            | –                                                         | 1.2          |
| <b>Total financial assets</b>               | <b>(2.2)</b>                                                                 | <b>10.2</b>                                                    | <b>–</b>                                                  | <b>8.0</b>   |
| <b>Financial liabilities</b>                |                                                                              |                                                                |                                                           |              |
| Borrowings                                  | –                                                                            | –                                                              | (6.1)                                                     | (6.1)        |
| <b>Total financial liabilities</b>          | <b>–</b>                                                                     | <b>–</b>                                                       | <b>(6.1)</b>                                              | <b>(6.1)</b> |
| <b>Year ended 31 December 2017</b>          |                                                                              |                                                                |                                                           |              |
| <b>Financial assets</b>                     |                                                                              |                                                                |                                                           |              |
| Fixed income securities                     | 0.1                                                                          | –                                                              | –                                                         | 0.1          |
| Investment in Collective Investment Schemes | 3.0                                                                          | –                                                              | –                                                         | 3.0          |
| Other receivables                           |                                                                              |                                                                |                                                           |              |
| – Business loans to Partners                | –                                                                            | 6.9                                                            | –                                                         | 6.9          |
| – Renewal income assets                     | (1.8)                                                                        | –                                                              | –                                                         | (1.8)        |
| Total other receivables                     | (1.8)                                                                        | 6.9                                                            | –                                                         | 5.1          |
| Cash and cash equivalents                   | –                                                                            | 0.6                                                            | –                                                         | 0.6          |
| <b>Total financial assets</b>               | <b>1.3</b>                                                                   | <b>7.5</b>                                                     | <b>–</b>                                                  | <b>8.8</b>   |
| <b>Financial liabilities</b>                |                                                                              |                                                                |                                                           |              |
| Borrowings                                  | –                                                                            | –                                                              | (4.9)                                                     | (4.9)        |
| Other payables                              | –                                                                            | –                                                              | (0.8)                                                     | (0.8)        |
| <b>Total financial liabilities</b>          | <b>–</b>                                                                     | <b>–</b>                                                       | <b>(5.7)</b>                                              | <b>(5.7)</b> |

1 All financial assets and liabilities at fair value through profit or loss are designated as such upon initial recognition. Net losses arising from renewal income assets were £1.8 million for the year ended 31 December 2017. Following the reclassification of renewal income assets from available-for-sale financial assets at 31 December 2017 to fair value through profit and loss upon adoption of IFRS 9 on 1 January 2018, the £1.8 million net losses have been presented in the fair value through profit and loss column.

2 Income, expenses, gains and losses arising from these financial assets, which were classified as loans and receivables at 31 December 2017, were reclassified to financial assets measured at amortised cost upon transition to IFRS 9 on 1 January 2018.

Losses on renewal income assets have been recognised within the investment return line in the statement of comprehensive income.

### Fair value estimation

Financial assets and liabilities, which are held at fair value in the financial statements, are required to have disclosed their fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's shareholder assets measured at fair value. There are no shareholder liabilities measured at fair value:

|                                                          | Level 1        | Level 2   | Level 3     | Total balance  |
|----------------------------------------------------------|----------------|-----------|-------------|----------------|
|                                                          | £'Million      | £'Million | £'Million   | £'Million      |
| <b>31 December 2018</b>                                  |                |           |             |                |
| <b>Financial assets</b>                                  |                |           |             |                |
| Fixed income securities                                  | 5.4            | –         | –           | 5.4            |
| Investment in Collective Investment Schemes <sup>1</sup> | 1,297.0        | –         | –           | 1,297.0        |
| Renewal income assets                                    | –              | –         | 72.1        | 72.1           |
| <b>Total financial assets</b>                            | <b>1,302.4</b> | <b>–</b>  | <b>72.1</b> | <b>1,374.5</b> |

|                                                          | Level 1        | Level 2   | Level 3     | Total balance  |
|----------------------------------------------------------|----------------|-----------|-------------|----------------|
|                                                          | £'Million      | £'Million | £'Million   | £'Million      |
| <b>31 December 2017</b>                                  |                |           |             |                |
| <b>Financial assets</b>                                  |                |           |             |                |
| Fixed income securities                                  | 46.1           | –         | –           | 46.1           |
| Investment in Collective Investment Schemes <sup>1</sup> | 1,416.8        | –         | –           | 1,416.8        |
| Renewal incomes assets                                   | –              | –         | 71.6        | 71.6           |
| <b>Total financial assets</b>                            | <b>1,462.9</b> | <b>–</b>  | <b>71.6</b> | <b>1,534.5</b> |

<sup>1</sup> All assets included as shareholder investment in collective investment schemes are holdings of high-quality, highly liquid unitised money market funds, containing assets which are cash and cash equivalents.

The fair value of financial instruments traded in active markets is based on quoted bid prices at the reporting date. These instruments are included in Level 1. Level 2 financial assets and liabilities are valued using observable prices for identical current arm's length transactions.

The renewal income assets are Level 3 and are valued using a discounted cash flow technique and the assumptions outlined in Note 11. The effect of applying reasonably possible alternative assumptions of a movement of 100bps on the discount rate and a 10% movement in the lapse rate would result in an unfavourable change in valuation of £7.4 million and a favourable change in valuation of £5.0 million, respectively.

There were no transfers between Level 1 and Level 2 during the year, nor into or out of Level 3.

### Movement in Level 3 portfolios

|                                                                       | 2018        | 2017        |
|-----------------------------------------------------------------------|-------------|-------------|
|                                                                       | £'Million   | £'Million   |
| <b>Renewal income assets</b>                                          |             |             |
| Opening balance                                                       | 71.6        | 58.9        |
| Additions during the year                                             | 9.7         | 14.5        |
| Disposals during the year                                             | (0.2)       | –           |
| Unrealised losses recognised in the statement of comprehensive income | (9.0)       | (1.8)       |
| <b>Closing balance</b>                                                | <b>72.1</b> | <b>71.6</b> |

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

### 16. Financial risk continued

#### SHAREHOLDER ASSETS CONTINUED

##### Credit risk

The following table sets out the maximum credit risk exposure and ratings of shareholder financial and other assets which are susceptible to credit risk:

|                                                          | AAA            | AA           | A            | BBB         | Unrated      | Total          |
|----------------------------------------------------------|----------------|--------------|--------------|-------------|--------------|----------------|
|                                                          | £'Million      | £'Million    | £'Million    | £'Million   | £'Million    | £'Million      |
| <b>31 December 2018</b>                                  |                |              |              |             |              |                |
| Fixed income securities                                  | 4.1            | 1.3          | –            | –           | –            | 5.4            |
| Investment in Collective Investment Schemes <sup>1</sup> | 1,297.0        | –            | –            | –           | –            | 1,297.0        |
| Reinsurance assets                                       | –              | 82.8         | –            | –           | –            | 82.8           |
| Other receivables                                        | –              | 6.2          | –            | –           | 535.5        | 541.7          |
| Cash and cash equivalents                                | –              | 63.6         | 161.7        | 0.3         | 22.9         | 248.5          |
| <b>Total</b>                                             | <b>1,301.1</b> | <b>153.9</b> | <b>161.7</b> | <b>0.3</b>  | <b>558.4</b> | <b>2,175.4</b> |
| <b>31 December 2017</b>                                  |                |              |              |             |              |                |
| Fixed income securities                                  | 3.9            | 42.2         | –            | –           | –            | 46.1           |
| Investment in Collective Investment Schemes <sup>1</sup> | 1,416.8        | –            | –            | –           | –            | 1,416.8        |
| Reinsurance assets                                       | –              | 82.8         | –            | –           | –            | 82.8           |
| Other receivables                                        | –              | 7.1          | –            | –           | 868.7        | 875.8          |
| Cash and cash equivalents                                | –              | 76.2         | 162.2        | 14.2        | 22.1         | 274.7          |
| <b>Total</b>                                             | <b>1,420.7</b> | <b>208.3</b> | <b>162.2</b> | <b>14.2</b> | <b>890.8</b> | <b>2,696.2</b> |

1 Investment of shareholder assets in Collective Investment Schemes refers to investment in unitised money market funds, containing assets which are cash and cash equivalents.

Other receivables includes £394.5 million (2017: £263.9 million) of loans to St. James's Place Partners, which 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.

Impairment of these loans is determined using the expected loss model set out in IFRS 9. Expected credit losses are based on the historic levels of loss experienced on business loans to Partners, with due consideration given to forward-looking information. A range of factors, including the nature or type of the loan and the security held, are taken into account in calculating the provision.

The loan balance is presented net of a £3.1 million provision (2017: £4.5 million); see also Note 11. The movement in the impairment provision will reflect utilisation of the existing provision during the year, but the overall cost of Partner business loans (including new provisions) recognised within administration expenses in the statement of comprehensive income during the year was a charge of £3.0 million (2017: £1.8 million).

### Contractual maturity and liquidity analysis

The following table sets out the contractual maturity analysis of the Group's financial assets and financial liabilities:

|                                             | Up to 1<br>year | 1–5<br>years | Over 5<br>years | Total          |
|---------------------------------------------|-----------------|--------------|-----------------|----------------|
|                                             | £'Million       | £'Million    | £'Million       | £'Million      |
| <b>31 December 2018</b>                     |                 |              |                 |                |
| <b>Financial assets</b>                     |                 |              |                 |                |
| Fixed income securities                     | 5.4             | –            | –               | 5.4            |
| Investment in Collective Investment Schemes | 1,297.0         | –            | –               | 1,297.0        |
| Other receivables                           |                 |              |                 |                |
| – Business loans to Partners                | 47.4            | 123.4        | 223.7           | 394.5          |
| – Renewal income                            | 13.3            | 28.5         | 30.3            | 72.1           |
| – Other                                     | 75.1            | –            | –               | 75.1           |
| Total other receivables                     | 135.8           | 151.9        | 254.0           | 541.7          |
| Cash and cash equivalents                   | 248.5           | –            | –               | 248.5          |
| <b>Total financial assets</b>               | <b>1,686.7</b>  | <b>151.9</b> | <b>254.0</b>    | <b>2,092.6</b> |
| <b>Financial liabilities</b>                |                 |              |                 |                |
| Borrowings                                  | 1.0             | 279.7        | 71.2            | 351.9          |
| Other payables                              | 816.7           | 41.8         | 50.0            | 908.5          |
| <b>Total financial liabilities</b>          | <b>817.7</b>    | <b>321.5</b> | <b>121.2</b>    | <b>1,260.4</b> |
| <b>31 December 2017</b>                     |                 |              |                 |                |
| <b>Financial assets</b>                     |                 |              |                 |                |
| Fixed income securities                     | 46.1            | –            | –               | 46.1           |
| Investment in Collective Investment Schemes | 1,416.8         | –            | –               | 1,416.8        |
| Other receivables                           |                 |              |                 |                |
| – Business loans to Partners                | 57.0            | 108.8        | 98.1            | 263.9          |
| – Renewal income                            | 13.4            | 30.2         | 28.0            | 71.6           |
| – Other                                     | 540.3           | –            | –               | 540.3          |
| Total other receivables                     | 610.7           | 139.0        | 126.1           | 875.8          |
| Cash and cash equivalents                   | 274.7           | –            | –               | 274.7          |
| <b>Total financial assets</b>               | <b>2,348.3</b>  | <b>139.0</b> | <b>126.1</b>    | <b>2,613.4</b> |
| <b>Financial liabilities</b>                |                 |              |                 |                |
| Borrowings                                  | 1.2             | 185.4        | 95.1            | 281.7          |
| Other payables                              | 989.0           | 48.3         | 70.0            | 1,107.3        |
| <b>Total financial liabilities</b>          | <b>990.2</b>    | <b>233.7</b> | <b>165.1</b>    | <b>1,389.0</b> |

### Sensitivity analysis to market risks

Financial assets and liabilities held outside unitised funds primarily consist of fixed interest securities, units in money market funds, cash and cash equivalents, and other accounting assets and liabilities. The fixed interest securities are short-term and are held as an alternative to cash. Similarly, cash held in unitised money market funds and at bank is valued at par and is unaffected by movement in interest rates. Other assets and liabilities are similarly unaffected by market movements.

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

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

### 16. Financial risk continued

#### UNIT LIABILITIES AND ASSOCIATED ASSETS

##### Categories of financial assets and financial liabilities

Assets held to cover unit liabilities are summarised in Note 10, and all are held at fair value through profit or loss. They are designated as such upon initial recognition.

##### Income, expense, gains and losses arising from financial assets, investment properties and financial liabilities

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

|                                                         | 31 December<br>2018 | 31 December<br>2017 |
|---------------------------------------------------------|---------------------|---------------------|
|                                                         | £'Million           | £'Million           |
| <b>Financial assets and investment properties</b>       |                     |                     |
| Investment properties                                   | 60.5                | 154.7               |
| Other assets backing unit liabilities                   | (3,046.0)           | 5,545.1             |
| <b>Total financial assets and investment properties</b> | <b>(2,985.5)</b>    | <b>5,699.8</b>      |
| <b>Financial liabilities<sup>1</sup></b>                |                     |                     |
| Unit liabilities                                        | (3,357.1)           | 4,921.3             |
| <b>Total financial liabilities</b>                      | <b>(3,357.1)</b>    | <b>4,921.3</b>      |

1 None of the change in the fair value of financial liabilities at fair value through profit or loss is attributable to changes in their credit risk.

Losses have been recognised within the investment return line in the statement of comprehensive income.

##### Fair value estimation

Financial assets and liabilities, which are held at fair value in the financial statements, are required to have disclosed their fair value measurements by level of the following fair value measurement hierarchy:

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

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

|                                                         | Level 1         | Level 2         | Level 3        | Total balance   |
|---------------------------------------------------------|-----------------|-----------------|----------------|-----------------|
|                                                         | £'Million       | £'Million       | £'Million      | £'Million       |
| <b>31 December 2018</b>                                 |                 |                 |                |                 |
| <b>Financial assets and investment properties</b>       |                 |                 |                |                 |
| Investment property                                     | –               | –               | 1,820.7        | 1,820.7         |
| Equities                                                | 56,077.9        | –               | –              | 56,077.9        |
| Fixed income securities                                 | 6,322.3         | 15,638.3        | –              | 21,960.6        |
| Investment in Collective Investment Schemes             | 3,457.3         | –               | 1.8            | 3,459.1         |
| Derivative financial instruments                        | –               | 508.8           | –              | 508.8           |
| Cash and cash equivalents                               | 6,629.1         | –               | –              | 6,629.1         |
| <b>Total financial assets and investment properties</b> | <b>72,486.6</b> | <b>16,147.1</b> | <b>1,822.5</b> | <b>90,456.2</b> |
| <b>Financial liabilities</b>                            |                 |                 |                |                 |
| Investment contract benefits                            | –               | 67,796.1        | –              | 67,796.1        |
| Derivative financial instruments                        | –               | 517.4           | –              | 517.4           |
| Net asset value attributable to unit holders            | 22,502.9        | –               | –              | 22,502.9        |
| <b>Total financial liabilities</b>                      | <b>22,502.9</b> | <b>68,313.5</b> | <b>–</b>       | <b>90,816.4</b> |

31 December 2017

|                                                         | Level 1<br>£'Million | Level 2<br>£'Million | Level 3<br>£'Million | Total balance<br>£'Million |
|---------------------------------------------------------|----------------------|----------------------|----------------------|----------------------------|
| <b>Financial assets and investment properties</b>       |                      |                      |                      |                            |
| Investment property                                     | –                    | –                    | 1,630.9              | 1,630.9                    |
| Equities                                                | 55,086.9             | –                    | –                    | 55,086.9                   |
| Fixed income securities                                 | 4,666.0              | 12,468.6             | –                    | 17,134.6                   |
| Investment in Collective Investment Schemes             | 4,483.7              | –                    | 2.9                  | 4,486.6                    |
| Derivative financial instruments                        | –                    | 343.4                | –                    | 343.4                      |
| Cash and cash equivalents                               | 7,005.9              | –                    | –                    | 7,005.9                    |
| <b>Total financial assets and investment properties</b> | <b>71,242.5</b>      | <b>12,812.0</b>      | <b>1,633.8</b>       | <b>85,688.3</b>            |
| <b>Financial liabilities</b>                            |                      |                      |                      |                            |
| 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                   |
| <b>Total financial liabilities</b>                      | <b>21,349.1</b>      | <b>64,204.6</b>      | <b>–</b>             | <b>85,553.7</b>            |

In respect of the derivative financial liabilities, £387.5 million of collateral has been posted at 31 December 2018 (2017: £116.0 million), comprising cash and treasury bills, in accordance with the terms and conditions of the derivative contracts.

The fair value of financial instruments traded in active markets is based on quoted bid prices at the reporting date. These instruments are included in Level 1.

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

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

Note that all the resulting fair value estimates are included in Level 2, except for certain equities and investments in CIS and investment properties as detailed below.

Specific valuation techniques used to value Level 2 financial assets and liabilities include:

- the use of observable prices for identical current arm's length transactions, specifically:
  - 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 basis, at the reporting date; and
  - the Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of discounted cash flow and option pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, foreign exchange rates, equity prices and counterparty credit.

Specific valuation techniques used to value Level 3 financial assets and liabilities include:

- the use of unobservable inputs, such as expected rental values and equivalent yields; and
- other techniques, such as discounted cash flow and historic lapse rates, which are used to determine fair value for the remaining financial instruments.

There were no transfers between Level 1 and Level 2 during the year.

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

### 16. Financial risk continued

#### UNIT LIABILITIES AND ASSOCIATED ASSETS CONTINUED

##### Transfers into and out of Level 3 portfolios

Transfers out of Level 3 portfolios arise when inputs that could have a significant impact on the instrument's valuation become market-observable; conversely, transfers into the portfolios arise when consistent sources of data cease to be available.

Transfers in of certain equities and investments in CIS occur when asset valuations can no longer be obtained from an observable market price; i.e. become illiquid, in liquidation, suspended etc. The converse is true if an observable market price becomes available.

The following table presents the changes in Level 3 financial assets and liabilities at fair value through the profit and loss:

|                                                  | Investment<br>property | CIS        |
|--------------------------------------------------|------------------------|------------|
|                                                  | £'Million              | £'Million  |
| <b>Year ended 31 December 2018</b>               |                        |            |
| Opening balance                                  | 1,630.9                | 2.9        |
| Transfer into Level 3                            | –                      | 0.5        |
| Additions during the year                        | 277.3                  | –          |
| Disposed during the year                         | (64.7)                 | (1.6)      |
| Losses recognised in the income statement        | (22.8)                 | –          |
| <b>Closing balance</b>                           | <b>1,820.7</b>         | <b>1.8</b> |
| Unrealised losses                                | (36.3)                 | –          |
| Realised gains                                   | 13.5                   | –          |
| <b>Losses recognised in the income statement</b> | <b>(22.8)</b>          | <b>–</b>   |
|                                                  |                        |            |
|                                                  | Investment<br>property | CIS        |
|                                                  | £'Million              | £'Million  |
| <b>Year ended 31 December 2017</b>               |                        |            |
| Opening balance                                  | 1,462.4                | 1.4        |
| Transfer into Level 3                            | –                      | 1.6        |
| Additions during the year                        | 95.5                   | –          |
| Disposed during the year                         | (6.2)                  | (0.1)      |
| Gains recognised in the income statement         | 79.2                   | –          |
| <b>Closing balance</b>                           | <b>1,630.9</b>         | <b>2.9</b> |
| Realised losses                                  | (1.1)                  | –          |
| Unrealised gains                                 | 80.3                   | –          |
| <b>Gains recognised in the income statement</b>  | <b>79.2</b>            | <b>–</b>   |

Gains/(losses) recognised in the statement of comprehensive income are included within investment return for certain equities and investments in collective investment schemes and investment property.

### Level 3 valuations

The principal assets classified as Level 3 are investment properties amounting to £1,820.7 million (2017: £1,630.9 million). Investment property is initially measured at cost including related acquisition costs and subsequently valued monthly by professional external valuers at their respective fair values at each reporting date. The fair values derived are based on anticipated market values for the properties in accordance with the guidance issued by The Royal Institution of Chartered Surveyors, being the estimated amount that would be received from a sale of the assets in an orderly transaction between market participants. The valuation of investment property is inherently subjective as it requires, among other factors, assumptions to be made regarding the ability of existing tenants to meet their rental obligations over the entire life of their leases, the estimation of the expected rental income into the future, an assessment of a property's potential to remain as an attractive technical configuration to existing and prospective tenants in a changing market and a judgement to be reached on the attractiveness of a building, its location and the surrounding environment.

| 31 December 2018                         | Investment property classification |              |                    |               |
|------------------------------------------|------------------------------------|--------------|--------------------|---------------|
|                                          | Office                             | Industrial   | Retail and leisure | All           |
| <b>Gross ERV (per sq ft)<sup>1</sup></b> |                                    |              |                    |               |
| Range                                    | £14.66–£99.97                      | £4.00–£29.39 | £4.50–£159.96      | £4.00–£159.96 |
| Weighted average                         | £34.03                             | £8.17        | £15.92             | £14.89        |
| <b>True equivalent yield</b>             |                                    |              |                    |               |
| Range                                    | 4.1%–8.6%                          | 4.1%–6.7%    | 4.6%–13.7%         | 4.1%–13.7%    |
| Weighted average                         | 5.2%                               | 4.9%         | 6.2%               | 5.5%          |
| 31 December 2017                         |                                    |              |                    |               |
| <b>Gross ERV (per sq ft)<sup>1</sup></b> |                                    |              |                    |               |
| Range                                    | £14.66–£96.50                      | £3.50–£15.75 | £4.50–£427.84      | £3.50–£427.84 |
| Weighted average                         | £32.02                             | £7.28        | £15.51             | £14.12        |
| <b>True equivalent yield</b>             |                                    |              |                    |               |
| Range                                    | 3.9%–8.4%                          | 4.2%–6.7%    | 4.6%–13.8%         | 3.9%–13.8%    |
| Weighted average                         | 5.3%                               | 5.3%         | 6.0%               | 5.6%          |

<sup>1</sup> Equivalent rental value (per square foot)

### Sensitivity of Level 3 valuations

The valuation of certain equities and investments in CIS are based on the latest observable price available. Whilst such valuations are sensitive to estimates, it is believed that changing the price applied to a reasonably possible alternative would not change the fair value significantly.

Investment property is initially measured at cost including related acquisition costs and subsequently valued monthly by professional external valuers at their respective fair values at each reporting date. The fair values derived are 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 following table sets out the effect of applying reasonably possible alternative assumptions, being a 5% movement in estimated rental value and a 25 bps movement in relative yield, to the valuation of the investment properties. Any change in the value of investment property is matched by an associated movement in the policyholder liability, and therefore would not impact on the shareholder net assets.

|                  |                                                     | Effect of reasonable possible alternative assumptions |                    |                      |
|------------------|-----------------------------------------------------|-------------------------------------------------------|--------------------|----------------------|
|                  |                                                     | Carrying value                                        | Favourable changes | Unfavourable changes |
|                  | Investment property significant unobservable inputs | £'Million                                             | £'Million          | £'Million            |
| 31 December 2018 | Expected rental value/Relative yield                | 1,820.7                                               | 1,994.9            | 1,665.2              |
| 31 December 2017 | Expected rental value/Relative yield                | 1,630.9                                               | 1,782.1            | 1,496.1              |

### Credit risk

Credit risk relating to unit liabilities is borne by the unit holders.

### Contractual maturity and liquidity analysis

Unit liabilities (and the associated assets) are deemed to have a maturity of up to one year since they are repayable and transferable on demand. In practice the contractual maturities of the assets may be longer than one year, but the majority of assets held within the unit-linked and unit trust funds are highly liquid and the Group also actively monitors fund liquidity.

### Sensitivity analysis to market risks

The majority of the Group's business is unitised and the direct associated market risk is therefore borne by unit holders. For completeness, we note that there is an indirect risk associated with market performance as future shareholder income is dependent upon markets; however, the direct risk has been mitigated through the Group's approach to matching assets and liabilities.

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

### 17. Capital management and allocation

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

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

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

#### REGULATORY CAPITAL

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

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

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

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

| 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)                                                                             |
| St. James's Place (Singapore) Private Limited       | Monetary Authority Singapore: A Member of the Association of Financial Advisers                             |
| Rowan Dartington & Co Limited                       | FCA: Investment Firm                                                                                        |

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

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

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

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 ORSA section of the Risk and Risk Management report; refer to page 50.

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

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

### IFRS CAPITAL COMPOSITION

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

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

The above assets do not all qualify as regulatory capital. The required minimum regulatory capital and analysis of the assets that qualify as regulatory capital are outlined in Section 3 of the Financial Review on page 44, 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.

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

### 18. Share capital, earnings per share and dividends

#### SHARE CAPITAL

|                            | Number of<br>ordinary shares | Called-up<br>share capital<br>£'Million |
|----------------------------|------------------------------|-----------------------------------------|
| At 1 January 2017          | 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                                    |
| – Exercise of options      | 375,501                      | –                                       |
| <b>At 31 December 2018</b> | <b>529,453,397</b>           | <b>79.4</b>                             |

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

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

The number of shares reserved for issue under options and contracts for sale of shares, including terms and conditions, is included within Note 19.

#### EARNINGS PER SHARE

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

#### DIVIDENDS

The following dividends have been paid by the Group:

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

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

## 19. Share-based payments

During the year ended 31 December 2018, the Group operated a number of different equity and cash-settled share-based payment arrangements, which are aggregated as follows:

### SHARE OPTION SCHEMES

- **Save As You Earn (SAYE) Plan** – this is a standard HMRC approved equity-settled scheme that is available to all employees where individuals may contribute up to £250 per month over the three-year vesting period to purchase shares at a price not less than 80% of the market price at the date of the invitation to participate. 563,553 (2017: 415,590) SAYE options were granted on 23 March 2018 and 21 September 2018 (2017: 23 March 2017). There are no other vesting conditions.
- **Partner Share Option Schemes** – these equity-settled awards were offered to the Partners of the St. James's Place Partnership and vest over three to six years subject to satisfying personal new business-related performance criteria. The last award under these schemes was made in 2007.
- **Partner Performance Share Plan** – under this plan Partners are entitled to purchase shares in the future at nominal value (15 pence). The number of shares the Partners are entitled to purchase will depend on their personal business volumes in a specified 12-month period and validation over the following three years. The first award under the scheme was made on 29 July 2016, when 3,456,281 shares were granted. No grants were made in 2018 (2017: Nil).
- **Partner and Adviser Chartered Plan** – the scheme was launched during 2015 as part of the Partner Performance Share Plan whereby Partners and advisers are entitled to purchase shares in the future at nominal value (15 pence). The number of shares the Partners are entitled to purchase will depend upon achieving specific professional qualifications and a threshold new business level in a specified 12-month period and validation over the following three years. The first award under the scheme was made on 29 July 2016, when 2,019,000 shares were granted. No grants were made in 2018 (2017: Nil).
- **Associate Partner Plan** – a new equity-settled scheme was launched during 2017 whereby Partners and advisers are entitled to purchase a set number of shares in the future at the market price at the date of the invitation if they meet the required business volumes over the following three years. 1,422,500 shares were granted under this scheme on 19 March 2018 (2017: 4,805,000).

### SHARE AWARDS

- **Share Incentive Plan (SIP)** – this is an HMRC approved equity-settled scheme, available to all employees, where individuals may invest up to an annual limit of £1,800 of pre-tax salary in St. James's Place plc shares, to which the Group will add a further 10%. The vesting period is three years, however if the shares are held for five years they may be sold free of income tax or capital gains tax. There are no other vesting conditions. 8,166 (2017: 7,100) shares were granted under the SIP on 29 March 2018 (2017: 27 March 2017).
- **Executive Deferred Bonus Schemes** – under these plans the deferred element of the annual bonus is used to purchase shares at market value in the Company. The shares are held in trust over the three-year vesting period and may be subject to further non-market-based performance conditions. The plans are predominantly equity-settled. 794,750 (2017: 694,149) shares were granted under the deferred bonus schemes on 26 March 2018 (2017: 27 March 2017).
- **Executive Performance Share Plan** – the Remuneration Committee of the Group Board may make awards of performance shares to the Executive Directors and other senior managers. Two-thirds of shares awarded to Directors are subject to an earnings growth condition of the Group and one-third of shares awarded to Directors are subject to a comparative total shareholder return condition, both measured over a three-year vesting period. Further information regarding the vesting conditions of the earnings growth and total shareholder return dependent portions of the award is given in the Directors' Remuneration Report on page 126. Awards made to senior managers are largely only subject to the earnings growth condition of the Group. This is predominantly an equity-settled scheme. 1,101,308 (2017: 961,106) shares were granted under the Executive Performance Share Plan across two grants made on 26 March 2018 and 21 September 2018 (2017: three grants made on 27 March 2017, 26 September 2017 and 7 November 2017).
- **Restricted Share Plan** – upon acquisition of the Rowan Dartington Group a new scheme was launched for eligible employees. Employees were granted shares, 50% of which vest after 18 months, and the remaining 50% vest after three years providing the individual remains in employment within the Group and maintains any applicable professional qualifications. The plan is predominantly equity-settled. 323,300 shares were granted under the Restricted Share Plan on 29 July 2016. No grants were made in 2018 (2017: Nil).

Share options and awards outstanding under the various share-based payment schemes set out above at 31 December 2018, amount to 18.2 million shares (2017: 16.4 million). Of these, 11.2 million (2017: 10.1 million) are under option to Partners of the St. James's Place Partnership, 5.4 million (2017: 5.0 million) are under option to executives and senior management (including 1.1 million (2017: 1.4 million) under option to Directors as disclosed in the Directors' Remuneration Report on page 133), 0.2 million (2017: 0.2 million) are under option to employees who became employees of the Group on acquisition of the Rowan Dartington Group and 1.4 million (2017: 1.2 million) are under option through the SAYE and SIP schemes. These are exercisable on a range of future dates.

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

### 19. Share-based payments continued

#### FINANCIAL ASSUMPTIONS UNDERLYING THE CALCULATION OF FAIR VALUE

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

| Valuation model                         | SAYE Plan<br>Black Scholes   | Share Incentive Plan<br>Black Scholes | Executive Deferred Bonus<br>Black Scholes | Executive Performance Share Plan <sup>5</sup><br>Monte Carlo | Associate Partner Plan <sup>6</sup><br>Black Scholes |
|-----------------------------------------|------------------------------|---------------------------------------|-------------------------------------------|--------------------------------------------------------------|------------------------------------------------------|
| <b>Awards in 2018</b>                   |                              |                                       |                                           |                                                              |                                                      |
| Fair value (pence)                      | 230.7/235.6 <sup>3</sup>     | 1,090.0                               | 1,092.0                                   | 565.7/1,092.0 <sup>4</sup>                                   | 227.3                                                |
| Share price (pence)                     | 1,109.0/1,138.5 <sup>3</sup> | 1,090.0                               | 1,092.0                                   | 1,092.0                                                      | 1,142.0                                              |
| Exercise price (pence)                  | 911.0/906.0 <sup>3</sup>     | 0.0                                   | 0.0                                       | 0.0                                                          | 1,135.0                                              |
| Expected volatility (% pa) <sup>1</sup> | 27/25 <sup>3</sup>           | N/A                                   | N/A                                       | 27                                                           | 27.0                                                 |
| Expected dividends (% pa) <sup>2</sup>  | 3.9/4.0 <sup>3</sup>         | 0.0                                   | 0.0                                       | 0.0                                                          | 0.0                                                  |
| Risk-free interest rate (% pa)          | 0.95/0.94 <sup>3</sup>       | N/A                                   | N/A                                       | N/A                                                          | 0.9                                                  |
| Expected life (years)                   | 3.5                          | 3                                     | 3                                         | 3                                                            | 3                                                    |
| Volatility of competitors (% pa)        | N/A                          | N/A                                   | N/A                                       | 14–57                                                        | N/A                                                  |
| Correlation with competitors (%)        | N/A                          | N/A                                   | N/A                                       | 20                                                           | N/A                                                  |
| <b>Awards in 2017</b>                   |                              |                                       |                                           |                                                              |                                                      |
| Fair value (pence)                      | 244.6                        | 1,056.0                               | 1,061.0                                   | 628.1/1,061.0 <sup>4</sup>                                   | 219.5                                                |
| Share price (pence)                     | 1,041.0                      | 1,056.0                               | 1,061.0                                   | 1,061.0                                                      | 1,080.0                                              |
| Exercise price (pence)                  | 844.0                        | 0.0                                   | 0.0                                       | 0.0                                                          | 1,083.0                                              |
| Expected volatility (% pa) <sup>1</sup> | 29.0                         | N/A                                   | N/A                                       | 29.0                                                         | 29.0                                                 |
| Expected dividends (% pa) <sup>2</sup>  | 3.1                          | 0.0                                   | 0.0                                       | 0.0                                                          | 0.0                                                  |
| Risk-free interest rate (% pa)          | 0.5                          | N/A                                   | N/A                                       | N/A                                                          | 0.5                                                  |
| Expected life (years)                   | 3.5                          | 3                                     | 3                                         | 3                                                            | 3                                                    |
| Volatility of competitors (% pa)        | N/A                          | N/A                                   | N/A                                       | 17.0–59.0                                                    | N/A                                                  |
| Correlation with competitors (%)        | N/A                          | N/A                                   | N/A                                       | 20.0                                                         | N/A                                                  |

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

2 For schemes where dividends are payable on the shares during the vesting period, the dividend yield assumption in the Black-Scholes option pricing model is set at zero.

3 Two SAYE awards were made during 2018 on 23 March and 21 September, the assumptions for which are shown in the table above as the first and second figures, respectively.

4 The awards made under the Executive Performance Share Plan are dependent upon earnings growth in the Company (two-thirds of the award) and a total shareholder return of a comparator group of companies (one-third of the award). This results in having two fair values for each of the awards made in the table above, the first being in relation to the comparator total shareholder return which is a market-based performance condition and so valued using a Monte-Carlo simulation, and the second relating to the Company's earnings growth, which is a non-market-based performance condition and so valued using the Black-Scholes model.

5 The awards made under the Executive Performance Share Plan for members of the Executive Board Committee (ExBo) are subject to a two-year holding period once the award has vested. This results in discounted fair values for the ExBo population of 519.8/1,002.5 (2017: 571.9/966.8) to reflect the reduced marketability of the awards.

6 The fair value of the grants made under the Associate Partner Plan has been determined using the Black-Scholes valuation model. This is the most appropriate valuation method because the value of the services that the Partners and advisers are providing, for which they are being remunerated via the plan, cannot be readily separated from the overall value of the services provided by the Partners and advisers.

## SHARE OPTION SCHEMES

|                                             | Year ended<br>31 December<br>2018 | Year ended<br>31 December<br>2018     | Year ended<br>31 December<br>2017 | Year ended<br>31 December<br>2017     |
|---------------------------------------------|-----------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|                                             | Number of<br>options              | Weighted<br>average<br>exercise price | Number of<br>options              | Weighted<br>average<br>exercise price |
| <b>SAYE Plan</b>                            |                                   |                                       |                                   |                                       |
| Outstanding at start of year                | 1,148,540                         | £7.73                                 | 1,030,703                         | £7.28                                 |
| Granted                                     | 563,553                           | £8.97                                 | 415,590                           | £8.33                                 |
| Forfeited                                   | (89,718)                          | £8.30                                 | (86,990)                          | £7.35                                 |
| Exercised                                   | (280,309)                         | £7.34                                 | (210,763)                         | £6.77                                 |
| Outstanding at end of year                  | 1,342,066                         | £8.27                                 | 1,148,540                         | £7.73                                 |
| Exercisable at end of year                  | 66,005                            | £7.24                                 | 451                               | £6.77                                 |
| <b>Partner Share Options</b>                |                                   |                                       |                                   |                                       |
| Outstanding at start of year                | –                                 | –                                     | 19,100                            | £4.55                                 |
| Granted                                     | –                                 | –                                     | –                                 | –                                     |
| Forfeited                                   | –                                 | –                                     | –                                 | –                                     |
| Exercised                                   | –                                 | –                                     | (19,100)                          | £4.55                                 |
| Outstanding at end of year                  | –                                 | –                                     | –                                 | –                                     |
| Exercisable at end of year                  | –                                 | –                                     | –                                 | –                                     |
| <b>Partner Performance Share Plan</b>       |                                   |                                       |                                   |                                       |
| Outstanding at start of year                | 3,380,289                         | £0.15                                 | 3,380,289                         | £0.15                                 |
| Granted                                     | –                                 | –                                     | –                                 | –                                     |
| Forfeited                                   | (52,893)                          | £0.15                                 | –                                 | –                                     |
| Exercised                                   | –                                 | –                                     | –                                 | –                                     |
| Outstanding at end of year                  | 3,327,396                         | £0.15                                 | 3,380,289                         | £0.15                                 |
| Exercisable at end of year                  | –                                 | –                                     | –                                 | –                                     |
| <b>Partner &amp; Adviser Chartered Plan</b> |                                   |                                       |                                   |                                       |
| Outstanding at start of year                | 1,947,000                         | £0.15                                 | 1,986,648                         | £0.15                                 |
| Granted                                     | –                                 | –                                     | –                                 | –                                     |
| Forfeited                                   | (59,000)                          | £0.15                                 | (39,648)                          | £0.15                                 |
| Exercised                                   | –                                 | –                                     | –                                 | –                                     |
| Outstanding at end of year                  | 1,888,000                         | £0.15                                 | 1,947,000                         | £0.15                                 |
| Exercisable at end of year                  | –                                 | –                                     | –                                 | –                                     |
| <b>Associate Partner Plan</b>               |                                   |                                       |                                   |                                       |
| Outstanding at start of year                | 4,725,000                         | £10.83                                | –                                 | –                                     |
| Granted                                     | 1,422,500                         | £11.35                                | 4,805,000                         | £10.83                                |
| Forfeited                                   | (167,500)                         | £10.92                                | (80,000)                          | £10.83                                |
| Exercised                                   | –                                 | –                                     | –                                 | –                                     |
| Outstanding at end of year                  | 5,980,000                         | £10.95                                | 4,725,000                         | £10.83                                |
| Exercisable at end of year                  | –                                 | –                                     | –                                 | –                                     |

The average share price during the year was 1,121.9 pence (2017: 1,142.0 pence).

The SAYE Plan options outstanding at 31 December 2018 had exercise prices of 738 pence (438 options), 724 pence (65,567 options), 687 pence (380,279 options), 844 pence (352,442 options), 911 pence (322,015 options) and 906 pence (221,325 options), and a weighted average remaining contractual life of 1.5 years.

The options outstanding under the Partner Performance Share Plan and the Partner & Adviser Chartered Plan at 31 December 2018 had an exercise price of 15 pence and a weighted average remaining contractual life of 0.6 years.

The options outstanding under the Associate Partner Plan at 31 December 2018 had an exercise price of 1,083 pence and 1,135 pence and a weighted average remaining contractual life of 1.4 years.

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

### 19. Share-based payments continued

#### SHARE AWARDS

All shares awards under the below schemes have exercise prices of £nil.

|                                         | Year ended<br>31 December<br>2018 | Year ended<br>31 December<br>2017 |
|-----------------------------------------|-----------------------------------|-----------------------------------|
|                                         | Number of<br>options              | Number of<br>options              |
| <b>Share Incentive Plan</b>             |                                   |                                   |
| Outstanding at start of year            | 30,283                            | 27,256                            |
| Granted                                 | 8,166                             | 7,100                             |
| Forfeited                               | (716)                             | (871)                             |
| Exercised                               | (2,724)                           | (3,202)                           |
| Outstanding at end of year              | 35,009                            | 30,283                            |
| Exercisable at end of year              | 8,858                             | 7,125                             |
| <b>Executive Deferred Bonus Scheme</b>  |                                   |                                   |
| Outstanding at start of year            | 2,034,801                         | 1,833,436                         |
| Granted                                 | 794,750                           | 694,149                           |
| Forfeited                               | (33,063)                          | (4,634)                           |
| Exercised                               | (664,074)                         | (488,150)                         |
| Outstanding at end of year              | 2,132,414                         | 2,034,801                         |
| Exercisable at end of year              | –                                 | –                                 |
| <b>Executive Performance Share Plan</b> |                                   |                                   |
| Outstanding at start of year            | 2,973,806                         | 2,953,269                         |
| Granted                                 | 1,101,308                         | 961,106                           |
| Forfeited                               | (137,997)                         | (24,772)                          |
| Exercised                               | (686,471)                         | (915,797)                         |
| Outstanding at end of year              | 3,250,646                         | 2,973,806                         |
| Exercisable at end of year              | 349,380                           | 404,620                           |
| <b>Restricted Share Plan</b>            |                                   |                                   |
| Outstanding at start of year            | 158,916                           | 321,860                           |
| Granted                                 | –                                 | –                                 |
| Forfeited                               | (3,600)                           | (24,768)                          |
| Exercised                               | –                                 | (138,176)                         |
| Outstanding at end of year              | 155,316                           | 158,916                           |
| Exercisable at end of year              | –                                 | –                                 |

#### EARLY EXERCISE ASSUMPTIONS

An allowance has been made for the impact of early exercise once options have vested in the SAYE Plan where all option holders are assumed to exercise half-way through the six-month exercise window.

#### ALLOWANCE FOR PERFORMANCE CONDITIONS

The Executive Performance Share Plan includes a market-based performance condition based on the Company's total shareholder return relative to an index of comparator companies. The impact of this performance condition has been modelled using Monte Carlo simulation techniques, which involve running many thousands of simulations of future share price movements for both the Company and the comparator index. For the purpose of these simulations it is assumed that the share price of the Company and the comparator index are 20% (2017: 20%) correlated and that the comparator index has volatilities ranging between 14% p.a. to 57% p.a. (2017: 17% p.a. to 59% p.a.).

The performance condition is based on the Company's performance relative to the comparator index over a three-year period commencing on 1 January each year. The fair value calculations for the awards that were made in 2018 therefore include an allowance for the actual performance of the Company's share price relative to the index over the period between 1 January 2018 and the various award dates.

#### CHARGE TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

|                                            | Year ended<br>31 December<br>2018 | Year ended<br>31 December<br>2017 |
|--------------------------------------------|-----------------------------------|-----------------------------------|
|                                            | £'Million                         | £'Million                         |
| Equity-settled share-based payment expense | 33.4                              | 30.5                              |
| Cash-settled share-based payment expense   | 0.7                               | 2.2                               |
| <b>Total share-based payment expense</b>   | <b>34.1</b>                       | <b>32.7</b>                       |

## LIABILITIES RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

The liabilities recognised in the statement of financial position in respect of the cash-settled share-based payment awards, and national insurance obligations arising from share-based payment awards, are as follows. These liabilities are included within other payables on the face of the statement of financial position. None of the liability in respect of cash-settled share-based payment awards at 31 December 2018 or 31 December 2017 is in respect of vested cash-settled share-based payments.

|                                                                                                                 | Year ended<br>31 December<br>2018 | Year ended<br>31 December<br>2017 |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
|                                                                                                                 | £'Million                         | £'Million                         |
| Liability for cash-settled share-based payments                                                                 | 1.3                               | 1.8                               |
| Liability for employer national insurance contributions on cash-settled and equity-settled share-based payments | 4.8                               | 5.1                               |

## 20. Interests in unconsolidated entities

### UNCONSOLIDATED STRUCTURED ENTITIES

The Group operates investment vehicles, such as unit trusts. Clients are able to invest in these directly, but also indirectly through products offered by SJPUK and SJPI. As a result, the Group's insurance companies can be significant investors in the unit trusts. Note 2 sets out the judgements inherent in determining when the Group controls, and therefore consolidates, the relevant investment vehicles.

The majority of the risk from a change in the value of the Group's investment in unconsolidated unit trusts is matched by a change in unit holder liabilities. The maximum exposure to loss, prior to considering unit holder liabilities, is equal to the carrying value of the investment. This is recognised within investments in Collective Investment Schemes.

The following unit trusts are not consolidated within the Group financial statements; however, the Group does act as the fund manager of these unit trusts.

| Name of entity                              | % of ownership interest |       | Nature of relationship | Measurement method                | Net asset value as at 31 December |           |
|---------------------------------------------|-------------------------|-------|------------------------|-----------------------------------|-----------------------------------|-----------|
|                                             | 2018                    | 2017  |                        |                                   | 2018                              | 2017      |
|                                             |                         |       |                        |                                   | £'Million                         | £'Million |
| St. James's Place Property Unit Trust       | 0.00                    | 0.00  | Manager of unit trust  | N/A                               | 1,325.5                           | 1,205.7   |
| St. James's Place UK High Income Unit Trust | 10.91                   | 10.65 | Manager of unit trust  | Fair value through profit or loss | 1,312.5                           | 1,835.3   |
|                                             |                         |       |                        |                                   | 2,638.0                           | 3,041.0   |

As at 31 December 2018 the value of the Group's interests in the individual unconsolidated unit trusts were £nil (2017: £nil) in St. James's Place Property Unit Trust and £143.2 million (2017: £195.5 million) in St. James's Place UK High Income Unit Trust.

### ASSOCIATES

The St. James's Place UK High Income Unit Trust, registered in England and Wales, is not consolidated within the Group financial statements; however, it does meet the criteria of an associate. Details are provided in the table above.

## 21. Subsidiary undertakings

### PRINCIPAL SUBSIDIARIES:

|                                              |                                                                                                                                                        |
|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Investment Holding Companies                 | Cirencio Limited <sup>1</sup><br>St. James's Place Wealth Management Group Limited <sup>1</sup><br>St. James's Place DFM Holdings Limited <sup>1</sup> |
| Life Assurance                               | St. James's Place UK plc<br>St. James's Place International plc (incorporated in Ireland) <sup>2</sup>                                                 |
| Unit Trust Management                        | St. James's Place Unit Trust Group Limited                                                                                                             |
| Unit Trust Administration and ISA Management | St. James's Place Investment Administration Limited                                                                                                    |
| Distribution                                 | St. James's Place Wealth Management plc                                                                                                                |
| Management Services                          | St. James's Place Management Services Limited <sup>3</sup>                                                                                             |
| Treasury Company                             | St. James's Place Partnership Services Limited                                                                                                         |
| IFA Acquisitions                             | St. James's Place Acquisition Services Limited                                                                                                         |
| Asia Distribution                            | St. James's Place International Distribution Limited                                                                                                   |
| Discretionary Fund Management                | Rowan Dartington & Co. Limited                                                                                                                         |

<sup>1</sup> Directly held by St. James's Place plc

<sup>2</sup> The Company also operates a branch in Singapore

<sup>3</sup> The Company also operates a branch in the Republic of Ireland

The Company owns either directly or indirectly 100% of the voting ordinary equity share capital of the above-named subsidiaries, as such they have been appropriately consolidated. Ongoing solvency requirements within the life assurance, unit trust and financial services companies of the Group restrict their ability to distribute all their distributable reserves.

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

### 21. Subsidiary undertakings continued

Included below is a full list of the entities within the St. James's Place plc Group at 31 December 2018:

| Entity                                      | Company number | Registered office                                                         | Country of incorporation | Principal activity                 | Audit exemption |
|---------------------------------------------|----------------|---------------------------------------------------------------------------|--------------------------|------------------------------------|-----------------|
| BFS Financial Services Limited              | 04609753       | *                                                                         | England and Wales        | Financial Advice                   | Yes             |
| Cabot Portfolio Nominees Limited            | 03636010       | Colston Tower, Colston Street, Bristol BS1 4RD, United Kingdom            | England and Wales        | Nominee Company                    | Yes             |
| Cirencio Limited                            | 01773177       | *                                                                         | England and Wales        | Holding Company                    | Yes             |
| Dartington Portfolio Nominees Limited       | 01489542       | Colston Tower, Colston Street, Bristol BS1 4RD, United Kingdom            | England and Wales        | Nominee Company                    | Yes             |
| Future Proof Limited                        | 07608319       | *                                                                         | England and Wales        | Financial Advice                   | Yes             |
| Hale Financial Solutions Limited            | 04373946       | *                                                                         | England and Wales        | Financial Advice                   | Yes             |
| Lansdown Place Group Holdings Limited       | 06390547       | 2 Oakfield Road, Clifton, Bristol, BS8 2AL, United Kingdom                | England and Wales        | Holding Company                    | Yes             |
| Lansdown Place Wealth Management Limited    | 05458948       | 2 Oakfield Road, Clifton, Bristol, BS8 2AL, United Kingdom                | England and Wales        | Financial Advice                   | Yes             |
| Linden House Financial Services Limited     | 02990295       | *                                                                         | England and Wales        | Financial Advice                   | Yes             |
| Linden House Group Limited                  | 08464570       | *                                                                         | England and Wales        | Holding Company                    | Yes             |
| LP Auto Enrolment Solutions Limited         | 08257531       | 2 Oakfield Road, Clifton, Bristol, BS8 2AL, United Kingdom                | England and Wales        | Pension Auto-enrolment             | Yes             |
| LP Financial Management Limited             | 02195886       | 2 Oakfield Road, Clifton, Bristol, BS8 2AL, United Kingdom                | England and Wales        | Financial Advice                   | Yes             |
| LP Holdco Limited                           | 08323278       | *                                                                         | England and Wales        | Holding Company                    | No              |
| M.H.S. (Holdings) Limited                   | 00559995       | *                                                                         | England and Wales        | Non-trading                        | Yes             |
| M.S. Estates and Financial Services Limited | 02224813       | *                                                                         | England and Wales        | Financial Advice                   | Yes             |
| Rowan Dartington & Co. Limited              | 02752304       | *                                                                         | England and Wales        | Stockbroker and Investment Manager | No              |
| Rowan Dartington Holdings Limited           | 07470226       | *                                                                         | England and Wales        | Holding Company                    | Yes             |
| SJP AESOP Trustees Limited                  | 04089795       | *                                                                         | England and Wales        | Nominee Company                    | Yes             |
| SJP Interim Services Limited                | 10735786       | *                                                                         | England and Wales        | Non-trading                        | Yes             |
| SJP Partner Loans No.1 Limited              | 11390901       | Level 37, 25 Canada Square, Canary Wharf, London, E14 5LQ, United Kingdom | England and Wales        | Securitisation                     | No              |
| SJPC Corporate Investments Limited          | 01476292       | *                                                                         | England and Wales        | Holding Company                    | Yes             |
| St. James's Place (Hong Kong) Limited       | 275275         | 1st Floor, Henley Building, 5 Queen's Road Central, Hong Kong             | Hong Kong                | Overseas Distribution              | No              |

| Entity                                                     | Company number     | Registered office                                                                                                  | Country of incorporation | Principal activity                        | Audit exemption |
|------------------------------------------------------------|--------------------|--------------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------------------------|-----------------|
| St. James's Place (PCP) Limited                            | 02706684           | *                                                                                                                  | England and Wales        | Transacts and Services SJP Income Streams | Yes             |
| St. James's Place (Shanghai) Limited                       | 91310000566573326L | Suite 2006-2007, 20th Floor, Tower 1 (North), Jing An Kerry Centre, 1515 West Nanjing Road, Shanghai, China 200040 | China                    | Overseas Distribution                     | No              |
| St. James's Place (Singapore) Private Limited              | 200406398R         | 1 Raffles Place, #15-61 One Raffles Place, Tower 2, Singapore 048616, Singapore                                    | Singapore                | Financial Advice                          | No              |
| St. James's Place Acquisition Services Limited             | 07730835           | *                                                                                                                  | England and Wales        | IFA Acquisitions                          | Yes             |
| St. James's Place Client Solutions Limited                 | 05487108           | *                                                                                                                  | England and Wales        | Policy Administration                     | Yes             |
| St. James's Place Corporate Secretary Limited              | 09131866           | *                                                                                                                  | England and Wales        | Corporate Secretary                       | Yes             |
| St. James's Place DFM Holdings Limited                     | 09687687           | *                                                                                                                  | England and Wales        | Non-trading                               | Yes             |
| St. James's Place International (Hong Kong) Limited        | 2207694            | Unit 201, 2nd Floor Henley Building, 5 Queen's Road Central, Hong Kong                                             | Hong Kong                | Life Assurance                            | No              |
| St. James's Place International Assurance Group Limited    | 02727326           | *                                                                                                                  | England and Wales        | Holding Company                           | No              |
| St. James's Place International Distribution Limited       | 08798683           | *                                                                                                                  | England and Wales        | Holding Company                           | Yes             |
| St. James's Place International plc                        | 185345             | Fleming Court, Flemings Place, Dublin 4, Ireland                                                                   | Ireland                  | Life Assurance                            | No              |
| St. James's Place Investment Administration Limited        | 08764231           | *                                                                                                                  | England and Wales        | Unit Trust Administration and ISA Manager | No              |
| St. James's Place Management Services Limited              | 02661044           | *                                                                                                                  | England and Wales        | Management Services                       | No              |
| St. James's Place Nominees Limited                         | 08764214           | *                                                                                                                  | England and Wales        | Nominee Company                           | Yes             |
| St. James's Place Partnership Services Limited             | 08201211           | *                                                                                                                  | England and Wales        | Treasury Company                          | No              |
| St. James's Place UK plc                                   | 02628062           | *                                                                                                                  | England and Wales        | Life Assurance                            | No              |
| St. James's Place Unit Trust Group Limited                 | 00947644           | *                                                                                                                  | England and Wales        | Unit Trust Management                     | No              |
| St. James's Place Wealth Management (PCIS) Limited         | 06604824           | *                                                                                                                  | England and Wales        | Securities and Futures Firm               | No              |
| St. James's Place Wealth Management (Shanghai) Limited     | 1511517            | 1st Floor, Henley Building, 5 Queen's Road Central, Hong Kong                                                      | Hong Kong                | Overseas Distribution                     | No              |
| St. James's Place Wealth Management Group Limited          | 02627518           | *                                                                                                                  | England and Wales        | Holding Company                           | No              |
| St. James's Place Wealth Management International Pte. Ltd | 201323453N         | 1 Raffles Place, #15-61 One Raffles Place, Singapore 048616, Singapore                                             | Singapore                | Holding Company                           | No              |
| St. James's Place Wealth Management plc                    | 04113955           | *                                                                                                                  | England and Wales        | UK Distribution                           | No              |
| Stafford House Investments Limited                         | 03866935           | *                                                                                                                  | England and Wales        | Financial Advice                          | Yes             |
| Technical Connection Limited                               | 03178474           | *                                                                                                                  | England and Wales        | Tax and Advisory Services                 | Yes             |

\* Indicates that the registered office is St. James's Place House, 1 Tetbury Road, Cirencester, Gloucestershire GL7 1FP, United Kingdom.

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

### 21. Subsidiary undertakings continued

Future Proof Limited was acquired by the Group on 13 November 2018.

The following wholly-owned subsidiary companies were dissolved during the year:

- G.M.B. Financial Services Limited (on 27 March 2018);
- Chapman Associates Limited (on 3 April 2018);
- St. James's Place (Properties) Limited (on 8 May 2018);
- Chapman Hunter Group Limited (on 24 July 2018);
- PFPTTime Limited (on 31 July 2018);
- Australian Expatriate Services Limited (on 26 October 2018); and
- St. James's Place EIS Limited (on 18 December 2018).

Where indicated above, subsidiaries of St. James's Place plc have taken advantage, or are expected to take advantage, of the exemption from statutory audit granted by section 479A of the Companies Act 2006. In accordance with section 479C, St. James's Place plc has guaranteed all the outstanding liabilities as at 31 December 2018 of these companies, with the exception of Lansdown Place Group Holdings Limited, LP Financial Management Limited, Lansdown Place Wealth Management Limited and LP Auto Enrolment Solutions Limited where LP Holdco Limited has guaranteed all the outstanding liabilities as at 31 December 2018.

All Group companies have an accounting reference date of 31 December except Future Proof Limited which has an accounting reference date of 12 November. Future Proof Limited intends to take advantage of the exemption from statutory audit granted by section 477 of the Companies Act 2006's for the period ended 12 November 2018 as it meets applicable criteria and during that period was not a part of the Group. Unless otherwise stated, the tax residency of each subsidiary is the same as the country of incorporation.

100% of the equity share capital is held for the above subsidiaries with the exception of:

- a) LP Holdco Limited (08323278), where 43.14% of equity share capital is held (comprising 100% of the nominal value of the Class A ordinary shares, which confer 52.83% of voting rights along with the 75.62% holding of the nominal value of the Class C ordinary shares, which carry voting rights but are not defined as equity);
- b) Lansdown Place Group Holdings Limited (06390547), where 92.40% of the equity share capital is held by LP Holdco Limited (comprising 95.29% of the nominal value of the Class A ordinary shares, 100.00% of the nominal value of the Class B and D ordinary shares, and 70.11% of the nominal value of the Class C shares); and
- c) SJP Partner Loans No.1 Limited (11390901), where 100% of the equity share capital is held by a third-party entity outside of the Group. Despite this, following an assessment of control in accordance with IFRS 10 it was determined that SJP Partner Loans No.1 Limited is controlled by the Group and thus is consolidated. For further information, refer to Note 2. Note that all assets and liabilities of SJP Partner Loans No.1 Limited are restricted and ring-fenced from the other assets and liabilities of the Group.

In addition, the Group financial statements consolidate the following unit trusts, all of which are registered in England and Wales.

The registered address of the unit trust manager, St. James's Place Unit Trust Group Limited, is St. James's Place House, 1 Tetbury Road, Cirencester, Gloucestershire GL7 1FP:

St. James's Place Adventurous Growth Unit Trust  
 St. James's Place Adventurous International Unit Trust  
 St. James's Place Allshare Income Unit Trust  
 St. James's Place Alternative Assets Unit Trust  
 St. James's Place Asia Pacific Unit Trust  
 St. James's Place Balanced Growth Unit Trust  
 St. James's Place Balanced International Growth Unit Trust  
 St. James's Place Balanced Managed Unit Trust  
 St. James's Place Conservative Growth Unit Trust  
 St. James's Place Conservative International Growth Unit Trust  
 St. James's Place Continental European Unit Trust  
 St. James's Place Corporate Bond Unit Trust  
 St. James's Place Diversified Assets (FAIF) Unit Trust<sup>1</sup>  
 St. James's Place Diversified Bond Unit Trust  
 St. James's Place Emerging Markets Equity Unit Trust  
 St. James's Place Equity Income Unit Trust  
 St. James's Place Equity A Unit Trust  
 St. James's Place Equity B Unit Trust  
 St. James's Place Equity C Unit Trust  
 St. James's Place Gilts Unit Trust  
 St. James's Place Global Emerging Markets Unit Trust  
 St. James's Place Global Equity Income Unit Trust  
 St. James's Place Global Equity Unit Trust

St. James's Place Global Growth Unit Trust  
 St. James's Place Global Smaller Companies Unit Trust  
 St. James's Place Global Unit Trust  
 St. James's Place Greater European Progressive Unit Trust  
 St. James's Place Index Linked Gilts Unit Trust  
 St. James's Place International Corporate Bond Unit Trust  
 St. James's Place International Equity Unit Trust  
 St. James's Place Investment Grade Corporate Bond Unit Trust  
 St. James's Place Japan Unit Trust  
 St. James's Place Managed Growth Unit Trust  
 St. James's Place Money Market Unit Trust  
 St. James's Place Multi Asset Unit Trust  
 St. James's Place North American Unit Trust  
 St. James's Place Strategic Income Unit Trust  
 St. James's Place Strategic Managed Unit Trust  
 St. James's Place Sustainable & Responsible Equity Unit Trust  
 St. James's Place UK & General Progressive Unit Trust  
 St. James's Place UK & International Income Unit Trust  
 St. James's Place UK Absolute Return Unit Trust  
 St. James's Place UK Growth Unit Trust  
 St. James's Place UK Income Unit Trust  
 St. James's Place Worldwide Income Unit Trust  
 St. James's Place Worldwide Opportunities Unit Trust

<sup>1</sup> Denotes a unit trust launched during 2018.

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

### 22. Related party transactions

#### TRANSACTIONS WITH ST. JAMES'S PLACE UNIT TRUSTS

In respect of the non-consolidated St. James's Place managed unit trusts that are held as investments in the St. James's Place life and pension funds, there were losses recognised of £36.2 million (2017: income £10.9 million) and the total value of transactions with those non-consolidated unit trusts was £26.1 million (2017: £38.0 million). Net management fees receivable from these unit trusts amounted to £12.2 million (2017: £15.4 million). The value of the investment into the non-consolidated unit trusts at 31 December 2018 was £143.2 million (2017: £195.5 million). These transactions are all with the Group's associate, as set out in Note 20.

#### TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel have been defined as the Board of Directors and members of the Executive Board. The remuneration paid to the Board of Directors of St. James's Place plc is set out in the Directors' Remuneration Report on pages 120 to 137, in addition to the disclosure below.

The Remuneration Report also sets out transactions with the Directors under the Group's share-based payment schemes, together with details of the Directors' interests in the share capital of the Company.

Compensation of key management personnel is as follows:

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

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

Commission, advice fees and remuneration of £3.6 million (2017: £3.9 million) was paid, under normal commercial terms, to St. James's Place advisers and employees who were related parties by virtue of being connected persons with key management personnel. The outstanding amount payable at 31 December 2018 was £0.5 million (2017: £0.5 million).

Outstanding at the year-end were Partner loans of £4.2 million (2017: £3.3 million) due from St. James's Place advisers who were related parties by virtue of being connected persons with key management personnel. The Group either advanced, or guaranteed, these loans. During the year £3.2 million (2017: £3.7 million) was advanced and £0.5 million (2017: £2.1 million) was repaid by advisers who were related parties. Due to changes in related parties during 2018, a loan of £1.9 million which was a loan to a related party at 31 December 2017 became a loan to a non-related party.

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 that adviser. Interest of £0.1 million was received during 2018 (2017: £0.1 million).

At the start of the year, related parties of key management personnel held 31,017 (2017: 28,273) shares and options under various St. James's Place plc share option schemes. During the year 2,500 (2017: 10,000) shares and options were granted, nil (2017: 1,000) options lapsed and nil (2017: nil) options were exercised.

### 23. Post balance sheet events

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

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## PARENT COMPANY FINANCIAL STATEMENTS UNDER FINANCIAL REPORTING STANDARD 101

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## PARENT COMPANY STATEMENT OF FINANCIAL POSITION

Registered number: 03183415

|                                    |      | As at<br>31 December<br>2018 | As at<br>31 December<br>2017 |
|------------------------------------|------|------------------------------|------------------------------|
|                                    | Note | £'Million                    | £'Million                    |
| Investment in subsidiaries         | 2    | 508.0                        | 406.0                        |
| <b>Current assets</b>              |      |                              |                              |
| Amounts owed by Group undertakings | 6    | 793.7                        | 606.1                        |
| Cash and cash equivalents          |      | 0.1                          | 0.1                          |
| <b>Current liabilities</b>         |      |                              |                              |
| Corporation tax liabilities        |      | (2.0)                        | (2.3)                        |
| Amounts owed to Group undertakings | 6    | (189.4)                      | (188.5)                      |
| Other payables                     |      | (0.1)                        | (0.1)                        |
| <b>Net current assets</b>          |      | 602.3                        | 415.3                        |
| <b>Net assets</b>                  |      | 1,110.3                      | 821.3                        |
| <b>Equity</b>                      |      |                              |                              |
| Share capital                      | 3    | 79.4                         | 79.4                         |
| Share premium                      |      | 174.5                        | 171.7                        |
| Share option reserve               |      | 193.9                        | 160.5                        |
| Miscellaneous reserves             |      | 0.1                          | 0.1                          |
| Retained earnings                  |      | 662.4                        | 409.6                        |
| <b>Total shareholders' funds</b>   |      | 1,110.3                      | 821.3                        |

In publishing the Parent Company financial statements, the Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of these financial statements. The Company is not required to present a statement of comprehensive income. The Company's profit after tax for the financial year was £495.5 million (2017: £305.0 million) which can be seen in the statement of changes in equity on page 207.

The financial statements on pages 207 to 212 were approved by the Board of Directors on 26 February 2019 and signed on its behalf by:

**ANDREW CROFT**  
Chief Executive

**CRAIG GENTLE**  
Chief Financial Officer

The Notes and information on pages 208 to 212 form part of these financial statements.

## PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

|                                                    |      | Share<br>capital | Share<br>premium | Share option<br>reserve | Miscellaneous<br>reserves | Retained<br>earnings | Total<br>shareholders'<br>funds |
|----------------------------------------------------|------|------------------|------------------|-------------------------|---------------------------|----------------------|---------------------------------|
|                                                    | Note | £'Million        | £'Million        | £'Million               | £'Million                 | £'Million            | £'Million                       |
| At 1 January 2017                                  |      | 79.1             | 164.5            | 130.0                   | 0.1                       | 294.6                | 668.3                           |
| Profit and total comprehensive income for the year |      | –                | –                | –                       | –                         | 305.0                | 305.0                           |
| Dividends                                          | 5    | –                | –                | –                       | –                         | (190.0)              | (190.0)                         |
| Issue of share capital                             | 3    | 0.1              | 4.1              | –                       | –                         | –                    | 4.2                             |
| Exercise of options                                | 3    | 0.2              | 3.1              | –                       | –                         | –                    | 3.3                             |
| Cost of share options expensed in subsidiaries     |      | –                | –                | 30.5                    | –                         | –                    | 30.5                            |
| At 31 December 2017                                |      | 79.4             | 171.7            | 160.5                   | 0.1                       | 409.6                | 821.3                           |
| Profit and total comprehensive income for the year |      | –                | –                | –                       | –                         | 495.5                | 495.5                           |
| Dividends                                          | 5    | –                | –                | –                       | –                         | (242.7)              | (242.7)                         |
| Exercise of options                                | 3    | –                | 2.8              | –                       | –                         | –                    | 2.8                             |
| Cost of share options expensed in subsidiaries     |      | –                | –                | 33.4                    | –                         | –                    | 33.4                            |
| <b>At 31 December 2018</b>                         |      | <b>79.4</b>      | <b>174.5</b>     | <b>193.9</b>            | <b>0.1</b>                | <b>662.4</b>         | <b>1,110.3</b>                  |

As at 31 December 2018 the total distributable reserves of the Company were £662.4 million (2017: £409.6 million). Information on the Company's dividend policy can be found within Note 5 on page 211.

The Notes and information on pages 208 to 212 form part of these financial statements.

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

### 1. Accounting policies

#### BASIS OF PREPARATION

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

The financial statements have been prepared under the historical cost convention, on a going concern basis and in accordance with Financial Reporting Standard 101 (FRS 101) 'Reduced Disclosure Framework' and the Companies Act 2006 as applicable to companies using FRS 101.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. No significant accounting judgements have been made.

#### ADOPTION OF AMENDED ACCOUNTING STANDARDS

The Annual Improvements 2014-2016 cycle were adopted by the Company as of 1 January 2018. This has not had any material impact on the Company's financial statements.

#### ADOPTION OF NEW ACCOUNTING STANDARDS

IFRS 9 Financial Instruments (and associated amendments to various other standards) was adopted by the Company as of 1 January 2018. This resulted in changes to accounting policies and the reclassification certain financial assets. In accordance with the transition provisions of IFRS 9, comparative figures have not been restated.

#### Classification and measurement of financial instruments

On the date of initial application of IFRS 9, being 1 January 2018, amounts owed by Group undertakings of £606.1 million and cash and cash equivalents of £0.1 million were reclassified from the loans and receivables measurement category under IAS 39 to amortised cost under IFRS 9.

The business model for these assets is to hold and collect or sell, and the contractual cash flows consist solely of payments of principal and interest. There was no difference between the previous carrying amount under IAS 39 and the revised carrying amount under IFRS 9, no change to the underlying accounting treatment, and the reclassification had no impact on the Company's equity.

No reclassifications were required for financial liabilities.

#### FRS 101 – REDUCED DISCLOSURE EXEMPTIONS

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

## GOING CONCERN

The Company is a non-trading investment holding company which has positive net assets. The Board believes the Company will continue to be in business, with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations for a period of at least 12 months from the date of approval of the Company financial statements. As a result, the Company continues to adopt the going concern basis in preparing these financial statements.

## SIGNIFICANT ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently to all the years presented.

### (a) Investment return

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

### (b) Taxation

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

### (c) Investment in subsidiaries

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

### (d) Receivables

Receivables are initially recognised at fair value and subsequently held at amortised cost less impairment losses.

### (e) Amounts owed to Group undertakings

Amounts owed to Group undertakings initially are recognised at fair value and subsequently held at amortised cost.

### (f) Impairment losses

Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when circumstances or events indicate there may be uncertainty over their value. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

### 2. Investment in subsidiaries

|                              | Cost         | Share awards | Impairment provision | Net book value |
|------------------------------|--------------|--------------|----------------------|----------------|
|                              | £'Million    | £'Million    | £'Million            | £'Million      |
| At 1 January 2017            | 269.4        | 130.0        | (23.9)               | 375.5          |
| Movements in the year        |              |              |                      |                |
| Share awards granted         | –            | 30.5         | –                    | 30.5           |
| At 31 December 2017          | 269.4        | 160.5        | (23.9)               | 406.0          |
| <b>Movements in the year</b> |              |              |                      |                |
| Share awards granted         | –            | 33.4         | –                    | 33.4           |
| Share capital injection      | 68.6         | –            | –                    | 68.6           |
| <b>At 31 December 2018</b>   | <b>338.0</b> | <b>193.9</b> | <b>(23.9)</b>        | <b>508.0</b>   |

The carrying value of the investments has been tested for impairment. The investments are supported by the value in use of the subsidiaries.

The investment in subsidiaries net book value is broken down as follows:

|                                                          | 31 December 2018 | 31 December 2017 |
|----------------------------------------------------------|------------------|------------------|
|                                                          | £'Million        | £'Million        |
| <i>St. James's Place Wealth Management Group Limited</i> | 87.6             | 87.6             |
| <i>Cirencio Limited</i>                                  | 157.9            | 157.9            |
| <i>St. James's Place DFM Holdings Limited</i>            | 68.6             | –                |
| <b>Directly held investments</b>                         | <b>314.1</b>     | <b>245.5</b>     |
| <i>St. James's Place Management Services Limited</i>     | 145.3            | 130.6            |
| <i>St. James's Place Wealth Management plc</i>           | 45.0             | 27.4             |
| <i>St. James's Place International plc</i>               | 0.1              | 0.1              |
| <i>Rowan Dartington &amp; Co Limited</i>                 | 3.3              | 2.2              |
| <i>Stafford House Investments Limited</i>                | 0.2              | 0.2              |
| <b>Investments held due to share awards granted</b>      | <b>193.9</b>     | <b>160.5</b>     |
| <b>Total</b>                                             | <b>508.0</b>     | <b>406.0</b>     |

### 3. Called-up share capital

|                            | Number of ordinary shares | Called-up share capital |
|----------------------------|---------------------------|-------------------------|
|                            |                           | £'Million               |
| At 1 January 2017          | 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                    |
| – Exercise of options      | 375,501                   | –                       |
| <b>At 31 December 2018</b> | <b>529,453,397</b>        | <b>79.4</b>             |

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

The Company received consideration of £2.8 million (2017: £7.5 million) for the shares issued during the year.

### 4. Auditor's remuneration

The total audit fee in respect of the Group is set out in Note 5 to the consolidated financial statements on page 169. The audit fee charged to the Company for the year ended 31 December 2018 is £1,120 (2017: £1,000), which is borne by another entity within the Group.

## 5. Dividends

The following dividends have been paid by the Company:

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

The Directors have recommended a final dividend of 29.73 pence per share (2017: 27.45 pence). This amounts to £157.4 million (2017: £145.0 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 24 May 2019 to those shareholders on the register as at 5 April 2019.

### DIVIDEND RESOURCES

The Company's expected dividend policy is based on a pay-out ratio to Underlying cash of 80%. The capacity of the Company to make dividend payments to shareholders is determined by the availability of distributable reserves and cash resources.

### DISTRIBUTABLE RESERVES

The Company is a non-trading investment holding company which derives its distributable reserves from dividends paid by its subsidiaries. The primary subsidiary which pays dividends to the Company is St. James's Place Wealth Management Group Limited, an intermediate holding company which in turn receives dividends primarily from St. James's Place UK plc, St. James's Place Unit Trust Group Limited and St. James's Place Investment Administration Limited. Ongoing solvency requirements within the life assurance, unit trust and financial services companies of the Group limit their ability to distribute all their distributable reserves. Analysis of solvency requirements is included in the Solvency section of the Financial Review on page 44 and further information about regulation and capital requirements is included in Note 17 to the consolidated financial statements on page 194.

The Directors review the distributable reserves of the Company ahead of each interim and final dividend being proposed to ensure the Company has sufficient distributable reserves to allow a lawful dividend to be paid. As at 31 December 2018, the total distributable reserves of the Company were £662.4 million (2017: £409.6 million). The Directors are satisfied that this is sufficient to support the proposed dividend of £157.4 million.

### CASH RESOURCES

The shareholder cash resources within the Group at 31 December 2018 were £248.5 million (2017: £274.4 million) as set out in Note 10 to the consolidated financial statements. These cash resources are held by the operating entities within the Group. The cash generated by the Group during the year was £309.0 million on an Underlying cash basis (2017: £281.2 million) and £268.7 million on a Cash basis (2017: £252.6 million) as set out in the Financial Review on page 36. Under both bases the cash generated during the year is sufficient to cover the total proposed dividend for 2018 of £255.1 million.

The Cash and Underlying cash bases should not be confused with the IFRS statement of cash flows, which is presented in accordance with IAS 7 on page 157.

## 6. Related party transactions and balances

At the year end the following related party balances existed, in addition to the investments in subsidiaries which are set out in Note 2 to the Parent Company financial statements.

|                                                | 31 December<br>2018 | 31 December<br>2017 |
|------------------------------------------------|---------------------|---------------------|
|                                                | £'Million           | £'Million           |
| <i>Intra-group debtors</i>                     |                     |                     |
| St. James's Place Partnership Services Limited | 793.7               | 606.1               |
| <b>Total</b>                                   | <b>793.7</b>        | <b>606.1</b>        |
|                                                |                     |                     |
|                                                | 31 December<br>2018 | 31 December<br>2017 |
|                                                | £'Million           | £'Million           |
| <i>Intra-group creditors</i>                   |                     |                     |
| Cirencio Limited                               | 189.4               | 188.5               |
| <b>Total</b>                                   | <b>189.4</b>        | <b>188.5</b>        |

The intra-group debtors are loans granted by the Company which are unsecured and repayable on demand. The loans incur interest at an agreed rate above the Bank of England's base rate, as stated in the loan agreements.

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

### 6. Related party transactions and balances continued

During the year, the Company received £483.8 million (2017: £304.0 million) of dividends from subsidiary undertakings. The total value of St. James's Place FUM held by related parties of the Company as at 31 December 2018 was £24.7 million (2017: £36.1 million). The total value of dividends paid to related parties of the Company during the year was £1.2 million (2017: £1.4 million).

The following wholly-owned subsidiaries of St. James's Place plc have taken advantage of the exemption from statutory audit granted by section 479A of the Companies Act 2006. In accordance with section 479C, St. James's Place plc has therefore guaranteed all the outstanding liabilities as at 31 December 2018 of:

|                                                      |          |
|------------------------------------------------------|----------|
| BFS Financial Services Limited                       | 04609753 |
| Cabot Portfolio Nominees Limited                     | 03636010 |
| Cirengo Limited                                      | 01773177 |
| Dartington Portfolio Nominees Limited                | 01489542 |
| Future Proof Limited                                 | 07608391 |
| Hale Financial Solutions Limited                     | 04373946 |
| Lansdown Place Group Holdings Limited                | 06390547 |
| Lansdown Place Wealth Management Limited             | 05458948 |
| Linden House Financial Services Limited              | 02990295 |
| Linden House Group Limited                           | 08464570 |
| LP Auto Enrolment Solutions Limited                  | 08257531 |
| LP Financial Management Limited                      | 02195886 |
| M.H.S. (Holdings) Limited                            | 00559995 |
| M.S. Estates and Financial Services Limited          | 02224813 |
| Rowan Dartington Holdings Limited                    | 07470226 |
| SJP AESOP Trustees Limited                           | 04089795 |
| SJP Interim Services Limited                         | 10735786 |
| SJPC Corporate Investments Limited                   | 01476292 |
| St. James's Place (PCP) Limited                      | 02706684 |
| St. James's Place Acquisition Services Limited       | 07730835 |
| St. James's Place Client Solutions Limited           | 05487108 |
| St. James's Place Corporate Secretary Limited        | 09131866 |
| St. James's Place DFM Holdings Limited               | 09687687 |
| St. James's Place International Distribution Limited | 08798683 |
| St. James's Place Nominees Limited                   | 08764214 |
| Stafford House Investments Limited                   | 03866935 |
| Technical Connection Limited                         | 03178474 |

### 7. Directors' emoluments

The Directors' responsibilities relate primarily to the trading companies of the Group and accordingly their costs are charged to those companies and none are met by the Parent Company. Disclosure of the Directors' emoluments is made within the Directors' Remuneration Report on pages 120 to 137.

### 8. Company information

In the opinion of the Directors there is not considered to be any ultimate controlling party. Copies of the consolidated financial statements of St. James's Place plc may be obtained from the Company Secretary, St. James's Place plc, St. James's Place House, 1 Tetbury Road, Cirencester, Gloucestershire, GL7 1FP.

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

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

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

The Note references above cross refer to the Notes to the consolidated financial statements under IFRS on pages 158 to 205, except where denoted in roman numerals.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY ON A CASH RESULT BASIS (UNAUDITED)

|                                    | Note | Equity attributable owners of the Parent Company |               |                         |                   |               | Non-controlling interests | Total equity |
|------------------------------------|------|--------------------------------------------------|---------------|-------------------------|-------------------|---------------|---------------------------|--------------|
|                                    |      | Share capital                                    | Share premium | Shares in trust reserve | Retained earnings | Misc reserves |                           |              |
|                                    |      | £'Million                                        | £'Million     | £'Million               | £'Million         | £'Million     | £'Million                 | £'Million    |
| At 1 January 2017                  |      | 79.1                                             | 164.5         | (20.9)                  | 845.6             | 2.5           | 1,070.8                   | (0.8)        |
| Cash result for the year           |      | –                                                | –             | –                       | 252.7             | –             | 252.7                     | (0.1)        |
| Dividends                          | 18   | –                                                | –             | –                       | (190.0)           | –             | (190.0)                   | –            |
| Issue of share capital             | 18   | 0.1                                              | 4.1           | –                       | –                 | –             | 4.2                       | –            |
| Exercise of options                | 18   | 0.2                                              | 3.1           | –                       | –                 | –             | 3.3                       | –            |
| Consideration paid for own shares  |      | –                                                | –             | (11.3)                  | –                 | –             | (11.3)                    | –            |
| Shares sold during the year        |      | –                                                | –             | 5.5                     | (5.5)             | –             | –                         | –            |
| Change in deferred tax             |      | –                                                | –             | –                       | (15.0)            | –             | (15.0)                    | –            |
| Change in tax discounting          |      | –                                                | –             | –                       | (16.2)            | –             | (16.2)                    | –            |
| Change in goodwill and intangibles |      | –                                                | –             | –                       | (2.5)             | –             | (2.5)                     | –            |
| At 31 December 2017                |      | 79.4                                             | 171.7         | (26.7)                  | 869.1             | 2.5           | 1,096.0                   | (0.9)        |
| Cash result for the year           |      | –                                                | –             | –                       | <b>268.7</b>      | –             | <b>268.7</b>              | –            |
| Dividends                          | 18   | –                                                | –             | –                       | <b>(242.7)</b>    | –             | <b>(242.7)</b>            | –            |
| Exercise of options                | 18   | –                                                | <b>2.8</b>    | –                       | –                 | –             | <b>2.8</b>                | –            |
| Consideration paid for own shares  |      | –                                                | –             | <b>(6.0)</b>            | –                 | –             | <b>(6.0)</b>              | –            |
| Shares sold during the year        |      | –                                                | –             | <b>9.0</b>              | <b>(9.0)</b>      | –             | –                         | –            |
| Change in deferred tax             |      | –                                                | –             | –                       | <b>(31.8)</b>     | –             | <b>(31.8)</b>             | –            |
| Change in tax discounting          |      | –                                                | –             | –                       | <b>23.4</b>       | –             | <b>23.4</b>               | –            |
| Change in goodwill and intangibles |      | –                                                | –             | –                       | <b>(1.5)</b>      | –             | <b>(1.5)</b>              | –            |
| <b>At 31 December 2018</b>         |      | <b>79.4</b>                                      | <b>174.5</b>  | <b>(23.7)</b>           | <b>876.2</b>      | <b>2.5</b>    | <b>1,108.9</b>            | <b>(0.9)</b> |

The Note references above cross refer to the Notes to the consolidated financial statements under IFRS on pages 158 to 205, except where denoted in roman numerals.

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

|                                                          | Note | 31 December<br>2018<br>£'Million | 31 December<br>2017<br>£'Million |
|----------------------------------------------------------|------|----------------------------------|----------------------------------|
| <b>Assets</b>                                            |      |                                  |                                  |
| Property and equipment                                   | 9    | 28.5                             | 26.4                             |
| Fixed income securities                                  | 16   | 5.4                              | 46.1                             |
| Investment in Collective Investment Schemes              | 16   | 1,297.0                          | 1,416.8                          |
| Cash and cash equivalents                                | 16   | 248.5                            | 274.7                            |
| Other receivables                                        |      | 890.1                            | 1,122.4                          |
| Income tax assets                                        |      | 9.7                              | –                                |
| Deferred tax assets                                      |      | 111.6                            | 144.1                            |
| <b>Total assets</b>                                      |      | <b>2,590.8</b>                   | <b>3,030.5</b>                   |
| <b>Liabilities</b>                                       |      |                                  |                                  |
| Borrowings                                               | 15   | 348.6                            | 279.9                            |
| Other provisions                                         | 14   | 22.7                             | 20.0                             |
| Other payables                                           |      | 956.9                            | 1,079.7                          |
| Income tax liabilities                                   |      | –                                | 125.3                            |
| Deferred tax liabilities                                 |      | 154.5                            | 430.4                            |
| Preference shares                                        |      | 0.1                              | 0.1                              |
| <b>Total liabilities</b>                                 |      | <b>1,482.8</b>                   | <b>1,935.4</b>                   |
| <b>Net assets</b>                                        |      | <b>1,108.0</b>                   | <b>1,095.1</b>                   |
| <b>Shareholders' equity</b>                              |      |                                  |                                  |
| Share capital                                            | 18   | 79.4                             | 79.4                             |
| Share premium                                            |      | 174.5                            | 171.7                            |
| Shares in trust reserve                                  |      | (23.7)                           | (26.7)                           |
| Miscellaneous reserves                                   |      | 2.5                              | 2.5                              |
| Retained earnings                                        |      | 876.2                            | 869.1                            |
| Shareholders' equity                                     |      | 1,108.9                          | 1,096.0                          |
| Non-controlling interests                                |      | (0.9)                            | (0.9)                            |
| <b>Total shareholders' equity on a Cash result basis</b> |      | <b>1,108.0</b>                   | <b>1,095.1</b>                   |
| <b>Net assets per share</b>                              |      | <b>Pence<br/>209.3</b>           | <b>Pence<br/>207.0</b>           |

The Note references above cross refer to the Notes to the consolidated financial statements under IFRS on pages 158 to 205, except where denoted in roman numerals.

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

### I. Basis of preparation

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

1. Unit liabilities and net assets held to cover unit liabilities, as set out in Note 10 to the consolidated financial statements, are policyholder balances which are removed in the statement of financial position on a Cash result basis. No adjustment for payments in or out is required in the statement of comprehensive income as this business is subject to deposit accounting, which means that policyholder deposits and withdrawals are recognised in the statement of financial position under IFRS, with only marginal cash flows attributable to shareholders recognised in the statement of comprehensive income. However, adjustment is required for the investment return and the movement in investment contract liabilities, which are offsetting and are both zero-ised.
2. Deferred acquisition costs, the purchased value of in-force business and deferred income assets and liabilities are removed from the statement of financial position on a Cash result basis, and the amortisation of these balances is removed in the statement of comprehensive income on a Cash result basis. The assets, liabilities and amortisation are set out in Note 8 to the consolidated financial statements.
3. Share-based payment expense is removed from the statement of comprehensive income on a Cash result basis, and the equity and liability balances for equity-settled and cash-settled share-based payment schemes respectively are removed from the statement of financial position on a Cash result basis. Share-based payment balances are set out in Note 19 to the consolidated financial statements.
4. Non-unit-linked insurance contract liabilities and reinsurance assets, as set out in Note 13 to the consolidated financial statements, are removed in the statement of financial position on a Cash result basis. The movement in these balances is removed from the statement of comprehensive income on a Cash result basis.
5. Goodwill, computer software intangible assets and some other assets and liabilities which are inadmissible under the Solvency II regime are removed from the statement of financial position on a Cash result basis, however the movement in these figures are included in the statement of comprehensive income on a Cash result basis.
6. Deferred tax assets and liabilities are adjusted in the statement of financial position on a Cash result basis to reflect the adjustments noted above and other discounting differences between tax charges and IFRS accounting. However, the impact of movements in deferred tax assets and liabilities are not included in the statement of comprehensive income on a Cash result basis.

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

### II. Reconciliation of the IFRS Balance Sheet to the Cash Balance Sheet

The Solvency II (or Cash) balance sheet is based on the IFRS consolidated statement of financial position (on page 156), with adjustments made to accounting assets and liabilities to reflect the Solvency II regulations and the provision for insurance liabilities set equal to the associated unit liabilities. The following table sets out the full reconciliation.

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

**Adjustment 1** nets out the policyholder interest in unit-linked assets and liabilities.

**Adjustment 2** comprises adjustment to the IFRS statement of financial position in line with Solvency II requirements, including removal of DAC, DIR, PVIF and their associated deferred tax balances, goodwill and other intangibles.

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

**Adjustment 1** nets out the policyholder interest in unit-linked assets and liabilities.

**Adjustment 2** comprises adjustment to the IFRS statement of financial position in line with Solvency II requirements, including removal of DAC, DIR, PVIF and their associated deferred tax balances, goodwill and other intangibles.

### III. Earnings per share

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

# 04

## OTHER INFORMATION

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# WE LISTEN AND RESPOND

The business has a broad range of stakeholders, and its duties to them are reflected in our strategy which has a fundamental and clear focus on each stakeholder, including our workforce, the Partnership, our clients, shareholders, third-party suppliers, regulators and wider society. This section provides information of particular interest to shareholders, such as the financial calendar, information about our locations and how stakeholders can contact us, and three glossaries which provide further information on our key performance indicators, alternative performance measures and key terms to assist stakeholders in understanding the Annual Report and Accounts.

## SHAREHOLDER INFORMATION

### Analysis of number of shareholders

| Analysis by number of shares | Holders | %      | Shares held | %      |
|------------------------------|---------|--------|-------------|--------|
| 1–999                        | 2,355   | 45.81  | 851,703     | 0.16   |
| 1,000–9,999                  | 1,922   | 37.38  | 5,667,151   | 1.07   |
| 10,000–99,999                | 550     | 10.70  | 18,062,318  | 3.41   |
| 100,000 and above            | 314     | 6.11   | 504,872,225 | 95.36  |
|                              | 5,141   | 100.00 | 529,453,397 | 100.00 |

### 2019 financial calendar

|                                                                 |                          |
|-----------------------------------------------------------------|--------------------------|
| Ex-dividend date for final dividend                             | Thursday 4 April 2019    |
| Record date for final dividend                                  | Friday 5 April 2019      |
| Announcement of first-quarter new business                      | Tuesday 30 April 2019    |
| Annual General Meeting                                          | Tuesday 14 May 2019      |
| Payment date for final dividend                                 | Friday 24 May 2019       |
| Announcement of Interim Results and second-quarter new business | Wednesday 31 July 2019   |
| Ex-dividend date for interim dividend                           | Thursday 29 August 2019  |
| Record date for interim dividend                                | Friday 30 August 2019    |
| Payment date for interim dividend                               | Friday 27 September 2019 |
| Announcement of third-quarter new business                      | Tuesday 22 October 2019  |

The above dates are subject to change and further information on the 2019 financial calendar can be found on the Company's website, [www.sjp.co.uk](http://www.sjp.co.uk).

### Dividend Reinvestment Plan

If you would prefer to receive new shares instead of cash dividends, please complete a Dividend Reinvestment Plan (DRIP) form, which is available from our Registrars, Computershare Investor Services PLC. Their contact details are on page 223.

### Share dealing

A telephone share dealing service has been established with the Registrars, Computershare Investor Services PLC, which provides shareholders with a simple way of buying or selling St. James's Place plc shares on the London Stock Exchange. If you are interested in this service, telephone 0370 703 0084.

An internet share dealing service is also available. Further information about share dealing services can be obtained by logging on to: [www.computershare.trade](http://www.computershare.trade).

### Electronic communications

If you would like to have access to shareholder communications such as the Annual Report and the Notice of General Meeting through the internet rather than receiving them by post, please register at [www.investorcentre.co.uk/ecomms](http://www.investorcentre.co.uk/ecomms).

## HOW TO CONTACT US AND ADVISERS

### How to contact us

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#### CHAIR

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#### CHIEF FINANCIAL OFFICER

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#### INDEPENDENT AUDITORS

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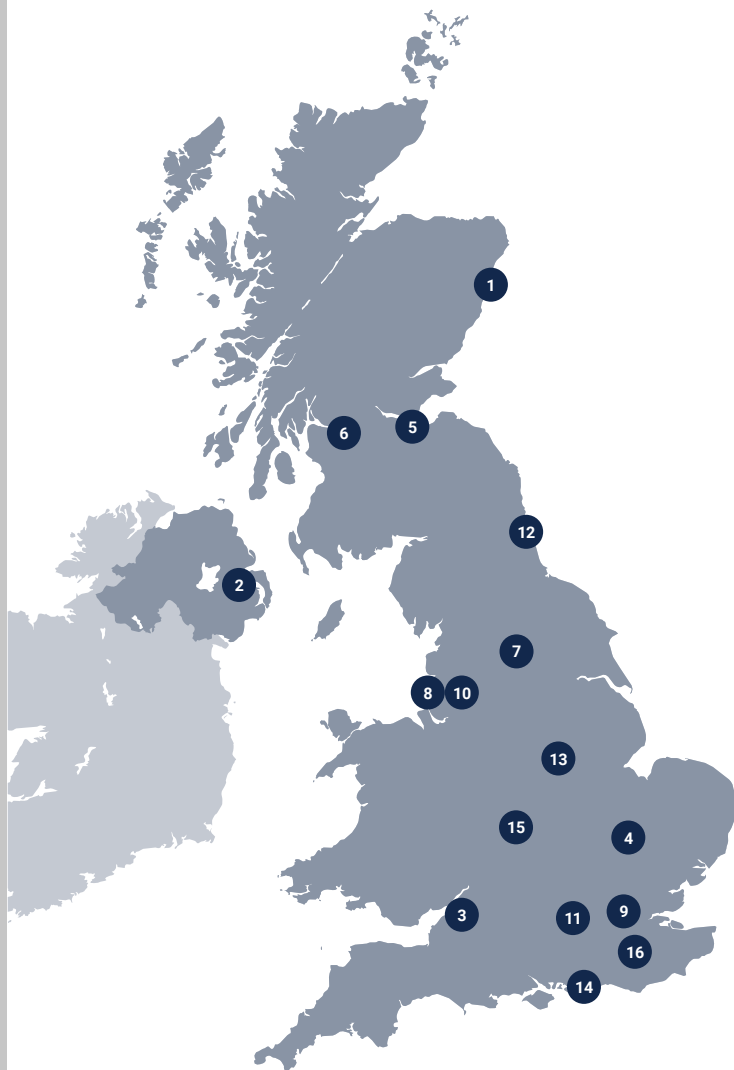
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## GLOSSARY OF KEY PERFORMANCE INDICATORS (KPIs)

**The Group's KPIs on clients, the Partnership, funds and financials are set out on pages 19, 21, 23 and 25 respectively. This KPI glossary sets out why each of these KPIs are important to the Group.**

### CLIENT KPIs

#### Client numbers

Our business model is based on managing client wealth and so the number of clients is a key measure of the health of the business. As well as reflecting past performance, it also indicates future opportunity, as our experience suggests that over 90% of new business comes from existing clients or their referrals. In 2018, we were pleased that client numbers increased from 633,000 to 682,000.

#### Client retention

Our business is long-term and client retention feeds directly into the financial result. However, it is also an indication of minimum standards having been met. We are therefore delighted that retention was again above 95%, continuing the trend of recent years.

#### Client advocacy

Our reputation is vitally important to our business model and this is best expressed through the experience of our clients. Our Wealth Account survey, conducted biennially from 2016 onwards, provides an excellent insight into client experience. Responses to the question 'Would you recommend St. James's Place to anyone else?', have been very positive over time, with the 2018 data indicating a 94% advocacy rate.

### THE PARTNERSHIP KPIs

#### Adviser numbers

Without our advisers, we would have no clients. We were therefore pleased to deliver growth in line with our long-term aspirations, supported by Academy graduates and recruitment in Asia. Adviser numbers grew from 3,661 in 2017 to 3,954 in 2018.

#### Adviser retention

Adviser retention reflects advisers' continuing satisfaction with our proposition. We are therefore pleased to note that retention has remained at the high level of 93%.

#### Gross inflows per adviser

Gross inflows per adviser is a measure of their success as business people, but also feeds into success for the Company. In 2018 gross inflows per adviser remained flat at £3.98 million (2017: £3.99 million), reflecting the 8% increase in gross inflows being matched by the 8% increase in adviser numbers.

### FUND KPIs

#### Gross inflows

Gross inflows are the gross new investment and pensions business (principally single premium) received during the year. We aim to grow gross inflows by 15% to 20% per annum over the long term. In 2018, gross inflows grew by 8%. This reflected both the difficult market conditions that prevailed in 2018, and the exceptional outcome in 2017.

#### Net inflows

Retention of funds is a result of satisfied clients and is essential if FUM is to continue to grow. Growth of 8% in the year was in line with growth in gross inflows, demonstrating our continued strength in retaining client FUM.

#### Funds Under Management (FUM)

The profitability measures of the Group are ultimately driven by the income we earn from FUM. The FUM has exhibited compound annual growth of 19% over the last ten years.

### FINANCIAL KPIs

#### EEV operating profit before tax

The European Embedded Value (EEV) reporting basis assesses the full value of the emergence of shareholder cash returns over the long term. New business (gross inflows) is the most significant underlying driver of EEV operating profit. An increase in gross inflows of 8%, along with operational economies of scale achieved as fixed expenses are spread across more new business, drove a 9% increase in EEV operating profit before tax year on year.

#### Underlying cash result

Underlying cash profit reflects the regular emergence of cash from the business operations whilst also reflecting the impact of the strategic investments we are making. Underlying cash profit was up 10% reflecting the continuing growth in the business.

#### Dividends

Growth in profit measures, particularly cash, means the Company is able to increase the level of dividend. We are pleased to confirm an increase of 12.5% in dividend in the year, bringing the total increase over the last five years to 202%.

## GLOSSARY OF ALTERNATIVE PERFORMANCE MEASURES

### Within the Annual Report and Accounts various alternative performance measures (APMs) are disclosed.

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

#### Financial position related APMs

| APM                                   | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Why is this measure used?                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Reconciliation to the financial statements |
|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| Solvency II net assets                | Based on IFRS Net Assets, but with the following adjustments:<br><br>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<br><br>2. Adjustment to remove the matching client assets and the liabilities as these do not represent shareholder assets.<br><br>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 38.                          |
| Total embedded value                  | A discounted cashflow valuation methodology, assessing the long-term economic value of the business.<br><br>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.                                                                                                                                                                                                                                                                                                                                                                  | Life business and wealth management business differ from most other businesses, in that the expected shareholder income from the sale of a product emerges over a long period in the future. We therefore supplement the IFRS and Cash results by providing additional disclosure on an embedded value basis, which brings into account the net present value of expected future cash flows, as we believe that a measure of total economic value of the Group is useful to investors. | Not applicable.                            |
| Net asset value (NAV) per share (EEV) | EEV net asset value per share is calculated as the EEV net assets divided by the year end number of ordinary shares.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Total embedded value provides a measure of total economic value of the Group, and assessing the NAV per share allows analysis of the overall value of the group by share.                                                                                                                                                                                                                                                                                                              | Not applicable.                            |
| NAV per share (IFRS)                  | IFRS net asset value per share is calculated as the IFRS net assets divided by the year-end number of ordinary shares.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Total IFRS net assets provides a measure of value of the Group, and assessing the NAV per share allows analysis of the overall value of the Group by share.                                                                                                                                                                                                                                                                                                                            | Not applicable.                            |

## GLOSSARY OF ALTERNATIVE PERFORMANCE MEASURES CONTINUED

### Financial performance related APMs

| APM                                                           | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Why is this measure used?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Reconciliation to the financial statements                                                          |
|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Operating cash result, Underlying cash result and Cash result | <p>The Cash result is defined as the movement between the opening and closing Solvency II net assets adjusted for the following items:</p> <ol style="list-style-type: none"> <li>1. The movement in deferred tax is removed to reflect just the cash realisation from the deferred tax position;</li> <li>2. The movements in goodwill and other intangibles are included; and</li> <li>3. Other changes in equity, such as dividends paid in the year and non-cash-settled share option costs, are excluded.</li> </ol> <p>The Operating cash result reflects the regular emergence of cash from the business operations.</p> <p>The Underlying cash results additionally reflects the cash impact of the strategic investments we are making.</p> <p>Finally, the Cash result reflects all other cash items, including those whose emergence is volatile, varying over time and often influenced by markets, together with the short-term costs associated with the back-office infrastructure project.</p> <p>Neither the Cash result nor the underlying cash result should be confused with the IFRS consolidated statement of cash flows which is prepared in accordance with IAS 7.</p> | <p>IFRS income statement methodology recognises non-cash items such as deferred tax and non-cash-settled share options. By contrast, dividends can only be paid to shareholders from appropriately fungible assets. The Board therefore uses the Cash results to monitor the level of cash generated by the business.</p> <p>While the Cash result gives an absolute measure of the cash generated in the year, the Underlying and Operating cash results are particularly useful for monitoring the expected long-term rate of cash emergence, which supports dividends and sustainable dividend growth.</p>                                                                                                                                                                                                  | Refer to pages 34, 35 and also see Note 3 – Segment Profit to the consolidated financial statements |
| Underlying cash basic and diluted earnings per share (EPS)    | These EPS measures are calculated as Underlying cash divided by the number of shares used in the calculation of IFRS basic and diluted EPS.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | As Underlying cash is the best reflection of the cash generated by the business, Underlying cash EPS measures allow analysis of the shareholder cash generated by the business by share.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Not applicable.                                                                                     |
| EEV profit                                                    | Derived as the movement in the total EEV during the year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Both the IFRS and Cash results reflect only the cashflows in the year. However our business is long-term, and activity in the year can generate business with a long-term value. We therefore believe it is helpful to understand the full economic impact of activity in the year, which is the aim of the EEV methodology.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | See Note 3 – Segment Profit to the consolidated financial statements                                |
| EEV operating profit                                          | <p>A discounted cashflow valuation methodology, assessing the long-term economic value of the business.</p> <p>Our embedded value is determined in line with the EEV principles, originally set out by the Chief Financial Officers (CFO) Forum in 2004, and amended for subsequent changes to the principles, including those published in April 2016, following the implementation of Solvency II.</p> <p>The EEV operating profit reflects the total EEV result with an adjustment to strip out the impact of stock market and other economic effects during the year.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <p>Both the IFRS and Cash results reflect only the cash flows in the year. However, our business is long-term, and activity in the year can generate business with a long-term value. We therefore believe it is helpful to understand the full economic impact of activity in the year, which is the aim of the EEV methodology.</p> <p>Within the EEV, many of the future cash flows derive from fund charges, which change with movements in stock markets. Since the impact of these changes is typically unrelated to the performance of the business, we believe that the EEV operating profit (reflecting the EEV profit, adjusted to reflect only the expected investment performance and no change in economic basis) provides the most useful measure of embedded value performance in the year.</p> | See Note 3 – Segment Profit to the consolidated financial statements                                |

| APM                                                             | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Why is this measure used?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Reconciliation to the financial statements                                              |
|-----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| EEV operating profit basic and diluted earnings per share (EPS) | These EPS measures are calculated as EEV operating profit after tax divided by the number of shares used in the calculation of IFRS basic and diluted EPS.                                                                                                                                                                                                                                                                                                                                                               | As EEV operating profit is the best reflection of the EEV generated by the business, EEV operating profit EPS measures allow analysis of the long-term value generated by the business by share.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Not applicable.                                                                         |
| Policyholder and Shareholder tax                                | <p>Shareholder tax is estimated by making an assessment of the effective rate of tax that is applicable to the shareholders on the profits attributable to the shareholders. This is calculated by applying the appropriate effective corporate tax rates to the shareholder profits.</p> <p>The remainder of the tax charge represents tax on policyholders' investment returns.</p> <p>This calculation method is consistent with the legislation relating to the calculation of the tax on shareholders' profits.</p> | <p>The UK tax regime facilitates the collection of tax from life insurance policyholders by making an equivalent charge within the corporate tax of the Company. The total tax charge for the insurance companies therefore comprises both this element and an element more closely related to normal corporation tax.</p> <p>Life insurance business impacted by this tax typically includes policy charges which align with the tax liability, to mitigate the impact on the corporate. As a result, when policyholder tax increases, the charges also increase. Given these offsetting items can be large, and typically do not perform in line with the business, it is beneficial to be able to identify the two elements separately. We therefore refer to that part of the overall tax charge, which is deemed attributable to policyholders, as policyholder tax, and the rest as shareholder tax.</p> | Disclosed as separate line items in the statement of comprehensive income on page 154.  |
| 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 also useful to separately identify the profit before shareholder tax, which reflects the IFRS profit before tax, adjusted only for tax paid on behalf of policyholders.                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Disclosed as a separate line item in the statement of comprehensive income on page 154. |
| Underlying profit                                               | A profit measure which reflects the IFRS result adjusted to remove the DAC, DIR and PVIF adjustments.                                                                                                                                                                                                                                                                                                                                                                                                                    | The IFRS methodology promotes recognition of profits in line with the provision of services and so, for long-term business, some of the initial cash flows are spread over the life of the contract through the use of intangible assets and liabilities (DAC and DIR). Due to the Retail Distribution Review (RDR) regulation change in 2013, there was a step change in the progression of these items in our accounts, which resulted in significant accounting presentation changes despite the fundamentals of our vertically-integrated business remaining unchanged. We therefore believe it is useful to consider the IFRS result having removed the impact of movements in these intangibles as it better reflects the underlying performance of the business.                                                                                                                                        | Refer to page 34.                                                                       |

## GLOSSARY OF TERMS

### **Adviser or financial adviser**

An individual who is authorised by an appropriate regulatory authority to provide financial advice. In the UK our advisers are authorised by the FCA.

### **Administration platform, also Bluedoor**

A new client-centric administration system, being developed in conjunction with our third-party outsourced administration provider, DST. The system is owned by DST.

### **Capita**

A provider of business process outsourcing and integrated professional support service solutions, which is our third-party outsourced provider, responsible for the administration of our Dublin-based life insurance company, SJPI.

### **Chief Operating Decision Maker (CODM)**

The Executive Committee of the Board (Executive Board), which is responsible for allocating resources and assessing the performance of the operating segments.

### **Client advocacy**

The Company requests feedback from clients biennially through a survey distributed alongside the Wealth Account. Advocacy is measured by the response to the question 'Would you recommend SJP services to others?'. The potential responses distinguish between 'Yes, and have done so already', 'Yes, but have yet to do so' and 'No'.

### **Client numbers**

The number of individuals who have received advice from a St. James's Place Partner and own a St. James's Place wrapper.

### **Client retention**

Client retention is assessed by calculating the proportion of clients at 1 January in the year who remain as a client throughout the year and are still a client on 31 December of the same year.

### **Company**

The Company refers to St. James's Place plc, which is also referred to as 'St. James's Place', 'St. James's Place plc' and 'SJP' throughout the Annual Report and Accounts.

### **Deferred Acquisition Costs (DAC)**

An intangible asset required to be established through the application of IFRS to our long-term business. The value of the asset is equal to the amount of all costs which accrue in line with new business volumes. The asset is amortised over the expected lifetime of the business.

### **Deferred Income (DIR)**

Deferred income, which arises from the requirement in IFRS that initial charges on long-term financial instruments, should only be recognised over the lifetime of the business. The initial amount of the balance is equal to the charge taken.

### **Discretionary Fund Management (DFM)**

A generic term for a form of investment management in which buy and sell decisions are made (or assisted) by a portfolio manager for a client's account. Within St. James's Place, the services provided by Rowan Dartington (including investment management, advisory stockbroking and wealth planning) are collectively referred to as Discretionary Fund Management, distinguishing them from the services provided by our Partners and from the Investment Management Approach (IMA).

### **DST Systems (DST)**

A provider of investor and policyholder, administration and technology services, formerly known as International Financial Data Services (IFDS). DST is our third-party outsourced provider, responsible for the administration of our UK life insurance company SJPUK, our unit trust manager SJPUTG, and our investment administration company SJPIA.

### **European Embedded Value (EEV)**

EEV reflects the fact that the expected shareholder income from the sale of wealth management products emerges over a long period of time by bringing into account the net present value of the expected future cash flows. EEV is calculated in accordance with the EEV principles originally issued in May 2004 by the Chief Financial Officers Forum (CFO Forum), supplemented in both October 2005 and, following the introduction of Solvency II, in April 2016.

### **Field Management Team (FMT)**

The team of managers within St. James's Place with day-to-day responsibility for support and supervision of the Partnership.

### **Financial Conduct Authority (FCA)**

The FCA is a company limited by guarantee and is independent of the Bank of England. It is responsible for the conduct of business regulation of all firms (including those firms subject to prudential regulation by the Prudential Regulation Authority (PRA)) and the prudential regulation of all firms not regulated by the PRA. The FCA has three statutory objectives: securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system, and promoting effective competition in the interests of consumers.

### Financial Services Compensation Scheme (FSCS)

The FSCS is the UK's statutory compensation scheme for customers of authorised financial services firms. This means that the FSCS can pay compensation if a firm is unable, or is likely to be unable, to pay claims against it. The FSCS is an independent body, set up under the Financial Services and Markets Act 2000 (FSMA), and funded by a levy on 'authorised financial services firms'. The scheme covers deposits, insurance policies, insurance brokering, investments, mortgages and mortgage arrangement.

### Funds Under Management (FUM)

Represents all assets actively managed or administered by or on behalf of the Group, including all life insurance and unit trust assets, but not assets managed by third parties where we have only introduced or advised on the business. Assets managed by Rowan Dartington count as FUM from the date of acquisition.

### Gross inflows

Total new funds under management accepted in the period. New funds accepted by Rowan Dartington count for Gross inflows from the date of acquisition.

### Group

The Group refers to the Company together with its subsidiaries as listed in Note 21 to the consolidated financial statements.

### International Financial Reporting Standards (IFRS)

These are accounting regulations issued by the International Accounting Standards Board (IASB) designed to ensure comparable preparation and disclosure of statements of financial position, and are the standards that all publicly listed companies in the European Union are required to use.

### Investment Management Approach (IMA)

The IMA is how St. James's Place manages clients' investments. It is managed by the St. James's Place Investment Committee, which in turn is advised by respected independent investment research consultancies, including Stamford Associates, Redington and Aon Consulting. The Investment Committee is responsible for identifying fund managers for our funds, selecting from fund management firms all around the world. It is also responsible for monitoring the performance of our fund managers, and, if circumstances should change and it becomes necessary, then it is responsible for changing the fund manager as well.

### Maturities

Those sums paid out where a plan has reached the intended, pre-selected, maturity event (e.g. retirement).

### Net inflows

Net inflows are Gross inflows less the amount of FUM withdrawn by clients during the same period. The net inflows is the growth in FUM not attributable to investment performance.

### Paraplanner

Staff in a Partner practice who support the advisers in that practice.

### Policyholder and Shareholder tax

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. This part of the overall tax charge, which is attributable to policyholders, is called policyholder tax. The rest is shareholder tax.

### Prudential Regulation Authority (PRA)

The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit-taking institutions, insurers and major investment firms. The PRA has two statutory objectives: to promote the safety and soundness of these firms and, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders.

### Purchased Value of In-force (PVIF)

An intangible asset established on takeover or acquisition, reflecting the present value of the expected emergence of profits from a portfolio of long-term business. The asset is amortised in line with the emergence of profits.

### Registered Individuals (RI)

An individual who is registered by the FCA, particularly an individual who is registered to provide financial advice. See also Adviser and St. James's Place Partner.

### Regular income withdrawals

Those amounts, pre-selected by clients, which are paid out by way of periodic income.

### Retirement Account (RA)

A pension product, launched during 2016, which incorporates both pre-retirement pension saving and post-retirement benefit receipts in the same investment product.

## GLOSSARY OF TERMS CONTINUED

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**Rowan Dartington**

A wealth management business providing investment management, advisory stockbroking and wealth planning services acquired by St. James's Place during 2016.

**Solvency II**

Insurance regulations designed to harmonise EU insurance regulation which became effective on 1 January 2016. The key concerns of the regulation are to ensure robust risk management in insurance companies and to use that understanding of risk to help determine the right amount of capital for European insurance companies to hold to ensure their ongoing viability in all but the most severe stressed scenarios.

**St. James's Place Charitable Foundation**

The independent grant-making charity established at the same time as the Company in 1992. More information about the Charitable Foundation can be found on pages 71 to 75 or on the website [www.sjpfoundation.co.uk](http://www.sjpfoundation.co.uk).

**St. James's Place Partner**

A member of the St. James's Place Partnership. Specifically, the individual or business that is registered as an Appointed Representative of St. James's Place on the FCA website. St. James's Place Partner practices vary in size and structure. Many are sole traders but there are also a growing number of businesses employing many advisers.

**St. James's Place Partnership**

The collective name for all of our advisers, who are Appointed Representatives of St. James's Place.

**State Street**

State Street is a global financial services holding company offering custodian services, investment management services, and investment research and trading services. State Street is responsible for the custody of the majority of the St. James's Place assets, and also provides other investment management services.

**Surrenders and part-surrenders**

Those amounts of money which clients have chosen to withdraw from their plan, which were not pre-selected regular income withdrawals or maturities.

**Vertically integrated**

When we describe St. James's Place as being vertically integrated, we are referring to the fact its distribution capability (the Partnership) and the manufacturers of the its investment products are both part of the Group.

