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ANNUAL  
REPORT &  
ACCOUNTS  
2016

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ST. JAMES'S PLACE

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# ST. JAMES'S PLACE

St. James's Place is an award winning wealth management group. A FTSE 100 company with a track record of strong growth, we believe in the value of face-to-face advice and building long-term relationships with our clients, delivered through the St. James's Place Partnership. We have a distinctive approach to investment management and a strong customer service ethos, underpinned by continued investment in our people and technology.

## OUR AWARDS IN 2016



## CONTENTS

# ST. JAMES'S PLACE MANAGES £75.3 BILLION OF CLIENT FUNDS



### Strategic Report

1	Highlights of The Year
2	Chief Executive's Report
6	Market Overview
8	St. James's Place Investment Case
10	Our Business Model
12	Our Strategy Explained
14	Clients
15	Partners
16	Funds
18	Our People
22	Our Objectives and Related Key Performance Indicators
24	Chief Financial Officer's Report
48	Risk and Risk Management
54	Corporate Social Responsibility Report
60	Approval of the Strategic Report

### St. James's Place Foundation

62	St. James's Place Foundation
68	Board of Directors
70	Chair's Report
72	Corporate Governance Report
80	Report of the Audit Committee
88	Report of the Risk Committee
91	Report of the Nomination Committee
93	Directors' Remuneration Report
114	Directors' Report
118	Statement of Directors' Responsibilities

### Financial Statements

119	Consolidated financial statements on international financial reporting standards basis
120	Independent Auditors' Report to the Members of St. James's Place plc
185	Parent Company Financial Statements under Financial Reporting Standard 101
196	Shareholder Information
197	How To Contact Us And Advisers
198	St. James's Place Partnership Locations
199	Glossary of Alternative Performance Measures
202	Glossary Of Terms

### Other Information

# HIGHLIGHTS OF THE YEAR

## CLIENTS

Growth in client numbers contributed to the increase in gross inflows. The quality of client outcomes, as reflected in client retention and feedback, as well as investment returns, continued to be strong.

### Number of clients

<b>571,800</b>	<b>↑9%</b>
2015: 525,800	

## PARTNERS

Our proposition continued to prove attractive as we broadened our adviser base, both in the UK and Asia, and via both traditional recruitment channels and our own Academy programmes.

### Partnership numbers

<b>2,378</b>	<b>↑5%</b>
2015: 2,264	

## FUNDS

In another successful year, new business from clients combined with positive growth in underlying investments, resulting in record funds under management.

### Funds under management

<b>£75.3bn</b>	<b>↑28%</b>
2015: £58.6bn	

### Gross inflow of funds under management

<b>£11.35bn</b>	<b>↑23%</b>
2015: £9.24bn	

### Net inflow of funds under management

<b>£6.78bn</b>	<b>↑17%</b>
2015: £5.78bn	

## FINANCIAL

Long-term growth in clients and Partners combined with positive investment performance to underpin the financial results and continued growth of the business.

### Dividend (pence per share)

<b>33.0p</b>	<b>↑18%</b>
2015: 27.96p per share	

### Profit before shareholder tax

<b>£140.6m</b>	<b>↓7%</b>
2015: £151.3m	

### EEV operating profit

<b>£673.6m</b>	<b>↑2%</b>
2015: £660.2m	



Our website and iPad app contain a full investor relations section with news, reports, webcasts, financial calendar and share price information.

**www.sjp.co.uk**

click on Shareholder Relations

# CHIEF EXECUTIVE'S REPORT

**ST. JAMES'S PLACE ONCE AGAIN  
ACHIEVED STRONG GROWTH  
ACROSS ALL KEY ASPECTS OF THE  
BUSINESS**



David Bellamy  
Chief Executive

## Gross inflows

**£11.35bn** 2015: £9.24bn

## Funds under management

**£75.3bn** 2015: £58.6bn

## Full year dividend

**33.0p** 2015: 27.96p per share

2016 was an extraordinary year when market participants, most commentators and the public were surprised by how events unfolded.

First it was the vote to leave the EU in June and then it was the outcome of the US Presidential election. Both seemed to defy the pollsters' predictions and both have impacted stock markets in a somewhat unexpected way.

If they teach us one thing (again) it's to avoid trying to predict the future!

Despite this political uncertainty St. James's Place once again achieved strong growth across all key aspects of the business. Gross inflows were 23% higher at a record £11.4 billion which, together with characteristically high retention of client funds, resulted in record net inflows in the twelve months of £6.8 billion. These net inflows, together with the strong investment returns our clients enjoyed, gave rise to 28% growth in funds under management to £75.3 billion.

At the heart of our sustained growth is our commitment to achieving good outcomes for our clients and the importance we place on building long-term relationships and serving them well. That very nearly 90% of new investments come from existing clients, referrals and introductions and 99% of our clients, who responded to our recent survey, feel our proposition offers value for money, is testament to the fact that we are doing this.

For most people, their finances and wealth are personal and they want to be treated in a highly personalised way and by someone they trust. Indeed, we see a growing demand for sound, personal financial planning advice as individuals begin to fully comprehend, amongst other things, the financial implication of increased life expectancy whilst being faced with increasingly complex options in respect of their pension arrangements, supporting their offspring and other family matters. The scale and quality of the Company's relationship based approach to wealth management, twinned with our distinctive investment management proposition, which has been positioned to serve this market, is doing so.

We work to offer a consistent service to our Partners, and through them to their clients who do not have the time, expertise, inclination or confidence to look after their own affairs and we recognise that, for most of them, their main priority is to keep their money safe, ensure it is invested efficiently and at the very least realise a decent return. Our portfolio approach, which gives access to a globally diversified range of assets, the holistic advice available from our Partners on everything from tax to intergenerational planning, is designed with this objective in mind.

## FINANCIAL PERFORMANCE

As reported within the Chief Financial Officer's report on pages 24 and 25 the strong operating performance of the business during the year is reflected in the financial performance for the year.

As well as paying a growing dividend to shareholders we are continuing to invest in the business for the future be it the Academy, our growing operations in Asia, our new investment into Discretionary Fund Management or our back office infrastructure. Whilst these investments are consuming capital today we are very pleased with how each initiative is developing and we expect a good return for shareholders in the future.

## DIVIDEND

At the half year, we increased the interim dividend by 15% and reaffirmed our commitment to continue to grow the dividend in line with the underlying performance of the business.

Consequently, and supported by the continued strong performance of the business, the Board has proposed a final dividend of 20.67 pence per share, up 20%, which brings the full year dividend to 33.0 pence per share, up 18%.

The final dividend for 2016, subject to approval of shareholders at our AGM, will be paid on 12 May to shareholders on the register at the close of business on 7 April. As usual, a Dividend Reinvestment Plan continues to be available for shareholders.

## CLIENTS

Key to our sustained success has been our core commitment to achieving the best possible outcome for our clients and ensuring that they remain well served by our long-term, face-to-face approach to wealth management. While the evolution of the UK wealth management landscape means that UK savers and investors have an array of options available to them today, we know that a highly personalised, relationship driven model is in high demand and we are confident that this will remain so in the future.

At the heart of our sustained growth is our commitment to achieving good outcomes for our clients and the importance we place on building long-term relationships

# CHIEF EXECUTIVE'S REPORT continued

However, we are not complacent and we regularly take the opportunity to seek feedback directly from all our clients. The most recent research, carried out in early 2017 following receipt of annual Wealth Account statements, indicates that overall client satisfaction remains very strong with 94% of clients who responded telling us that they are either satisfied or very satisfied with the overall relationship. This sentiment is echoed by the fact that more than 97% of clients confirmed that they would recommend St. James's Place to others, indeed 56% say they have already done so. And, as I commented earlier, when asked to indicate whether they feel our proposition offers value for money, 99% of the clients who responded, said reasonable, good or excellent, with 82% in the higher categories.

We will build upon these excellent results and seek further improvements, to our standards of service and proposition, to ensure clients continue to receive high quality, face-to-face advice they can trust and demonstrable value creation for their wealth.

## INVESTMENT MANAGEMENT

2016 was a year of strong growth for many major stock markets across the globe. There were two great political events that dominated much of the political and economic debate during the year, the UK's Brexit vote and election of Donald Trump as US President – but these surprise outcomes ultimately did little to dent market momentum as both the S&P 500 and FTSE 100, for example, struck new highs in late 2016.

Meanwhile, our funds performed strongly over the period, and all eight of our portfolios delivered positive returns, ranging from 5.2% for the Defensive portfolio to 20.7% for the Adventurous portfolio, net of all charges.

For much of the year, low and negative interest rates created headwinds for those seeking income, and a summer interest rate cut by the Bank of England only added to the challenge. By the end of the year, however, the tide appeared to be turning, as US yields rose following the presidential election, and the Federal Reserve used its December meeting to raise interest rates.

It was against this backdrop that we launched our new Worldwide Income fund in October. The fund aims to obtain an attractive level of income through investing largely in global equities. Equities are a proven source of long-term income, and the new fund adds to the diversity of income sources we can provide our investors. The fund is managed by Clyde Rossouw of Investec Asset Management based in Cape Town, demonstrating once again the global nature of our investment manager selection process.

The political surprises of 2016 offer a reminder of the importance of diversification, whether by geography or asset class. We will continue to adapt our investment approach to ensure we are responding to the evolving investment environment. In doing so, we believe we can continue to help our clients fulfil their long-term financial goals.

## THE ST. JAMES'S PLACE PARTNERSHIP

Increasing the number of Partners and advisers, whilst at the same time providing them with the tools and support to deliver high quality outcomes for clients remains one of the key drivers to achieving our long-term growth objectives.

I am therefore pleased to report that through the continued acquisition of highly established advisers, the integration of new Partners in Asia and the success of our extended Academy programme, our qualified Adviser population increased by 10% to 3,415, across the 2,378 Partner businesses. In many ways, the added momentum in growth in our qualified adviser population reflects the evolution of Partner businesses, as they seek to acquire more clients and continue to provide a high level of service to their existing clients.

As our Partner practices grow and the administration of their clients' affairs becomes increasingly complex, we will continue to look to find ways to make it easier for our Partners, advisers and their support staff to serve their clients well and build even more successful businesses. This is the driver behind our investment in our back office development and the extension of our Academy concept to the training of specialist support staff for our existing Partners.

Alongside the Partnership we completed the acquisition of Rowan Dartington in the first half of 2016 and we have seen the number of investment executives increase by 21% from 34 to 41.

## THE ST. JAMES'S PLACE FOUNDATION AND COMMUNITY ENGAGEMENT

Raising funds for those less fortunate has always been at the heart of the Group's culture, and the collective efforts of the whole of our community, including employees, Partners, suppliers and others connected to St. James's Place, resulted in total funds raised of £7.6 million (including company matching). This means the total amount raised to date is now over £54 million, benefitting the hundreds of causes it has and will continue to support and quite literally changing people's lives.

To mark our 25th Anniversary year and in keeping with our strong desire to further support fund raising efforts, the Board, on behalf of shareholders, has agreed to double the matched funding. It is a special incentive for 2017 only and subject to an overall cap of £10 million.

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

We take a great deal of pride in the significant contribution we make through the Foundation and other initiatives including our structured programmes for summer interns and Apprenticeships. We are also committed to maintaining our Living Wage accreditation, being one of only 20 FTSE100 companies to achieve this status.

Further details of our CSR activities are set out on pages 54 to 59 and an update on the Foundation is provided on pages 62 to 65.

#### **OUR COMMUNITY**

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

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

#### **OUTLOOK**

Looking forward, we entered 2017 with a stronger adviser team and a more diversified investment proposition and a greater need for advice clients can rely on. We remain committed to relationship based advice and believe we are better placed than ever to serve our clients well and for the opportunities that lie ahead.

**David Bellamy**

*Chief Executive*

27 February 2017

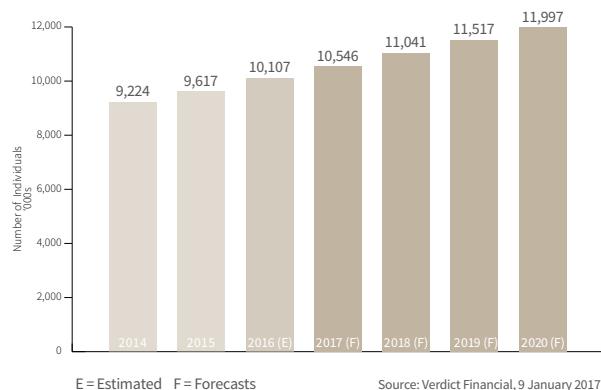
**On behalf of the Board and shareholders I thank everyone connected with St. James's Place for their contribution to these results and for their continued enthusiasm, dedication and commitment**

# MARKET OVERVIEW

**BY 2020 THERE ARE EXPECTED TO BE 12 MILLION INDIVIDUALS IN THE UK WITH BETWEEN £50k AND £5m OF INVESTABLE ASSETS**

## MARKET TRENDS

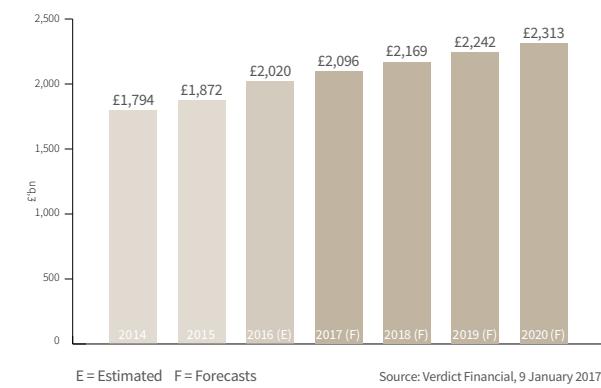
### UK INDIVIDUALS WITH BETWEEN £50k AND £5m OF INVESTABLE WEALTH



E = Estimated F = Forecasts

Source: Verdict Financial, 9 January 2017

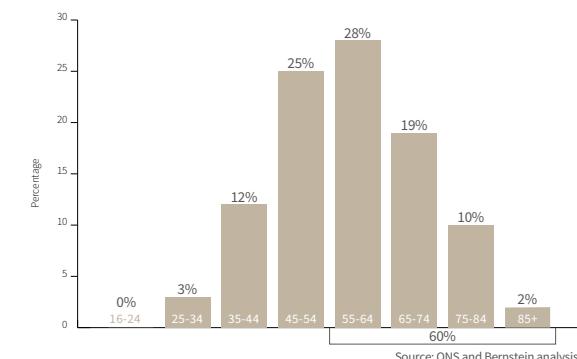
### AMOUNT HELD BY UK INDIVIDUALS WITH BETWEEN £50k AND £5m OF INVESTABLE WEALTH



E = Estimated F = Forecasts

Source: Verdict Financial, 9 January 2017

### UK AGGREGATE WEALTH



Source: ONS and Bernstein analysis

## THE UK WEALTH MARKET

St. James's Place's prime target market is UK individuals with between £50,000 and £5 million in investable assets. There were estimated to be 10 million such individuals at the end of 2016 and this number is projected to grow by 4.1% per annum to 12 million by 2020. The investable assets of this group are projected to grow from £2.0 trillion to £2.3 trillion in this time.

## ADVICE LED SECTOR

Based on 2015 funds under management of £58.6 billion, we ranked first in the 2016 Private Asset and Wealth Managers (PAM) Directory by Assets under Management, having grown by £6.6 billion in the previous twelve months (+13%). This represented the fastest growth, both in absolute and percentage terms, of any business in the PAM top 10 rankings, and around half of the total growth of the top 10 wealth managers in that year.

In addition, with 3,415 qualified advisers at the end of 2016, we estimate that St. James's Place represents in excess of 10% of the UK's financial adviser population today.

## DEVELOPING COMPETITIVE LANDSCAPE

Given the success of our business over time, it is unsurprising that others are endeavouring to build an adviser base of their own, whether through acquisition or via recruitment. In addition, Direct-to-Consumer platforms have acknowledged the importance of personal advice and so are recruiting advisers, as are some retail banks seeking to re-enter the face-to-face advice market after a self imposed, post Retail Distribution Review (RDR) hiatus.

We welcome such developments, recognising the importance that a growing adviser market will play in closing the 'advice gap' that remains in the UK. We note also that the US market has double the number of advisers per capita than in the UK, suggesting there is ample scope for further adviser penetration in the UK market.

Meanwhile, a number of businesses, including wealth managers, Direct-to-Consumer businesses, fund managers and platforms are looking to develop automated 'advice' propositions, typically through offering portfolios of passive funds. While these automated low cost solutions will no doubt appeal to certain sections of the market, it is important to recognise that they are unable to replicate the trusted, bespoke and comprehensive nature of face-to-face wealth management advice today.

#### **WEALTH SOLUTIONS**

Having witnessed unprecedented changes to the retirement planning market in recent years, a period of stability would help individuals plan for their future with confidence. The advent of the Lifetime ISA and continued uncertainty over government policy on the future of tax relief on pension contributions, risk increasing savers' confusion over the right course of action, emphasising once more the importance of quality financial advice.

Against that backdrop, ISAs have been an undoubted success in fostering the UK's savings habit. The government's move to increase the annual allowance to £20,000 from April is a very welcome one, and a clear statement of the importance of ISAs in the future personal savings landscape.

It remains to be seen whether record low savings rates and the impact of the new Personal Savings Allowance precipitate a greater shift towards Stocks and Shares ISAs among consumers, but we are supportive of any steps that encourage individuals to take more responsibility for their own long-term financial security.

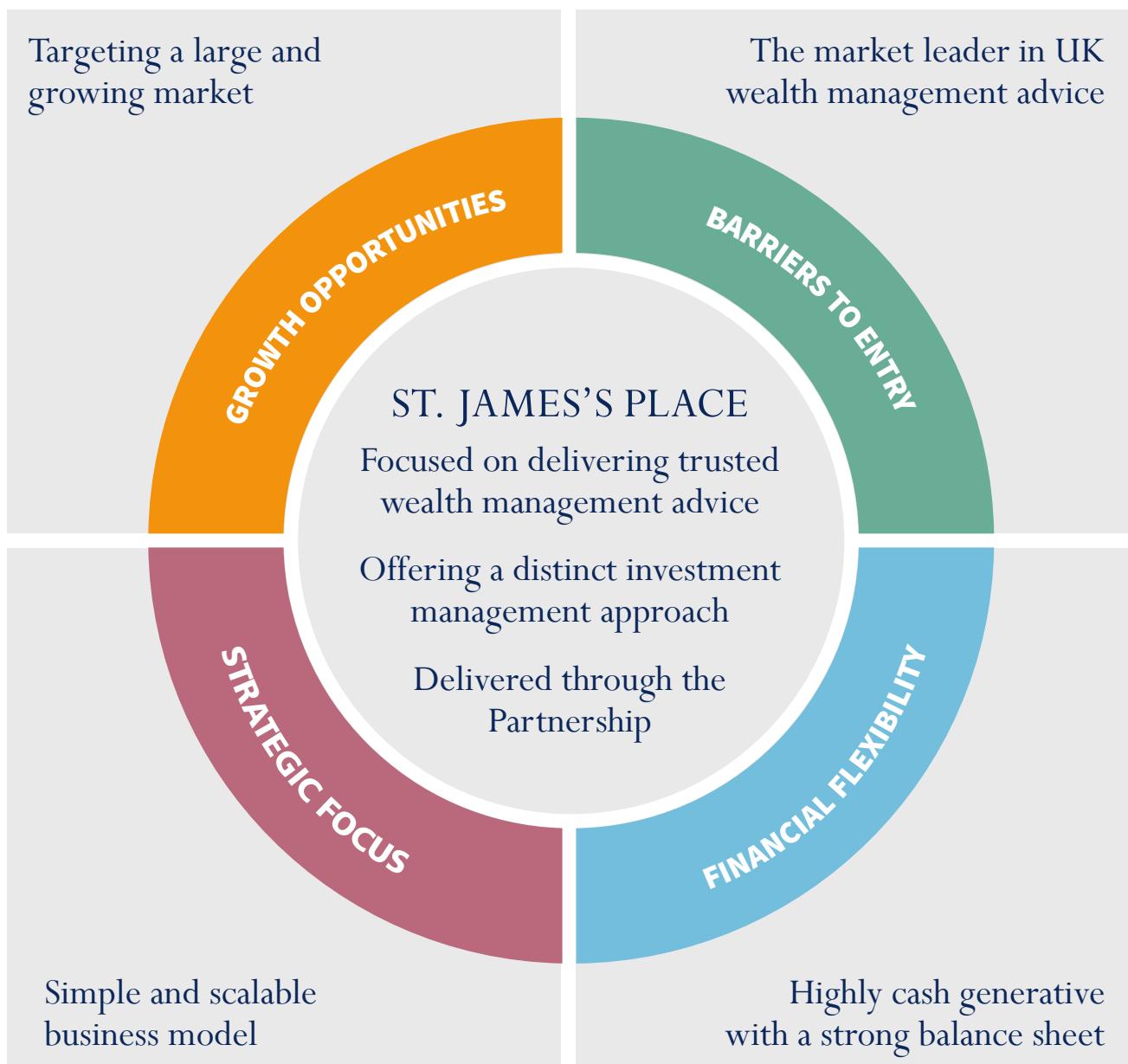
The pensions market continues to evolve as the number of open Defined Benefit schemes continue to dwindle, leading increasing numbers of individuals to take responsibility for ensuring they have sufficient funds in retirement. Meanwhile, the advent of Pensions Freedoms from 2015/16 has led to greater flexibility in the use of Defined Contribution pensions savings. Both of these dynamics present a very real need for holistic, long-term financial advice in the UK.

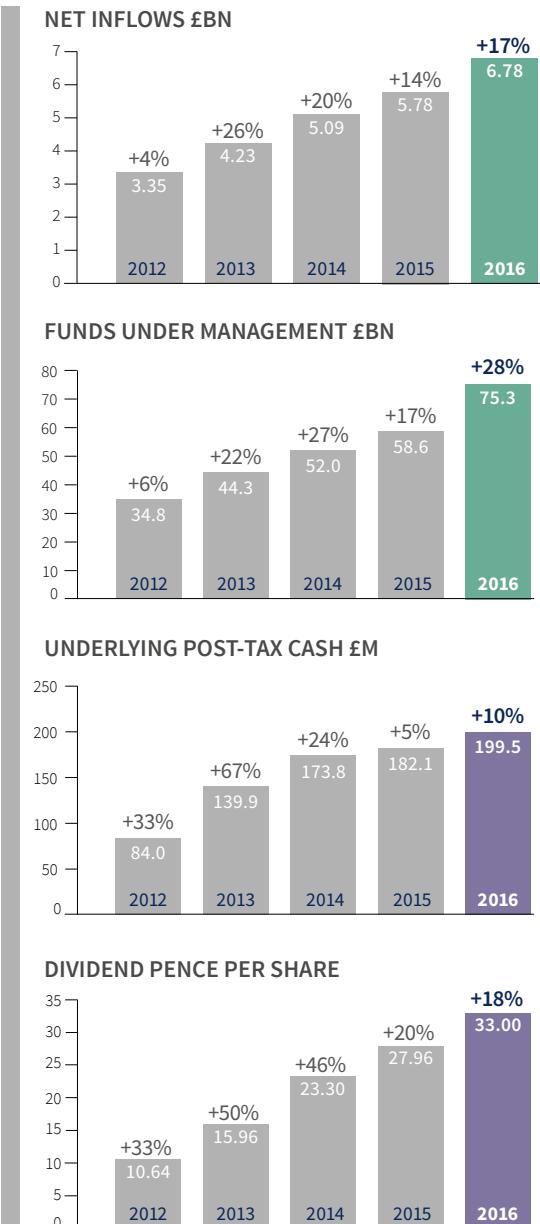
**These dynamics present a very real need for holistic, long-term financial advice in the UK**



# ST. JAMES'S PLACE INVESTMENT CASE

HAVING ESTABLISHED THE MARKET LEADING POSITION  
IN UK WEALTH MANAGEMENT TODAY, WE ARE UNIQUELY  
WELL PLACED TO CAPITALISE ON GROWING DEMAND  
FOR TRUSTED, FACE-TO-FACE FINANCIAL ADVICE



**2016 ACTUAL:**

Net inflows  
**£6.78bn**

FUM  
**£75.3bn**

Underlying post-tax cash  
**£199.5m**

Dividends per share  
**33.00p**

## OUR BUSINESS MODEL

**OUR BUSINESS SEEKS TO ATTRACT CLIENT WEALTH THROUGH OFFERING TRUSTED, FACE-TO-FACE FINANCIAL ADVICE TWINNED WITH A COMPELLING INVESTMENT PROPOSITION**

### CLIENTS

#### OBJECTIVES

To deliver positive outcomes to an increasing population of clients

### PARTNERS

#### OBJECTIVES

To continue to grow and develop the Partnership

### FUNDS

#### OBJECTIVES

To increase funds under management

### FINANCIAL

#### OBJECTIVES

Deliver value for Clients and Shareholders



## DEVELOPING THE ST. JAMES'S PLACE PARTNERSHIP

St James's Place (SJP) is a wealth management business; the Group's advisers, the St. James's Place Partnership, provide clients with a financial planning service and face-to-face advice; clients' wealth is managed through the Group's distinctive Investment Management Approach (IMA). Almost uniquely within the UK wealth management market, this vertically integrated model means that the Group is directly responsible for the whole offering, including advice, management of investments and any related services.

The Partnership is critical to the success of the business. Partners are able to attract clients and, through building trust, develop long-term relationships, supporting clients with their financial needs over time. This relationship based approach is greatly valued by the Group's clients, no more so than in periods of financial uncertainty. The Group's experience is that there is an increasing demand for trusted advice from experienced advisers, backed by a strong brand and an organisation which takes responsibility for all aspects of the service.

## DRIVING GROWTH IN FUNDS UNDER MANAGEMENT

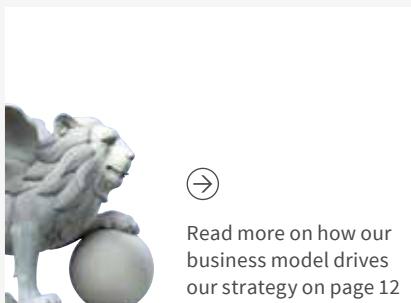
As a result, the Group is able to attract and retain retail funds under management from which it receives an annual management fee. This is the principal source of income for the Group, and it grows with additional new business and also as a result of growth in markets and the success of our approach to investment management.

Attracting new funds under management is core to the success of the Group, and growth in new business arises as a result of both increasing Partner numbers and also encouraging further development by existing Partners. By providing an attractive proposition, the Group is able to recruit new members to the Partnership, and the provision of high quality support enables Partners to grow both their own businesses and ours.

## CONTROLLING EXPENDITURE

Group expenditure is carefully managed with clear objectives set and with a particular focus on managing fixed costs. Many activities are outsourced so we can benefit from industry specialists and expenses that vary with business levels. Such expenses include the costs of client administration and investment administration, the costs of which can then be met from margins in our products. Overall, a small proportion of expenditure is required to maintain existing funds, but the majority is invested in supporting and growing the Partnership and acquiring new funds.

Profits emerge from the business principally as a result of the annual management income from funds under management exceeding expenses.



A simple and scalable model that delivers value



# OUR STRATEGY EXPLAINED

## OUR KEY BUSINESS OBJECTIVE IS GROWTH IN FUNDS UNDER MANAGEMENT (FUM) THROUGH OFFERING A HIGH QUALITY SERVICE TO CLIENTS

Growth in FUM (and Net Inflows) requires growth in Gross Inflows and retention of FUM.

### GROWTH STRATEGY

Our growth strategy for delivering increasing Gross Inflows involves:

- Growing the size of the Partnership; and
- Improving Partner productivity.

### SUPPORT STRATEGY

Our support strategy for delivering sustained retention of FUM involves:

- Delivering high quality service to Partners and clients; and
- Driving consistently good investment performance.

### CLIENTS

Deliver positive outcomes to clients

### PARTNERS

Grow and develop the Partnership

### FUNDS

Increase funds under management

### FINANCIAL

Achieve sustainable growth in profits

<p><b>WHAT THIS MEANS:</b></p> <p>Through our face-to-face advice service, we aim to help clients in a way which reflects their personal circumstances. Our approach is based on development of long-term relationships, founded on trust. By continually seeking to enhance our processes and make improvements to the client experience we achieve client satisfaction, leading to strong retention and high levels of client advocacy. As a result, we are able to attract new clients through both referrals and introductions.</p>	<p><b>OUR FOCUS FOR 2017:</b></p> <ul style="list-style-type: none"> <li>– Ensure the underlying administration of our client offering meets all expectations;</li> <li>– Fully roll out our Retirement Account, enhancing client experience of pension planning and pension freedoms;</li> <li>– Expand the Rowan Dartington Discretionary Fund Management (DFM) offering as part of our holistic client offering;</li> <li>– Continue our relationship with Metro Bank and the services they provide for our clients; and</li> <li>– Further develop our proposition for supporting clients wanting to make 'inter-generational' financial arrangements.</li> </ul>	 <p>For further information; see our clients on page 14.</p>
<p><b>WHAT THIS MEANS:</b></p> <p>Through providing an attractive proposition we are able to recruit new members to the Partnership and, by providing high quality support, we can help them to grow. Our Partners play the leading role in delivering our wealth management service. Expanding their number is central to our growth aspirations. Our support for them includes ongoing professional development as well as support systems and infrastructure, to ensure they are equipped to deliver a first class service to their clients.</p>	<p><b>OUR FOCUS FOR 2017:</b></p> <ul style="list-style-type: none"> <li>– Continue to attract high quality advisers to join the Partnership;</li> <li>– Support existing Partners in gaining further qualifications, including Chartered Status;</li> <li>– Continue our regional academies initiative, including our next generation (succession) and paraplanning academies;</li> <li>– Support Partners to grow their businesses, as well as to develop their back office operations, allowing them to spend more time with clients;</li> <li>– Continue to develop our Asia operations; and</li> <li>– Continue to integrate Rowan Dartington into our Partner proposition.</li> </ul>	 <p>For further information; see our Partners on page 15.</p>
<p><b>WHAT THIS MEANS:</b></p> <p>Management of client funds is at the heart of our business. They are managed through our distinctive Investment Management Approach (IMA). Overall FUM growth is driven by successful Partners supporting satisfied clients, underpinned by consistent delivery of the IMA. Focus on delivering for clients has resulted in doubling of FUM over the past five years, as well as in the five years preceding that. Funds under management has historically increased organically through 15 to 20% growth (over the longer term) in gross inflows, market leading retention experience and superior investment returns.</p>	<p><b>OUR FOCUS FOR 2017:</b></p> <ul style="list-style-type: none"> <li>– Continue to focus on the IMA proposition in support of client outcomes, particularly 'select, monitor, change' process;</li> <li>– Broaden the investment proposition;</li> <li>– Further develop our responsible investing focus; and</li> <li>– Further expand our DFM offering and continue its integration into our overall approach to investment management.</li> </ul>	 <p>For further information; see our funds on page 16.</p>
<p><b>WHAT THIS MEANS:</b></p> <p>The principal source of income for the Group is annual management income from funds under management. As a result, it grows with new business and with growth in investments. Profits, and ultimately dividends, reflect expense management as well. Sustainable growth in profits involves effective management of expenditure, including development expenditure in order to achieve increasing FUM. Current year events will inevitably impact the result in any one year, but focus on building the underlying fundamentals will lead to growth in profits.</p>	<p><b>OUR FOCUS FOR 2017:</b></p> <ul style="list-style-type: none"> <li>– Manage expense growth to around 10% p.a.;</li> <li>– Focus expenditure on safely delivering our strategy, including achieving 15 to 20% p.a. growth in gross inflows; and</li> <li>– Invest in the business to support long-term growth.</li> </ul>	 <p>For further information; see our financial KPIs on page 23.</p>

# CLIENTS

## 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

### OUR APPROACH

It is important for clients to have a clear understanding of the level of service they can expect from their Partner, so they can be confident that this will meet their needs.

The level of ongoing service is agreed between the Partner and the client and, most importantly, is tailored appropriately to the level of care and attention they require. Clear and robust systems and controls are in place to enable us to deliver the agreed level of service and support the delivery of positive client outcomes.

Delivering a positive client experience is integral to any successful and productive business. It requires an effective business plan, robust infrastructure and processes that work. The result is satisfied clients who understand the ongoing service that they receive and whose expectations are met, or exceeded.

We achieve this primarily through the activity of the St. James's Place Partnership (see page 15). Our Partners recognise that no one client's objectives or circumstances are the same as another's, and so tailor the advice and service to suit them. Clients often continue the working relationship with their Partner over many years, appreciating a source of trusted advice as their financial needs evolve over the years.

In order to ensure that our business continues to be client focused, we monitor all areas of the business which can affect the client experience. Monitoring covers all stages of the client life cycle, including the suitability of advice, administration, investment experience, client feedback and client complaints.

Our annual Wealth Account survey, which we have now been running for six years, continues to be an invaluable opportunity to obtain feedback from clients, with over 33,000 responses to the 2016 questionnaire received to date. Highlights include:

- 94% are either very satisfied or satisfied with their overall relationship with St. James's Place;
- 82% rated the proposition as either good or excellent value for money, with a further 17% describing it as reasonable; and
- 97% of clients would recommend St. James's Place to others, with an increased proportion of 56% already having done so.

### DEVELOPING INTERGENERATIONAL PROPOSITION

Despite receiving much positive feedback from clients, we are never complacent and in 2016 we continued to evolve our client proposition. Recognising that a key area of concern for many clients is the 'intergenerational' challenge, we

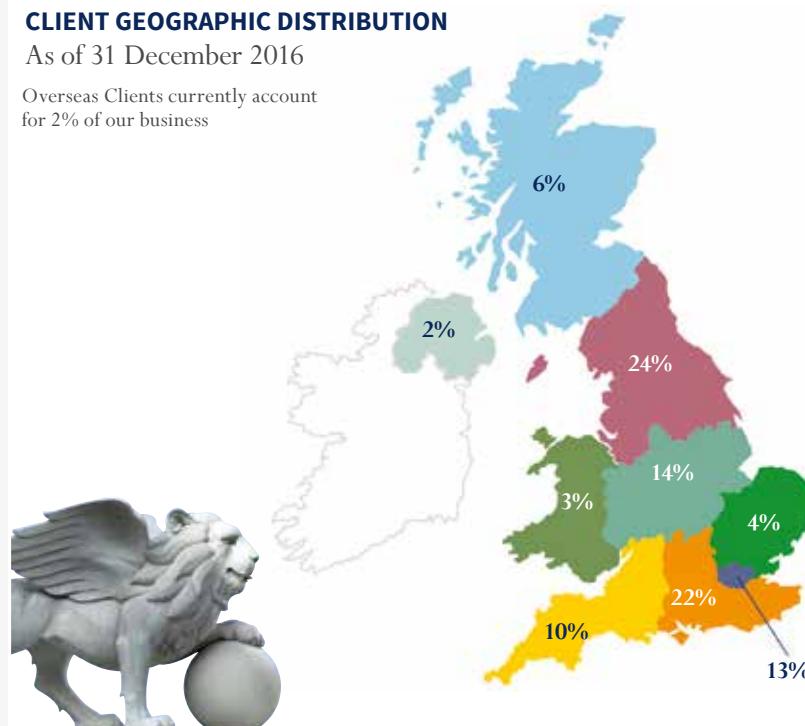
launched an intergenerational mortgage range in association with Metro Bank, allowing clients to use their St. James's Place investments as the collateral for a relative's mortgage application and helping them to access lower rates. We also broadened our capabilities following the completion of our acquisition of Rowan Dartington early in the year, as well as launched the initial roll out of our new retirement account proposition.

In 2017 we look forward to making further improvements in both our client proposition and the service experienced by our clients, with a particular focus on extending our intergenerational initiatives and ensuring the very highest standards in the underlying administration of our client offering.

### CLIENT GEOGRAPHIC DISTRIBUTION

As of 31 December 2016

Overseas Clients currently account for 2% of our business



# PARTNERS

## MEMBERS OF THE ST. JAMES'S PLACE PARTNERSHIP PLAY THE LEADING ROLE IN DELIVERING OUR WEALTH MANAGEMENT SERVICE

### **OUR APPROACH**

Our Partners, so called because of the way they work in partnership with both their clients and their colleagues, are some of the most experienced and able professionals working in wealth management today. St. James's Place has chosen to promote our services exclusively through the Partnership, reflecting the confidence we have in Partners' 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 Partner relationships, placing them at the heart of all we do.

Establishing long-term relationships is key. Clients need to be able to place a high degree of reliance on financial advice and so being able to call upon the services of long-term advisers who understand their individual personal circumstances is important. But it is also important that clients are dealt with in the 'way they would choose' and not simply in a single, prescribed way. Long-term relationships clearly work for clients but are also good for business, with 90% of our new business estimated to come from existing clients and their referrals.

### **DEVELOPING PARTNERS**

New Partners are provided with a document entitled 'What it means to be a member'. This sets out a philosophy and some principles. We believe the shared commitment to living up to these principles is what gives the Partnership its competitive edge and makes it a group of professionals that other advisers aspire to join. Our principles emphasise integrity, trust, openness, partnership and teamwork and are designed to guide individual and corporate actions, decisions and standards across our community.

Given the importance of our Partners, we are committed to providing ongoing professional development to ensure they remain appropriately qualified, technically able and equipped to deliver a first class service. We also encourage and provide support for Partners who choose to pursue further qualifications, with many Partners having already progressed to Chartered Status. As a result of the professionalism of our Partners, we are happy to guarantee the suitability of the advice that they give when recommending any of the wealth management products and services provided by companies in the Group.

### **GROWING THE PARTNERSHIP**

Growth in the Partnership remains a crucial long-term objective. In addition to our existing successful recruitment proposition, we continue to develop the St. James's Place Academy. This provides an opportunity for suitable second careerists to receive training and assistance to build a Partner business with us. We now have four regional centres in the UK, with the opening of our Edinburgh Academy in February 2016 complementing our existing centres in London, Manchester and Solihull. During 2016 we enrolled nearly 150 new students onto our Academies and expect a similar number in 2017. Also in 2016, we graduated around 70 Academy Partners following the two year programme and expect this to rise in 2017 in line with our regional expansion. Around half of our new students are from non financial backgrounds and the average age, at 38, is ten years younger than the average Partner.

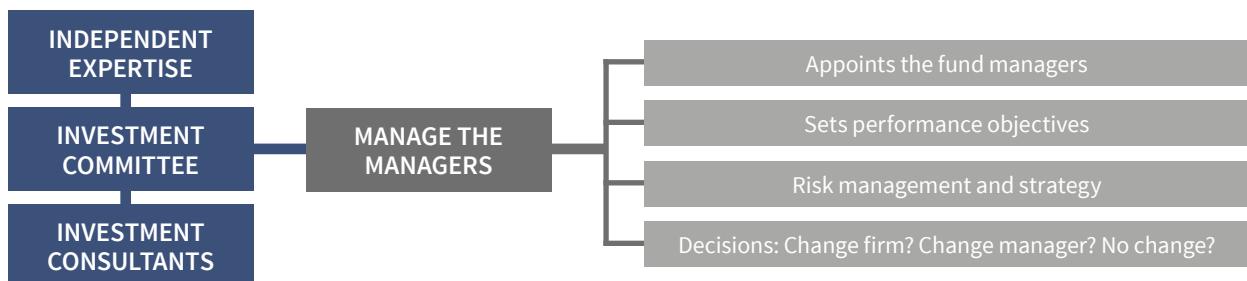
In addition, our next generation Academy (initially aimed at bringing sons and daughters of existing Partners into their businesses) also supports growth and builds succession for our existing successful businesses. So far we have enrolled over 150 new students onto this programme – now widened to include non family, with an average age of 29.

A new initiative in 2016 has been our Paraplanning Academy, aimed at training Partners' support staff to plan and prepare business to our high standards across two locations. We expect 25 students to graduate in 2017, whilst enrolling a further 90 new students in stages during the year.

Our presence in Asia, with St. James's Place offices in Hong Kong, Shanghai and Singapore, continues to grow as we invest behind the business for the long-term. Our brand and strong investment proposition is proving compelling as we make progress in attracting advisers and clients to the business. We are also pleased to have established a life insurance company in Hong Kong and launched St. James's Place products in all three regions.

# FUNDS

## AT THE HEART OF THE PROPOSITION TO OUR CLIENTS IS OUR INVESTMENT MANAGEMENT APPROACH



### OUR APPROACH

This past year has been full of surprises, from shock referendum and election results, to commodity price crashes and interest rate changes. The pound weakened, the dollar strengthened, and US \$13.4 trillion of bonds in issue traded on negative yields. Despite all of this, we have seen both the FTSE 100 and S&P 500 reaching record highs in October and December respectively. These are unprecedented times.

Against such a backdrop of unpredictability it has never been more important to have a reliable framework against which to make investment decisions. At St. James's Place, we have a very simple but effective process that has remained consistent throughout our history, and can be described in three words: Select, Monitor and Change.

The basis of our Investment Management Approach (IMA) is our strongly held view that

it is not possible for us, nor any business, to employ best 'in house' investment managers across multiple asset classes at any given time, so we do not attempt to. Our IMA is based on a process of selecting the best managers from companies across the globe, in a manner that is well structured and avoids conflicts of interests to the benefit of our clients. The responsibility of selecting the range of funds and fund managers that are made available to the clients of St. James's Place at any one time falls upon



Funds

**36**

Fund houses

**36**

Lead fund managers

**69**

Exclusive to UK  
retail investors

**17**

the Investment Committee. The committee is made up of a small group of executives and four ‘independent’ investment experts, and is advised by respected independent investment research consultancies, including Stamford Associates, Redington and AON Consulting.

Once a manager has been selected, they are then carefully monitored to ensure they continue to apply their investment process in a manner which is consistent with what is expected of them, to ensure they retain the best possible chance of delivering positive real returns for our clients over the medium to long-term. This is a process that involves our consultants, our in-house investment team, and our Investment Committee, which provides reassuring depth of analysis to ensure we have visibility on whether our managers continue to operate in a manner we expect.

#### 2016 DEVELOPMENTS

However, there are always instances where circumstances dictate that a change is necessary, such as a manager leaving to join another investment firm, or something that causes a manager’s approach to change for the worse. In such instances, after careful consideration, our Investment Committee may take the decision to change that manager. 2016 presented us with a number of these circumstances, each one different from the other, but which led to six fund manager changes. To emphasise that our approach is truly global, the location of our appointments ranged from Hong Kong, Cape Town, California and Copenhagen – and many of the managers are not otherwise available in the UK wealth market, unless you are a client of St. James’s Place. All of this occurred within the SJP funds without our clients being disrupted, which is the true essence of our IMA.

As well as maintaining our existing investment offering, we continually strive to offer appropriate breadth of choice for clients, and in 2016 we launched a new Worldwide Income fund (equity income) to meet the client demand for diversifying income solutions. This followed the extensive development to our fixed income proposition in 2015, which is continuing to serve clients well.

Looking to the future, the only certainty is that there is continued uncertainty in financial markets. Rather than be confused by the plethora of information and options available, our Investment Management Approach offers clients a process that has consistently demonstrated success over the years through a number of different market environments.

**Our Investment Management Approach offers clients a process that has consistently demonstrated success over the years**



# OUR PEOPLE

## WE ARE A RELATIONSHIP BUSINESS WHERE PEOPLE ARE OUR MOST IMPORTANT ASSET

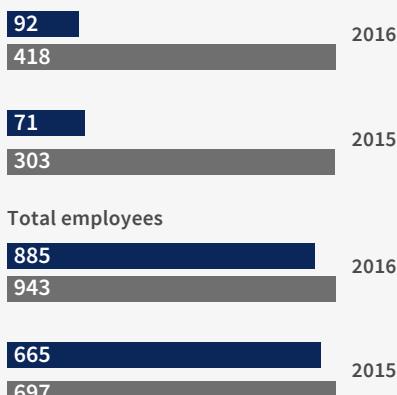
### EMPLOYEE GENDER BREAKDOWN

2015-2016

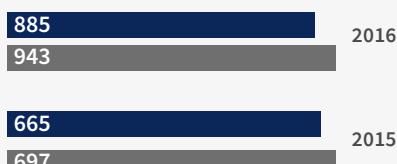
#### Board Directors



#### Managers and decision makers



#### Total employees



Key: Female ■  
Male ■

### OUR APPROACH

This statement is a core cultural belief and a fundamental element of the success of St. James's Place. 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.

This is our culture, which is central to our success. We are therefore proactive in building and reinforcing it. For this most important of business differentiators it is the Board that provides both 'tone at the top' and oversight. 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 for 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 which clients and suppliers can trust, and which the communities we are part of can appreciate and respect. However, we recognise that we will not always get everything right, and so we also believe in acknowledging mistakes made, rectifying them and learning from them.

Our people are a sustainable competitive advantage, so we aim to attract the best and help them fulfil their potential. We secure their commitment by providing them with an interesting and challenging career within a first class working environment. We reward them competitively, as well as encourage equity ownership, including in the Partnership. We are a living wage employer and have committed to meeting the living wage for all our employees and suppliers. Following recent acquisitions in the UK and overseas, we are committed to implementing the same or, where appropriate, similar principles across the Group.

We recognise that as our business grows we will have to take care of and protect our culture. Our employee numbers within the SJP Group are 1,671 in the UK (1,828 worldwide) and the number of Partners is nearly 2,400 (over 3,400 advisers) with over 4,500 support staff, and these numbers will continue to grow in future years.



## CONTINUITY

To ensure continuity of our culture, we ensure that all employees and Partners joining the business are selected for their fit with our corporate values, as well as their competency, and that they are given a full induction as the first step in their career with our business. This is set out in a booklet entitled 'Our Approach', which gives guidance on the culture and values of St. James's Place, and the employee handbook includes a statement about our Code of Ethics. Whilst many of the original principles on which our business was founded remain paramount, in 2016 we reviewed and recommunicated Our Approach to ensure that it is appropriately adapted for the modern workplace. We believe it is important that our community knows and understands our objectives, including the ethos behind the St. James's Place brand and how its integrity and values should be maintained. We also encourage shared commitment to the St. James's Place Foundation.

We renew our commitment to our culture through a variety of both formal and informal activities, including an Annual Company Meeting, employee and Partner Surveys, regular Partner meetings, feedback opportunities for employees with Directors, and a Leadership Conference for senior management. They all provide opportunities to renew our joint understanding and encourage commitment to our shared culture, as well as ensuring a common awareness of the operational, financial and economic factors that contribute to the Company's performance.

Our regular employee survey, which we conduct every other year, provides important insights, crucially on employee engagement. The most recent survey was in 2016 and we received a strong survey response rate of 87%. Our overall engagement score was 86%, which

was significantly higher than the financial services benchmark of 77%. We are especially pleased with survey scores that suggest employees are proud to work for St. James's Place, are committed to staying with the business, and feel that we are an employer that encourages them to strive for greater achievement. This strong engagement contributes to low levels of staff turnover and underpins the quality and sustainability of our proposition to Partners and clients alike.

In 2016 we held a Board level review of our People Strategy. This considered our current approaches to resourcing and development, including Early Careers programmes for Apprentices and Graduates as well as experienced hires. To meet the ongoing needs of our growing business, we intend to continue with and develop our existing programmes to ensure we have a strong pipeline of future talent at all levels.

We are especially pleased with survey scores that suggest employees are proud to work for St. James's Place



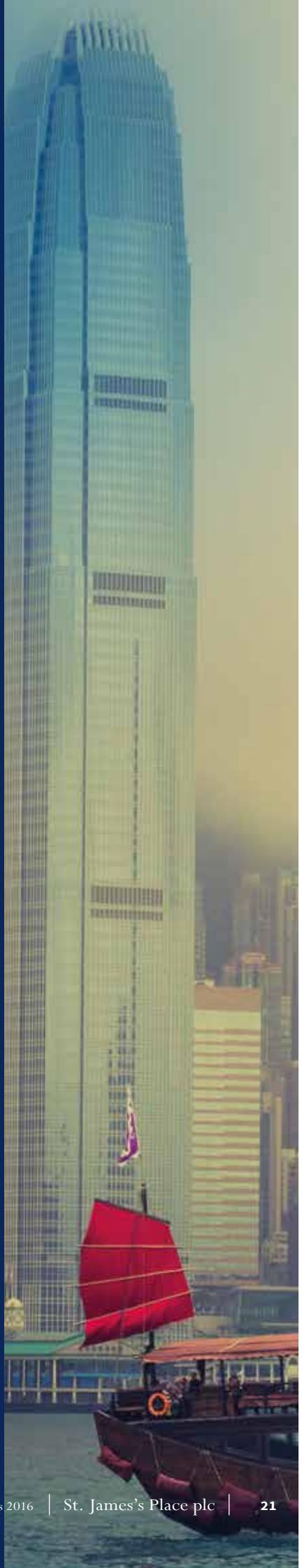


# OUR PERFORMANCE

The strong operating performance of the business during the year is reflected in the financial performance for the year.

## CONTENTS

- Our Objectives and Related Key Performance Indicators
- Chief Financial Officer's Report
- Financial Review
- Risk and Risk Management
- Corporate Social Responsibility Report
- Statement of Directors' Responsibilities



# OUR OBJECTIVES AND RELATED KEY PERFORMANCE INDICATORS

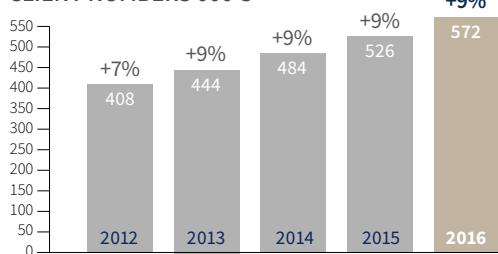
## CLIENTS

### TO DELIVER POSITIVE OUTCOMES TO AN INCREASING POPULATION OF CLIENTS

#### PROGRESS DURING 2016

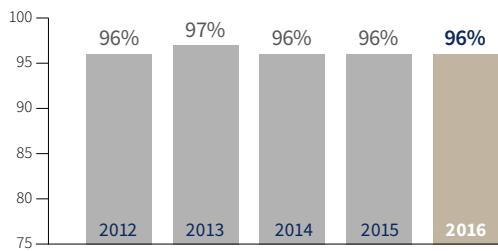
2016 was another successful year as the business continued to grow. Client numbers grew by 9% contributing to the increase in investment of new funds. The quality of the client outcome, as reflected in client retention and feedback, continued to be as strong as ever.

CLIENT NUMBERS 000'S



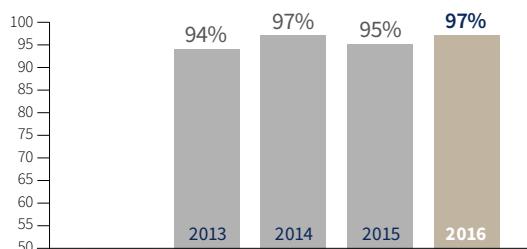
Our business model is based on managing client wealth and so the number of clients is a key measure of the health of the business. As well as reflecting past performance, it also indicates future opportunity, as our experience suggests that over 90% of new business comes from existing clients or their referrals. In 2016, we were pleased that client numbers increased from 525,800 to 571,800.

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 in recent years.

CLIENT ADVOCACY % THAT WOULD RECOMMEND SJP



Our reputation is vitally important to our business model and this is best expressed through the experience of our clients. Our Wealth Account survey provides an excellent snap shot of client experience. In recent years we have monitored the trend of responses to the question 'Would you recommend St. James's Place to anyone else?'

## PARTNERS

### TO CONTINUE TO GROW AND DEVELOP THE PARTNERSHIP

#### PROGRESS DURING 2016

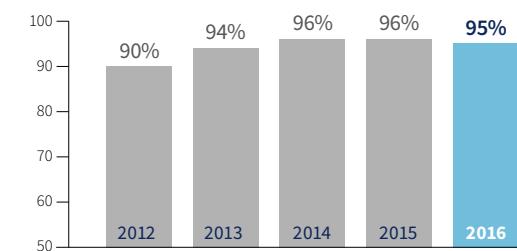
Our proposition continued to be attractive to advisers in the year which, alongside development of the existing community, led to improvements in quality both in terms of business credentials and qualifications. The Partnership also welcomed graduates from the Academy initiative and new recruits in Asia.

NUMBER OF PARTNERS



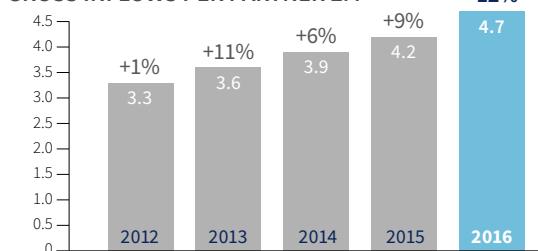
Without our Partners, we would have no clients. We were therefore pleased to deliver growth ahead of our long-term aspirations, supported by Academy Partners and recruitment in Asia. Partner numbers grew from 2,264 in 2015 to 2,378 this year.

PARTNER RETENTION %



Partner retention reflects Partners' continuing satisfaction with our proposition but also the maintenance of their quality against the standards we require. We are therefore pleased to note that retention has remained at the high level of 95% when compared with the prior year.

GROSS INFLOWS PER PARTNER £M



Productivity of Partners is a measure of their success as business people, but also feeds into success for the Company. We are pleased that in 2016 individual adviser productivity continued to increase, leading to an overall increase in gross inflows per Partner from £4.2 million to £4.7 million.

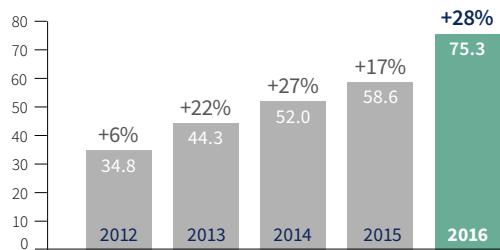
## FUNDS

### TO INCREASE FUNDS UNDER MANAGEMENT (FUM)

#### PROGRESS DURING 2016

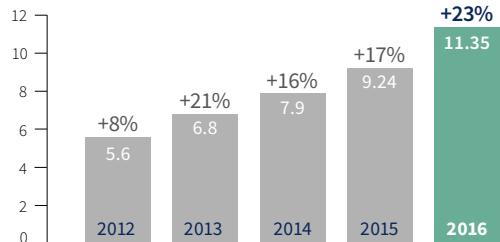
In another successful year, new business from clients combined with positive growth in underlying investments resulted in an increase in total FUM to £75.3 billion, growth of 28% over the year. This growth feeds through directly to the financial performance in the year.

**FUNDS UNDER MANAGEMENT £BN**



The profitability measures of the Group are ultimately driven by the income we earn from FUM. The FUM have exhibited compound annual growth of 18% over the last ten years.

**GROSS INFLOWS £BN**



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, which we surpassed in 2016.

**NET INFLOWS £BN**



Retention of funds is a result of satisfied clients and is essential if the FUM is to continue to grow. Growth of 17% in the year was higher than we had expected and reflected lower levels of withdrawal, particularly due to pension clients extending retirement and investment clients remaining invested through volatile markets.

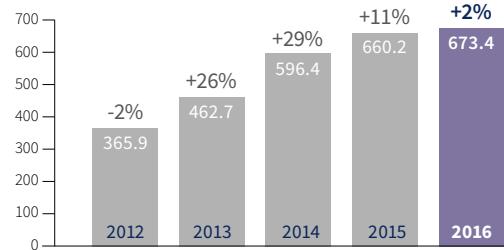
## FINANCIAL

### TO ACHIEVE SUSTAINABLE GROWTH IN REPORTED PROFIT ON ALL MEASURES

#### PROGRESS DURING 2016

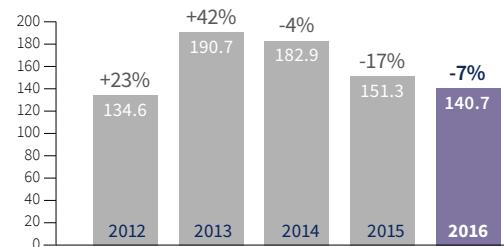
Our business model is simple and is aligned with the needs of both our clients and our Partners. Strong performance in those areas combined with positive investment performance to underpin the financial results. We are pleased to report a continuation of the trend of recent years.

**EEV OPERATING PROFIT BEFORE TAX £M**



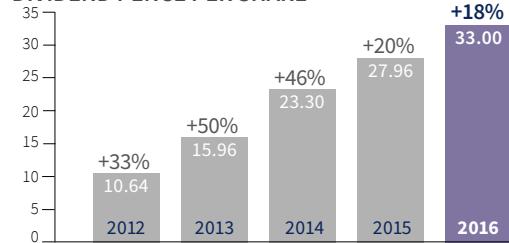
The EEV reporting basis assesses the full value of the emergence of shareholder cash returns over the long-term. New business (Gross Inflows) is the most significant underlying driver of EEV Operating Profit, which was up 23% as noted above, however, particularly strong positive experience variances and operating assumption changes in the prior year limited growth to 2% year on year.

**PROFIT BEFORE SHAREHOLDER TAX £M**



Despite strong growth in the fundamentals of the business during 2016 the continuing negative contribution from unwinding of historic DAC/DIR/PVIF intangibles resulted in a reduction in profit before shareholder tax. Further detail is provided on page 36.

**DIVIDEND PENCE PER SHARE**



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 18% in dividend in the year, bringing the total increase over the last five years to 312%.

# CHIEF FINANCIAL OFFICER'S REPORT

**DESPITE THE UNCERTAINTIES CAUSED BY POLITICAL EVENTS DURING THE YEAR, OUR BUSINESS HAS PERFORMED STRONGLY, WITH GROWTH IN ALL THE BUSINESS FUNDAMENTALS**



Andrew Croft  
Chief Financial Officer

As already covered in the Chief Executive's Report the growth in gross and net inflows, together with the investment return in our funds, gave rise to a 28% growth in our funds under management to £75.3 billion.

Shareholders will be aware that our financial model is to attract and retain funds under management on which we will receive an annual management fee, and consequently this strong growth in funds under management is reflected in our financial results.

At the same time we are investing in the business for the future. The increase in costs of these initiatives is also reflected in the results, but with an expectation of future returns for the business.

## FINANCIAL RESULTS

As shareholders will be aware from previous periods, we report our results on both IFRS and EEV bases, as well as providing further detail on the cash emergence from the business. Detailed explanation and analysis of the results on these measures is provided in the Financial Review on pages 26 to 47.

Overall, the results reflect the underlying strong business performance over the year, but there are a number of particular factors which have also impacted the results:

- i. Our required contribution to the Financial Services Compensation Scheme (FSCS) was again at an elevated level, negatively impacting the results by £17.2 million pre-tax (£13.7 million post-tax) compared with a £20.1 million pre-tax (£15.9 million post-tax) for the prior year.
- ii. During the year we have continued to invest strongly in our future with a current year impact of £34.0 million pre-tax (2015: £17.2 million pre-tax). We are very pleased with the success of our Academy, and both the Asia operations and our new DFM offering, Rowan Dartington, are developing well.
- iii. The continuation of our back office infrastructure investment cost £20.9 million pre-tax for the year compared with £18.1 million for the prior year.
- iv. As noted at the half year we have been voluntarily reviewing charges on two small cohorts of business: waiving exit charges at the minimum retirement age where they existed on some older pension contracts (written before July 1999); and reassessing risk charges on a reviewable protection contract. The combined impact of these actions is a negative one-off £8.2 million pre-tax in the cash and IFRS results, which rises to £13.6 million pre-tax in the EEV result when the reduction in future charges is also fully capitalised.

Also, at the end of the year, we have reassessed the value of the investment contract unit liability to better reflect recent experience and to match the encashment value of client investments. This reassessment reduces the liability by £267 million, with an offsetting increase in the Deferred Income liability in the IFRS consolidated statement of financial position. There is no impact on IFRS net assets or profit, nor will there be any impact on the emergence of profit in future years. This change better reflects our business and we believe it will simplify reporting in future. Where this change has any presentation impact on each of the reporting metrics, it is commented on in the relevant sections of the Financial Review.

## **IFRS Result**

The **IFRS profit after tax** was £111.7 million (2015: £202.0 million). The principle reason for the reduction in the current year was that the prior year result was enhanced by recognition of £74.8 million of deferred tax asset on historic capital losses. The 2016 result is also impacted by the continuing unwind of intangible DAC/DIR/PVIF balances.

The **Underlying profit before shareholder tax** was £163.5 million (2015: £163.7 million) reflecting an increase in the income from funds under management, offset by the higher expenses, the cost of investment and the other items noted at the start of this statement.

The **Profit before shareholder tax**, which takes account of the amortisation of intangible assets and liabilities, was £140.6 million (2015: £151.3 million). As previously indicated, the amortisation of the intangible assets and liabilities will for a number of years exceed the establishment of new intangibles and be a negative to both the Profit before shareholder tax and the IFRS profit after tax results.

## **Cash Result (presented post-tax)**

The **Operating cash result** for the year was £226.0 million (2015: £195.6 million), growth of 16%, reflecting the increased annual management fees from the higher funds under management offset by higher expenses.

Some of this operating cash is then expensed through investment in the Academy, the Asian operations, our new DFM offering and other strategic investments. The total post-tax investment during the year was £26.5 million (2015: £13.5 million) resulting in the **Underlying cash result** of £199.5 million (2015: £182.1 million), growth of 10%.

The **Cash result** was £175.4 million (2015: £171.5 million) reflecting the underlying cash result adjusted for the cost of the back office infrastructure investment and a number of one-off items detailed in the Financial Review on page 41.

The reassessment of the investment contract unit liability will change the emergence of cash in future years (detailed in the Financial Review on page 42). Had the change been implemented at the start of 2016 then the cash results noted above would have been some £25 million higher.

Note that the cash, operating cash and underlying cash results should not be confused with the IFRS consolidated statement of cash flows which is prepared in accordance with IAS 7 and disclosed on page 130.

## **EEV Result**

In line with our previous guidance, we have reduced the level of EEV reporting and now only provide summarised disclosure in the Financial Review rather than full supplementary information.

The **EEV new business contribution** for the year was £520.2 million (2015: £440.7 million) growth of 18%. The growth was slightly lower than the new business growth (+23%) due to higher expenses associated with the strong adviser growth and a change in business mix.

The **EEV operating profit** for the year was £673.6 million (2015: £660.2 million), growth of 2%, however, the prior year benefitted from a significantly higher experience variance and operating assumption changes. Excluding these items in both years, together with the 2016 benefit from the inclusion of Rowan Dartington, the growth in the operating profit would have been 18%, in line with the growth in the new business contribution.

The rise in global stock markets during the second half of the year, partly arising out of the currency impact from the depreciation of Sterling, has contributed to a very strong investment return for our funds. This gave rise to a positive investment variance of £537.2 million compared to a small negative variance of £24.4 million for the prior year.

Total **EEV profit before tax** for the period was therefore £1,198.4 million with the positive investment variance explaining most of the significant increase compared with £636.7 million for the prior year. The net asset value per share on an EEV basis at the end of the year was 900.7 pence (31 December 2015: 737.3 pence).

The EEV result is unaffected by the reassessment of the investment contract unit liability.

## **DIVIDEND**

At the half year we increased the interim dividend by 15% to 12.33 pence and reiterated our intention to continue to grow the dividend in line with the underlying performance of the business. Given the continued strong performance of the business during the second half of 2016, the Board has recommended a final dividend of 20.67 pence per share, an increase of 20% which will consume £109 million. This will provide for a full year dividend of 33 pence, growth of 18%.

Over the last ten years we have progressively grown the dividend, even during 2008/09, with compound growth of some 25% per annum.

## **CAPITAL AND SOLVENCY II**

We continue to manage the balance sheet prudently to ensure the Group's solvency is maintained safely through the economic cycle. 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 (see page 43) and with management free assets considerably in excess of the buffer, our solvency position remains strong. We also provide an estimate of our Solvency II free assets position which, at £952.2 million before the dividend (2015: £899.7 million), provides a solvency ratio of 147% (2015: 156%) also demonstrating the financial strength of the business.

## **CONCLUDING REMARKS**

The business, financials and lead indicators are in very good shape. The cash emergence is expected to continue to grow as business matures from the gestation period and starts to contribute to the cash earnings.

In addition to increasing the dividend to shareholders, we are continuing to invest in the business for the future

Finally, as noted in the Chief Executive's Report, the proven strength of our business model and good momentum in our business gives us confidence in our ability to deliver continued growth in line with our objectives.

## **Andrew Croft**

*Chief Financial Officer*  
27 February 2017

# FINANCIAL REVIEW

## THE FINANCIAL MODEL

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

The level of income is dependent on the level of client funds and the level of asset values. In addition, since around half of our business does not generate net income in the first six years, the level of income will increase as a result of new business from six years ago becoming cash generative. This deferral of cash generation means the business always has six years' worth of funds in the 'gestation' period. More information about our fees on Funds under Management can be found in Section 1 on page 30.

Group expenditure is carefully managed with clear targets set for growth in establishment expenses in the year. Many other expenses increase with business levels and are met from margins in the products. The Group also invests in ensuring the quality of our proposition for clients and Partners through investment in new client services and existing IT systems. Finally, we are also looking to the future, with investment in strategic initiatives, including the Academy, Asia, DFM and our back office infrastructure programme. More information about our expenses can be found in Section 2 on page 32.

A small proportion of Group expenditure is required to support management of existing funds, but the majority of expenditure is investment in growing the Partnership and acquiring new funds. The resulting new business is expected to generate income for an average of 14 years, and is expected to provide a good return on the investment (see page 30).

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

## PERFORMANCE MEASUREMENT

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

APMs are not defined by the relevant financial reporting framework (which for the Group is IFRS), but we use them to provide greater insight to the financial performance, financial position and cash flows of the Group and the way it is managed. Summary information about the key APMs used in our Financial Review is provided in the following table, and we also provide a complete Glossary of Alternative Performance Measures on page 199, in which we define each APM and explain why it is used and, if applicable, how the measure can be reconciled to the IFRS financial statements.

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
Solvency II	Based on IFRS Net Assets, but with the following adjustments: <ol style="list-style-type: none"><li>Reflection of the recognition requirements of the Solvency II regulations for assets and liabilities. In particular this removes, DAC, DIR, PVIF, other intangibles and some other small items which are treated as inadmissible from a regulatory perspective; and</li><li>Adjustment to remove the matching client assets and the liabilities as these do not represent shareholder assets.</li></ol> No adjustment is made to deferred tax 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 39.

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
Cash result, Underlying cash result and Operating 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 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 methodology recognises non cash items such as deferred tax and share options. By contrast, dividends can only be paid to shareholders from appropriately fungible assets. The Board therefore uses the cash results to monitor the level of cash generated by the business.</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 is particularly useful in considering the supportability of dividends and sustainable dividend growth.</p>	<p>Refer to page 34 and also see Note 3 – Segment Profit.</p>
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 shareholders. This is calculated by applying the appropriate effective corporate tax rates to the shareholder profits.</p> <p>In effect, the shareholder tax is assessed by calculating the expected level of shareholder tax implied by the post-tax result, but with explicit adjustment in the calculation for any significant one-off tax adjustments.</p> <p>The remainder of the tax charge represents tax on policyholder's investment returns.</p> <p>This calculation method is consistent with the legislation relating to the calculation of tax on shareholder 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 don't perform in line with the business, it is beneficial to be able to identify the two elements separately. We therefore refer to that part of the overall tax charge, which is deemed attributable to policyholders, as policyholder tax, and the rest as shareholder tax.</p>	<p>Disclosed as separate line items in the statement of comprehensive income on page 127.</p>

## FINANCIAL REVIEW continued

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
Profit before shareholder tax	A profit measure which reflects the IFRS result adjusted for policyholder tax, but before deduction of shareholder tax. Within the consolidated statement of comprehensive income the full title of this measure is 'Profit before tax attributable to shareholders' returns'.	The IFRS methodology requires that the tax recognised in the financial statements should include the tax incurred on behalf of policyholders in our UK life assurance company. Since the policyholder tax charge is unrelated to the performance of the business, we believe it is useful to separately identify the profit before shareholder tax, which reflects the IFRS profit before tax, adjusted for tax paid on behalf of policyholders.	Disclosed as a separate line item in the statement of comprehensive income on page 127.
Underlying profit	A profit measure which reflects the IFRS result adjusted to remove the DAC, DIR and PVIF intangibles.	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 (known as DAC – Deferred Acquisition Costs and DIR – Deferred Income). Due to the retail distribution review (RDR) regulation change in 2013, there was a step change in the progression of these items in our financial statements, which resulted in significant accounting presentation changes despite the fundamentals of our vertically integrated business remaining unchanged. We therefore believe it is useful to consider the IFRS result, having removed the impact of movements in these intangibles, as it better reflects the underlying performance of the business.	Refer to page 34.
EEV operating profit	A discounted cash flow valuation methodology, assessing the long-term economic value of the business.  Our embedded value is determined in line with the EEV principles, originally set out by the Chief Financial Officers (CFO) Forum in 2004, and amended for subsequent changes to the principles, including those published in April 2016, following the implementation of Solvency II.  The EEV operating profit reflects the total EEV result with an adjustment to strip out the impact of stock market and other economic effects during the year.	Both the IFRS and cash results reflect only the cash flows in the year. However, our business is long-term, and activity in the year can generate business with a long-term value. We therefore believe it is helpful to understand the full economic impact of activity in the year, which is the aim of the EEV methodology.  Within the EEV, many of the future cash flows derive from fund charges, which change with movements in stock markets. Since the impact of these changes is typically unrelated to the performance of the business, we believe that the EEV operating profit (reflecting the EEV profit, adjusted to reflect only the expected investment performance and no change in economic basis) provides the most useful measure of embedded value performance in the year.	See Note 3 – Segment Profit.

## SECTION 1: FUNDS UNDER MANAGEMENT

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

### Movement in Funds Under Management

During 2016 we have seen gross new funds of £11.35 billion (2015: £9.24 billion), growth of 23% and a net inflow of funds under management of £6.78 billion (2015: £5.78 billion), growth of 17%. The investment return contributed £8.7 billion (2015: £0.8 billion contribution) to funds under management during the year with this contribution reflecting both the higher stock markets but also the positive impact of the depreciation of Sterling on the overseas assets. Given the strong net inflow, and the positive investment performance, funds under management increased to £75.31 billion (2015: £58.61 billion).

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

Year Ended 31 December 2016	Note			UT/ISA & DFM	Total
		£'Billion	£'Billion	£'Billion	£'Billion
Opening funds under management		22.52	20.86	15.23	58.61
Rowan Dartington acquisition		-	-	1.26	1.26
Gross inflows		2.28	5.12	3.95	11.35
Net investment return		2.12	4.40	2.19	8.71
Regular income withdrawals and maturities	1	(0.52)	(0.84)	(0.11)	(1.47)
Surrenders and part surrenders	2	(0.90)	(0.91)	(1.29)	(3.10)
Rowan Dartington – Ardan International disposal		-	-	(0.05)	(0.05)
<b>Closing funds under management</b>		<b>25.50</b>	<b>28.63</b>	<b>21.18</b>	<b>75.31</b>
Net inflows		0.86	3.37	2.55	6.78
Implied surrender rate as a percentage of average funds under management		3.7%	3.7%	6.8%	4.6%

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

A further £466 million of investments is managed in third party funds within our Asia business.

Year Ended 31 December 2015	Note			UT/ISA	Total
		£'Billion	£'Billion	£'Billion	£'Billion
Opening funds under management		21.14	18.08	12.79	52.01
Gross inflows		2.45	3.66	3.13	9.24
Net investment return		0.19	0.38	0.25	0.82
Regular income withdrawals and maturities	1	(0.48)	(0.62)	-	(1.10)
Surrenders and part surrenders	2	(0.78)	(0.64)	(0.94)	(2.36)
<b>Closing funds under management</b>		<b>22.52</b>	<b>20.86</b>	<b>15.23</b>	<b>58.61</b>
Net inflows		1.19	2.40	2.19	5.78
Implied surrender rate as a percentage of average funds under management		3.6%	3.3%	6.7%	4.3%

A further £430 million of investments is managed in third party funds within our Asia business.

#### Notes

1. Regular income withdrawals are those amounts, pre selected by clients, which are paid out by way of periodic income. Maturities are those sums paid out where the plan has reached the intended, pre selected, maturity event (e.g. retirement).
2. Surrenders and part surrenders are those amounts where clients have chosen to withdraw money from their plan which were not pre selected regular income withdrawals or maturities.

# FINANCIAL REVIEW continued

## Fees on Funds Under Management

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

The net annual management fee retained by the Group is c.0.77% post-tax. However, due to our product structure, investment and pension business does not generate net cash in the first six years. Consequently, the level of income we are receiving today is not fully representative of the expected earnings from the funds we are managing, and these earnings will increase as a result of the new business from six years ago becoming cash generative. This deferral of cash generation means there is always six years' worth of business in the 'gestation' period.

The table below provides an estimated current value of the funds under management in the gestation period:

Year	Total	
	£'Billion	£'Billion
2010	–	2.0
2011	2.4	2.4
2012	2.9	2.7
2013	4.0	3.7
2014	4.4	3.9
2015	5.3	4.5
2016	6.1	–
<b>Total</b>	<b>25.1</b>	19.2

This £25.1 billion of funds under management in the gestation period represents approximately a third of the total funds under management which, if all the business reached the end of the gestation period, would contribute some £195 million to the annual post-tax cash result.

## The Business Case for New Funds Under Management

The Group incurs costs associated with attracting new funds. We believe it is useful to provide details of the economic return we expect will be generated from the new business; in other words, the business case for the investment in attracting new clients and funds under management.

As detailed later in this review on page 41, a net cost of £106.7 million (2015: £84.2 million) has been incurred to attract the £11.35 billion of gross new funds (2015: £9.24 billion).

We regard this as an investment in new business which we expect to generate income in the future, significantly exceeding this cost and therefore provide positive returns for shareholders. The table below provides details of the new business added during the reporting periods and different measures of valuing the investment:

	Year Ended 31 December 2016	Year Ended 31 December 2015
Gross inflows (£'Billion)	<b>11.35</b>	9.24
Post-tax investment in new business (£'Million)		
–Operating costs	(80.2)	(70.7)
–Investment costs	(26.5)	(13.5)
–Total costs	(106.7)	(84.2)
Post-tax present value of expected profit from investment (£'Million)	<b>427.8</b>	358.9
Cost of new business (% of new money invested)*	<b>1.0%</b>	0.9%
New business margin (% of new money invested)	<b>4.6%</b>	4.8%
Cash payback period (years)	<b>5</b>	5
Internal rate of return (net of tax)	<b>21.7%</b>	22.1%

\* The investment as a percentage of net inflow of funds under management was 1.6% compared with 1.5% for 2015.

## Geographical and Segmental Analysis

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

	31 December 2016		31 December 2015	
	£'Billion	% of total	£'Billion	% of total
North American Equities	<b>17.5</b>	<b>23%</b>	13.1	22%
UK Equities	<b>17.3</b>	<b>23%</b>	15.6	27%
Fixed Interest	<b>12.8</b>	<b>17%</b>	8.8	15%
European Equities	<b>8.2</b>	<b>11%</b>	6.2	11%
Asia and Pacific Equities	<b>6.2</b>	<b>8%</b>	4.9	8%
Cash	<b>6.0</b>	<b>8%</b>	4.6	8%
Property	<b>2.4</b>	<b>3%</b>	2.2	4%
Alternative Investments	<b>1.9</b>	<b>3%</b>	1.3	2%
Other	<b>3.0</b>	<b>4%</b>	1.9	3%
<b>Total</b>	<b>75.3</b>	<b>100%</b>	58.6	100%

# FINANCIAL REVIEW continued

## SECTION 2: EXPENSES

### Management Expenses

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

	Note	Year Ended 31 December 2016	Year Ended 31 December 2015
		£'Million	£'Million
Establishment costs	1	<b>160.7</b>	139.4
Other performance related costs	2	<b>104.0</b>	94.3
Operational development costs	3	<b>17.0</b>	17.3
Strategic development costs	4	<b>6.6</b>	1.9
Academy costs	5	<b>7.2</b>	5.5
Asia costs	6	<b>13.8</b>	7.9
DFM costs	7	<b>12.9</b>	1.6
Back office infrastructure development	8	<b>20.9</b>	18.1
Regulatory fees	9	<b>8.3</b>	7.5
FSCS levy	9	<b>17.2</b>	20.1
		<b>368.6</b>	313.6

#### Notes

1. Establishment costs are the running costs of the Group's infrastructure and are relatively fixed in nature in the short term, although they are subject to inflationary increases. These costs will increase as the infrastructure expands to manage the higher number of existing clients, the growing number of advisers and increasing business volumes.  
The growth in the establishment expenses during the year was higher than our targeted growth due to the very strong new business result together with above target growth in new advisers, a primary driver to the infrastructure costs.  
We expect the growth in the establishment costs for 2017 to be more in line with our medium term business targets.
2. Other performance related costs, for both Partners and employees, vary with the level of new business and operating profit performance of the business.
3. Operational development costs represent business as usual expenditure to support the business, such as the on-going development of our investment proposition and our technology, including focus on cyber security.  
We expect costs in 2017 to be at a similar level.
4. As a growth business we are constantly looking to new opportunities and expect to incur a small level of ongoing expense associated with pursuing other strategic developments.  
We will continue to explore opportunities and undertake appropriate initiatives.
5. The Academy is an important strategic investment for the future and we are continuing to grow our investment in this programme. Costs have increased in recent years as we have increased the number of students within the programme and launched more regional academies.  
Our investment in the Academy will continue in 2017 with expected costs of some £8.0 million.
6. Our expansion into Asia through operations in Singapore, Hong Kong and Shanghai is intended to provide diversification of our growth model through exporting our successful wealth management proposition to new markets, starting with the UK expat market. Costs reflect both the ongoing operational costs, but also the development costs associated with growing these businesses to achieve sustainable scale. We have also seen these costs increase due to the depreciation of Sterling.  
Our investment will continue in 2017 and we expect this investment cost to increase by £3-4 million.
7. Completion of the purchase of Rowan Dartington in March 2016 facilitated a new DFM operation within the SJP proposition. We expect this business will grow quickly, requiring investment to support these ambitions.
8. Our back office infrastructure programme is a multi-year initiative to upgrade our administration so it can support our future business goals. Having achieved the migration of our ISA and Unit Trust proposition to our new Bluedoor system in 2015, the focus in 2016 has been the launch of a new retirement account with the eventual aim being to migrate pension and drawdown business onto the new system. The costs in 2017 will be at a similar level to 2016.
9. The costs of operating in a regulated sector include fees charged by the regulators and our contribution to the Financial Services Compensation Scheme. Our position as a market leading provider of advice, means we make a very substantial contribution to supporting the industry compensation scheme, the FSCS, thereby providing protection for clients of other sector businesses that fail. In the last couple of years, the levy has been at an elevated level and we remain hopeful that it will return to a more normalised level in future, albeit we now expect a third year of an elevated contribution in the 2017/18 funding year. The FSCS levy is met by our various regulated companies and is split £16.5 million (2015: £19.8 million) via the Distribution business and £0.7 million (2015: £0.3 million) via the Life and Unit Trust regulated business.

### Group Expenses

The table below provides a reconciliation from the management expenses above to the total Group expenses included in the consolidated statement of comprehensive income on page 127:

	Note	Year Ended 31 December 2016	Year Ended 31 December 2015
		£'Million	£'Million
Expenses per table above		<b>368.6</b>	313.6
Payments to Partners	10	<b>599.7</b>	518.5
Investment expenses	10, 11	<b>67.9</b>	143.5
Third party administration	10, 12	<b>74.2</b>	56.6
Acquired IFA operating costs		<b>3.1</b>	3.0
Amortisation and revaluation of DAC and PVIF		<b>63.4</b>	76.0
Share option costs		<b>23.9</b>	15.7
Share option NI		<b>1.9</b>	3.4
Interest expense and bank charges		<b>6.2</b>	6.0
Charitable donations		<b>3.4</b>	3.5
Other		<b>12.8</b>	10.3
<b>Total expenses</b>		<b>856.5</b>	836.5
		<b>1,225.1</b>	1,150.1

#### Notes

10. These costs are met from corresponding margins and any variation in them from changes in the volumes of new business or the level of the stock markets does not directly impact the profitability of the Group.
11. As noted in the 2015 Annual Report and Accounts, in preparation for migration of business to the Bluedoor platform, we restructured our funds so that Investment expenses of all unit trusts are charged directly to the trust rather than some being settled by the manager or life company. As a result, the Investment expenses for most funds are no longer consolidated in the financial statements, but neither is the equal and offsetting fee, resulting in a neutral profit impact overall (and a neutral impact on clients).
12. Also as noted in the 2015 Annual Report and Accounts, as a result of the migration of business to a new back office platform, a new administration tariff with our outsourced provider now applies to business transacted. Consequently, some administration costs which were previously charged to the trusts are now being treated as expenses, with a corresponding offsetting increase in fee income, again resulting in a neutral impact overall. As a result, the Third Party Administration costs reported in 2016 increased by c.10% in addition to the growth in business.

# FINANCIAL REVIEW continued

## SECTION 3: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As noted at the start of this review, two key measures based on IFRS are **Profit before shareholder tax**, which removes the impact of policyholder tax, and **Underlying profit** result, which removes the impact of changes in certain intangibles (DAC/DIR/PVIF). Of these two, we believe Underlying profit provides the more useful measure, based on IFRS, for assessing operating performance.

As noted in the Chief Financial Officer's report, the results reflect the underlying strong business performance, but also a number of other drivers, most notably including the FSCS levy and the continued investment in our business (not least our back office infrastructure, the Academy, and recent acquisitions).

	2016		2015	
	Before shareholder tax		Before shareholder tax	
	£'Million	£'Million	£'Million	£'Million
<b>Underlying cash</b>	<b>221.3</b>	<b>199.5</b>	197.0	182.1
Share options	(23.9)	(23.9)	(15.7)	(15.0)
Deferred tax impacts	–	(21.1)	–	52.1
Insurance reserves	(1.6)	(1.6)	(1.8)	(1.8)
Back office infrastructure	(20.9)	(16.7)	(18.1)	(14.4)
Variance	(11.4)	(7.7)	2.3	3.8
<b>Underlying profit</b>	<b>163.5</b>	<b>128.5</b>	163.7	206.8
DAC/DIR/PVIF	(22.9)	(16.8)	(12.4)	(4.8)
<b>IFRS profit</b>	<b>140.6</b>	<b>111.7</b>	151.3	202.0

	Year Ended 31 December		Year Ended 31 December	
	2016		2015	
	Pence	Pence	Pence	Pence
IFRS basic earnings per share	<b>21.5</b>		38.9	
IFRS diluted earnings per share	<b>21.3</b>		38.5	
Underlying cash basic earnings per share	<b>38.2</b>		34.6	
Underlying cash diluted earnings per share	<b>37.9</b>		34.2	

### Underlying Profit before Shareholder tax

The result for the year was £163.5 million, in line with the result of £163.7 million in 2015. A breakdown by segment is provided in the following table:

	Year Ended 31 December		Year Ended 31 December	
	2016		2015	
	£'Million	£'Million	£'Million	£'Million
Life business	<b>165.8</b>		174.2	
Unit Trust and DFM business	<b>92.3</b>		70.7	
Funds management business	<b>258.1</b>		244.9	
Distribution business	(25.9)		(21.2)	
Back office infrastructure development	(20.9)		(18.1)	
Other	(47.8)		(41.9)	
<b>Underlying profit before shareholder tax</b>	<b>163.5</b>		163.7	

### Funds management

The profit for the year to 31 December 2016 was £258.1 million (2015: £244.9 million) which was 5% higher than the prior year. Higher income from funds under management was partially offset by higher expenses and some one-off costs from reviewing charges in two small cohorts of legacy business. The investment in the infrastructure of Rowan Dartington for future growth reduced profit by £5.1 million. Finally, a reallocation of expenses between Life and Unit Trust business has impacted the respective results of each business.

### Distribution business

St. James's Place is a vertically integrated firm, allowing it to benefit from the synergies of combining funds management with distribution. Therefore, as well as the income generated on the funds under management, there is a further margin from the distribution activity, which depends principally on the levels of new business, expenses and investment.

The 2016 result has been negatively impacted by a continued, albeit slightly reduced year-on-year, high contribution to the FSCS, which for the year was £16.5 million (2015: £19.8 million). The Asian business also made a loss in the year of £13.2 million (2015: £7.0 million) reflecting the corporate investment in securing this business. After adjusting for these costs in both years, there was a trading profit of £3.8 million in the current year which was similar to the trading profit of £5.6 million in 2015.

### Back office development

As noted on page 32 our investment in our back office development project (known as Bluedoor) during the year was £20.9 million (2015: £18.1 million).

### Other

Other operations made a negative contribution of £47.8 million (2015: negative contribution of £41.9 million). The largest contributors to the result were the costs of share options and the impact of strategic investment (other than the back office development identified separately above).

The higher share option cost of £23.9 million in the current year (2015: £15.7 million) principally reflected a full year expense of the new Partner share scheme which was launched in the second half of 2015. Additionally, National Insurance associated with share options cost £1.9 million in the year (2015: £3.4 million).

In 2016 investment in RD and Asia have been allocated above, but other strategic development costs, including the Academy, were £15.7 million compared to £10.2 million in 2015 (see Section 2 on page 32 for more detail on the associated expenses).

Finally, our maturity grant and other contributions to the Foundation totalled £3.7 million in 2016 (2015: £3.8 million).

## FINANCIAL REVIEW continued

### DAC, DIR and PVIF

The net movement in the DAC, DIR and PVIF intangibles has a negative contribution to profit as summarised in the table below. Additional analysis is included in Note 8 on page 147.

	Year Ended 31 December 2016		Year Ended 31 December 2015	
	Before shareholder tax		Before shareholder tax	
	£'Million	£'Million	£'Million	£'Million
Amortisation		(4.5)	(3.4)	12.4
Tax rate change		–	2.1	5.9
Arising on new business		(18.4)	(15.5)	(24.8)
<b>Movement in year</b>		<b>(22.9)</b>	<b>(16.8)</b>	<b>(12.4)</b>

The net impact of amortisation of the accumulated balances of DAC and PVIF assets, and DIR liability has, as expected, reduced again during the period, turning negative compared with the prior year.

The amortisation pattern of DAC and DIR is different, with the DAC balance amortising steadily over 14 years while a substantial proportion of the DIR balance will amortise over six years. Historically this has resulted in faster deferred income recognition than acquisition expense accrual, and a positive impact overall from amortisation.

However, since the implementation of RDR in 2013 the level of new DAC and DIR has reduced significantly and the large historic balances have been unwinding down towards the new normal. The faster amortisation of DIR means that its trend towards a new lower rate has been quicker, causing the net amortisation level to reduce and ultimately turn negative, which developing effect can also be seen in Note 8.

Previous guidance stated this reducing trend would continue until the pre RDR DIR balance had unwound (over six years, say 2020), at which point the net amortisation level would stabilise before starting to increase back towards a new long-term level as the pre RDR DAC balance unwinds (by 14 years, say 2028). However, the reassessment of £267 million of investment contract liability at the end of 2016 has re-established a significant DIR balance, which will amortise over the next six years. We therefore expect a change in the overall amortisation in 2017 to a positive £30-35 million before shareholder tax. The equivalent in 2016 would have been c.£50 million before shareholder tax and c.£40 million after tax, which reflect an increase of c.£55 million before shareholder tax and c.£45 million after tax. (For clarity, there is no change in expected pattern of DAC amortisation.)

At the same time, the revised assessment of investment contact liability results in a change in the income deferred from future new business. If the revised approach was applied to business in 2016 the impact would have been an increase in new DIR of c.£90 million (c.£70 million after tax), taking the total negative impact from new business to around £110 million before shareholder tax and c. £90 million after tax. In future years we would expect this negative contribution to move in line with new business growth albeit reflecting business mix impacts.

Overall, and since our business has been growing, we expect that the negative impact of deferring more income from new business will exceed the positive impact of amortising the historic balances, meaning the DAC/DIR/PVIF adjustment will be more negative in future. But of course this will simply offset the equal and opposite positive impact we are expecting in the Cash result (see page 41).

Tax rate changes in both years impacted the post-tax movements.

Finally, it is important to note the intangible and deferred nature of these items, meaning that they do not reflect the operating performance of the business. This is why we believe the Underlying profit measure, which is adjusted from IFRS to remove these impacts, provides a useful measure of operating performance.

### Shareholder Tax

The actual tax rate in each of the periods may be impacted by significant one-off items and events such as a change in corporation tax rate. The table below provides a high level analysis of shareholder tax, and a more detailed analysis is included in Note 7.

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
Expected shareholder tax	<b>(27.2)</b>	(29.2)
Recognition of capital losses	<b>2.2</b>	74.8
Other tax adjustments	<b>(2.6)</b>	0.6
Corporation tax rate change	<b>(1.3)</b>	4.5
<b>Actual shareholder tax</b>	<b>(28.9)</b>	50.7
Expected shareholder tax rate	<b>19.3%</b>	19.3%
Actual shareholder tax rate	<b>20.6%</b>	(33.5%)

The **expected shareholder tax** principally reflects the current UK corporation tax and overseas rates applicable and will vary from year to year depending upon the emergence of profit between the different tax regimes which apply to the St. James's Place Group companies.

There has been a small reassessment in the **recognition of capital losses** adding £2.2 million to profit (negative tax impact) in the year (2015: £74.8 million negative tax impact, positive profit) and the combined impact of a number of other small tax adjustments was £2.6 million negative impact on profit, or increase to tax (2015: £0.6 million negative impact on tax, positive on profit).

The reduction in the rate of corporation tax to 17% from 1 April 2020 was enacted in the Finance Act 2016. The impact of this reduction on the net deferred tax assets and liabilities results in a negative impact of £1.3 million due to the level of deferred tax assets being greater than the level of deferred tax liabilities (2015: £4.5 million positive impact).

The overall impact of these effects was to increase the tax charge on an IFRS basis to £28.9 million (2015: negative impact on tax of £50.7 million).

## FINANCIAL REVIEW continued

### IFRS Profit

Analysis of the IFRS profit before tax, Profit before shareholder tax and IFRS profit after tax is presented in the table below, which also shows the impact of the tax incurred on behalf of policyholders:

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
<b>IFRS profit before tax</b>	<b>486.3</b>	174.1
Policyholder tax	(345.7)	(22.8)
<b>Profit before shareholder tax</b>	<b>140.6</b>	151.3
Shareholder tax	(28.9)	50.7
<b>IFRS profit after tax</b>	<b>111.7</b>	202.0

The **Profit before shareholder tax** for the year was £140.6 million (31 December 2015: £151.3 million). The impact of the increasingly negative contribution from the net movement in DAC/DIR/PVIF intangibles was a major contributor to the lower Profit before shareholder tax result in the current period.

The **IFRS profit after tax** result similarly reflected the impact of the negative net movement in DAC/DIR/PVIF in the current period, but the prior period result also benefitted significantly from recognition of £74.8 million of capital losses. These two factors more than reversed the underlying growth in the business and resulted in a significant reduction in profit between the years.

By contrast the **IFRS profit before tax** increased significantly to £486.3 million (31 December 2015: £174.1 million). This significant increase reflects the underlying positive investment performance in client policies, which generates higher policy charges intended to meet the Policyholder tax element of the corporate tax charge (as described in the definition of Policyholder tax provided on page 27). In practice, the very substantial increase in IFRS profit before tax is offset by the equivalent increase in Policyholder tax, and it is the Profit before shareholder tax which provides a better indication of the underlying performance of the business.

### Analysis of IFRS Assets and Net Assets per Share

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

	2016	2015
	£'Million	£'Million
Purchased value of in-force*	25.0	27.4
Deferred acquisition costs*	587.0	627.2
Deferred income*	(607.9)	(368.3)
Other IFRS net assets	1.5	7.7
Solvency II net assets	1,070.0	801.1
<b>Total IFRS net assets</b>	<b>1,075.6</b>	1,095.1

\* net of deferred tax

	2016	2015
	Pence	Pence
<b>Net asset value per share</b>	<b>203.9</b>	208.7

## SECTION 4: SOLVENCY, LIQUIDITY AND CASH RESULTS

This section brings together our reporting on the Solvency II net assets and liquidity, together with our reporting of the Cash results and solvency.

### Solvency II Net Assets

In addition to presenting an IFRS statement of financial position (on page 129), we believe it is beneficial to provide a balance sheet reflecting our approach to managing solvency. Solvency II net assets are based on the IFRS statement of financial position, but with adjustments made to accounting assets and liabilities to reflect the Solvency II regulations. In addition, provision for insurance liabilities is set equal to the associated unit liabilities. The following table sets out the adjustments to move from IFRS to Solvency II net assets.

31 December 2016	IFRS Balance Sheet	Solvency II Net Assets Balance Sheet			2015 £'Million
		Adjustment <sup>1</sup> £'Million	Adjustment <sup>2</sup> £'Million	£'Million	
<b>Assets</b>					
Goodwill	13.8	-	(13.8)	-	-
Deferred acquisition costs	684.8	-	(684.8)	-	-
Acquired value of in-force business	30.4	-	(30.4)	-	-
Developments	3.0	-	(3.0)	-	-
Property and equipment	23.1	-	-	23.1	8.0
Investment property	1,462.4	(1,462.4)	-	-	-
Equities	46,598.7	(46,598.7)	-	-	-
Fixed income securities	12,445.5	(12,397.8)	-	47.7	83.1
Investment in Collective Investment Schemes	3,864.8	(2,997.4)	-	867.4	531.0
Derivative financial instruments	729.1	(729.1)	-	-	-
Reinsurance assets	80.5	-	(80.5)	-	-
Cash and cash equivalents	7,413.1	(7,067.2)	-	345.9	233.5
Other receivables	1,473.0	(187.2)	(63.0)	1,222.8	500.1
Deferred tax assets	199.9	-	(42.2)	157.7	179.2
<b>Total assets</b>	<b>75,022.1</b>	<b>(71,439.8)</b>	<b>(917.7)</b>	<b>2,664.6</b>	1,534.9
<b>Liabilities</b>					
Insurance contract liabilities	518.2	(435.3)	(82.9)	-	-
Borrowings	281.4	-	-	281.4	181.8
Investment contract benefits	53,307.1	(53,307.1)	-	-	-
Derivative financial instruments	281.9	(281.9)	-	-	-
Net asset value attributable to unit holders	17,032.0	(17,032.0)	-	-	-
Other provisions	17.1	-	-	17.1	15.4
Other payables	1,173.6	(383.5)	(1.1)	789.0	300.7
Income tax liabilities	72.7	-	-	72.7	29.6
Deferred tax liabilities	614.8	-	(180.5)	434.3	206.2
Deferred income	647.6	-	(647.6)	-	-
Preference shares	0.1	-	-	0.1	0.1
<b>Total liabilities</b>	<b>73,946.5</b>	<b>(71,439.8)</b>	<b>(912.1)</b>	<b>1,594.6</b>	733.8
<b>Net Assets</b>	<b>1,075.6</b>	<b>-</b>	<b>(5.6)</b>	<b>1,070.0</b>	801.1

#### Adjustments:

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

# FINANCIAL REVIEW continued

## Liquidity

Included in the previous table are holdings in Fixed Interest Securities, Collective Investment Schemes and other cash and cash equivalents. It is our policy to always hold such assets in high credit quality liquid assets. An analysis of these holdings is provided below:

Holding Name	£'Million	£'Million
<b>Fixed Interest Securities</b>		
1% UK Treasury 07/09/2017	42.3	
1.75% UK Treasury 22/01/2017	0.6	
1.375% Singapore Government Bonds 01/10/2017	4.8	47.7
<b>Collective Investment Schemes (AAA rated money market funds)</b>		
Aberdeen	54.3	
BlackRock	178.0	
Goldman Sachs	154.4	
HSBC	28.6	
Insight	153.3	
JP Morgan	151.0	
Legal & General	147.8	867.4
<b>Cash and cash equivalents (bank balances)</b>		
Bank of Scotland	31.8	
Barclays	93.5	
HSBC	55.8	
Lloyds TSB	47.0	
Metro	23.0	
NatWest	37.9	
Santander	35.1	
Others	21.8	345.9
<b>Total</b>		<b>1,261.0</b>

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

The key calls on liquidity will be investment to support the business and payment of the Group dividend. As noted previously, our policy is to increase the dividend in line with the underlying performance of the business. We believe this will also enable us to continue to invest in the business to support our growth aspirations.

## Movement in Solvency II Net Assets

The table below details the movement in the Solvency II net assets over the year which, after adjusting for changes in non cash items such as deferred tax assets, goodwill and intangibles, as well as changes in equity such as dividends paid in the year (see also page 128 – consolidated statement of changes in equity) provides the net cash result for the period.

	Year Ended 31 December 2016	Year Ended 31 December 2015*
	£'Million	£'Million
Opening Solvency II Net Assets	801.1	708.7
Dividend paid in period	(155.2)	(130.8)
Issue of share capital and exercise of options	6.6	11.8
Consideration paid for own shares	(5.5)	(12.8)
Movement in other reserves	0.2	–
Change in deferred tax	(17.2)	52.7
Change in goodwill and intangibles	(2.4)	–
Unit liability reassessment	267.0	–
Cash result	175.4	171.5
<b>Closing Solvency II Net Assets</b>	<b>1,070.0</b>	801.1

\* The Solvency II net assets disclosed at 31 December 2015 were adjusted for submission to the regulator.

The closing Solvency II Net Assets reflects an increase of £267 million as a result of unit liability reassessment (impacting Adjustment 2 in the table on page 39). This increase in net assets does not reflect a change in the underlying business and so, when considering solvency, management offsets the positive increase in Solvency II Net Assets by increasing the capital requirement (the Management Solvency Buffer) by a similar amount (see also page 43).

### Cash Results

As noted above, the change in the Solvency II Net Assets, after adjusting for changes in non cash items such as deferred tax assets, goodwill and intangibles, as well as changes in equity such as dividends paid in the year (see also page 128 – consolidated statement of changes in equity) provides the Cash result for the period. The Cash result provides an alternative view of the cash generation of the Group during a reporting period. The Cash result should not be confused with the IFRS consolidated statement of cash flows which is prepared in accordance with IAS 7 and disclosed on page 130.

The following tables below show: an Operating cash result – reflecting the regular emergence of cash from the business operations; and an Underlying cash result which additionally reflects the cash impact of our strategic investments. The reconciliation of the Underlying cash result to the Underlying profit measure is presented on page 34.

There are also some cash items whose emergence is volatile, varying over time, and which are influenced by market movements. These impacts, together with the short term costs associated with the back office infrastructure project, are shown after the Underlying cash result.

The Cash results are presented after tax and can be analysed as a combination of the cash emerging from the business in-force at the start of the year, less the investment made to acquire new business during the year. The following tables and commentary provide an indicative analysis of the Cash result into these two elements.

The Cash results are the principal measures the Board considers when determining the dividend payment to shareholders.

Year Ended 31 December 2016	Note	In-force	New Business	Total
		£'Million	£'Million	£'Million
<b>Operational</b>				
Net annual management fee	1	<b>468.5</b>	<b>40.4</b>	<b>508.9</b>
Reduction in fees in gestation period	1	(165.6)	(24.3)	(189.9)
Net income from funds under management	1	<b>302.9</b>	<b>16.1</b>	<b>319.0</b>
Margin arising from new business	2	-	<b>49.0</b>	<b>49.0</b>
Establishment expenses	3	(12.9)	(115.7)	(128.6)
Operational development expenses	3	-	(13.9)	(13.9)
Regulatory fees	3	(0.4)	(3.4)	(3.8)
FSCS levy	3	(1.4)	(12.3)	(13.7)
Shareholder interest	4	<b>9.8</b>	-	<b>9.8</b>
Tax relief from capital losses	5	<b>12.6</b>	-	<b>12.6</b>
Miscellaneous	6	(4.4)	-	(4.4)
<b>Operating cash result</b>		<b>306.2</b>	(80.2)	<b>226.0</b>
<b>Investment</b>				
Academy	7	-	(5.8)	(5.8)
Asia	7	-	(12.2)	(12.2)
DFM	7	-	(3.2)	(3.2)
Strategic development costs	7	-	(5.3)	(5.3)
<b>Underlying cash result</b>		<b>306.2</b>	(106.7)	<b>199.5</b>
Back office infrastructure development	7	-		(16.7)
Variance	8	-		(7.4)
<b>Cash result</b>				<b>175.4</b>

# FINANCIAL REVIEW continued

Year Ended 31 December 2015*	Note	In-force £'Million	New Business £'Million	Total £'Million
<b>Operational</b>				
Net annual management fee	1	406.7	33.5	440.2
Reduction in fees in gestation period	1	(143.1)	(18.5)	(161.6)
Net income from funds under management	1	263.6	15.0	278.6
Margin arising from new business	2	–	47.8	47.8
Establishment expenses	3	(11.1)	(100.2)	(111.3)
Operational development expenses	3	–	(13.8)	(13.8)
Regulatory fees	3	(0.6)	(5.2)	(5.8)
FSCS levy	3	(1.6)	(14.3)	(15.9)
Shareholder interest	4	8.6	–	8.6
Tax relief from capital losses	5	12.1	–	12.1
Miscellaneous	6	(4.7)	–	(4.7)
<b>Operating cash result</b>		266.3	(70.7)	195.6
<b>Investment</b>				
Academy	7	–	(4.4)	(4.4)
Asia	7	–	(6.3)	(6.3)
DFM	7	–	(1.3)	(1.3)
Strategic development costs	7	–	(1.5)	(1.5)
<b>Underlying cash result</b>		266.3	(84.2)	182.1
Back office infrastructure development	7	–	–	(14.4)
Variance	8	–	–	3.8
<b>Cash result</b>				171.5

\*The Cash result for 2015 reflected the movement in certain Solvency I reserves as that was the regulatory regime at the time.

## Notes

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

- The net annual management fee is the manufacturing margin the Group retains from funds under management after payment of the associated costs (e.g. investment advisory fees and payments to Partners). Broadly speaking the Group receives an average net annual management fee of 0.77% (post-tax) of funds under management (2015: 0.77% post-tax). However, as noted in Section 1 on page 30, due to our product structure, investment and pension business does not generate cash in the first six years (known as the 'gestation period'). This is reflected in an adjustment which is the reduction in fees in gestation period. The overall result is the net income from funds under management which was some 15% higher than 2015, reflecting higher average funds under management during the year. The reassessment of the level of the investment contract liability has resulted in an increase in Solvency II Net Assets of £267 million at the year end, but this amount will gradually unwind during the next six years through a higher reduction in fees in the gestation period. If the approach had been implemented at the start of the year, the impact would have been an increase in the negative amount by some £45 million.
- Margin arising from new business: This is the cash impact of new business in the year, reflecting growth in new business, production related expenses and mix of new business. The revised assessment of investment contact liabilities results in an increase in the level of initial margin recognised in the Cash result through the margin arising from new business. If this approach had been adopted at the start of 2016 the margin would have been some £70 million higher. In future years, this additional margin will move in line with new businesses volumes, albeit adjusted for any business mix effects.
- Expenses: These reflect the expenses of running the Group and more detail is provided in the table on page 32 in Section 2. In line with the rest of the table they are presented after allowance for tax.
- Shareholder interest: This is the assumed income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the Group.
- Tax relief from capital losses: In recent years, a deferred tax asset has been established for historic capital losses which are now regarded as being capable of utilisation over the medium term. Utilisation during the year of £12.6 million tax value (2015: £12.1 million) was slightly ahead of our expected rate of c. £8-10 million benefit in a year.
- Miscellaneous: This represents the cash flow of the business not covered in any of the other categories, including ongoing administration expenses and associated policy charges, together with utilisation of the deferred tax asset in respect of prior years' unrelieved expenses (due to structural timing differences in the life company tax computation).
- Strategic investments, including back office infrastructure: These reflect significant investments in developing our business for the future. Further analysis of the expenses associated with these initiatives is presented in Section 2 on page 32, but all are expected to result in either additional funds (Academy, Asia and DFM) or expense savings (Back office infrastructure) in the future. Advice margin generated in Asia and all fees generated by DFM are reflected in the relevant line.
- Variance: This reflects variances in the settlement of tax related liabilities between the policyholders (unit linked funds), the shareholder and HMRC. It also reflects a £6.6 million negative one-off cost of reviewing charges in two small cohorts of legacy business and a number of other small positive and negative one-off items.

## Solvency

St. James's Place is a simple wealth management group offering mainly investment products. Our strategy is to attract and administer retail funds under management, from which we receive an annual management fee; we are a fee based business. Our clients can access their investments on demand but, because we match the encashment value on the unit linked business, movements in equity markets, interest rates, mortality, morbidity, longevity and currency rates have little impact on our ability to meet liabilities (although they can impact emergence of profit). We also have a prudent capital management approach and invest surplus assets in cash, AAA rated money market funds and UK government securities. The overall effect is assurance that we can meet liabilities, and a resilient solvency position that is dependable even through adverse market conditions.

We manage solvency of our business on the basis of holding assets in excess of the client unit linked liabilities plus a Management Solvency Buffer (MSB). This ensures we are able not only to meet client liabilities at all times, but the prudence of the MSB acts as protection against other risks.

At 2015 year end we assessed the MSB for our life businesses as £150 million, having taken into account a wide range of factors and information, not least the results from stress and scenario testing carried out as part of our annual ORSA (Own Risk and Solvency Assessment). At the 2016 year end, on the same basis, we assessed the MSB for our life businesses as £170 million, increasing slightly as a result of economic conditions.

However, as a result of our reassessing the unit liability in line with the encashment value the Solvency II net assets have increased by £267 million, with no change in our risk profile. We therefore believe it is appropriate to increase our MSB to £437 million at the year end (equal to £170 million plus £267 million).

During H1 2017, we are undertaking an asset liability matching exercise which will reduce our corporate exposure to market risk and result in a reduction in risk capital requirement. Following this exercise, we will review the MSB and we expect it will reduce. We will report on the outcome of that review at half year.

We continue to hold capital within the Group in respect of the other regulated (but non insurance) companies, based on holding excess capital significantly above the regulatory requirement.

31 December 2016	Life £'Million	Other Regulated £'Million	Other £'Million	Total £'Million	2015 Total £'Million
					Total £'Million
Solvency II net assets*	530.0	145.3	394.7	1,070.0	812.9
Management Solvency Buffer (MSB)	437.0	90.0	-	527.0	202.3
Management solvency ratio	121%	161%			

\*After payment of year end intragroup dividend, but before Group final dividend

Solvency II net assets reflect the assets of the Group in excess of those matching the client's (unit-linked) liabilities. It includes a £149.9 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.

## FINANCIAL REVIEW continued

### Solvency II Balance Sheet

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

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

31 December 2016	Other			2015 Total
	Life	Regulated	Other	
	£'Million	£'Million	£'Million	£'Million
Solvency II net assets	530.0	145.3	394.7	1,070.0 812.9
Value of in-force (VIF)	2,707.9	–	–	2,707.9 2,306.6
Risk Margin	(779.2)	–	–	(779.2) (624.0)
Own Funds (A)	2,458.7	145.3	394.7	2,998.7 2,495.5
Solvency capital requirement (B)	(1,991.0)	(55.5)	–	(2,046.5) (1,595.8)
<b>Solvency II free assets</b>	<b>467.7</b>	<b>89.8</b>	<b>394.7</b>	<b>952.2</b> 899.7
Solvency ratio (A/B)	123%	262%	–	147% 156%

\* After payment of year and intragroup dividend but before Group final dividend.

The solvency ratio after taking account of the final dividend is 141% at the year end (2015: 151%)

As noted in our commentary on the Solvency II result last year, the nature of our business is that much of the Own Funds value reflects future profits, but the SCR similarly reflects loss of future profits. As a result, the solvency ratio is not very sensitive to changes in experience or assumptions, and can move counter intuitively depending on circumstances. For example, the relative reduction in Solvency ratio from 2015 to 2016, is partly due to changes in economic assumptions, particularly lower interest rates and higher future inflation expectations. However, it has also been impacted by the positive impact of investment performance on FUM, which has resulted in an increase in SCR by over 25%. Since Solvency II Net Assets (typically cash or fixed interest) have not increased in line with markets, the ratio has fallen. So despite the positive impact on our business of strong investment performance, our solvency ratio has reduced.

More generally, since our business profile has not changed significantly from last year end, the sensitivity analysis presented at that stage remains relevant.

## SECTION 5: EMBEDDED VALUE (EV)

Life business and wealth management business differ from most other businesses, in that the expected shareholder income from the sale of a product emerges over a long period in the future. We therefore complement the IFRS and cash results by providing additional disclosure on an EV 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 EV 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 October 2005. Following the introduction of Solvency II, the CFO Forum published an amended set of principles in April 2016. The key change implemented in our results for December 2016 is to reflect a reduction in the cost of holding a revised level of solvency capital, moving from assuming 100% of Solvency I capital requirement to reflecting our new approach to capital management for the Group based on holding a Management Solvency Buffer over the unit linked liabilities for our Life businesses.

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

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
Life business	<b>501.4</b>	467.0
Unit Trust and DFM business	<b>266.8</b>	274.4
Funds management business	<b>768.2</b>	741.4
Distribution business	<b>(25.9)</b>	(21.2)
Back office infrastructure development	<b>(20.9)</b>	(18.1)
Other	<b>(47.8)</b>	(41.9)
<b>EEV operating profit</b>	<b>673.6</b>	660.2
Investment return variance	<b>537.2</b>	(24.4)
Economic assumption changes	<b>(12.4)</b>	0.9
<b>EEV profit before tax</b>	<b>1,198.4</b>	636.7
Tax	<b>(212.9)</b>	(116.5)
Corporation tax rate change	<b>28.6</b>	47.8
<b>EEV profit after tax</b>	<b>1,014.1</b>	568.0

	Year Ended 31 December 2016	Year Ended 31 December 2015
	Pence	Pence
EEV operating profit basic earnings per share	<b>105.9</b>	103.9
EEV operating profit diluted earnings per share	<b>105.2</b>	102.8

### EEV Operating Profit *Funds management business*

The funds management business operating profit has increased to £768.2 million (2015: £741.4 million) and a full analysis of the result is shown below:

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
New business contribution	<b>520.2</b>	440.7
Profit from existing business		
– unwind of the discount rate	<b>199.6</b>	172.4
– experience variance	<b>1.4</b>	78.1
– operating assumption change	<b>18.6</b>	44.1
Addition of Rowan Dartington	<b>21.0</b>	–
Investment income	<b>7.4</b>	6.1
<b>Fund management business EEV operating profit</b>	<b>768.2</b>	741.4

# FINANCIAL REVIEW continued

The **new business contribution** for the year at £520.2 million (2015: £440.7 million) was some 18% higher than the prior year, reflecting the strong gross inflows (up 23%) and the mix of business.

The **unwind of the discount rate** for the year was £199.6 million (2015: £172.4 million). The unwind is calculated by multiplying the opening VIF by the discount rate but adjusting to reflect emergence of profits into cash during the year. The result in the current year reflects both a slightly higher discount rate than 2015 and the higher start year opening VIF balance.

The discount rate is based on the risk free rate, which is set by reference to the yield on a UK 10 year gilt at the start of the year. The unwind for the current year is based on a discount rate of 5.2% compared with 5.0% for the prior year. Had the discount rate been consistent with 2015, the unwind and operating profit would have been £8.0 million lower.

There was a small positive **experience variance** during the year of £1.4 million. The strong positive variance of £78.1 million in the prior year principally reflected the value ascribed to significant capital losses within the historic Group companies identified in the year.

As in the prior year, the positive **operating assumption change** in the year of £18.6 million (2015: £44.1 million) reflected improvements in the retention assumptions on pension business (Drawdown business in 2016) and adjustment to the maintenance expense assumption.

The **addition of Rowan Dartington** within the embedded value calculation has contributed £21.0 million.

The **investment income** for the year was little changed at £7.4 million (2015: £6.1 million).

## **Distribution business, back office development and other**

These items have already been commented on in the IFRS section on page 35.

## **Investment Return Variance**

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

The rise in global stock markets during the second half of the year, together with the currency impact from the depreciation of Sterling, has significantly contributed to a strong investment return for our funds. Average growth in our funds of 14% to 18% funds (net of charges) compares with an assumed investment return of 2.5% (net of charges) which gives rise to a significant positive investment variance of £537.2 million for the year. For the prior year there was a negative investment return of £24.4 million, reflecting the slightly lower actual investment return compared with the assumed return.

## **Economic Assumption Changes**

The negative variance of £12.4 million arising in the year principally reflects the increase in the implied inflation rate (2015: £0.9 million positive).

## **EEV Profit before Tax**

The total profit before tax for the year was £1,198.4 million, compared with £636.7 million, although the significant improvement is principally reflecting the difference in the investment return variance between the two years.

## **Tax**

The tax charge at £212.9 million (2015: £116.5 million) reflects the underlying result.

A further reduction in the corporation tax rate from 18% to 17% effective 1 April 2020 was enacted in the Finance Act 2016. The capitalised effect of this change has been included as a reduction in tax of £28.6 million. Those tax cuts previously announced have already been reflected in the valuation.

## **EEV Profit after Tax**

The EEV profit after tax was £1,014.1 million (2015: £568.0 million) reflecting the movement in EEV profit before tax, but also the positive impact of the tax rate change.

### New Business Margin

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

The table below presents the margin before tax from our manufactured business based on gross fund flows:

	Year Ended 31 December 2016	Year Ended 31 December 2015
<b>Investment</b>		
New business contribution (£'Million)	<b>108.3</b>	124.9
New money invested (£'Billion)	<b>2.28</b>	2.45
Margin (%)	<b>4.8</b>	5.1
<b>Pension</b>		
New business contribution (£'Million)	<b>207.9</b>	140.6
New money invested (£'Billion)	<b>5.12</b>	3.66
Margin (%)	<b>4.1</b>	3.8
<b>Unit Trust and DFM business</b>		
New business contribution (£'Million)	<b>204.0</b>	175.2
New money invested (£'Billion)	<b>3.95</b>	3.13
Margin (%)	<b>5.2</b>	5.6
<b>Total business</b>		
New business contribution (£'Million)	<b>520.2</b>	440.7
New money invested (£'Billion)	<b>11.35</b>	9.24
Margin (%)	<b>4.6</b>	4.8
Post-tax margin (%)	<b>3.8</b>	3.9

The slight fall in the total margin from 4.8% to 4.6% reflects both a positive impact from an increased level of new business together with a negative impact from a change in business mix, with a greater proportion of pension business in the current year.

### Analysis of the EEV Result and Net Assets per Share

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

	2016	2015
	£'Million	£'Million
Value of in-force		
– Life	<b>2,636.2</b>	2,279.5
– Unit Trust and DFM	<b>1,044.9</b>	787.6
Solvency II net assets	<b>1,070.0</b>	801.1
<b>Total embedded value</b>	<b>4,751.1</b>	3,868.2

	2016	2015
	Pence	Pence
<b>Net asset value per share</b>	<b>900.7</b>	737.3

# RISK AND RISK MANAGEMENT

## OVERVIEW AND CULTURE

The St. James's Place Group is exposed to a wide variety of risks as a result of its business activities and the industry in which it operates, as well as a number of external factors and threats. Under the leadership, direction and oversight of our Board, these risks are carefully managed, contributing to our competitive advantage and helping us to achieve our business and client objectives as set out on pages 22 and 23.

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

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

## RISK APPETITE

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

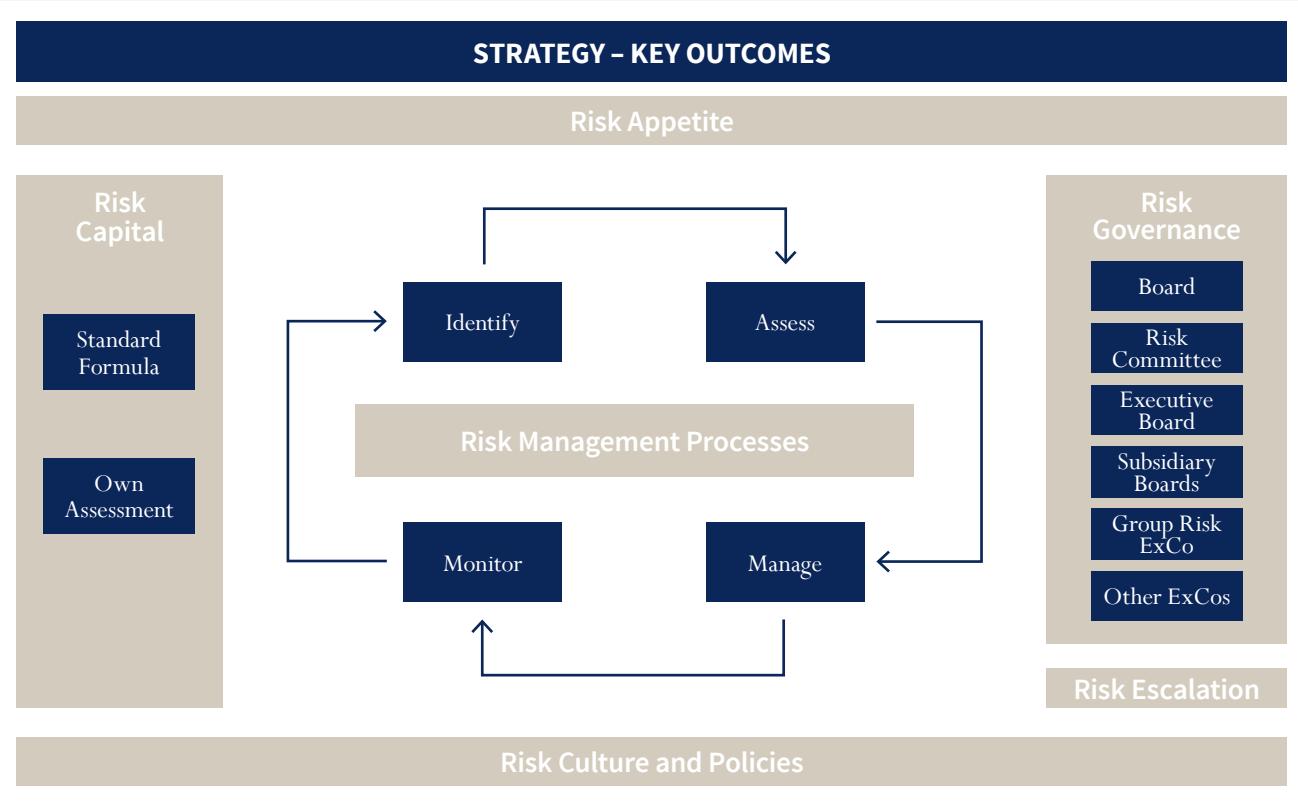
- Risks that are actively sought in pursuit of return;
- Risks that are consciously avoided;
- Risks that are reduced through transfer to other parties; and
- Risks that are minimised through controls.

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

## RISK MANAGEMENT FRAMEWORK

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

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



The Risk Committee comprises Independent Non-executive Board members, and is responsible for ensuring that a culture of effective risk identification and management is fostered across the Group. A report of its activity during the year can be found on pages 88 to 90.

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

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

### CLIENTS

That we deliver positive outcomes for our increasing population of clients

### PARTNERS

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

### PEOPLE

That we treat all of our stakeholders well

### REGULATORS

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

### FINANCIALS AND SHAREHOLDERS

That we deliver sustainable growth in reported profits on all measures

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

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

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

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

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

Many of the activities of the Group, and the legal entities in the Group, are regulated. We have relationships with the UK regulators (PRA and FCA) and the Irish Regulator (Central Bank of Ireland), and with the local regulators in Singapore and Hong Kong. The nature of our activities and the regulatory focus results in additional risk management activity, including, but not limited to, stress and scenario testing, loss event recording, resolution planning and risk capital management activity.

The different regulated entities in the Group are governed by a number of specific regulations, however, as an Insurance Group we are primarily governed by the Solvency II Directive, which came into force on 1 January 2016. As part of these regulations, we are required to undertake an ORSA for the Group, containing the ORSAs for each insurance company within the Group. We also produce a separate ORSA for the Singapore Branch of St. James's Place International, to meet the requirements of the local regulator. In 2016 the Group submitted its third annual ORSA report to the regulator, relating to the period ended 31 December 2015.

The ORSA is directed by the Board, with active engagement from the boards of St. James's Place UK plc ('SJPUK') and St. James's Place International plc ('SJPI'), and is intended to be a comprehensive risk assessment, bringing together an understanding of the risks that the Group faces, in the context of the strategic plan, and how these risks may change over our planning period. It also requires quantitative analysis of the capital required, and how it might develop over our planning period (five years). The ORSA is a continually evolving process which has been useful to inform management decisions during the year and is increasingly embedded in ongoing risk management processes throughout the Group.

Capital for our insurance companies is based on the Solvency II regulations: separate risk based capital assessments are performed for the other regulated entities. As a result of these activities we have considered the calculation and allocation of risk capital to all the major risks in the Group, and the insurance companies in particular, and the adequacy of the capital position. This process ensures our continued confidence that the regulated entities remain strongly capitalised.

# RISK AND RISK MANAGEMENT continued

## Viability Statement

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

In reaching this conclusion the Directors have taken into account a number of different strands of work, including:

- The Business Plan and associated strategy documents;
- An assessment of the economic, regulatory, competitive and risk environment which was carried out as part of the Board's strategy review process; and
- The latest Group ORSA, which is a new requirement under the Solvency II Directive, and which scope is summarised in the section above.

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

A planning period of five years is used both in medium term business planning and also for the ORSA, and has therefore been used for the Code requirement as well, reflecting the horizon over which the Board sets medium term strategy.

The ORSA was particularly useful in assessing viability as it has a similar purpose and includes a range of stress tests, which have been performed at the level of the two insurance companies (St. James's Place UK plc and St. James's Place International plc) as well as at the level of the Group. The stress tests considered include a broad range of scenarios, including market shocks, mass lapse events, new business growth scenarios and particularly operational risk events. These were evaluated for the impact on the free assets of the Group of the change in key assumptions or circumstances. In all severe but plausible adverse tests, free assets were available, demonstrating the Group's resilience to adverse conditions. Reverse stress tests have also been performed on liquidity, the results of which indicate that the Group can reasonably expect to have sufficient liquid funds to be able to meet its liabilities over the planning period.

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

## INTERNAL CONTROL

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

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

## Control Self Assessment

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

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

## Financial Reporting Processes

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

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

## PRINCIPAL RISKS AND UNCERTAINTIES

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

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

In reflection of the stability and consistency of the Group's business model, there have been no significant changes in the principal risks to the Group over the last year. However, notable political events and economic changes during the year have had the effect of bringing certain risks, in particular those in respect of market performance and relative exchange rates, into sharper focus. The changes in government and uncertainties created by the vote to leave the European Union have led to an increase in the risks associated with regulatory, legislative and tax changes, although the Group remains well positioned to accommodate and build on any such changes.

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 as follows:

<b>Non-financial Risks</b>			
<b>Risk</b>	<b>Description</b>	<b>Outcome</b>	<b>Management and Controls</b>
Systemic advice failure	Clients rely on their SJP Partners 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, Partner training and accreditation, compliance procedures, monitoring processes and quality checking. The Group guarantees the advice given by Partners and also has appropriate professional indemnity insurance in place.
Cyber risk or outsourcing failure	The Group's business model involves the outsourcing of administration to third parties. Poor service from, or failure of, one of these third parties, the failure of an IT system, or a significant cyber attack or fraud, could lead to disruption of services to clients, reputational damage and profit impacts. In particular, a significant cyber attack could cause very substantial reputational damage.	Clients, Financials and Shareholders	We maintain close working relationships with our outsourcing partners, who are central to our business model. This enables us, in seeking to work effectively and efficiently together, to deliver the best result. Service level agreements are in place and performance is monitored against these. In the extreme event, all our relationships are governed by formal agreements with notice periods. The business continuity arrangements of each outsourcer are also continually tested and improved and scenario analysis is carried out.  An effective information security control framework is in place and we continue to enhance our existing cyber security risk management capabilities in light of the increasing threat in this area.
Low yield environment	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 actively manage and monitor the performance of our investment managers through the Investment Committee, which also makes use of firms of professional investment advisers, including respected independent investment research consultancies, Stamford Associates, Redington and AON Consulting, to help them with this key task. We offer a broad range of funds, which allows client diversification and mitigates our new business, persistency and market risks. Effective governance frameworks are in place in respect of manufactured and third-party products.

**Key:** ■ Clients ■ Partners ■ Financial ■ Regulation ■ People

# RISK AND RISK MANAGEMENT continued

## Non-financial Risks continued

<b>Risk</b>	<b>Description</b>	<b>Outcome</b>	<b>Management and Controls</b>
Partner proposition, recruitment and retention	Group products are distributed, and ongoing advice is provided, exclusively through the SJP Partnership. Inadequacies in the Partner proposition, range of products, technology or services offered to the Partnership may result in inefficiencies and frustration, with consequent loss of Partners and client impact, or inability to recruit sufficient, high quality new Partners or field management.	Partners	The Partner proposition is an area of continual focus, with outputs from regular Partner surveys and other Partner feedback being reflected on an ongoing basis. We employ a number of specialist managers specifically to manage the recruitment and retention of high quality Partners, 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 Partners. All recruitment and retention activity is closely monitored.
Regulatory, legislative and tax environment	The nature of the Group is such that it falls under the influence of regulators and legislators in multiple jurisdictions, a growing number given the Group's expansion into Asia. Wholesale changes to regulations or to the political environment may result in implementation costs and disruption to business. The Group could face a fine or regulatory censure from failure to comply with applicable regulations, with increased supervisory intrusion and disruption to business.	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	Competitor activity in the adviser based wealth management market may result in a reduction in new business volumes, reduced retention of existing business, pressure on margins for both new and existing business, and the potential loss of Partners and key employees.  The low yield environment places additional pressure on client charges and advice fees.	Financials and shareholders	This risk is mitigated through ensuring our business is run efficiently, being responsive to the needs of our clients and Partners 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 Partner and employee acquisition and retention. Our more established Partners 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.
Availability of credit	Lack of availability of credit may limit the Group's ability to provide Partner loans and make strategic investments.	Financials and shareholders	A debt funding policy is in place, with committed funds available through the revolving credit facility. Credit approved bank lending facilities are available to support Partner loans. Further corporate borrowing requires approval at Board level.
Investor relations	Failure to communicate effectively with new and existing shareholders may lead to falls in the share price and reputational damage.	Financials and shareholders	This risk is mitigated through the work of the investor relations team, whose remit is to ensure the maintenance of positive relationships with shareholders.
Accumulation of reputational issues	The success of the Group is closely linked with the strength of the St. James's Place brand. An accumulation of reputational issues, for example, advice failures, fraud, service issues, low client investment returns, has the potential to damage the brand, leading to reduced retention and lower levels of new business.	Financials and shareholders	Mitigants for individual reputational events are described earlier in the table. The Group seeks to achieve the best possible outcomes for its clients and the cultural driver of 'doing the right thing' runs through the whole organisation. However, it is recognised that isolated incidents will occur and, when this is the case, the Group seeks to rectify the issue and achieve positive outcomes for clients.
People and culture	People and the distinctive culture of the Group play an important part in its success. Poorly managed expansion, succession, culture and resourcing may lead to loss of valued individuals, increased risk of errors, and failure to deliver on the business plan.	People	This risk is mitigated through effective leadership, succession planning, the implementation of executive and management development initiatives and regular surveys and consultation groups. The latter enable us to monitor the sentiment of our staff and Partners and identify any potential adverse impacts upon, or trends within, our culture, and respond appropriately.

## Financial Risks

Risk	Description	Outcome	Management and Controls
Market Risk – Loss of Annual Management Charge (AMC) income	A reduction in funds under management owing to market shocks, poor market performance or currency and exchange rate movements would reduce future AMC income, and hence future profits.	Financials and shareholders	The Group accepts the risk of reduced future profits as a result of market shocks, poor market performance, adverse movement in credit spreads or currency movements. This risk is mitigated to an extent by the diversified fund range.
Insurance risk	<p>A reduction in funds under management owing to poor retention would reduce future AMC income. This may arise from factors such as changes in the economic climate, poor investment performance, competitor activity, or reputational damage to the Group.</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 Partners and clients. In particular, Partners 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. Some of the key sources of reputational risk and related controls are described in the table above.</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 within five years. Experience analysis is performed.</p>
Expense risk	Increased expenses, in particular higher than expected administration costs, would reduce future profits.	Financials and shareholders	<p>Expenses are controlled through contracts with third party administrators and expense controls at Group level, so that growth in average per policy expenses is no greater than the rate of increase in the average weekly earnings index. Administration charges are reviewable.</p> <p>Clients meet investment management fees directly through the product, with changes, both positive and negative, also passed on.</p>
Interest rate and credit risks	<p>Changes in interest rates or the failure of a counterparty may reduce the value of fixed interest assets held by the shareholder.</p> <p>Key counterparties include re insurers, banks, money market funds, issuers of fixed interest securities, Partners to whom loans have been granted, and other debtors.</p>	Financials and shareholders	<p>Generally, shareholder funds are invested in high credit rating and highly liquid cash and cash equivalent investments, and only highly rated reinsurers are used.</p> <p>However, in support of the business, some shareholder funds (outside the insurance companies) are used to provide loans to Partners. These are secured against income streams on a conservative multiple and with appropriate financial monitoring.</p> <p>A pre payment has been made to IFDS in anticipation of future benefits arising from the development of the new Bluedoor administration system. However, the contract with Bluedoor would enable the Group to continue to use the Bluedoor system in the event of failure of IFDS.</p>
Liquidity risk	Liquidity issues may arise from client requests to switch or withdraw money from unit linked funds, and through events that may require immediate recourse to shareholder funds.	Financials and shareholders	Client funds are invested in deep and liquid markets and, where investments are less liquid, contractual terms are included, allowing the flexibility to defer withdrawals. Sizeable balances of liquid shareholder assets are maintained and the emergence of cash profits is monitored. Banks' propensity to lend in support of Partner loans is also monitored.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

**ST. JAMES'S PLACE IS COMMITTED  
TO GROWING OUR BUSINESS  
IN A WAY THAT CONSIDERS  
THE ECONOMIC, SOCIAL AND  
ENVIRONMENTAL IMPACTS OF  
WHAT WE DO**

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

Our commitment to responsible management was established in the founding principles of the Company and is expressed in both the 'Our Approach' document, which is shared with all members of our community, and the 'What it means to be a member' brochure, which sets out the expectations for our Partners. We believe responsible management continues to be embedded in our culture and reminders and encouragement to live by this philosophy are provided regularly through team meetings, and employee and Partner newsletters.

By living up to the expectations established within our culture, we believe we will be able to demonstrate trustworthiness, reliability and a commitment to the common good. In a world where the reputation of the financial services industry is constantly under pressure, we aspire to create an authentic alternative which all our stakeholders can trust, and which the communities we are part of can appreciate and respect.

## OUR APPROACH TO CORPORATE SOCIAL RESPONSIBILITY (CSR)

We are constantly seeking to improve our delivery, but recent public endorsements include:

- We have received various awards relating to our client offering over the years. Most recently, these have included the Wealth Adviser Award for 'Best Private Client Investment Manager' (fourth year running), the Personal Finance Awards 'Best Financial Adviser' (seventh year running), FDs' Excellence Awards 'Pension Firm of the Year', City of London Wealth Management Company of the Year Award (second year running), What Investment Readers' Award 'Best Wealth Manager' and Shares Magazine Awards 'Best Wealth Manager'.
- Our business model has been recognised through winning the 2016/17 Britain's Most Admired Companies Award in our sector for the second year running, which is run in association with Management Today.
- Our continued inclusion in the FTSE4Good Index, which comprises companies that meet globally recognised corporate social responsibility criteria, recognised our positive culture and ongoing commitment to responsible management.

## CSR GOVERNANCE

Responsible management is central to our culture, and the task of maintaining this culture (including our CSR ambitions) 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 their work) by a number of sub committees, which are chaired by Directors or senior management.



**FTSE4Good**

### Managing Committee

Managing Committee	Remit
Our Culture	Executive Board
CSR overview, Local Community, Volunteering, Suppliers and the Environment	CSR Group
Investment Management Approach	Investment Committee
The St. James's Place Foundation	Foundation Trustees



## COMMUNITY SUPPORT 2016 Highlights

### The St. James's Place Foundation

We have always recognised our social responsibility to our local communities and, from the founding of the Group, have encouraged our staff and Partners to use their expertise to help local charities and other voluntary organisations. The desire to provide support to the less fortunate in society resulted in the establishment of the St. James's Place Foundation which continues to receive support from all parts of the St. James's Place Community: employees, Partners, clients, suppliers and shareholders. This has been another record year for fundraising by members of our community and, as a result, the 100% matching grant and other support from the Company was £3.7 million. Since 1992, the St. James's Place Foundation has now raised and distributed over £54 million to good causes. Additional information from the St. James's Place Foundation about its activities is provided on pages 62 to 65 or available from its website at [www.sjpfoundation.co.uk](http://www.sjpfoundation.co.uk).

### Community Volunteering and Support

St. James's Place has a strong tradition of volunteer support for the work of the Foundation, but 2016 has seen continued and significant increases in our staff volunteering for wider CSR initiatives and in work time community support.

In 2016 we have launched a new initiative to partner with local charities to provide both financial support and the physical and skills capital of our organisation. We are not supporting specific projects, but rather the core charity to improve efficiency and sustainability. These partnerships are aimed to last five years with decreasing funds but increasing staff ties and skills based support.

In this first year we have partnered with:

- The Churn Project, which works to improve the quality of life and well being of isolated and disadvantaged people within Cirencester; and
- Cirencester Housing for Young People (CHYP) which provides a home for young people at serious risk of homelessness as well as pastoral care and mentoring.

Staff support has included Marketing, Property and IT expertise and Partners have provided financial advice. During 2017 we aim to add three more charities to this initiative and empower these charities to work together as they all strive to help the same people.

We are also pleased to have maintained our drive to link the professional skills of our employees to the professional needs of local charities. During 2016 we were able to offer 86 of our staff, who already volunteer with a local community organisation, a grant of £300 as our way of recognising and supporting the 14,800 hours of volunteering they gave in their own time. We also formalised our encouragement for staff to get involved with community activity, by offering all members of staff two days a year for community support in work time. This has been used to support The Foundation, to get involved in other corporate CSR initiatives or through giving skills directly to a charity of their choice. In 2016, 27.4% of staff used half a day or more of their two days and increasing this is a core objective of 2017. A new CSR initiative introduced in 2016 was our community team challenges. These provide an opportunity for groups of colleagues to undertake community and charity projects together, which can also be beneficial in strengthening teamwork and motivation. 1,200 hours of team community work have been undertaken this year, working with causes local to our offices including local charities, conservation projects, and an NHS trust.

**Responsible management is central to our culture**

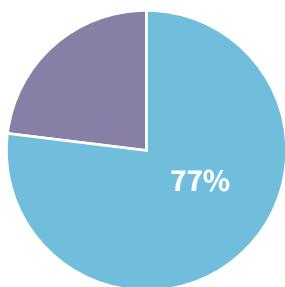


# CORPORATE SOCIAL RESPONSIBILITY REPORT continued

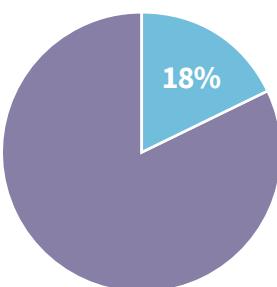
**88%**

of Group employees and contractors involved  
in some kind of citizenship activity.

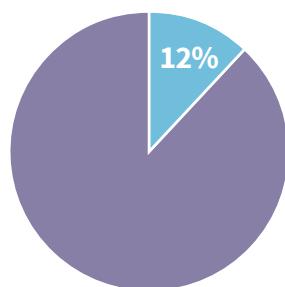
STAFF GIVING THROUGH  
SALARY COVENANT



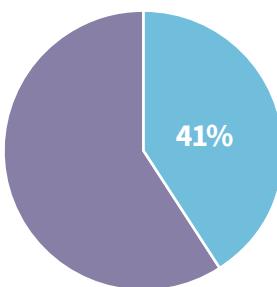
STAFF PARTICIPATING  
IN CSR ACTIVITIES



STAFF ORGANISING  
FOUNDATION ACTIVITIES



STAFF PARTICIPATING IN FOUNDATION  
FUNDRAISING EVENTS



**14 hours**

the number of hours our employees  
receive per year for community  
support in work time.

**8.1 hours**

the average number of hours our employees  
and contractors gave to support our  
communities in 2016, during work time.

## Employability Skills for Young People

St. James's Place is an entrepreneurial organisation and we have always been keen that the next generation should be able to contribute successfully through employment. In 2016 our work with Cirencester College, including our apprentices' initiative, continued to be the heart of this workstream.

### Cirencester College

St. James's Place has now been providing support to Cirencester College, a further education college local to our head office, for over twelve years. During that time, we have been able to offer 82 internships to students from Cirencester College, with 29 of them turning into full time employment opportunities often in our Apprenticeship scheme (see below). However, our main involvement has been providing support for the four 'Academy Programmes', operated in conjunction with the national charity 'Career Ready', each designed for students who aspire to work in a particular market sector. The support provided includes providing paid summer internships, mentors, and business coaching to many students.

### Apprenticeships

Working in conjunction with Cirencester College, which provides the training, our apprenticeship programme is now a cornerstone of our long-term recruitment policy. Our 2016 September intake of 14 has included apprenticeships in Financial Services, Business Administration, Marketing, IT and Accountancy. The 2016 programme has been enriched by the addition of the Duke of Edinburgh's Award for all our apprentices. A further intake of 14 apprentices is planned for September 2017.

**4.4 hours**

the average number of hours our employees  
and contractors gave of their own time in  
support of our CSR activities and the Foundation.

### Other Employability Skills Training

This year we have maintained our support for organisations like Young Enterprise and Employability UK, but also started to support The Duke of Edinburgh's Award and the Urban Stars programme; all helping young people bridge the gap between education and work. We have also maintained our support for local schools with staff giving their time to support CV workshops, networking days, assemblies, interview training and work experience.

With increased focus on careers education in schools and colleges we believe this is an important area in which we can develop our offering in 2017, moving beyond providing grants to finding ways of working more actively in supporting these organisations with staff skills and expertise.

### 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 continued to be a core focus in the year. During 2016 we significantly increased the 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 supported PSHE (Personal, Social and Health Education) and Maths curriculum in 15 schools and two charities in Gloucestershire, Wiltshire and London. We have developed a team of staff to go into the schools to deliver our courses which brings the day to life for the students and delivers excellent engagement and positive experiences learning about tax, budgeting and understanding debt. In all, 27 sessions have been delivered supporting over 2,000 students. We have been able to both lead and support these days thanks to the 81 individual staff who volunteered to be involved, in all, giving 550 hours of work time.

Following the success of 2016 we will look to maintain the scale of our Financial Education programme in 2017 and expand delivery to schools and charities in more locations across the UK supported by volunteers from our offices and wider Partnership.

### Loughborough University Swimming

In 2016, we were pleased to continue our sponsorship of the Loughborough University Swimming programme. This enables the squad to receive additional coaching and, since our relationship started in 2007, the team have medalled in all major UK and International events including European, Commonwealth, World Championships and the Olympic Games.

Four of the 26 strong British Swimming team at the Rio Olympics were part of the Loughborough University's Fast Swimming programme: Francesca Halsall, Molly Renshaw, Georgia Davies and Tim Shuttleworth. Adam Peaty, who also trains at the University, won Britain's first medal of the games, a Gold in the men's 100 metre breaststroke. The 21 year old then led Team GB to win Silver in the men's 4 x 100 metre medley relay.

In measuring our CSR community support activities, we use the LBG measurement methodology.



Apprentices

**£495,172**

the total value of all the time our employees and contractors gave in work time.

**£4.63m**

the total cash value we invested this year in our communities and good causes through our CSR programmes and the SJP Foundation.

**1,773**

the number of young people our staff have worked with face to face through our Financial Awareness programme.

# CORPORATE SOCIAL RESPONSIBILITY REPORT continued

## SUPPLIERS AND SUPPLY CHAIN

St. James's Place believes 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 key 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, such as our providers of outsourced administration services: IFDS, Capita and State Street.

More generally, we expect all our suppliers to act in accordance with the standards embedded in our culture, and will undertake due diligence on new service providers to ensure we are comfortable with their approach to socially responsible management. Since 2014 we have been accredited with the Living Wage Foundation, which involves us working closely with our supply chain. 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 Foundation, both through donations and through active participation in many of the events.

St. James's Place has always placed great reliance on the support of third party suppliers and the continued success of our business reflects, amongst other things, our success in cultivating and managing successful relationships with suppliers. We are pleased to remain signed up to the Prompt Payment Code which is encouraged by the Department of Business, Energy and Industrial Strategy (BEIS) and demonstrates a commitment to good practice between organisations and their suppliers. Signatories to the Code commit to paying their suppliers within agreed and clearly defined terms, and commit also to ensuring that there is a proper process for dealing with any issues that may arise.

## RESPONSIBLE INVESTING

At St. James's Place we place emphasis on the principles of responsible investing (RI) in the management of our clients' assets and in the integration of environment, social and governance (ESG) factors into the investment process. We see this as a tool for better managing risk and generating sustainable, long-term returns and better financial outcomes.

We have continued to develop our approach to RI during 2016, with the adoption of the St. James's Place Approach to Responsible Investing Policy and its extension to cover all of our major asset classes – equities, fixed income and property. Our policy draws upon the United Nations Principles for Responsible Investment (UNPRI) but we also look to other exemplars, such as the Stewardship Code and the Investment Association's Stewardship Reporting Framework, the FTSE4Good criteria, as well as industry good practice. We encourage the investment advisers, where appropriate, to become signatories of these associations.

We have also established a dedicated RI Governance Group with the objective of promoting the principles of RI across our fund range. We continue to engage with our community of fund managers with a comprehensive programme of pre appointment due diligence and ongoing oversight. This includes a major emphasis on the incorporation of ESG into the investment process and the importance of stewardship activities, including engagement and voting. In 2017 we plan to publish our first RI dedicated client report.

## THE ENVIRONMENT

St. James's Place is committed to managing our environmental impact through effective monitoring of energy systems, travel, water usage and waste recycling. We recognise the effect our business can have on climate change and manage our business activities to reduce this impact where possible. We were pleased to see these efforts recognised in 2016, when we were awarded a 'Grade B, Management' by the CDP (formerly Carbon Disclosure Project).

Oversight of our environmental strategy is through a Corporate Social Responsibility Group (CSR Group) with ultimate responsibility resting with David Bellamy (CEO). The group meets on a monthly basis and reviews environmental performance.

We collect and report our environmental data from October to September. The following tables summarise targets and progress, expressed in terms of both absolute and normalised CO<sub>2</sub> 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 2016 emission factors provided by DEFRA. The emissions were calculated by our external sustainability partner, Carbon Clear.

As our business continues to grow, we have worked to integrate the acquired entities and our offices in Asia into the Company wide environmental reporting. Our new building in Cirencester has not been accounted for in this year's carbon footprint, as staff moved into there after our current reporting year. We have achieved a BREEAM rating of 'very good' for the new building and will account for it within next year's carbon footprint.

In 2016 we exceeded the Scope 1 and 2 targets that were set in 2013, in both absolute and normalised terms. We have now confirmed our next set of emission reduction targets. As a Company, we have committed to reducing our Scope 1 and 2 absolute emissions by 50% between 2016 and 2020. We plan to achieve this target through a range of initiatives, including procuring renewable electricity for our UK offices.



## 1) Targets

### Absolute Emissions Targets

ID	Scope	Description	% of Emissions in Scope	% Increase p.a. from Base Year	Base Year	Base Year Emissions	Target Year
Abs1	1	Gas and owned vehicles	100%	5%	2013	851	2016
Abs2	2	Electricity	100%	5%	2013	2,218	2016
Abs3	3	Business travel, waste, hotel stays, Electricity T&D	100%	5%	2013	3,704	2016

### Normalised Emissions Targets

ID	Scope	Description	% of Emissions in Scope	% Increase p.a. from Base Year	Base Year	Base Year Emissions	Target Year
Int1	1	Gas and owned vehicles	100%	0%	2013	3.03	2016
Int2	2	Electricity	100%	0%	2013	7.90	2016
Int3	3	Business travel, waste, hotel stays, Electricity T&D	100%	0%	2013	13.18	2016

## 2) Progress

### Absolute Emissions Progress

ID	Scope	Actual Emissions in Year (tonnes CO <sub>2</sub> e)	% Variance from Target	Comment
Abs1	1	683	-31%	Emissions from gas and owned vehicles have continued to decrease, meaning that we have exceeded our Scope 1 absolute target.
Abs2	2	2,126	-17%	Emissions from electricity increased from last year due to the inclusion of acquisitions in the carbon footprint, but we have still exceeded our Scope 2 absolute target.
Abs3	3	4,847	13%	Scope 3 emissions appear to have increased due to an improvement in the methodology used to calculate emissions from air travel, giving us a more accurate representation of Scope 3 emissions going forwards.
Abs3.1	3 (Property Trust Investments and WTT)	12,130	n/a	We calculated the emissions from our Property Trusts Investments and for the Well to Tank (WTT) component of our Scope 1 and 2 emissions for the first time last year, so they were not considered within the 2013 target.

### Normalised Emissions Progress

ID	Scope	Normalised Emissions in Year (tonnes CO <sub>2</sub> e per '000 sq ft)	% Variance from Target	Comment
Int1	1	1.73	-43%	Whilst our floor area has continued to increase, our Scope 1 emissions have decreased, leading to a significant decrease in the intensity of emissions. The Scope 2 intensity has also decreased, in line with a reduction in the carbon intensity within the national grid. Trends in Scope 3 emissions are more difficult to predict because emissions from business travel and conferences are variable year on year. Nonetheless, we have exceeded our Scope 3 intensity target.
Int2	2	5.40	-32%	
Int3	3	12.31	-7%	

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 therefore to take the appropriate steps to mitigate it.

## 3) Gross Emissions (excluding Property Trusts Investment and WTT)

ID	Scope	Activity	Gross Emissions (tonnes CO <sub>2</sub> e)		
			2014	2015	2016
Abs1	1	Gas and owned vehicles	932	764	<b>683</b>
Abs2	2	Electricity	1,888	1,984	<b>2,126</b>
Abs3	3	Business travel, waste, hotel stays, Electricity T&D	2,366	2,559	<b>4,847</b>
		<b>Total</b>	5,187	5,307	<b>7,656</b>

# 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 1 to 59 of this document, meets the statutory purpose and objectives of the Strategic Report.

On behalf of the Board:

**David Bellamy**

*Chief Executive*

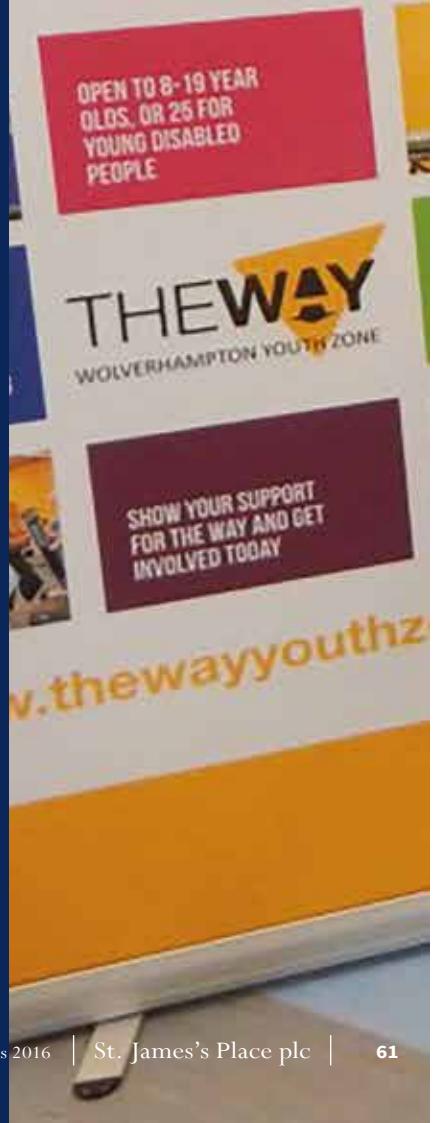
27 February 2017

**Andrew Croft**

*Chief Financial Officer*

# ST. JAMES'S PLACE FOUNDATION

A grant making charity with a difference.





## ST. JAMES'S PLACE FOUNDATION

### THE FOUNDATION IS A CORE PART OF THE COMPANY'S CULTURE AND HAS BEEN FROM THE START IN 1992

In May 2016, the Directors of St. James's Place were delighted to announce that our community had raised and distributed £50 million to good causes since inception in 1992 through the grant making charity, the St. James's Place Foundation.

The Directors are also particularly proud of the fact that over 80% of our staff and members of the St. James's Place Partnership make regular contributions to the Foundation from their earnings. To our knowledge, we are unique in the UK in having such a high proportion of our own community giving regularly in this way.

At the end of 2016, 89% of St. James's Place Partners and employees were giving to the Foundation through their pay or earnings on a monthly basis.

Amount raised and distributed to good causes  
**Over £54m**

Raised in 2016  
**£7.6m**

Percentage of Partners and employees who donate each month  
**89%**



The Picos Mountains Challenge



Summer Swing Event



The Jurassic Coast Walk

## A GRANT MAKING CHARITY WITH A DIFFERENCE

Rather than utilising funds received from an endowment or an investment, funds are raised and donated by the St. James's Place community and matched pound-for-pound by the Company. The Company also covers all related expenses which ensures all donated funds go direct to the supported charities.

The funds for the St. James's Place Foundation come primarily from three sources (along with Gift Aid and interest):

1. Regular monthly donations from St. James's Place Partners and employees;
2. Our community take part in and organise fundraising events or challenges; and
3. Pound-for-pound matching by the Group.

In addition, individuals and businesses such as our fund managers, suppliers and service centres often generously support the Foundation.

## FUNDRAISING AND EVENTS

The St. James's Place Foundation enjoyed another record year for fundraising in 2016, raising over £7.6 million for good causes in the UK and abroad. This record was achieved partially thanks to valuable contributions from a number of successful fundraising events throughout the year, which represent a vital part of the Foundation's income.

Events included:

- The Big Walk along Dorset's Jurassic coastline (£85,000);
- The Picos Mountain Challenge (£55,000);
- A gruelling three-day cycle challenge in Mallorca (£185,000);
- A 150 mile paddle along the navigable length of the River Shannon (for which two St. James's Place employees raised £10,000); and
- £101,000 from the annual Summer Swing event in Cheshire.

All amounts shown include Company matching.

In addition, Partners and employees showed their generosity by raising £12,000 in support of Save the Children's emergency appeal for those devastated by Hurricane Matthew in Haiti.

## ST. JAMES'S PLACE FOUNDATION continued

Supporting children and young people in 2016

**£6.3m**

Onside donation

**£1m**

2016 Hospice UK donation

**£570k**

### MAJOR GRANTS INCLUDE:



Youth Zone

'The St. James's Place Foundation aims to make a positive and lasting difference to people's lives through charitable giving, to those people who need it most.'

— Mark Longbottom, Head of the St. James's Place Foundation

The main theme that guides the Foundation's giving is a focus on helping children and young people up to the age of 25; children or young people with a disability, life limiting condition or illness, or those who are socially and economically disadvantaged.

The Foundation also funds projects aimed at disadvantaged young people not currently in education, employment or training and living on the margins of society. Our support is aimed at empowering young people to reach their full potential.

A £500,000 donation from the Foundation to OnSide Youth Zones has helped build a state-of-the-art youth centre called 'The Way' in Wolverhampton. OnSide is a charity whose mission is to build a network of youth clubs across the UK, giving young people and those who are socially and economically disadvantaged, safe and inspiring places to go in their leisure time.

Opened in 2016, 'The Way' provides a vital space for young people to engage in sport, fitness, dance, arts, music, media, enterprise, well being and self improvement.

'Only weeks after opening, we are absolutely thrilled to bits with the way young people in Wolverhampton are taking full advantage of the offer. With over 1,300 visits per week, we are already building strong relationships with young people and are able to give them the support they need.'

— Kathryn Morley, Chief Executive of OnSide Youth Zones

The charity was the brainchild of Bill Holroyd, Chair of the Bolton Lads and Girls Club, which was visited by over 3,000 young people each week. He realised other towns in the UK could benefit so he set up the OnSide Youth Zones and spearheaded the development across the country.

There are currently nine OnSide Youth Zones in the north of England and one in London, each providing quality, safe and affordable facilities for young people to engage in fun and productive activities geared towards improving their life chances, choices and opportunities.

Currently, the OnSide Youth Zone network boasts 15,000 members and aims to open 20 new centres by 2020. The Foundation has also committed £500,000 to help fund the build of a Youth Zone on the Wirral. To read more about OnSide visit: [www.onsideyouthzones.org](http://www.onsideyouthzones.org).

## TRANSFORMING CARE FOR PEOPLE REACHING END OF LIFE

The hospice movement is one of the main areas of need that the St. James's Place Foundation supports. The Foundation works closely with Hospice UK to help us to find suitable projects to fund, and they have done this for the last twelve years. Hospice UK is the national charity for hospice care, supporting over 200 hospices in the UK. Together they are focused on transforming how people are cared for at the end of life.

In 2016 we donated £570,000 to Hospice UK to help a number of hospices improve their palliative care services and ensure people's quality of life is enhanced.

The St. James's Place Foundation also makes donations to charities supporting people with cancer and, following feedback from members of our community in August 2016, we plan to extend our support to mental health.

## HOSPICES SUPPORTED INCLUDE:



## THE FUTURE

In 2017, the Company and the Foundation celebrate their 25th anniversary and to mark this milestone, we aim to build on the £54 million raised since inception in 1992 and a number of special events are planned for the year, including: a gala dinner; a Foundation day with fundraising events happening all over the country; and special versions of our Big Walk, Overseas Trek and Cycle Ride. We also hope to announce details of a number of exciting and significant grants, which we believe will make a transformative difference to a charity and the people they help.

## DOMINIC AND HIS MOTHER

Renata is a mother of three children, all of whom have an undiagnosed genetic condition. Renata's youngest child, Dominic, is the most severely affected and he has been extremely ill at times and in and out of hospital his whole life. Dominic and his mother inspired the UK charity, Roald Dahl's Marvellous Children's Charity, to fund specialist nurses working to transform the lives of ill children.

The St. James's Place Foundation donated £84,500 to Roald Dahl's Marvellous Children's Charity, spread over two years, to help fund the salary costs of a nurse specifically caring for children who are ill. The charity helps to make life better for seriously ill children and young people in the UK. The charity is inspired by the belief that every child has the right to a marvellous life, no matter how ill a child is or how short their life may be.

'No one seemed to be able to tell me why. The more they looked for a cause, the more problems they found. I would spend days, that rolled into weeks, that stretched into months, crying myself to sleep next to his hospital cot wondering if the next day would be the one where they told me he was not going to live.'

— Renata





# MEETING THE CHALLENGE

We will continue to focus on the fundamentals of the business: delivering good outcomes for our clients through the St. James's Place Partnership.

We have always favoured identifying how developments in the governance environment lead to more effective returns for our shareholders. It is in all our interests to make sure we continue to deliver good outcomes for our clients and take care of our communities.

## CONTENTS

- Board of Directors
- Chair's Report
- Corporate Governance Report
- Report of the Audit Committee
- Report of the Risk Committee
- Report of the Nomination Committee
- Directors' Remuneration Report
- Directors' Report
- Statement of Directors' Responsibilities



# BOARD OF DIRECTORS



**SARAH BATES**  
CHAIR

Date of Appointment:  
Chair January 2014.  
Non-executive Director September 2004.

**Experience**

Sarah brings over 30 years' experience from the investment and investment management sectors, in both senior executive and non-executive capacities. She served as Chair of the Association of Investment Companies from 2011 to 2013. She retains a range of investment related responsibilities which support her Chairship of St. James's Place.

**External Appointments**

Chair of JPMorgan American Investment Trust plc, and Witan Pacific Investment Trust plc. Non-executive director of Worldwide Healthcare Trust plc and Polar Capital Technology Trust plc. Member of the investment committee of the Universities Superannuation Fund and on a voluntary basis, chair of the St. Joseph's Hospice investment panel and trustee of the Liver Group Charity.



**DAVID BELLAMY**  
CHIEF EXECUTIVE

Date of Appointment:  
Chief Executive May 2007. Joined St. James's Place 1991 and appointed to the Board 1997.

**Experience**

David has worked in the financial services industry since 1973. He joined the Founders of the Company at the outset to establish the back office. Since then he has held a number of roles at St. James's Place, including Group Operations Director and Managing Director. He is a Trustee of the St. James's Place Foundation.

**External Appointments**

Deputy chair of the Financial Conduct Authority's Practitioner Panel.



**ANDREW CROFT**  
CHIEF FINANCIAL OFFICER

Date of Appointment:  
Chief Financial Officer September 2004.  
Joined St. James's Place 1993.

**Experience**

Andrew joined the Company in 1993 and has been Chief Financial Officer since 2004. Having trained as an Accountant with Deloitte Haskins and Sells (now part of PricewaterhouseCoopers LLP) 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. He is a Trustee of the St. James's Place Foundation.

**External Appointments**

Lay member of the Audit, Risk and Investment Committees 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.

**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 Foundation.



**DAVID LAMB**  
MANAGING DIRECTOR

Date of Appointment:  
Executive Director December 2007.  
Joined St. James's Place 1992.

**Experience**

David is Managing Director with responsibility for Private Client, International and the Group's investment businesses including the fund range. He is a Fellow of the Institute and Faculty of Actuaries, having worked in the financial sector since 1979 and has significant experience in wealth management, together with investment and portfolio management. He is a Trustee of the St. James's Place Foundation.

**External Appointments**

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

**External Appointments**

Non-executive director of The Henderson Smaller Companies Investment Trust plc. Governor of the University of the West of England.



**IAIN CORNISH**  
SENIOR INDEPENDENT (SID)  
NON-EXECUTIVE DIRECTOR



**SIMON JEFFREYS**  
INDEPENDENT  
NON-EXECUTIVE DIRECTOR

**Date of Appointment:**

Senior Independent Director January 2014.  
Non-executive Director October 2011.

**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 an independent director of the Prudential Regulation Authority.

**External Appointments**

Chair of Shawbrook Group plc, Non-executive director of Arrow Global Group plc and Treasurer of MacMillan Cancer Support.

**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, non-executive director and chair of the Audit Committees of Henderson International Income Trust plc and SimCorp A/S, a listed Danish financial services software company, and non-executive director of Templeton Emerging Markets Investment Trust plc.



**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.



**ROGER YATES**  
INDEPENDENT  
NON-EXECUTIVE DIRECTOR

**Date of Appointment:**

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**

Non-executive chair of Pioneer Global Asset Management S.p.A.  
Non-executive director of J.P. Morgan Elect plc.

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

**Committee key:**

- Member of Audit Committee
- Member of Risk Committee
- Member of Remuneration Committee
- Member of Nomination Committee
- Member of Investment Committee
- Denotes Chair of Committee

# CHAIR'S REPORT



Sarah Bates  
Chair

## AS YOU WILL ALREADY HAVE READ IN THE CHIEF EXECUTIVE'S AND THE CHIEF FINANCIAL OFFICER'S REPORTS, 2016 WAS ANOTHER STRONG YEAR FOR ST. JAMES'S PLACE PLC

In my Statement of last year, I commented that 2015 had seen much political, economic and social upheaval but 2016 was perhaps even more startling. Much has been written about the potential impacts of the Brexit referendum and the election of President Trump, but predicting the future is difficult and relying on such predictions can be risky. We will therefore continue to focus on the fundamentals of the business: delivering good outcomes for our clients through the St. James's Place Partnership. Naturally, we keep a watchful eye on developments within the world around us, which will no doubt continue to change. However, we benefit from our Partner-client centric model which provides a rapid and direct source of information about how the landscape is developing on the ground and therefore how to respond. In times of uncertainty, the benefits of St. James's Place's long-term approach to advice and investment should stand our clients in good stead.

David Bellamy has decided to step down from the Board at the end of 2017 after 26 years as an executive, the last eleven of which he has served as Chief Executive. Under his leadership, St. James's Place has gone from strength to strength and is now the leading wealth manager in the UK. It has demonstrably delivered for all of our stakeholders: clients, shareholders, Partners, employees and the charities supported by the St. James's Place Foundation. David has been an outstanding Chief Executive and, although he will continue to lead the business for the remainder of the year, on behalf of the Board and the entire St. James's Place community, I would like to thank him. We are especially pleased that he will remain with the Group in an advisory capacity and will take on the role of Non-executive Chair of our new International operations.

I am delighted that Andrew Croft will become Chief Executive from the 1st of January 2018. Andrew has already played a key role in the success of the Group serving as Chief Financial Officer for the last twelve years and is the ideal person to lead St. James's Place. At the same time, Craig Gentle, who joined the Group in 2016 as Chief Risk Officer, will be appointed as Chief Financial Officer.

In recent years we have expanded our senior management team such that we have an outstanding leadership group with real strength and depth which Andrew will lead. The management changes we have announced reflect the continued development of the executive team as well as our commitment to the strategy which has been so successful over the years.

Having come far in our first 25 years, we are excited about the opportunities that lie ahead. We recognise that it is incumbent on us to build on our strong foundations by continuing to make incremental improvements in all aspects of the business and by learning fast where we do not do as well as we would like. That includes the further development of our proposition for both clients and Partners alike, maintaining our ability to deliver superior client outcomes, expanding our use of technology to support Partners, and completing the transfer of our back office administrative systems. It also means sustaining our focus on our core areas of expertise and retaining our low strategic risk appetite.

It is crucial that we preserve the distinct culture that characterises St. James's Place. Much is written about culture these days but it is important to be focused on good evidence of what makes organisations behave in a responsible, fair and sustainable way in respect of all in their communities. We aim to keep those principles firmly in mind in all that we do. It would be rash to claim that we never make mistakes, but if we do, we seek to rectify and to learn as quickly as we can.

One cornerstone of our distinct culture which brings together the entire St. James's Place community is the commitment to the St. James's Place Foundation, together with the charities that it supports. Therefore, the Board is pleased to announce the doubling of matched funding for our 25th anniversary year. Alongside our support for the Foundation, we remain committed to being involved in our local communities by way of volunteering and support, as well as through providing employability skills training for young people and through delivering financial education courses for school children.

We have taken seriously our responsibilities to develop our people. For example, we are progressing our Academy concept further with a new programme for para-planners and accreditation schemes for our Partner support teams. We are also enjoying the successes of our apprenticeship and graduate schemes, are working on our management development programmes, and have made advances on gender and diversity. The SJP community is a broad church in many ways but we keep working to make sure we do not unwittingly deter good people from joining us, nor fail to support their continued development once part of the business.

We do operate in a complex world and our stakeholders understandably make many demands of us. We participate frequently in regulatory and government consultations. We survey our clients, Partners and employees, and we engage very actively with our shareholders not only regarding our financial results and strategy, but also around many governance matters. We describe our approach to our social responsibilities on page 54. All of these are discussed by your Board and we think it is to all stakeholders' benefit that lines of communication are very short. We have always favoured identifying how developments in the governance environment lead to more effective returns for stakeholders, rather than

simply adhering to box ticking exercises. It is in all our interests to make sure we continue to deliver good outcomes for our clients and take care of our communities. By doing so we are much more likely to deliver safe, sustainable growth for our shareholders.

2016's results are a result of that approach and the work done over many years as the business has evolved and developed. Our strategic and operational progress in 2016 should bear fruit in future years. The strength of our performance in 2016 and our confidence in our future growth prospects, means that the Board is pleased to propose a 20% increase in the final dividend to 20.67 pence per share, giving an increase of 18% for the full year. I look forward to supporting the business in continuing to deliver to client, Partners, employees and shareholders in 2017.

#### **Sarah Bates**

*Chair*

27 February 2017

# CORPORATE GOVERNANCE REPORT

**THIS CORPORATE GOVERNANCE 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 (THE 'CODE', AVAILABLE AT: [WWW.FRC.CO.UK](http://WWW.FRC.CO.UK)) HAVE BEEN APPLIED IN PRACTICE**

Detailed reporting on Remuneration, as required by Section D of the Code, can be found in the Directors' Remuneration Report.

Your Board considers that the Company has complied with all of the provisions of the Code during 2016.

## MAKE UP OF THE BOARD AND ITS COMMITTEES

### The Board

Sarah Bates (*Chair*)  
David Bellamy (*CEO*)  
Andrew Croft  
David Lamb  
Ian Gascoigne  
Iain Cornish (*SID*)  
Simon Jeffreys  
Baroness Wheatcroft  
Roger Yates

### Audit

Simon Jeffreys (*Chair*)  
Iain Cornish  
Roger Yates

### Risk

Iain Cornish (*Chair*)  
Simon Jeffreys  
Baroness Wheatcroft  
Roger Yates

### Nomination

Sarah Bates (*Chair*)  
Iain Cornish  
Baroness Wheatcroft

### Remuneration

Roger Yates (*Chair*)  
Simon Jeffreys  
Baroness Wheatcroft

All of the Directors were in office throughout the financial year and up to the date of the report and biographical details, including their membership of Board Committees, are set out on pages 68 and 69.

## THE ROLE OF THE BOARD

### Board Leadership

Your Board is collectively responsible for the long-term success of the Company by:

- Providing entrepreneurial leadership and direction to the Company 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 major transactions or initiatives proposed by the Executives; and
- Deciding the Company's policy on charitable and political donations.

The powers of the Directors are set out in the Articles of Association (the 'Articles'), UK company law and may be prescribed by Special Resolutions of the Company. The Articles contain, for example, specific provisions and restrictions concerning the Company's power to borrow money. They also provide that Directors have the power to allot unissued shares, up to pre-determined levels set and approved by shareholders in general meetings. Our shareholders have also granted the Directors authority to make charitable donations and further details on the donations made can be found on page 62.

At the 2016 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 2017 AGM, or 18 months from the date granted, whichever is the earlier. The Directors will propose the renewal of this authority at the 2017 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 'Board Control Manual' which sets out the primary policy and decision-making mechanisms within the Group. This includes terms of reference for the various Board Committees, the Company's risk policies and risk appetite statement and detailed job descriptions for each of the Executive Directors and Non-executive Directors.

## BOARD ORGANISATION AND GOVERNANCE STRUCTURE

### The Roles of the Chair and Chief Executive

Sarah Bates was appointed as Chair of the Board on 1 January 2014. The job descriptions of the Chair and Chief Executive, David Bellamy, and the division of responsibilities between them are clearly defined and agreed by the Board. As Chair, Sarah takes responsibility for the leadership of your Board, ensuring its continued effectiveness, and promoting effective communication between the Executive and Non-executive Directors, as well as with shareholders generally. As Chief Executive, David's primary responsibility is to manage the Company via the executive management team and implement the strategies adopted by the Board.

## The Senior Independent Director

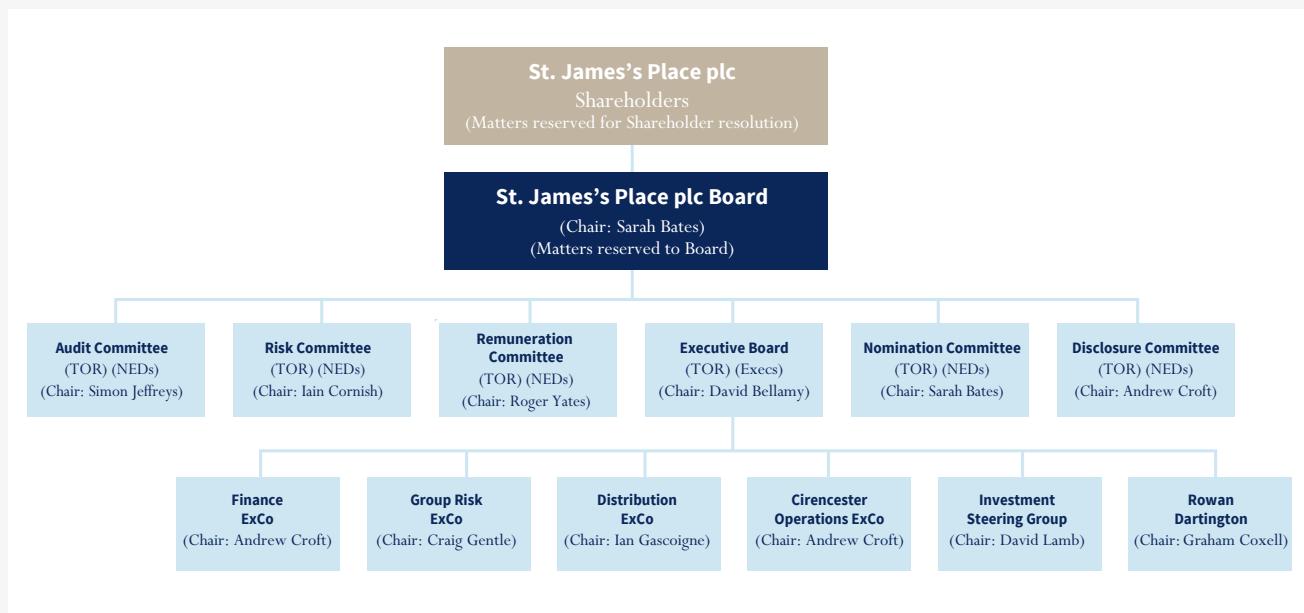
Iain Cornish was appointed Senior Independent Director (SID) in January 2014 and his job description has been agreed by the Board. The SID acts as a sounding board and confidant for the Chair and the Non-executive Directors (NEDs). He also ensures he is available to meet with shareholders and raises any shareholder concerns with the Board that might not be resolved through normal channels.

## Committees

There are four wholly non-executive Committees of the Board: Audit; Nomination; Remuneration; and Risk. The members of each of these Committees are all independent Non-executive Directors, with the exception of Sarah Bates, who chairs the Nomination Committee. The membership and terms of reference of each of these Board Committees are reviewed annually and are available on the corporate website ([www.sjp.co.uk](http://www.sjp.co.uk)), or on request from the Company Secretary.

The 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. The terms of reference for the Executive Board are also regularly reviewed and are included in the Board Control Manual. In addition, there is a Disclosure Committee of Executive Directors, responsible for identifying and determining matters to be disclosed to the market.

There are also a number of Committees below 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. A table showing the current supporting governance structure is set out below.



## BOARD COMPOSITION

### Board Size and Composition

The Board currently comprises four Executive Directors, four independent Non-executive Directors and the Chair (who was independent on appointment). There were no changes to the Board during 2016.

### 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 skill sets 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. The Board therefore recommends to its shareholders that all the Directors retiring at the forthcoming AGM be re-elected.

# CORPORATE GOVERNANCE REPORT continued

## **Independence**

When determining whether a Non-executive Director is independent, your 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 reported last year, the Board is satisfied that Simon Jeffreys' role as Chair of Aon UK Ltd has no bearing on his independence or that of New Bridge Street (advisers to the Remuneration Committee) both of which 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 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.

## **Conflicts of Interest**

The Board has in place procedures for the management of conflicts of interest. In the event a Director were to become aware that they have an actual or potential conflict of interest, they must disclose this to the Board immediately. The Board will then consider the potential conflict of interest based on its particular facts, and decide 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.

## **Duration of Appointments**

The Chair and Non-executive Directors 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). All Directors are subject to annual re-election by shareholders at the Company's AGM.

## **Executive Directors' Service Agreements**

The Executive Directors all have service contracts with the Company that provide for termination on twelve 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 twelve months with a specified time limit). Service contracts do not contain a fixed end date. Executive Directors' service contracts will be available for inspection at the Company's 2017 AGM. 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.

## **Time Commitments**

Non-executive Directors are expected to commit at least 15 – 25 days per annum and in practice may commit considerably more time than this. The Board is satisfied that each of the Non-executive Directors commits sufficient time to the business of the Company and further details of how the Nomination Committee assesses their contribution is set out on page 92.

Since her appointment in January 2014, the Chair has devoted a significant proportion of her time to the role. In conjunction with the SID, she regularly assesses her various commitments and continues to manage her portfolio of other activities to ensure that she has sufficient time to meet the requirements of the position. She currently holds two other non-executive roles and two chairship roles in other publicly listed companies; however, as announced, she will be stepping down as a director (and chair) of JPMorgan American Investment Trust plc and as chair of Witan Pacific Investment Trust plc before the end of July 2017. All four of these directorships are with investment trusts which generally require less time commitment than an operational company and which provide useful and valuable investment insight to Board discussions. She has a full attendance record at the Company's Board meetings in 2016 and has also attended 21 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 she commits sufficient time to the business of the Company.

## **Succession Planning and Diversity**

The Board has a responsibility to ensure that appropriate succession plans are in place, both 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.

## **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 (and Directors of 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 2016, and remain in-force at the date of this Report.

## **BOARD TRAINING**

### **Induction**

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.

## **Continuing Professional Development**

The Chair and Company Secretary also ensure the continuing professional development for all your Directors, based on their individual requirements, and a list of training carried out during the year is maintained by the Company Secretary. Such training includes topical issues, 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. In addition to this, ad hoc training is set up in the year 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. Non-executive Directors are briefed on the views of major shareholders at Board meetings and are provided with the opportunity to meet with shareholders, as appropriate.

## BOARD FUNCTIONING

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 and identify potential topics for strategy sessions and Board discussions. For each Board meeting, all Board members are supplied with an agenda and pack containing specific papers on particular strategic issues, as well as reports and management information on clients, Partners, investment matters, current trading, operational issues, compliance, risk, accounting and financial matters. The Chairs of the various Board Committees report on the activity of their Committees at Board meetings and copies of Committee meeting minutes are included (where appropriate) in the Board packs.

To ensure that there is sufficient time for the Board to discuss matters of a material or more discursive nature, Board dinners are usually held prior to most scheduled Board meetings which allow the Directors greater time to discuss key topics with additional internal and external participants.

In addition to the strategic discussion at Board meetings, the Directors attend two separate Strategy Days each year. More information on the discussions held in 2016 are set out on page 76.

### Culture

The Board recognises the importance of safeguarding the Company's culture and regularly considers how both employees and Partners demonstrate their commitment to the Group's culture and reviews the ways in which its prominence is maintained. The manner in which employees and Partners can adhere to the culture is set out in a series of 'Our Approach' documents, including 'What it means to be a member'. The views of employees as to adherence to culture are sought in the staff survey and the views of Partners are sought at various Partner meetings throughout the year and through the Partner survey.

### Company Secretariat

Directors have access to the advice of the Company Secretary at all times, as well as independent professional advice, where needed, in order to assist them in carrying out their duties.

Attendance at both Board and Board Committee meetings is set out below.

## RELATIONS WITH SHAREHOLDERS

The Company maintains close relationships with institutional shareholders through direct dialogue and frequent meetings, and meets regularly with the Group's brokers who facilitate meetings with investors and their representatives.

During 2016, shareholder interaction included giving 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, and holding Capital Markets days for investors and analysts addressing a wide range of strategic and operational topics, investor meetings and conference calls.

The Chief Financial Officer provides feedback to the Board on any material topics raised in these meetings and Board members also receive copies of the latest analysts' and brokers' reports on the Company, and will attend shareholder and/or analyst meetings from time to time. The Chair has also met with shareholders from time to time.

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 Thursday 4 May 2017, further details of which are set out in the Notice of Annual General Meeting. The Chair wrote to major shareholders in 2016, to ensure they had contact details for her, the SID and the Chair of the Remuneration Committee, and to explain the rationale for the changes to the constitution put to shareholders at the 2016 AGM. The Chair and Non-executive Directors also attended the Capital Markets briefing held in October and each year attend a number of shareholder meetings with the Executive team.

## BOARD MEETINGS AND FOCUS DURING 2016

### Meetings

During the year, six scheduled Board meetings and one ad hoc Board meeting (held at short notice) were held. In addition, there were two additional Board Strategy meetings, three ad hoc Board Committee meetings and 21 meetings (in total) of the Board's Non-executive Committees.

MEMBER	PLC BOARD	AUDIT	RISK	REMUNERATION	NOMINATION
Sarah Bates	7 (7)	-	-	-	4 (4)
David Bellamy	6 (7)	-	-	-	-
Iain Cornish	7 (7)	8 (8)	7 (7)	-	4 (4)
Andrew Croft	7 (7)	-	-	-	-
Ian Gascoigne	7 (7)	-	-	-	-
Simon Jeffreys	7 (7)	8 (8)	7 (7)	6 (6)	-
David Lamb	6 (7)	-	-	-	-
Baroness Wheatcroft	7 (7)	-	7 (7)	6 (6)	4 (4)
Roger Yates	7 (7)	7 (8)	7 (7)	6 (6)	-

Note: The number in brackets denotes the number of meetings that the Board members were eligible to attend. All absences relate to ad hoc meetings held at short notice to deal with procedural matters.

In addition, the independent Non-executive Directors met without the Executive Directors but with the Chair three times during the year, and also met once without the Chair.

# CORPORATE GOVERNANCE REPORT continued

## HIGHLIGHTS OF 2016 BOARD BUSINESS

As noted above, the Board agenda is set by the Chair working in conjunction with the Chief Executive and Company Secretary, and is also coordinated with its Committees. A high-level plan for the year is established at outset, based on key themes from the Business Plan, but with flexibility to allow for the inevitable unexpected developments.

More information about the work undertaken by the Board Committees is provided in reports following, but key activities for Board meetings in 2016 were:

Area of Focus	Activity
Brexit	Pre Brexit – Prior to the referendum, considered and discussed the potential risks and impacts of a vote in favour of Brexit on our clients, our business and the wider industry. Post Brexit – Following on from a review at the Risk Committee, discussed the implications of, and the Group's position with regards to, the UK's EU Referendum, concluding that whilst the unexpected outcome might bring existing risks more sharply into focus, the plans and approach had been appropriate and continued so to be, albeit in a period of uncertainty.
Client Administration	Received regular updates on the performance of the Group's back-office administration systems, discussed the results of the migration of the Unit Trust and ISA business to the Bluedoor platform and the plans for the development of the Retirement Account and the eventual migration of the pensions and bond business to the platform.  Considered the results of a deep dive on the Company's arrangements with providers of key back-office administration systems and met with representatives to discuss challenges experienced and opportunities to improve the quality of future service provision.
	In conjunction with the Risk and Audit Committees, assessed and monitored risks in relation to third party outsourcing arrangements.
Investment Management	Started the year with a presentation on 'rebalancing' and a long debate about the appropriate approaches for clients, as well as a reminder of some of the practical realities of managing significant FUM. This was followed up with a detailed session at the Risk Committee.  Then, later in the year, made use of a Board dinner to receive a presentation from members of the Investment Committee and to consider, with independent members of the Investment Committee, the evolution of the Group's Investment Management Approach and the opportunities and challenges facing the Group in the future.
New Retirement Account Proposition	Received a presentation on the new retirement account proposition, which also linked in with activity in the Audit Committee which was reviewing the launch-readiness of the proposition. Updates as to progress in relation to the launch of the Retirement Account were given at each Board meeting.
Client Proposition Development	With the purpose of understanding the development of the proposition in the core UK market, the Board received presentations on potential and planned new offerings to clients, including the extending of our relationship with Metro Bank and the development of support for clients' 'inter-generational' arrangements.
Strategic Development and Planning	Following final regulatory approval the Board approved completion of the acquisition of Rowan Dartington in March, securing our progression into the DFM market.  Together with both the Audit and Risk Committees, reviewed progress in Asia and considered further the opportunities and practicalities of entering the Middle East.  The Board also approved a number of other smaller business acquisitions during the year, not least Technical Connection, which enhanced the technical support available to Partners and clients.  The Board focused on particular strategic topics at two separate strategy days and, in addition to the other strategic discussions mentioned in this section, the Board also considered the current situation in the markets and with competition and reviewed the current medium term strategy.
IT Strategy	In an increasingly digitised age, the Board took an opportunity to consider the Group's IT strategy and also the impact of new technologies on the Group's propositions.  The Board considered cyber-threats with a presentation building on review activity undertaken being made to the Risk Committee.

Given the importance of the Partnership to the business, the Board receives updates at each meeting on progress and developments within the Partnership as a standard item on the agenda. In addition, the Board received presentations from two Heads of Business at a Board dinner. The Board also received regular updates on presentations focusing on other key groups of stakeholders, including:

<b>Area of Focus</b>	<b>Activity</b>
Clients	<p>The CEO's report provides regular updates on how the business is delivering for clients.</p> <p>This was given particular focus at the start of the year when, following completion of work analysing the Wealth Account survey, the Board was able to review and consider the key messages emerging and the activity planned as a result.</p> <p>Later in the year, the Board received an update on our work in support of our clients, the delivery of client outcomes and areas for future focus, which preceded a discussion on client outcomes and the importance of 'value added' to our clients.</p>
Employees	<p>At September's Strategy Meeting, the Board reviewed our approach to our people and the progress in relation to our people strategy, which incorporated a specific focus on diversity. During the year, the Board considered updates from the diversity working group established in 2015, and evaluated performance against relevant KPIs.</p> <p>Also in September, the Board received the results of the latest employee survey and discussed the key themes arising from the survey.</p>
Community	<p>During the year the Board received a report on the progress made by the Corporate Social Responsibility team and discussed the focus for 2017.</p> <p>The Board also heard about the achievements of the St. James's Place Foundation in 2016 and was able to discuss with the Foundation management their processes for, and controls around, the assessment of, and making of charitable donations to, applicants. During this meeting it was also proposed that the Company should, for 2017, offer (capped) double-matching on donations by members of our community to the Foundation, and this was ultimately agreed as an appropriate celebration of the Company's 25<sup>th</sup> anniversary, in the interests of maintaining and supporting culture and binding the organisation together.</p>
Shareholders	<p>The CFO's report provides a regular update on Investor Relations activity, and Board members also take up opportunities to engage with shareholders.</p> <p>In addition, the Board welcomed a major institutional investor to meet with the Board and present their views and expectations of the Group and overall views on governance and corporate performance.</p> <p>Later in the year the Board was able to discuss the views and outlook of investors and the market on the Group with Bank of America Merrill Lynch, advisers to the Company.</p>
Regulators	<p>In addition to regular updates provided by the Client Risk Officer (CRO), and the regular monitoring undertaken by the Risk Committee, the Board received updates on proposed changes to financial services regulations that were likely to impact upon the Group, the Partnership and its clients.</p> <p>Operating in a highly regulated environment, the Board is very conscious of the regulatory responsibilities which complement the statutory requirements, and in order to ensure effective and appropriate engagement had regular contact with the Group's regulators during the year.</p> <p>Members of the Board also met with the Supervisory Teams at the Company's Regulators.</p>

# CORPORATE GOVERNANCE REPORT continued

Finally the Board undertakes a number of important tasks on an annual basis, including:

<b>Area of Focus</b>	<b>Activity</b>
Business Planning	<p>Undertook a review of the Company's five year plan</p> <p>At its September Strategy Day, considered in detail the Group's medium term capital strategy.</p> <p>At the start of the year, approved the Company's Business Plan for 2016 and during the second half of the year started the discussion about the approach and details of the 2017 plan.</p>
Risk Management and the ORSA	<p>In conjunction with the work of the Risk Committee, undertook a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity and approved the Group's Risk Management Framework and Risk Appetite Statement (see the Risk and Risk Management section of the Strategic Report and the report of the Risk Committee for more detail).</p> <p>Building on the work of the Risk Committee, reviewed and approved the Own Risk and Solvency Assessment (ORSA) required under Solvency II.</p> <p>Received regular reports during the year from the Chief Risk Officer as to the key risks and issues facing the Group together with an update as to how these were being mitigated.</p>
Financial Reporting	<p>Following on from the work of the Audit Committee, reviewed the financial statements and considered they were indeed fair, balanced and understandable, and that they provided the necessary clarity required by shareholders to understand sufficiently the business.</p> <p>Following recommendations from the Audit Committee, approved the Half Year and Annual Reports, approved an interim dividend and recommended a final dividend to shareholders. The notice of Annual General Meeting was also agreed.</p> <p>Following on from the work of the Audit Committee in overseeing an audit-tender process, approved a decision to recommend to shareholders the reappointment of the external auditor, PricewaterhouseCoopers LLP.</p>
Governance	<p>Undertook a review of the governance across the Group and through the business lines and considered areas for future enhancement.</p> <p>Agreed the actions that should be taken in response to the results of the previous year's Board evaluation and receiving and discussing updates on progress at each Board meeting.</p> <p>Worked to ensure, via its various reporting forums, that the Group complied with all of its obligations and responsibilities under UK company law as well as the revised UK Corporate Governance Code.</p> <p>Undertook an annual review and revision of the matters reserved to the Board and the terms of reference of Board Committees.</p> <p>Undertook an annual review of key Group policies and, where appropriate, approved revisions.</p>
Board Effectiveness	Led by the Chair, undertook an internal Board effectiveness review of the Board, its Committees and the individual Directors.

## Training

During the year all the Directors identified and undertook relevant training based on their individual requirements. They also attended specific training sessions covering cyber security, regulatory updates, enterprise resource planning and the support provided by key service providers. In addition, during 2016, the Board Committees and individual Directors identified a wide range of topics upon which they particularly wished to receive further training and development. As a result, individual and group sessions were held with third party advisers, Partners and employees and Directors attended externally facilitated events that were relevant to their own circumstances.

## 2016 BOARD EFFECTIVENESS REVIEW

The Board undertakes a review of its effectiveness each year, organised by the Chair. At least once every three years this is facilitated by an external party and, for 2015, it was conducted by Sean O'Hare from Boardroom Dialogue.

The Board is pleased to report that good progress has been made in relation to the four main areas on which we agreed to focus, namely:

- Enhancing Board engagement - additional informal meetings involving Board members have been held, Non-executive Directors are regularly updated on SJP communications events and there has been increased engagement at shareholder meetings. The quality of, and focus on, in depth discussions at Board meetings has continued to be enhanced;
- Improving meeting administration – the format and volume of information presented to the Board has been streamlined. Also the scheduling of certain Audit Committee meetings has been rearranged, attendance by management at meetings has been reviewed and the secretariat support for Board Committees and the Executive Board has broadened significantly;
- Engaging further in Board development – Further briefing sessions have been provided for Non-executive Directors on more complex areas of the business and the induction process for Non-executive Directors has been reviewed; and
- Building on existing long-term succession planning – This has continued to be a key area of focus and there has been greater visibility to the Board of succession plans below the Board and the Executive Board.

In 2016, an internal review of the effectiveness of the Board and its Committees was led by the Chair with the support of the Company Secretary. Self-assessment questionnaires covering the performance of the Board, the Committees and each individual Director, were sent to the Directors. This was then followed by an open and full discussion by the Board at the Board dinner in December 2016, reviewing what had worked well during 2016, what had not worked so well and some areas of focus for 2017. The Chair subsequently held individual meetings with each Director and the key themes from these meetings, together with the results of the questionnaire and the output from the Board dinner, were then summarised and circulated by the Chair to the whole Board prior to the Board meeting in February 2017. The Board agreed to focus on the following areas:

- Setting out some clearer aspirations as to the appropriate amount of time to be spent by the Board on supervisory matters and in depth and major topics, with the consensus that more time should be devoted to in-depth discussions of both internal and external matters. Where appropriate, these conversations should be facilitated/presented by external or internal experts;

- Some of the key strategic topics which should be included on the Board Agenda for 2017 were agreed as were the forms of presentation which would encourage the best discussions and mechanisms for setting agendas to focus time appropriately;
- Having further development sessions for NEDs prior to strategic discussions to enable them to be brought fully up to speed on specific topics (particularly complex matters) before these discussions; and
- Further reviewing and focussing the NED training plan for the year.

Individual Director evaluation discussions focused on the contribution made by the Director over the year and objectives to be set for 2017. In addition, each Director was given the opportunity to raise any further matters individually with the Chair. Training and development needs for 2017 were also discussed. The output from these reviews will be taken into account in drawing up the Board effectiveness plan for 2017. The Senior Independent Director led the Non-executive Directors in the evaluation of the Chair.

By order of the Board

**Elizabeth Kelly**

*Company Secretary*

27 February 2017

# REPORT OF THE AUDIT COMMITTEE



**Simon Jeffreys**  
Chair of the  
Audit Committee

## ROLE OF THE COMMITTEE IN SUMMARY

- To be responsible for the accuracy and integrity of the Group's financial statements;
- To oversee the work of the external auditor and consider its reports;
- 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 appropriate refer on to the Board, any significant control weaknesses or failures; and
- To report to the Board on how the Committee has discharged its responsibilities.

## AUDIT COMMITTEE MEMBERS

Simon Jeffreys (Chair)  
Iain Cornish  
Roger Yates

I am pleased to present the report of the Audit Committee of St. James's Place plc for the year ended 31 December 2016.

As shareholders will be aware, the Audit Committee has numerous obligations to the Board and shareholders, including assisting the Board in its monitoring of both the financial reporting process, and the effectiveness of the Company's internal control, internal audit and risk management systems.

The Committee is also responsible for monitoring the statutory audit of the Annual Report and the consolidated financial statements, and the independence of the Group's statutory auditor, PricewaterhouseCoopers LLP. In carrying out these duties, the Committee must maintain an effective relationship with the external auditors and pay due regard to any findings and conclusions resulting from independent inspections of their work, as well as the results of our internal evaluation of the effectiveness of prior year audits.

A further duty of the Committee is to provide advice to the Board that the Company's financial reports, taken as a whole, provide a fair, balanced and understandable assessment of the Company's financial position and results, and that they provide the information necessary for shareholders to assess the Company's financial position and performance, business model and strategy.

These regular activities keep the Committee busy, but each year brings its own particular nuances and 2016 was no exception.

- An audit tender process is never undertaken lightly, and so we were pleased to have completed it successfully.
- Client assets is currently a particularly hot topic in the industry, and the changes in regulation have increased both the focus and pressure. This is a challenge which appears to be getting ever more onerous.
- More generally, the Committee set itself a focus on ensuring good practice around systems implementation, particularly on ensuring controls are in place before go live. This was particularly relevant this year when there was considerable investment in new systems and processes.

This report sets out how the Committee has discharged these, and its other duties, through 2016.

**Simon Jeffreys**  
*On behalf of the Audit Committee*  
27 February 2017

## COMMITTEE MEMBERSHIP DURING 2016

Committee membership is unchanged in the year and also as at the date of this report. The Committee comprises three independent Non-executive Directors and the Board is satisfied that the Committee as a whole has the experience and qualifications necessary to successfully perform their roles, 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 (being members of audit committees of other companies) and expertise in the financial services sector.

Details of attendance of Committee members at the meetings of the Audit Committee throughout the year can be found on page 75. Additional invited attendees to the meetings during the course of the year included the Chair, the Chief Financial Officer, the Director of Internal Audit, the Chief Actuary and other members of the Finance, Internal Audit and Controls teams, as well as representatives from the external auditors, PricewaterhouseCoopers LLP.

## COMMITTEE ACTIVITIES DURING 2016

### Financial Reporting

The Committee reviewed both the Annual and Half Year Reports and Accounts, together with the associated reports from the external auditors. The Committee received regular updates on the preparation of the Annual Report and started discussion in September on key developments from the prior year, including material assumptions, key judgements, changes in generally accepted accounting practise ('GAAP'), accounting policies and disclosures, and significant events and activities during the year. The discussion included reflection on both positive developments and challenges during the year. The topics discussed were driven both by consideration of risk of mis-statement of the financial statements, and also by assessment of the scale of risk in the business.

Given the nature of our business, there are certain subjects which are always relevant and important, particularly valuation of assets and actuarial reserving assumptions. Other topics reflect the business experience in the year. During 2016 the activity included:

Area of Focus	Activity
Fraud in Revenue Recognition	During the course of its regular work, the Committee reviewed the relevant policies and received regular reports from management and internal/external audit on the controls.
Management Over-ride of Controls	Much of the work of the Committee was directly or indirectly focused on management and controls. This included review of systems of controls; reports on the self-assessment activity; and external review (which included reviews undertaken by our co-source partner to Internal Audit).
Asset Valuation (particularly property and derivatives)	During the year the Audit Committee received presentations from senior management on a number of topics relevant to asset valuation, including systems and controls (with particular focus on property and derivatives), the process of audit of Unit Trusts, and updates on the results of the statutory unit-trust audits ('UT Audit') (split into two exercises in September and March). The Committee also received presentations from the State Street business risk management team, outlining the processes and controls supporting the custody and valuation services they provide. As a result the Committee was able to conclude that the processes were appropriate and would provide reliable financial information.
Actuarial Reserving Assumptions (including persistency assumptions in relation to EEV and Solvency II reporting)	Oversight of the 'realistic' basis assumptions was particularly extensive in the first half of 2016 due to the additional focus engendered by the implementation of Solvency II (see more on Solvency II reporting below).  As part of this work, and at the request of the Audit Committee, management developed a new Assumption Setting Policy focused on making the most of the objective information available.  When it came to the changes in assumptions required for year-end 2016, the work of the Committee earlier in the year meant the process was improved and more efficient.
Operational Readiness Prepayment Asset	During the year the Committee noted the increase in the operational readiness prepayment as work progressed on the back office infrastructure project. At both half year and year end the Committee reviewed the assessment of the savings which were expected to accrue from the associated changes in tariff costs to gain assurance over the appropriateness of the carrying value.
Re-assessment of Fair Value of Insurance Bond and Pension Business	At the year end the Committee considered the reassessment of the investment contract benefit and the revised treatment of part of the liability as Deferred Income. The Committee noted that the revised approach had no overall impact on the net assets, nor on emergence of profit, but recognised the benefit of aligning the liability with the client encashment value. Following discussion the Committee approved adoption of the reassessment.

# REPORT OF THE AUDIT COMMITTEE continued

<b>Area of Focus</b>	<b>Activity</b>
APMs – Underlying Profit, EEV and Cash Result	<p>As part of the preparation for year end, the Committee considered the Company's approach to APMs. The Committee noted and supported the increasing focus on the Cash and Underlying Cash results, and the move to present cash emergence from the business in a way that would be consistent with other wealth managers.</p> <p>The Committee discussed the more succinct EEV reporting, noting the importance of EEV in relation to bonus schemes, but ultimately agreed a reduced level of assurance for EEV recognising development in reporting practice in the industry.</p> <p>The Committee specifically considered the guidance from ESMA and the FRC in relation to APMs when considering the analysis presented in the Report and Accounts and approved the inclusion of a Glossary of APMs.</p>
Launch of the Retirement Account on the Bluedoor administration system	<p>The Committee received updates from management (and Internal Audit) through the year about project progress, and assurance about the test strategy and go/no-go governance process for the product launch. The Committee endorsed management's approach to mitigating launch risk through use of a low key pilot, to a limited group of Partners initially, with a controlled 'ramp-up'. The new system was successfully launched in October with ramp-up progressing steadily and full-roll-out expected in Q1 2017.</p>
Segmental Reporting	<p>During the year the Committee reviewed the approach to segmental reporting as determined by the Board. Increasingly the business is managed as a single vertically integrated Company and it is on this basis that information is reported to the Board. Therefore whilst the Committee acknowledged that the prior year reporting reflected a useful analysis of the accounting information, it was agreed with the Board that the reporting should be simplified to reflect just a single unit in the financial statements.</p>
Acquisition of Rowan Dartington, Technical Connection and Other IFAs	<p>Following the completion of the Rowan Dartington and Technical Connection acquisitions, and a number of other transactions, the Committee reviewed the consolidation of the additional entities and reporting of the transaction costs and intangibles.</p>
Charge Reviews in Legacy Business Cohorts	<p>Having been informed of the intention to review charges on the portfolios, the Committee requested updates to monitor that progress was satisfactory.</p>
Capital Management	<p>Having taken on responsibility for oversight of Group Capital Management, the Committee requested a regular update on capital management in the Group should be included as part of the standing agenda. The Committee also reviewed the systems for managing capital and considered forecasts of capital requirements.</p>
ERP System Implementation	<p>In the second half of the year, the Company implemented the first elements of a new Enterprise Resource Planning (ERP) system, principally a new general ledger. Given the significance of this project the Committee received presentations on the background and purpose of the project, and also updates on progress and governance, including insight into the project from the external auditors. The Chair of the Committee was able to share his experience of similar processes elsewhere, and by the end of the year the Committee had received reassurance from management, as well as internal and external audit, about the fitness of the new system to support year-end reporting.</p>
Year-end Reporting Project	<p>As every year, the Committee engaged with management in a review of the annual reporting processes, encouraged evolution to reflect the growth and development of the Company.</p>

After numerous changes in Financial Reporting and Regulation during 2015, the most significant impact during 2016 was the implementation of Solvency II. During the first half of the year the Committee rigorously reviewed the new reporting being produced. More detail on this work, and other developments considered by the Committee, are summarised in the table:

<b>Area of Focus</b>	<b>Activity</b>
Solvency II	<p>Following implementation of Solvency II in January 2016, the Committee undertook an extensive review of the initial reporting stages, including, in particular, the incorporation of an initial assessment in the prior year Annual Report and Accounts. This was followed by review of Day 1 and Q1 regulatory submissions in May. The Committee considered an annual report from the Actuarial Function and noted the developments proposed, requesting updates on progress through the year.</p> <p>In the second half of the year, the Committee considered Solvency II as an integral part of the year-end reporting process for the first time, including consideration of the SFCR reporting requirement.</p>
IFRS developments	<p>As part of the standing agenda, the Committee had requested regular updates on developments in Financial Reporting, particularly IFRS. The standards which are changing and which have the potential to impact the Company include IFRS 9, IFRS 15 and IFRS 16. The Committee was provided with assessments of the likely impact, which were used to support the commentary included in the Annual Report and Accounts on page 131.</p>
EU Audit Regulation and Directive	<p>The UK implemented the EU Audit Regulation and Directive during the year. The Audit Committee discussed and reviewed compliance with the new rules with the external auditor, and also participated in FRC initiatives to support implementation of the new guidelines.</p>

### **'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 Report and Accounts, taken as a whole, is fair, balanced and understandable and provides 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. In particular, the Committee reflected on the following questions:

- Does the report present the whole story, including challenges and issues faced as well as Company achievements?
- Does the report achieve consistency between the financial statements and the narrative sections?
- Are appropriate performance measures included and clearly explained?
- 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?
- Does the overall document have a clear and cohesive structure?
- Is the report readable and are the important messages highlighted appropriately?
- Are explanations of business models, strategies and accounting policies clear?

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 2016 are indeed fair, balanced and understandable.

### **External Auditor**

The Committee has responsibility for the work of the external auditor of the Company.

The auditor attended all Audit Committee meetings, and reported on their work. The Committee also arranged for regular private meetings with the external auditors. The Chair of the Committee also met regularly with the Senior Statutory Auditor both to receive updates on progress and also to discuss any private matters.

The Audit plan was presented, discussed and agreed with the Audit Committee at the October meeting, setting out the activity planned and the major risks identified. Regular progress updates were presented at the November and January meetings, with a full report presented at the conclusion of the audit in February. The Committee discussed the findings from the work under the headings of the major risks as set out in the original audit plan and 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.

# REPORT OF THE AUDIT COMMITTEE continued

Particular areas that the Audit Committee requested the external auditor to consider as part of their audit work included:

<b>Area of Focus</b>	<b>Activity</b>
Client Assets (CASS) audit	The Committee requested additional information from PwC regarding progress with the CASS Audit, not least due to concerns about the reporting timetable.
Third Party Administration Outsource Providers	Given the importance of service levels, and with the business having experienced a short term issue early in the year, the Committee requested the auditors focus particular attention on the outsource provider.
EEV	Following the implementation of Solvency II the Committee asked to be kept informed of developments in reporting in the industry, particularly EEV.
Presentations on Topical Issues	During the year the Committee requested support from the external auditors as part of the audit work, including specific presentations on topical issues. In particular a number of members of the Committee discussed presentations on <ul style="list-style-type: none"> <li>• Developments in the Wealth Management Industry including Robo-advice; and</li> <li>• A demonstration of the HALO proprietary audit software, which was used for the first time during the year to support both the UT audit and the Group audit, and facilitates complete coverage for verification of asset prices.</li> </ul>

During the year the Committee again reviewed the policy on Auditor Independence, in light of the final Ethical Standard published by the Financial Reporting Council (FRC), ready for adoption in 2017. The new policy makes clear the types of non-audit work which are prohibited, and our robust policy of only engaging our auditor for limited non-audit work, where there is no risk of compromising independence, and where it is appropriate to do so. Since there has been some ambiguity about the treatment under the new EU Audit Regulation and Directive of audit work on the Group's Unit Trusts, the Committee was pro-active in discussing this point with industry experts and the FRC. Ultimately, the Committee was particularly mindful of the engagement of PwC to audit the Group's Unit Trusts and of the potential for conflict. Due consideration has therefore been given to full disclosure of the relationship in the Report and Accounts, and to ensure appropriate safeguards are in place.

The policy also sets out St. James's Place's commitment to regular rotation of the auditors, taking into account both the EU and Competition and Markets Authority rules. In particular, the Committee is committed to reviewing the performance of the auditor every year, and considering whether a change is required.

The Committee used their experience and the following additional information to assess the effectiveness, independence and objectivity of the Company's external auditor:

<b>Area of Focus</b>	<b>Activity</b>
Auditor Effectiveness and Quality	<ul style="list-style-type: none"> <li>• The consideration given of the annual review by the FRC of the main auditing firms;</li> <li>• The Audit Quality Review report on PricewaterhouseCoopers LLP specifically;</li> <li>• The experience and knowledge of the team, (with due regard to the requirement for regular rotation of audit team members); and</li> <li>• Results of an internal survey of auditor performance.</li> </ul>
Auditor Independence and Objectivity	<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 SJP to confirm no links or investments with the Company by the audit team;</li> <li>• Regular rotation of audit team; and</li> <li>• Appropriate considerations when recruiting a former audit partner.</li> </ul>
Level of Fees	Detailed information on the break-down of fees paid to our external audit firm is provided in Note 5 of the financial statements on page 141. Included in the total fees paid to PwC of £1.6 million (2015: £1.5 million) is £0.1 million (2015: £nil) of fees in relation to a cyber security review. In this instance the Committee determined PwC were best placed to provide this non-audit service.

As a result of this work, the Committee 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 had originally been appointed as auditor in 2009, and in the best interests of shareholders, (and as anticipated when we last reported) the audit was tendered during 2016 in respect of the 2017 year end audit. The process included the following steps:

- An initial review of the whole market assessed the suitability of available firms and the review was used to identify a short list of audit firms with the expertise and capacity required;
- The Audit Committee established an internal sub-committee to manage the process, chaired by the Chair of the Audit Committee and including the Chief Financial Officer. Each member of the sub-committee disclosed their interests before a formal process was established to identify and manage potential conflicts of interest that existed between selected audit firms and the Group;
- Four short-listed audit firms were invited to express an interest in tendering and objective criteria were established to ensure a thorough and consistent process was followed when assessing the tender proposals. The criteria were weighted to take account of their relative importance to the overall outcome and included the audit firms understanding of the Group and its market, its technical capability and the quality of its employees. A broad range of factors were identified under each criteria to assist with the assessment process;
- Following the withdrawal of two of the short-listed audit firms due to their own independence and capacity issues, the remaining candidates PwC and Deloitte were asked to submit an initial summary proposal. These proposals were assessed by reference to the criteria referred to above and material differences in the proposals were identified;
- Following consideration of the proposals, and assessment, the sub-committee recommended that PwC be retained as the Auditor. Both firms demonstrated they had the technical capabilities and people to deliver a high quality audit. However, due to the nature of SJP's business, achieving independence can be challenging and in this context PwC was able to achieve (continued) independence from the Group with less disruption and impact on the SJP community and business; and
- The Audit Committee considered a report setting out the sub-committee's consideration of both firms and endorsed its sharing with the Board, together with the recommendation that a resolution be put to shareholders at the next AGM, proposing the reappointment of PwC as the Company's external auditor.

Having undertaken a tender process in 2016 (in respect of the 2017 audit), PwC's appointment as the Group's external auditor meets 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.

Having confirmed the proposed reappointment of PwC we will need to change our audit firm by no later than the 2027 audit. The slightly different rules in Dublin, which limit auditors to a maximum of ten years mean that we will have to change our auditor in Dublin for the 2019 audit, although we will ensure appropriate arrangements for the new auditor to liaise with the Group auditor for purposes of Group reporting.

In relation to the service provided by PwC, having rotated our Senior Statutory Auditor to be Jeremy Jensen in 2014, we are expecting rotation of this key role by 2019.

### **Internal Audit**

The Committee is responsible for monitoring the work of the Internal Audit function and its effectiveness. The Director of Internal Audit has regular one-to-one meetings with the Chair of the Audit Committee and, if necessary, the Board and is accountable to the Audit Committee.

During the year the Committee reviewed and approved the Audit Charter, as required by the standards of the IIA (Institute of Internal Auditors). The Internal Audit function also presented periodic reviews of the skills and capabilities within the team. The Internal Audit function reviewed and reported on the performance of the co-sourcing agreement with Deloitte LLP, which has been an effective relationship. Co-sourcing provides specialist expertise and additional resources to maintain and enhance the level of assurance, provided to the Audit Committee.

The work plan for the Internal Audit function was agreed at the start of the year, and progress was monitored through the year, with particular focus on whether the team had the necessary resources to implement the plan in a timely manner at each of the quarterly review points for plan coverage.

# REPORT OF THE AUDIT COMMITTEE continued

Risk based Internal Audit work during the year has focused on key control priorities identified at the planning stage with the Committee, these being:

<b>Area of Focus</b>	<b>Activity</b>
Strategic Initiatives and other Major Change Projects	<ul style="list-style-type: none"> <li>• Administration system – continued coverage of the programme to upgrade the Group's back-office administration systems;</li> <li>• ERP – review of the implementation of the new general ledger; and</li> <li>• Rowan Dartington – Assessment of the acquisition process and integration work.</li> </ul>
Operational Integrity and Technology	<ul style="list-style-type: none"> <li>• Investment Management Approach – processes and controls;</li> <li>• Information technology – review of data quality;</li> <li>• Client experience;</li> <li>• Client money; and</li> <li>• Treasury processes and controls.</li> </ul>
Third Party Risk Management	<ul style="list-style-type: none"> <li>• Management and oversight of contracts in relation to material outsourcers, particularly IFDS and Syntel;</li> <li>• Business continuity planning and disaster recovery arrangements at key third parties, in particular IFDS and Capita; and</li> <li>• General audit coverage of other key third parties.</li> </ul>
Governance and Risk Management	<ul style="list-style-type: none"> <li>• Executive Committee and Board management information; and</li> <li>• Financial Crime.</li> </ul>
Regulation and Compliance	<ul style="list-style-type: none"> <li>• Business assurance file checking; and</li> <li>• Partner supervision – structure and controls.</li> </ul>

In addition, all audits addressed the themes of the robustness of the operation of control self-assessments (as outlined in the following section), process efficiency and risk and control culture.

When receiving regular updates from the Director of Internal Audit in relation to the results of completed audits, the Committee paid careful attention to any areas where the audit led to remedial action being recommended. The actions arising were monitored to ensure completion. In practice, 92% (2015: 86%) of actions were completed in line with the original agreed deadlines, with the rest expected to be completed by appropriately agreed revised deadlines. No second revisions of deadlines were permitted during the year.

## System of Internal Control

The Board has overall responsibility for the Company's system of internal controls. In practice, management will design and implement controls, and the Board will ensure management discharges this responsibility. The Audit Committee and Risk Committee work closely together to ensure controls mitigating major risks are appropriately designed and operating effectively. The Risk Committee therefore provides regular updates to the Audit Committee on the status of risk management in the Group.

The Group adopts the 'three lines of defence model' as the design basis for its internal control framework and the process for reviewing the effectiveness of the framework takes account of this model as follows:

<b>Area of Focus</b>	<b>Activity</b>
First Line – Operations	<ul style="list-style-type: none"> <li>• Control Self-Assessment attestation from management;</li> <li>• Attestation by significant third party suppliers of outsourced administration services; and</li> <li>• CEO attestation to the Audit Committee on the integrity of first line operations.</li> </ul>
Second Line – Risk Management and Controls	<ul style="list-style-type: none"> <li>• Control assessments: <ul style="list-style-type: none"> <li>– 'Risk control' self-assessments;</li> <li>– Compliance monitoring; and</li> <li>– Business assurance 'thematic reviews'.</li> </ul> </li> <li>• Review of the control self-assessment system led by the Controls Manager at half year and year-end;</li> <li>• CEO attestation to the Audit Committee on the second line, risk management functions; and</li> <li>• Reports from the Risk Committee.</li> </ul>
Third Line – Audit	<ul style="list-style-type: none"> <li>• Internal Audit ongoing assurance activity, including reviews by external organisations, managed by Internal Audit; and</li> <li>• Internal Audit – Internal Control Annual Evaluation report as outlined below.</li> </ul>

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

In summary, the Chief Executive has ultimate responsibility for the first two lines of defence and uses his knowledge of the business, and that of his senior management team, to provide an opinion on the control systems. Separately, Internal Audit provides an independent opinion (the Internal Control Evaluation report), from a third line perspective, based on Internal Audit activity conducted throughout the year and Internal Audit's further analysis and appraisal of the outputs from a wide range of other sources.

These sources of assurance assist the Audit Committee in completing its annual review and enable the Audit Committee to attest on behalf of the Board that it has been able to properly review the effectiveness of the Company's system of internal control in accordance with the 2014 FRC Guidance on risk management, internal control and related financial and business reporting. The Audit 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.

### **Other Activity**

The Chair of the Committee acts as a key contact for the Whistleblowing Policy and is the whistleblowers' champion under the Senior Insurance Managers' Regime. The Committee reviewed whistleblowing arrangements during the year and concluded that the arrangements were adequate and consistently in-force across the entire Group.

The Audit Committee is responsible for carrying out the function required under the FCA's Disclosure and Transparency Rule DTR7.1.3R.

### **Committee Effectiveness**

The Committee's effectiveness and its interaction with the Board and other Committees was evaluated as part of the overall assessment of the effectiveness of the Board and its Committees, details of which can be found on page 79. Having considered the output from that assessment and reviewed the effectiveness of the work undertaken by the Committee against its terms of reference, the Committee concluded that it continued to perform effectively and there were no material areas of concern.

The terms of reference, which were revised in 2016 and which set out the Committee's role and authority, can be found on the corporate website at [www.sjp.co.uk](http://www.sjp.co.uk).

# REPORT OF THE RISK COMMITTEE



Iain Cornish  
Chair of the  
Risk Committee

## 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 risks affecting the Group and the ways in which the risks are controlled and mitigated;
- To provide oversight of the Own Risk and Solvency Assessment process; and
- To report any material areas of concern to the full Board.

## RISK COMMITTEE MEMBERS

Iain Cornish (Chair)

Simon Jeffreys

Baroness Wheatcroft

Roger Yates

Fostering a culture of effective risk management is of the utmost importance to the Directors. The Risk Committee is a sub-committee of the Board, the remit of which is to assist the Board in developing this culture, by providing leadership, direction and oversight of the Group's management of risk.

In carrying out this remit, the Committee's key activities in 2016 included:

- Overseeing the implementation of the Solvency II Directive alongside the Audit Committee;
- Monitoring and reviewing the effectiveness of risk management in the Group and the risk management functions;
- Reviewing the principal risks and uncertainties affecting the Group as well as the risk appetite;
- Considering reports produced by the Group's Risk and Compliance functions, to monitor the ongoing compliance interaction with the Group's regulators;

- Receiving presentations from members of senior management about their business areas and reviewing the management of the associated risks; and
- Recommending to the Board the appointment of the new Chief Risk Officer.

The following report sets out in more detail the Committee's key activities in 2016.

### Iain Cornish

*On behalf of the Risk Committee*

27 February 2017

## COMMITTEE MEMBERSHIP DURING 2016

All members of the Risk Committee have considerable financial, risk and/or other relevant experience and are independent Non-executive Directors. There have been no changes to the membership of the Risk Committee during 2016. Details of attendance at the meetings of the Risk Committee throughout the year can be found on page 75.

Regular attendees at Committee meetings during the year included the Chief Executive, the Managing Director, the Chief Risk Officer, the Chief Technology Officer, the Joint Chief Operating Officer (Client) and the Corporate Actuary. As Chair of the Board, Sarah Bates attended all Risk Committee meetings during 2016.

## COMMITTEE ACTIVITIES DURING 2016

During 2016, the Committee has overseen further developments to the reporting of the key risks and has worked to ensure appropriate coverage has been given to each of these risks at Committee meetings. An important element of this work has been the consideration of reports from senior executives and external consultants on specific topics, including key corporate initiatives. The Committee spent time discussing management of the associated risks, and provided challenge to the executives responsible. Topics considered in 2016 included:

- Cyber-security threats and the Group's defences – The Committee considered the Group's information security risk appetite statement, developments in controls relating to people, processes and technology, and future plans in this area of increasing risk;
- Brexit – The Committee discussed the short-term and potential longer-term implications of the result of the EU referendum, in particular noting that the heightened level of uncertainty brings existing risks more sharply into focus, but that the outcome does not appear to pose any fundamental threats to the business;
- The Group's financial crime prevention controls – The Committee considered the controls in place in respect of higher risk and politically exposed clients and received an update on training and awareness raising activities, including in respect of whistleblowing procedures and anti-bribery and anti-corruption policies;
- The Group's Investment Management Approach – The Committee considered developments to the fund range, giving particular consideration to current economic conditions, and the internal governance processes in place to manage and mitigate risks in this important area. In a separate discussion, the Chief Risk Officer of the newly acquired Discretionary Fund Management business, Rowan Dartington, attended a meeting to present on the risks in this part of the business, and the Committee discussed progress in aligning risk management across the businesses;
- Partner recruitment and advice – The Committee considered the risks surrounding the recruitment of Partners and advisers, the controls in place in respect of quality of recruits, and the sustainability of continued growth. In a separate discussion, the Committee considered the controls in place to verify the suitability of the advice given by Partners to clients, and received an update on developments in the technology provided to support the documentation of advice;
- Operational developments – The Committee received updates on the progression of the project underway to implement the Group's new administration platform and considered the internal governance structures and management of risks associated with the launch of the new Retirement Account;

- Outsourcing – The Committee discussed the nature of governance and oversight of third party administrators, including the resilience of key outsourcing partners. The Committee also considered the controls in place to ensure correct handling of client money, discussing changes in regulations and operational changes resulting from the migration of Unit Trust and ISA business to the new administration platform;
- Client complaints – The Committee discussed the nature of client complaints, the way in which these are handled, resolved and reported, and the extent of management action taken as a result of complaints received;
- Remuneration – The Committee discussed the potential risks associated with Partner and employee remuneration and the ways in which these are mitigated; and
- Asian subsidiaries – The Committee considered the management of key risks within the Asian subsidiaries, the development of relationships with regulators, and the priorities for the Asian business in future years.

This gave the Committee the opportunity to ensure that risks are being addressed and to test that the culture of risk identification and management is embedded.

One of the key areas of focus for the Committee is the Own Risk and Solvency Assessment (ORSA). The Committee set the strategy for the performance of a single, Group-wide, ORSA and had continued involvement in this process throughout the year. In particular, the Committee discussed the underlying basis and assumptions, the nature and results of stress and scenario tests, the assessment of operational risks, key risk management policies and the content of the ORSA report and viability statement.

Oversight of the risk management framework is key to delivery of the responsibilities of the Committee. Further information about this framework can be found on pages 48 to 50. The risk management framework and associated documents are subject to annual review and, during 2016, the Committee participated in an external review of the framework. The Committee discussed the resulting recommendations, which chiefly related to the documentation and presentation of risks. Consequently, the presentation of the Group's Top Risk List has been redeveloped, although the risks included remain largely unchanged. The risks have been mapped to the Basel framework and to the 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 both will be subject to further development during 2017 as part of an ongoing cycle of improvement. Enhancements have also been made to the capture, reporting and use of internal loss data.

The Committee is supported in its oversight of the risk management framework by Risk Management teams at Group and local levels, and the Committee spends a significant proportion of its time receiving updates from the Chief Risk Officer and the Heads of the Group Risk Division, who have direct access to the Chair of the Risk Committee should the need arise. During late 2015 and early 2016, members of the Committee were involved in the process of recruiting a new Chief Risk Officer and met with Chris Gentle during this process. The Committee then recommended his appointment to the Board.

## REPORT OF THE RISK COMMITTEE continued

The Committee is also able to review and provide challenge on the implementation of risk mitigation in the business. As part of this oversight, the Committee also 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 the Compliance Oversight and 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
- An annual report from the Money Laundering Reporting Officer on the anti-money laundering, bribery and fraud activities taking place within the Group.

Since most of the activity within the Group is regulated, the Committee also considered regular updates on the Group's ongoing interactions with regulators, including the Prudential Regulation Authority, Financial Conduct Authority, Central Bank of Ireland, Monetary Authority of Singapore and Office of the Commissioner of Insurance in Hong Kong, and the wider regulatory interactions with firms in the financial services marketplace. This allowed it to monitor ongoing compliance with regulation.

An internal review of the effectiveness of the Committee was also carried out and no material issues were highlighted in respect of its operation.

The terms of reference, which were revised in 2016 and which set out the Committee's role and authority, can be found on the corporate website at [www.sjp.co.uk](http://www.sjp.co.uk).

# REPORT OF THE NOMINATION COMMITTEE



**Sarah Bates**  
Chair of the  
Nomination  
Committee

## 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 appropriately consider succession planning for Directors and senior management; and
- To report to the Board on the work of the Committee.

## NOMINATION COMMITTEE MEMBERS

Sarah Bates (Chair)  
Iain Cornish  
Baroness Wheatcroft

The Nomination Committee plays a crucial role in ensuring that the structure and composition of the Board (including the skills, knowledge, experience and diversity) is appropriate to continue to lead the Group and achieve its strategic objectives. Another critical aspect of the role of the Nomination Committee is considering succession planning for the Board and the Committee has devoted significant time to this activity during the year.

The Committee must also ensure that the skills and attributes necessary at those levels immediately below the Board are also constantly reviewed, in order to ensure that there is an appropriate and talented succession pipeline. This has continued to be a key area of focus as described in this report.

Overseeing our approach and progress in relation to diversity is another aspect of the Committee's work and progress in this respect is set out below.

### Sarah Bates

*On behalf of the Nomination Committee*  
27 February 2017

# REPORT OF THE NOMINATION COMMITTEE continued

## COMMITTEE MEMBERSHIP DURING 2016

The members of the Committee remained unchanged during 2016 and up to and including the date of this Report. Details of attendance at the meetings of the Nomination Committee throughout the year can be found in the Corporate Governance Report.

## COMMITTEE ACTIVITIES DURING 2016

As set out in the Chair's Report, we have undertaken the appointment processes for our new Chief Executive and Chief Financial Officer, which were led by the Committee\*. These appointments are the result of careful succession planning for these roles over the last few years in the context of our overall strategy and our views of the nature of those roles as the Group develops and the characteristics required for them. We requested external market surveys for both roles and considered the benefits and risks to the Group and its stakeholders of making these or other appointments.

Assessing the appropriate composition and structure of the Board and its various Committees is an ongoing process and this has been regularly considered and discussed during the year. Of particular importance was the assessment of the existing skills, knowledge, experience, diversity and independence of the Board to ensure that these remained appropriate both now and in the future, as well as considering whether there was any requirement to draw in additional skills and experience from elsewhere. It should be noted that half of the Board (excluding the Chair) is comprised of independent Non-executive Directors.

The Committee has not felt it necessary to make any recommendations to change the structure of the Board or its Committees during the current year although it has been giving detailed consideration to its plans for the future in order to plan for its own refreshment and succession in the medium and long-term.

The skills review mentioned above formed the basis for a continued focus this year on succession plans for the Board, Executive Board and senior management. Excellent progress has been made in this respect and the further refinement of the responsibilities of the Executive Board, the development of internal talent and recruiting external executives, where appropriate, has ensured the continued development of a platform for future succession. There has also been a focus by the Board on the appropriate people strategy (referred to on pages 18 and 115). Succession planning will continue to evolve during 2017.

During the year, the Committee has concentrated on diversity in a number of senses within the Group and the Partnership, receiving regular updates as to developments in this respect. A number of measures have been identified to make further progress in ensuring appropriate female representation and this work will continue during 2017. The Group is quite diverse in other senses, in terms of regional focuses for example, and taking into account its work with apprentices. A suite of metrics has also been developed and reviewed to ensure that progress in relation to diversity can continue to be monitored. These metrics include analysis of male/female composition at all levels across the employee population and also in respect of promotions and part-time working and in forms of responses to the employee survey.

The Committee is still of the opinion not to adopt the 25% target proposed by the Davies Report for female representation for the Board in 2017, noting that the level of female representation on the Board is still close to satisfying the target at the present time and that the Company has a female Chair. We also note that a number of companies who have achieved this level, have a rather different balance between executives and non-executives on the board. As is often observed, there are fewer women in executive ranks than might be expected. However, we are trying hard and, as part of our current recruitment processes, we have sought to discuss with potential and appointed headhunters how they identify candidates from a diverse pool of people. We have also consciously sought to avoid setting criteria which unwittingly and for no purpose exclude any particular group. It is worth noting that the general change in attitudes towards the number of board appointments held probably reduces the experience which future candidates will have, but perhaps increases the number of potential candidates.

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 Nomination 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.

The terms of reference setting out the Committee's role and authority, and which were reviewed in 2016, can be found on the corporate website at [www.sjp.co.uk](http://www.sjp.co.uk).

\*These appointments are subject to regulatory approval.

# DIRECTORS' REMUNERATION REPORT



Roger Yates  
Chair of the  
Remuneration  
Committee

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2016 which sets out the new Directors' Remuneration Policy for approval by shareholders at the AGM, how the current Directors' Remuneration Policy was applied in 2016 and, subject to shareholder approval of the new Directors' Remuneration Policy, how it will be implemented in 2017.

## **DIRECTORS' REMUNERATION POLICY ('POLICY') AND THE CORPORATE STRATEGY**

The current Policy was approved by the shareholders in 2014 and continued to operate in 2015 and 2016. The Policy has been reviewed during 2016 and it is submitted for shareholder approval at the 2017 AGM. No material changes are proposed. The Policy for approval is set out on pages 96 to 99. As with the current Policy, it supports the Group's business strategy in that the major part of remuneration for Executives is performance-dependent, including both annual and longer-term measures aligned to a balanced set of business objectives. There is substantial deferral of variable remuneration into shares, and requirements for Executive Directors to hold Company shares, through minimum shareholding thresholds and a two year post-vesting sale restriction on Performance Share Plan (PSP) awards. Further detail as to how each element of the Policy supports the strategy is set out in the table on pages 96 to 99.

## **CORPORATE PERFORMANCE AND REMUNERATION FOR 2016**

As reported in this Report, 2016 has been another year of strong performance and our Executives' remuneration for 2016 reflects this. Based on the three-year performance to the end of 2016, 100% of the Executive Directors' PSP awards granted in 2014 will vest in March 2017, as a result of relative total shareholder return (TSR) and earnings per share (EPS) growth being above the upper end of the performance range set by the Remuneration Committee ('the Committee').

This Report includes disclosure of performance targets and the outcome for the annual bonus for 2016. The Committee determined that 96.67% of the maximum annual bonus should be payable for 2016, reflecting the strong financial results for 2016 and strong 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.

## **REMUNERATION FOR 2017**

The Committee considered the overall remuneration arrangements for the Executive Directors in 2017 in accordance with the Policy and has decided to award an increase of 3% in the base salaries of the Executive Directors for 2017 which is in line with the overall increase of base salaries for the workforce. The Committee continues to monitor the complexity of the responsibilities undertaken, the remuneration of staff generally, an element of market comparison and inflation trends from year to year.

The maximum annual bonus opportunity for 2017 will remain at the same levels as 2016. Performance share awards will also be granted at the same level as 2016 for our CEO at 200% of salary and will increase from 190% to 200% for our three other Executive Directors, which continues to be below our shareholder approved Policy maximum.

In addition, to reflect the increased workload, regulatory responsibilities and the size of the Group, the fees of the Chair for 2017 will increase to £195,700 (3% increase), the base fees of the Non-executive Directors will increase to £61,745 (3% increase), the Committee Chair fees will increase to £20,600 (3% increase) and the Senior Independent Director fees will increase to £5,560 (100%).

# DIRECTORS' REMUNERATION REPORT continued

## ENGAGEMENT WITH SHAREHOLDERS AND BEST PRACTICE

The Committee has consulted with its major shareholders in relation to the proposed Policy and, in addition, the Committee ensures it is up to date with the developing views of 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 importance 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 area.

## ROLE OF THE COMMITTEE DURING 2016

During 2016 the Committee's main areas of focus were on:

- Reviewing performance and agreeing the 2015 annual bonus payments for the Executive Directors and Code Staff as well as the 2013 PSP awards vesting in 2016 for this population;
- Setting the individual objectives for the 2016 annual bonus for both the Executive team and Code Staff;
- Setting annual targets for the 2016 annual bonus scheme and performance measures for the 2016 PSP awards
- 2016 salary reviews for the Executive Directors and Code Staff;
- Reviewing and approving the Remuneration Policy Statement in relation to Code Staff for 2016 (and the list of the employees classified as Code Staff);
- Reviewing and approving remuneration policies (including the proposed new Policy);
- Considering risks in relation to remuneration policies and how these are mitigated; and
- Updates on regulatory developments including the European Banking Authority proposals on sound remuneration policies and Solvency II remuneration requirements.

## REGULATORY CHANGE

The Committee is closely monitoring developments in remuneration regulation from European and UK authorities. Should there be a need to amend policy or practice in the future, in light of these regulatory developments, the Committee will undertake consultation with major shareholders in advance of any proposed changes.

## SUMMARY

The Policy supports our corporate objectives and the remuneration received by the Executive Directors reflects the strong performance of the Company and management.

I hope that you will support the remuneration resolutions to be proposed at the next AGM. If, in the meantime, you have any questions regarding remuneration then my colleagues and I on the Committee will be pleased to address them.

**Roger Yates**

*On behalf of the Remuneration Committee*

27 February 2017

## **OVERVIEW OF THE DIRECTORS' REMUNERATION POLICY ('POLICY')**

### **How the Committee Operates to Set the Remuneration Policy**

The Committee, on behalf of the Board, draws up and recommends the Policy and determines the remuneration packages of the Executive Directors of the Company and the Chair of the Board. In addition, the Committee monitors the remuneration of the senior management team (including the Chief Risk Officer and his senior colleagues in the Group Risk Division) and employees classified as Code Staff and Solvency II Staff and oversees the operation of the executive long-term incentive schemes and all employee share schemes.

### **Approach to, and Objectives of, the Policy**

Our Policy has been reviewed during the year, and is submitted for approval in the required triennial vote at the 2017 AGM. The overall approach to remuneration adopted by St. James's Place has been in place for many years and this Policy is very little changed from that approved by shareholders in 2014.

The proposed Policy is designed to meet the following objectives:

- To support the retention of individuals with the experience and skills to drive the performance of the Company;
- To ensure remuneration is transparent and reflects the performance of the Group in the relevant year and the longer-term. Annual bonus and long-term incentive opportunities are therefore linked to the achievement of demanding performance targets; and
- To align pay with the strategic objectives of the Company and the interests of our shareholders whilst giving due regard to principles of best practice and relevant regulations.

In setting the Policy for the Executive Directors, the Committee also takes into consideration a number of different factors:

- The Committee applies the principles set out in the UK Corporate Governance Code and also takes into account best practice guidance issued by the major UK institutional investor bodies, the PRA and FCA (including the provisions of any applicable Remuneration Codes) and other relevant organisations;
- The Committee has overall responsibility for the remuneration policies and structures for employees of the Group as a whole and it reviews remuneration policy on a firm-wide basis. When the Committee determines and reviews the Policy it considers and compares it against the pay, policy and employment conditions of the Group to ensure that there is alignment between the two; and
- The Committee considers the external market in which the Group operates and uses comparator remuneration data from time to time to inform its decisions. However, the Committee recognises that such data should be used as a guide only (recognising that data can be volatile and may not be directly relevant) and that there is often a need to phase-in changes over a period of time.

The Committee's overall policy, having had due regard to the factors above, continues, for a substantial proportion of total remuneration, to be based on variable pay. This is achieved by setting base pay and benefits up to mid-market levels, with annual bonus and long-term incentive opportunities linked to the achievement of demanding performance targets. In this way the Committee facilitates alignment between the interests of shareholders and the total remuneration paid to the Executive Directors. Historically, the levels of variable pay paid to the Executives have varied considerably, reflecting the performance of the Group in the relevant year.

The overall structure and maximum opportunity under the Policy remains unchanged. Some changes have been made to the text of the Policy in a number of places to increase clarity.

### **Engagement with Shareholders**

The Committee engages with, and seek the views of, its major investors and investor representative bodies on any significant changes to the Policy. The Committee also engages from time to time with shareholders when considering important questions about the implementation of the Policy. Views expressed by shareholders are considered by the Committee as part of any review of the Policy, or sooner if appropriate.

# DIRECTORS' REMUNERATION REPORT continued

## Remuneration Policy for Executive Directors

The following table summarises each element of the Policy, explaining how each element operates and links to corporate strategy. The proposed Policy will be formally effective following shareholder approval at the 2017 AGM. If approved, this Policy supersedes that approved by shareholders in 2014.

### Base Salary

Purpose and link to strategy	To provide the core reward for the role.  Sufficient level to recruit and retain individuals of the necessary calibre, taking into account the required skills, experience, demands and complexity of the role.
Operation	Normally reviewed annually from 1 March. Influenced by: <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>
Maximum opportunity	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.  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 satisfactory individual performance and development in the role.  The base salaries for the Executive Directors from 1 March 2017 are set out in the Annual Report on Remuneration.
Performance metrics	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.

**Annual Bonus**

Purpose and link to strategy including choice of performance metrics

Rewards the achievement of annual financial and strategic business plan targets and delivery of key, non-financial objectives.

Deferred element aids retention, encourages long-term shareholding, discourages excessive risk-taking and aligns with shareholder interests.

Performance metrics reflect the key performance drivers of the annual business plan, achievement of which will reflect performance in line with the Group's strategy.

**Operation**

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.

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.

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.

Dividends that accrue on the deferred shares are paid to the Executive Directors during the three-year deferral period.

All bonus payments are at the discretion of the Committee.

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.

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.

Withholding and recovery provisions apply to bonus awards in exceptional circumstances, such as a material misstatement, error, or misconduct.

**Maximum opportunity**

150% of base salary.

**Performance metrics**

Performance is measured over one year.

At least half of the bonus is based on financial measures, reflecting the key priorities of the business for the relevant year.

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.

Actual measures and weightings may change from year to year to reflect the business priorities at that time.

Details of performance criteria and targets set for the year under review and performance, against them are provided in the Annual Report on Remuneration.

# DIRECTORS' REMUNERATION REPORT continued

## **Performance Share Plan**

Purpose and link to strategy including choice of performance metrics	<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>
Operation	<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>Awards are subject to withholding and recovery provisions.</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>
Maximum opportunity	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.
Performance metrics	<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 2017 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 (effectively excluding the impact of stock market movements on earnings); 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>

## **Pension**

Purpose and link to strategy	<p>Helps recruit and retain Executives.</p> <p>Provides a discrete element of the package to contribute to retirement income.</p>
Operation	<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>
Maximum opportunity	20% of base salary.
Performance metrics	N/A

**Other Benefits**

Purpose and link to strategy including choice of performance metrics	Operate competitive benefits to help recruit, retain and support the wellbeing of employees.
Operation	<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>
Maximum opportunity	Benefit costs are monitored and controlled and represent a small element of total remuneration costs.
Performance metrics	N/A

**Non-executive Directors' Fees**

Purpose and link to strategy	To attract high quality, experienced Non-executive Directors.
Operation	<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>
Maximum opportunity	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.
Performance metrics	Neither the Chair nor the Non-executive Directors are eligible for any performance related remuneration.

**Notes to the Policy table:**

The performance measures and targets that are set for the Executive Directors' annual bonus and Performance Share Plan (PSP) awards are carefully selected to align with the Company's strategic and key performance indicators.

For the annual bonus, financial and strategic measures are reviewed and selected by the Committee annually. The measures selected and weighting between them may vary annually depending on the key priorities of the business for the year ahead. Robust and demanding targets will be set annually, taking into account the economic environment, market expectations and the Company's budget and business plan for the year ahead. EEV operating profit has been used to assess financial performance as this measure reflects a number of key metrics including new business, retention of funds under management and cost control. The remaining bonus is determined based on strategic measures set annually on a balanced scorecard basis.

The Company has used a relative TSR measure and EPS growth targets for the PSP for a number of years in line with the Group's strategy of delivering profitable growth and superior returns to its shareholders. The Committee will continue to review the choice of performance measures and the appropriateness of targets prior to each PSP award being made and will set robust and stretching measures for any alternative measures used. For the EPS growth measure, stretching targets will be set annually taking into account the economic environment, market expectations and the Company's budget and business plan at that time. For the comparative TSR measure the Committee's policy is to set threshold vesting for median performance, rising to full vesting for upper quartile performance. The Committee will assess annually the appropriateness of the TSR comparator group.

No performance targets are set for the SAYE and SIP awards as these form part of all employee arrangements designed to encourage employees across the Group to purchase shares in the Company.

# DIRECTORS' REMUNERATION REPORT continued

## Shareholding Requirements

Executives are required to build and maintain a shareholding equivalent to 150% of base salary within five years of appointment. Until the threshold is reached, 50% of vested shares from the PSP and other share awards (less tax liability) must be retained. Executives are also required to hold a further 50% of salary in shares and/or in one or more SJP funds, thus providing further alignment with shareholders and clients.

## Annual Bonus Plan and Share Plan Policy

The Committee will operate the annual bonus plan, deferred bonus plan, PSP and all-employee share plans according to the rules of each respective plan and consistent with normal market practice and the Listing Rules, where relevant. The Committee will retain flexibility in a number of areas regarding the operation and administration of these plans, including (but not limited to) the following:

- Who participates in the plans;
- When to make awards and payments;
- How to determine the size of an award, a payment, or when and how much of an award should vest;
- How to deal with a change of control or restructuring of the Group;
- In the case of stated good leaver reasons or otherwise, whether a Director is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s) as relevant; and
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).

The Committee also retains the discretion within the Policy to adjust targets and/or set different measures and alter weightings for the annual bonus plan and the PSP if events happen that cause it to determine that the original targets or conditions are no longer appropriate and the amendment is required so that the targets or conditions achieve their original purpose and are not materially less difficult to satisfy.

The use of discretion would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be subject to consultation with the Company's major shareholders.

## Awards Made Prior to the Effective Date

For the avoidance of doubt, in approving the Policy, authority was given to the Company to honour any commitments entered into with current or former Directors that have been disclosed to shareholders in previous remuneration reports. This includes all historic awards that were granted under any current or previous share schemes operated by the Company but remain outstanding (detailed in the Annual Report on Remuneration) and which will remain eligible to vest based on their original award terms. Details of payments to former Directors will be set out in the Annual Remuneration Report, where required by the relevant regulations, as they arise.

## Approach to Remuneration for Recruitment and Promotions

The Committee would aim to set a new Executive Director's remuneration package in line with the Policy in place at the time of appointment. The Committee will take into account, in arriving at a total package and in considering the quantum for each element of the package, the skills and experience of the candidate, the market rate for a candidate of that experience as well as the importance of securing the best candidate. For new appointments, base salary and total remuneration may be set initially at below normal market rates on the basis that it may be increased once expertise and performance has been proven and sustained.

Annual bonus and long-term incentive maximum award sizes will comply with the maximum opportunity set out in the Policy table (not including any arrangements to replace forfeited deferred pay). Participation in the annual bonus plan and PSP will normally be pro-rated for the year of joining and different performance measures may be set from those applying to the other Directors, if it is appropriate to do so to reflect the individual's responsibilities and the point in the year in which they joined the Board. A PSP award can be made shortly following an appointment (assuming the Company is not in a close period). Where it is essential for the purposes of recruitment, such as where a new external recruit has not had any bonus deferral in their previous role, bonus deferral may be phased in over a short period. The standard approach will be for deferral to apply as stated in the Policy table.

The Committee may make additional cash and/or share-based awards as it deems appropriate and, if the circumstances so demand, to take account of deferred pay forfeited by an executive on leaving a previous employer. Awards to replace deferred pay forfeited would, where possible, reflect the nature of awards forfeited in terms of delivery mechanism (cash or shares), time horizons, attributed expected value and performance conditions. Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms and any other ongoing remuneration obligations existing prior to appointment would continue.

For an overseas appointment, the Committee will have the discretion to offer benefits and pension provisions which reflect local market practice and relevant legislation.

If appropriate, and in exceptional circumstances, the Committee may agree, on the recruitment of a new Executive, a notice period of in excess of twelve months but reducing to twelve months over a specified period.

For the appointment of a new Chair or Non-executive Director, the fee arrangement would be set in accordance with the approved Policy at that time.

## Risk Management

Risk is managed within the Policy through the Committee:

- Taking into consideration the recommendations contained in any applicable Remuneration Codes and associated guidance which apply to the Group;
- Structuring the annual bonus plan to contain a mix of financial and strategic performance metrics, where performance conditions are tailored to the business outlook and strategy, including the management of risk within the business. The Committee also retains the discretion to reduce the bonus out-turn where appropriate;
- Assessing the performance metrics from a risk perspective, with input from the Chair of the Risk Committee;
- Requiring deferral of 50% of annual bonus payments into the Company's shares which are deferred for three years;
- Requiring the Executive Directors to retain shares acquired on vesting of PSP awards granted from 1 January 2015 for 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;

- Ensuring that the majority of the incentive pay comes in the form of a long-term incentive plan subject to stretching performance targets measured over multi-year performance periods, with the performance period for subsequent awards overlapping the previous award, together with an additional two year holding period. This ensures that there is no particular incentive to maximise performance over a particular period;
- Incorporating withholding and recovery provisions into the Company's bonus and long-term incentive plans; and
- Requiring the Executive Directors to build and maintain a substantial shareholding in the Company.

### Remuneration Policy across the Group

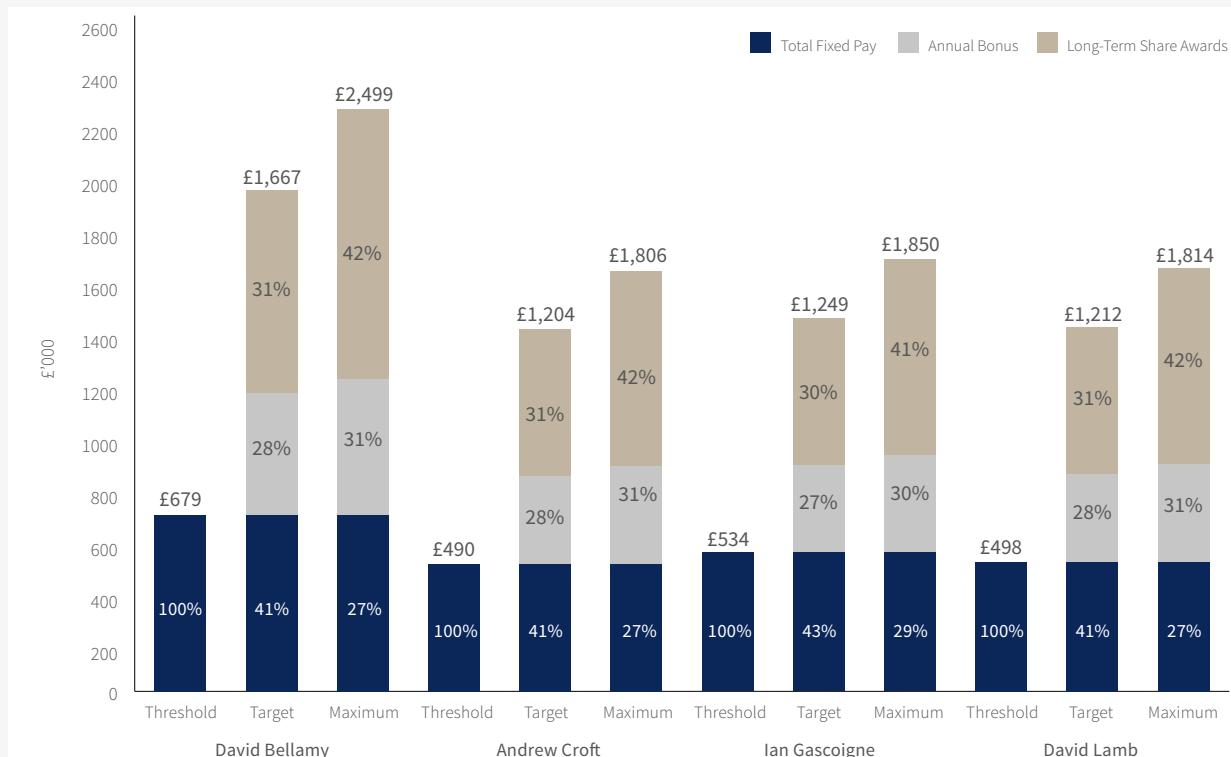
The Policy is designed with regard to the remuneration policy for employees across the Group as a whole and the Committee aims, where appropriate, for there to be a consistent approach applied. For instance, the suite of benefits in kind is generally consistent (other than in relation to quantum) and all employees participate in annual bonus plans. All employees, including the Executive Directors, are offered the opportunity to participate in the Group's SAYE Share Option Plan and Share Incentive Plan. Senior managers participate in the long-term incentive plan.

The Policy is more weighted towards variable pay than for other employees to make a greater part of their pay conditional on the successful delivery of business strategy, and in line with shareholder interests. In addition, more of senior level remuneration is deferred than is the case for the workforce as a whole.

Employees were not consulted in respect of the Policy, but the Committee does consider the remuneration arrangements for the broader employee population when determining the Policy.

### Remuneration Scenarios for Executive Directors

The chart below shows how the proportion of each Executive Director's remuneration package varies at different levels of performance in accordance with the Policy to be implemented in 2017 and using the assumptions set out below. A significant proportion of remuneration is linked to performance, particularly at maximum performance levels.



### Assumptions

Threshold = fixed pay only (salary, benefits and pension).

Target = fixed pay plus 60% vesting of the annual bonus and 50% vesting of PSP awards.

Maximum = fixed pay plus 100% vesting of the annual bonus and PSP awards.

Salaries used are those applying on 1 March 2017 and taxable benefits are those reported for the year ending 31 December 2016.

Pension is based on 2017 Policy applied to 1 March 2017 salaries.

Amounts have been rounded to the nearest £1,000. The assumptions noted for 'on-target' PSP performance in the graph above are provided for illustration purposes only. Participation in all employee plans, dividends payable on PSP awards over the vesting period or on deferred share bonus awards are not included in the above scenarios and the table assumes no increase to the share price.

# DIRECTORS' REMUNERATION REPORT continued

## Service Contracts and Loss of Office

The Company's policy is that service contracts may be terminated with twelve months' notice from either the Company or from the Executive 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 twelve months with a specified time limit). Service contracts do not contain a fixed end date.

Under their service contracts, the Executive Directors are entitled to salary, pension contributions and benefits for their notice period (except on termination for events such as gross misconduct where payment will be for sums earned up to the date of termination with no notice period only). The Company would seek to ensure that any payment is mitigated by use of phased payments and offset against earnings elsewhere in the event that an Executive Director finds alternative employment during their notice period. There are no contractual provisions in-force other than those set out above that impact any termination payment.

In summary, the position on cessation of employment is as follows:

Provision	Detailed terms
Notice period	Twelve months by either party.
Termination payment	Base salary plus benefits (including pension). An express obligation on the Executive to mitigate his loss. Payments can be made on a monthly basis and reduced if an Executive is able to secure alternative employment.  In addition, any statutory amounts would be paid as necessary.
Remuneration entitlements on cessation	A pro-rata bonus may also become payable for the period of active service along with the vesting of outstanding share awards (in certain circumstances as described below).
Change of control	As on termination and with remuneration entitlements as described above.

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

Any unvested awards held under the PSP schemes will lapse at cessation of employment, unless the individual is leaving for certain reasons (defined under the plan such as death, injury, ill-health, disability, redundancy, retirement, their office or employment being either a company which ceases to be a Group member or relating to a business or part of a business which is transferred to a person who is not a Group member, or any other reason the Committee so decides). In these circumstances, unvested awards will normally vest at the normal vesting date (unless the Committee decides they should vest at cessation) subject to performance conditions being met and normally subject to scaling back in respect of actual service as a proportion of the total vesting period (unless the Committee decides that scaling back is inappropriate). The same approach applies on a change of control.

Any unvested awards held under the Deferred Bonus Scheme will lapse at cessation unless the Committee determines otherwise. In these circumstances the Committee may determine that unvested awards will vest at the cessation (unless the Committee decides they should vest at the normal vesting date).

The Committee may agree to the payment of disbursements such as legal costs and outplacement services if appropriate and depending on the circumstances of the leaving Executive.

The Committee may pay any statutory entitlements or settle or compromise claims in connection with a termination of employment, where considered in the best interests of the Company.

## Non-executive Directors' Letters of Appointment

The Non-executive Directors (including the Chair) do not have service contracts or any benefits in kind arrangements and do not participate in any of the Group's pension or incentive arrangements. The appointment of each Non-executive Director can be terminated by giving three months' notice (subject to annual reappointment at the AGM). Any period of service longer than six years is subject to particularly rigorous review by the Nomination Committee of the Board. The Non-executive Directors' letters of appointment do not provide for any payment on termination except for accrued fees and expenses to the date of termination.

The terms and conditions of Executive Directors' service contracts and the letters of appointment of the Non-executive Directors are available for inspection at the Company's registered office during normal business hours and at the AGM, the details of which can be found on page 116.

## External Appointments

Executive Directors are permitted to be appointed to an external board or committee so long as this is unlikely to interfere with the business of the Group. Any fees received in respect of external appointments are retained by the relevant Executive Director. Currently, the only Executive Director who acts as a non-executive director on the Board of another listed company, is David Lamb, who is a non-executive director of The Henderson Smaller Companies Investment Trust plc.

## ANNUAL REPORT ON REMUNERATION

This Annual Report on Remuneration will be put to an advisory shareholder vote at the 2017 AGM. The information on pages 103 to 110 has been audited where indicated.

### How the Policy was Applied in 2016

#### *Remuneration payable in respect of performance in 2016 (audited)*

The following table sets out each element of remuneration for the years ended 31 December 2015 and 2016 (or period thereof for appointments or cessations during the year).

		Salary and fees	Benefits <sup>(i)</sup>	Annual bonus <sup>(ii)</sup>	Long-term incentives <sup>(iii)</sup>	Pension <sup>(iv)</sup>	Other <sup>(v)</sup>	Total
<b>Directors</b>								
David Bellamy	2016	502,833	55,294	732,250	1,132,563	100,567	–	2,523,507
	2015	492,000	59,168	688,800	1,756,266	98,400	20,596	3,115,230
Andrew Croft	2016	363,500	38,773	529,250	754,804	72,700	–	1,759,027
	2015	356,000	41,292	498,400	1,170,904	71,200	19,380	2,157,176
Ian Gascoigne	2016	363,500	83,020	529,250	754,804	72,700	29,775	1,833,049
	2015	356,000	69,523	498,400	1,170,904	71,200	–	2,166,027
David Lamb <sup>(vi)</sup>	2016	363,500	46,833	529,250	754,804	72,700	–	1,767,087
	2015	356,000	48,754	498,400	1,170,904	71,200	22,544	2,167,802
<b>Non-executive Directors</b>								
Sarah Bates (Chair)	2016	190,000	3,931					193,931
	2015	175,100	3,365					178,465
Iain Cornish	2016	82,725	11,788					94,513
	2015	77,460	7,829					85,289
Simon Jeffreys	2016	79,945	973					80,918
	2015	74,680	1,397					76,077
Baroness Wheatcroft	2016	59,945	2,100					62,045
	2015	58,200	1,788					59,988
Roger Yates	2016	79,945	–					79,945
	2015	74,680	–					74,680

Notes:

- (i) Benefits for the Executive Directors comprise the entitlement to Company car or cash equivalent, fuel, private health care, life and critical illness cover, permanent health insurance and health screening and, for Ian Gascoigne, a housing allowance to facilitate working across the Company's two main locations, and are generally the amounts which are returned for taxation purposes. Benefits for the Non-executive Directors are for reimbursement of taxable travel expenses grossed up for the tax payable thereon.
- (ii) As explained on page 97, half of the annual bonus is paid in cash, with the other half being used to purchase St. James's Place shares which are subject to forfeiture for three years under the terms of the Deferred Bonus Scheme.
- (iii) 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 figures for 2016 have been calculated using the average of the SJP share price in the three month period to 31 December 2016, being £9.585, as the actual vesting date of the PSP award is on 26 March 2017. The figures for 2015 have been updated from the three month average figures used in last year's report (being £1,776,526 for David Bellamy and £1,184,411 for Andrew Croft, Ian Gascoigne and David Lamb) to take into account the SJP share price on the date of vesting on 21 March 2016, being £9.405. The LTI vesting figure in monetary value for 2016 is significantly lower than 2015. This is due to the number of shares in the 2013 award being substantially more (approximately 60%) than in the 2014 award, because the share price at grant in 2013 was 40% lower than 2014. For example for the Chief Executive, the grant of 190% of salary on 2013 amounted to 176,178 shares at a share price of £5.16; in 2014 an award of 190% of salary amounted to 109,782 shares at a share price of £8.52.
- (iv) Pension contributions, being 20% of base salary for all Directors, were capped by legislation and so a non-pensionable salary supplement was paid to the Executive Directors in full for David Bellamy, Andrew Croft and Ian Gascoigne and for the balance for David Lamb, who had a £20,000 contribution to the money purchase group pension scheme.
- (v) The value of the SAYE options exercised by Ian Gascoigne on 24 March 2016 when the mid-market price of St. James's Place shares was £9.10.
- (vi) David Lamb was a non-executive director of The Henderson Smaller Companies Investment Trust plc during the year and was paid a fee of £23,000 in 2016 in connection with that role (2015: £21,750).

# DIRECTORS' REMUNERATION REPORT continued

## Details of Variable Pay Earned in the Year

### *Annual bonus for 2016 performance*

The performance conditions which applied to the bonus and the resulting payout were as follows:

#### **Assessment by the Committee of the Performance of the Executive Directors**

Measure	Weighting (% of salary)	Weighting (% of maximum)	Threshold	Maximum value	Actual	Payout (% of salary)	Payout (% of maximum)
EEV operating profit	75%	50%	£586m	£642m	£673.6m	75%	50%
Strategic business plan objectives	75%	50%		Assessment by the Committee of the performance of the Executive Directors		70%	46.67%
Total payout						145%	96.67%

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 to the operating profit from these two items of £20 million. 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.

#### **Annual Bonus Strategic Targets Performance Assessment**

As described in other parts of the Annual Report and Accounts, the Company delivered strong performance in 2016 for our clients, shareholders and other stakeholders. The Committee considered these three groups when setting the strategic targets for 2016, together with other objectives set out in the 2016 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, we will be best placed to meet our long-term business objectives, and create additional value for our shareholders. We also focus 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:

Objectives and performance	
Clients	<ul style="list-style-type: none"> <li>The Annual Wealth Account Survey results for 2016/7 were very strong with results as at the date of this Annual Report of 97% of clients saying they would recommend SJP to friends or contacts and 56% of those surveyed confirming they have done so already;</li> <li>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, 77% of the time. Over the three and five year periods, the equivalent average outperformance rate was 72% and 84% 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 84% of all three year periods on average;</li> <li>The number of advice-related complaints remained very low;</li> <li>The Group won a number of industry awards, further details of which are set out on page 54, many of which were voted on by clients; and</li> <li>The above factors, together with strong service levels, generally contributed to excellent retention of funds under management, with 95% of existing funds being retained (excluding regular income withdrawals) (see page 29 for further details).</li> </ul>

### **Objectives and performance**

Long-term success	<ul style="list-style-type: none"> <li>The growth in the size of the Partnership (including Partners and Advisers in the UK and Asia) of more than 7%;</li> <li>The success of the Academy in attracting suitable candidates to the courses run in 2016 with more than 200 active students in the Academy programme. 73 students graduated from the Academy, 42 as Partners and 31 as Advisers;</li> <li>Completing the acquisition of Rowan Dartington and continuing its integration into the Group;</li> <li>Launch of the Retirement Account and certain intergenerational products;</li> <li>Opening a new location at Canary Wharf and a new office in Cirencester;</li> <li>Very satisfactory results from the 2016 Employee Survey;</li> <li>High levels of retention for both employees and members of the Partnership, assisted by additional training and development opportunities for the senior management team, the Partnership and the workforce generally; and</li> <li>Continuing to maintain and reinforce the Group's distinctive culture.</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>Continuing positive engagement with the Group's regulators responding effectively to key regulatory initiatives including the Financial Advice Market Review and Solvency II; and</li> <li>Completing various objectives designed to continue to enhance and strengthen the monitoring and mitigation of key regulatory risks impacting the Group.</li> </ul>
Other objectives	<ul style="list-style-type: none"> <li>Supporting more Partners to achieve Chartered status;</li> <li>Continuing development of the Group's range of funds, the range of fund managers available to clients and the effective operation of the Investment Committee; and</li> <li>The ongoing success of the Group's CSR objectives, including raising more than £7.5 million for the Foundation and expanding the volunteering opportunities available to employees.</li> </ul>

Taking all the above strategic objectives into account, the Committee awarded a bonus of 70% of salary (93.3% of the maximum) under the team performance 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.

#### Notes

- (i) 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.
- (ii) 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.
- (iii) 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.

# DIRECTORS' REMUNERATION REPORT continued

## Long-Term Incentive Awards

### Vesting of Performance Share Plan (PSP) awards (audited)

On 31 December 2016, the awards made on 26 March 2014 under the PSP reached the end of their three year performance period. These will vest on 26 March 2017, being the third anniversary of the date of grant. The performance conditions which applied to the 2014 PSP awards, and the actual performance achieved against these conditions, are set out in the table below:

Performance level hurdle	Performance required	TSR relative to the FTSE 51 - 150*		Average annual adjusted EPS growth (including the unwind of the discount rate) in excess of RPI		Average annual adjusted EPS growth (excluding the unwind of the discount rate) in excess of RPI	
		% of one third of award vesting	Performance required	% of one third of award vesting	Performance required	% of one third of award vesting	Performance required
Below threshold	Below Median	0%	Below 5%	0%	Below 5%	0%	Below 5%
Threshold	Median	25%	At least 5%	25%	At least 5%	25%	At least 5%
Stretch or above	Upper Quartile or above	100%	16% or above	100%	16% or above	100%	16% or above
<b>Actual Achieved</b>	18 out of 88 companies Above Upper Quartile	100%	19.5%	100 %	17.4%	100%	100%

\* FTSE 51-150 Index excluding investment trusts and companies in the FTSE oil, gas and mining sectors.

Accordingly, the total percentage of the 2014 PSP awards vesting was 100%, which resulted in the following awards vesting 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>
David Bellamy	109,782	100%	109,782	1,052
Andrew Croft	73,165	100%	73,165	701
Ian Gascoigne	73,165	100%	73,165	701
David Lamb	73,165	100%	73,165	701

Note 1: The deemed share price used to calculate the value of shares vesting was £9.585 being the three month average to 31 December 2016 (as the awards will not actually vest until 26 March 2017).

Note 2: Up to 3,054 shares can be exercised by each Executive Director via a linked award under an approved share option scheme, with an exercise price of £8.515. If such linked award is exercised, a number of shares equivalent to the gain achieved upon such exercise will be lapsed from the number of PSP shares noted, and the overall value shares vesting is therefore unchanged from the number set out above.

### Performance Share Awards Granted to the Executive Directors in 2016

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
David Bellamy	Nil cost option	200% of salary of £505,000	£9.3875	107,589	£1,010	25%
Andrew Croft	Nil cost option	190% of salary of £365,000	£9.3875	73,874	£693	25%
Ian Gascoigne	Nil cost option	190% of salary of £365,000	£9.3875	73,874	£693	25%
David Lamb	Nil cost option	190% of salary of £365,000	£9.3875	73,784	£693	25%

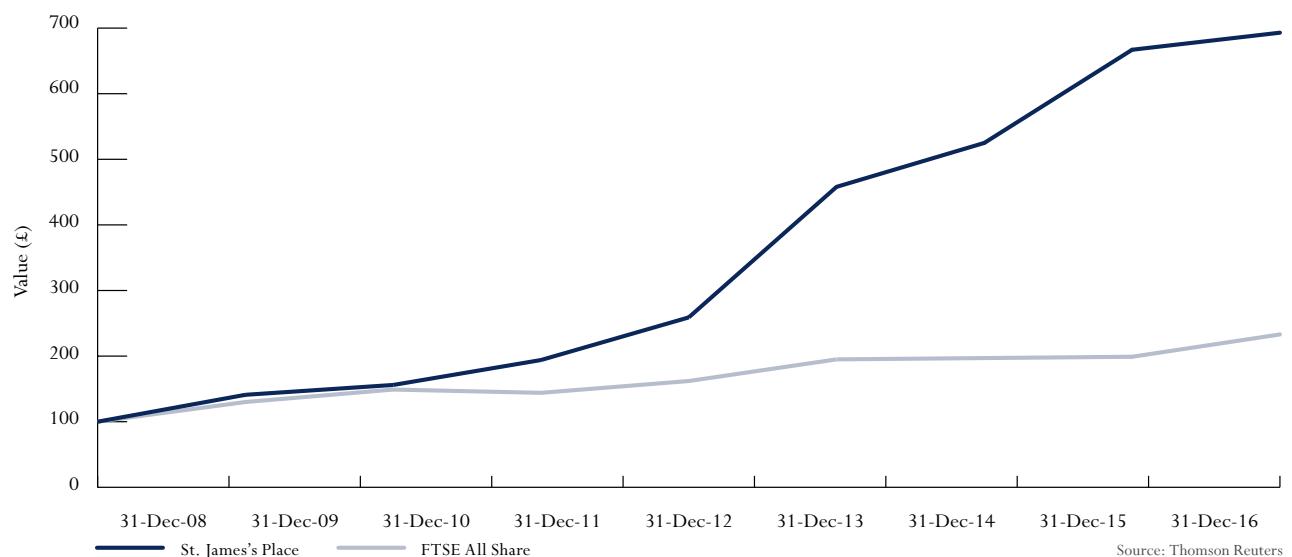
Note 1: The number of shares awarded was calculated based on the average share price over a period of three days prior to the date of grant on 24 March 2016, being £9.3875 per share. The face value of the award figure is calculated by multiplying the number of shares awarded by the average share price figure of £9.3875.

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 five 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 and 2 on page 113.

### Total Shareholder Return Performance

The graph below shows a comparison of the Company's TSR performance against the FTSE All-Share index over the last eight 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.

#### Total shareholder return



This graph shows the value, by 31 December 2016, of £100 invested in St. James's Place on 31 December 2008 compared with the value of £100 invested in the FTSE All-Share Index. The other points plotted are the values at intervening financial year ends.

### Total Remuneration for the Chief Executive

The table below shows the total remuneration figure for the Chief Executive over the last eight 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 ending 31 December							
	2009	2010	2011	2012	2013	2014	2015	2016
Total Remuneration	£1,039,723	£1,495,600	£1,998,758	£2,410,380	£3,362,651	£3,646,514	£3,115,230	£2,523,507
Annual bonus (% of maximum)	92%	96%	63%	46%	98%	95%	93.3%	96.67%
LTIP vesting (% of maximum)	0%	57%	83%	87%	95%	96%	100%	100%

The deemed value of the PSP award in the table above for 2016 is £1,132,563. Of this, £117,441 is due to increases in the SJP share price over the vesting period, being an increase of 13%.

The value of long-term incentive awards for 2016 has been calculated using the average of the Company's share price in the three month period to 31 December 2016, being £9.585, as the actual vesting date of the PSP award is on 26 March 2017. The 2015 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 SJP share price on the date of vesting on 21 March 2016, being £9.405.

### 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 2016, compared to the year ending 31 December 2015.

	2015 £'Million	2016 £'Million	Percentage change
IFRS profit after tax*	202.0	111.7	(45)%
EEV operating profit after tax*	539.2	553.5	3%
Dividends	146.5	173.8	19%
Employee remuneration costs	121.2	150.8	24%

\* Both prior year comparatives include position one-offs (see Financial Review).

# DIRECTORS' REMUNERATION REPORT continued

The increase in the employee remuneration costs in 2016 were largely due to an increase in employee headcount, an increase to the costs of share awards due to the headcount increase and the increase in the Company's share price.

## Percentage Increase in the Remuneration of the Chief Executive

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.

	% change 2015 to 2016
<b>Chief Executive</b>	
Salary	2.6%
Benefits (Note 1)	(6.5)%
Bonus	6.3%
<b>Average per Employee</b>	
Salary	4.7%
Benefits	(8)%
Bonus	1.7%

Note 1: See Note (i) on page 103 for further details.

## Share Awards

The tables below set out details of share awards that have been granted to individuals who were Executive Directors during 2016 and which had yet to vest or be exercised at some point during the year.

### Performance Share Plan - awards held in return for qualifying services during 2016 (audited)

Director	Balance at 1 January 2016	Granted in year <sup>(iv)</sup>	Lapsed in year <sup>(v)</sup>	Exercised in year <sup>(vi)</sup>	Balance at 31 December 2016	Dates from which exercisable	
						21 March 2016	21 March 2019
David Bellamy	176,178 <sup>(i)</sup> 109,782 <sup>(ii)</sup> 100,280 <sup>(iii)</sup> -		371	175,807	- 109,782 100,280 107,589	21 March 2016 26 March 2017 26 March 2018 24 March 2019	21 March 2019 26 March 2020 26 March 2021 24 March 2022
Andrew Croft	117,458 <sup>(i)</sup> 73,165 <sup>(ii)</sup> 68,932 <sup>(iii)</sup> -		345	117,113	- 73,165 68,932 73,874	21 March 2016 26 March 2017 26 March 2018 24 March 2019	21 March 2019 26 March 2020 26 March 2021 24 March 2022
Ian Gascoigne	117,458 <sup>(i)</sup> 73,165 <sup>(ii)</sup> 68,932 <sup>(iii)</sup> -		343	117,115	- 73,165 68,932 73,874	21 March 2016 26 March 2017 26 March 2018 24 March 2019	21 March 2019 26 March 2020 26 March 2021 24 March 2022
David Lamb	117,458 <sup>(i)</sup> 73,165 <sup>(ii)</sup> 68,932 <sup>(iii)</sup> -		346	117,112	- 73,165 68,932 73,874	21 March 2016 26 March 2017 26 March 2018 24 March 2019	21 March 2019 26 March 2020 26 March 2021 24 March 2022

Notes:

- (i) These awards were made on 21 March 2013 when the St. James's Place share price was £5.07. The performance period is the three year period ending on 31 December 2015. The performance conditions, each in respect of one-third of the award, relate to (i) EPS (including the impact of the unwind of the discount rate, as described more fully on page 46) (ii) EPS excluding the impact of the said unwind and (iii) TSR compared to the FTSE 250 Index, excluding investment trusts and companies in the oil, gas and mining sectors. The EPS scale starts at RPI +5% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest, with pro rata vesting between the said points. The TSR sliding scale is between median and upper quartile, with 25% of the TSR part of the award vesting at median. Up to 774 shares (being the maximum value under the £30k Inland Revenue cap on 'approved' share options) can be exercised via a linked award under an approved share option scheme with an exercise price of £5.155.
- (ii) These awards were made on 26 March 2014 when the St. James's Place share price was £8.515. The performance period is the three year period ending on 31 December 2016. The three performance conditions, each in respect of one-third of the award, relate to (i) EPS (including the impact of the unwind of the discount rate, as described more fully on page 46) (ii) EPS excluding the impact of the said unwind and (iii) TSR compared to the FTSE 51-150 Index, excluding investment trusts and companies in the oil, gas and mining sectors. The EPS scale starts at RPI +5% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest, with pro rata vesting between the said points. The TSR sliding scale is between median and upper quartile, with 25% of the TSR part of the award vesting at median. Up to 3,054 shares (being the maximum value under the £30k Inland Revenue cap on 'approved' share options) can be exercised via a linked award under an approved share option scheme with an exercise price of £8.515.
- (iii) These awards were made on 26 March 2015 when the St. James's Place share price was £9.45. The performance period is the three year period ending on 31 December 2017. The three performance conditions, each in respect of one-third of the award, relate to (i) EPS (including the impact of the unwind of the discount rate, as described more fully on page 46) (ii) EPS excluding the impact of the said unwind and (iii) TSR compared to the FTSE 51-150 Index, excluding investment trusts and companies in the oil, gas and mining sectors. The EPS scale starts at RPI +5% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest, with pro rata vesting between the said points. The TSR sliding scale is between median and upper quartile, with 25% of the TSR part of the award vesting at median.

- (iv) These awards were made on 24 March 2016 when the St. James's Place share price was £9.10. The performance period is the three year period ending on 31 December 2018. The three performance conditions, each in respect of one-third of the award, relate to (i) EPS (including the impact of the unwind of the discount rate, as described more fully on page 46) (ii) EPS excluding the impact of the said unwind and (iii) TSR compared to the FTSE 51-150 Index, excluding investment trusts and companies in the oil, gas and mining sectors. The EPS scale starts at RPI +5% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest, with pro rata vesting between the said points. The TSR sliding scale is between median and upper quartile, with 25% of the TSR part of the award vesting at median.
- (v) These awards automatically lapsed in respect of a number of Vested Award Shares equal in value to the gain realised upon exercise of the Company Share Option Plan (CSOP) share option.
- (vi) All four Directors exercised their 2013 PSP awards in 2016.

#### **Deferred Bonus Scheme – Shares held during 2016 (audited)**

The table below sets out details of the awards held by the Directors under the deferred element of the annual bonus scheme during 2016:

Director	Balance at 1 January 2016	Released during year <sup>(i)</sup>	Awarded during year <sup>(ii)</sup>	Balance at 31 December 2016 <sup>(iii)</sup>	Vesting Date
David Bellamy	24,591 33,924 37,252 –	24,591 – 37,721		– 33,924 37,252 37,721	21 March 2016 26 March 2017 26 March 2018 24 March 2019
Andrew Croft	17,769 24,556 26,955 –	17,769 – 27,294		– 24,556 26,955 27,294	21 March 2016 26 March 2017 26 March 2018 24 March 2019
Ian Gascoigne	17,769 24,556 26,955 –	17,769 – 27,294		– 24,556 26,955 27,294	21 March 2016 26 March 2017 26 March 2018 24 March 2019
David Lamb	17,769 24,556 26,955 –	17,769 – 27,294		– 24,556 26,955 27,294	21 March 2016 26 March 2017 26 March 2018 24 March 2019

Notes:

- (i) These deferred share awards were awarded on 21 March 2013 equal in value to the Executive's 2012 annual cash bonus. The St. James's Place share price on the date of the award was £5.07 and the exercise price on 24 March 2016 was £9.2425.
- (ii) These deferred share awards were awarded on 24 March 2016, equal in value to the Executive's 2015 annual cash bonus. These shares will be held for a restricted period ending on 24 March 2019. The price used to calculate the award was the three day average prior to the invitation (14th, 15th and 16th March 2016) which was £9.13.
- (iii) Outstanding awards at the year-end relate to deferred share awards awarded in 2014, 2015 and 2016 (see (ii) above). The share price used to calculate the 2014 award was £8.515 and the 2015 award was £9.45.
- (iv) Further details of the deferred element of the annual bonus scheme are set out on page 97. Dividends accrue to the Executive Directors during the three year period while the shares are subject to forfeiture.

#### **SAYE Share Option Scheme – shares held during 2016 (audited)**

Details of the options held by the Directors in 2016 under the SAYE scheme and any movements during the year are as follows:

Director	Options held at					Exercise price	Dates from which exercisable	
	1 January 2016	Granted in year	Lapsed in year	Exercised in year	31 December 2016			
Andrew Croft	1,219				1,219	£7.38	1 May 2018	31 October 2018
Ian Gascoigne	1,243				1,243	£7.24	1 November 2018	30 April 2019
David Lamb	1,243				1,243	£7.24	1 November 2018	30 April 2019

Note:

- (i) At 31 December 2016 the mid-market price for St. James's Place shares was £10.14. The range of prices between 1 January 2016 and 31 December 2016 was between £7.16 and £10.14.

# DIRECTORS' REMUNERATION REPORT continued

## **Share Incentive Plan – shares held during 2016 (audited)**

The table below sets out details of the awards held by the Directors under the Share Incentive Plan during 2016:

Director	Balance at 1 January 2016	Partnership shares allocated during year <sup>(i)</sup>	Matching shares allocated during year <sup>(ii)</sup>	Dividend shares allocated during year <sup>(iii)</sup>	Balance at 31 December 2016	Holding Period (matching shares)
Andrew Croft	642				642	26 Mar 2010 to 26 Mar 2013
	325				325	26 Mar 2014 to 26 Mar 2017
	167				167	26 Mar 2015 to 26 Mar 2018
	–	159	15		174	24 Mar 2016 to 24 Mar 2019
Ian Gascoigne	502				502	26 Mar 2010 to 26 Mar 2013
	210				210	26 Mar 2014 to 26 Mar 2017
	167				167	26 Mar 2015 to 26 Mar 2018
	–	159	15		174	24 Mar 2016 to 24 Mar 2019

Notes:

- (i) Partnership shares are shares awarded in return for an investment of between £10 and £1,500. Partnership shares were awarded for both Directors on 24 March 2016 at a price of £9.3875 per share, in return for £1,500 being deducted from pre-tax salary.
- (ii) For every ten partnership shares acquired, the Company awards one matching share. Matching shares were also awarded on 24 March 2016 in relation to the partnership shares mentioned above.
- (iii) 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 2017 and 27 February 2017 there were no exercises or other dealings in the Company's share awards by the Directors.

## **Share Interests and Shareholding Guidelines (audited)**

The Executive Directors are required to build up a shareholding equivalent to 150% of salary, and a further 50% of salary in shares and/or in one or more St. James's Place fund portfolios. All of the Executive Directors have met the shareholding guideline.

### **Directors' Interests in Shares**

Director	Shares held at 1 January 2016	Shares held at 31 December 2016	% of base salary held in SJP shares as at 31 December 2016 <sup>(i)</sup>
David Bellamy	1,263,080	1,289,203	2,589%
Andrew Croft	890,567	935,925	2,600%
Ian Gascoigne	692,520	739,773	2,055%
David Lamb	461,345	501,835	1,394%
Sarah Bates	13,500	13,500	–
Iain Cornish	–	–	–
Simon Jeffreys	18,364	18,364	–
Baroness Wheatcroft	2,500	2,500	–
Roger Yates	10,000	10,000	–

Notes:

- (i) Calculated using the mid market price at 31 December 2016 of £10.14.
- (ii) The interests of the Directors include those of their Connected Persons as defined in section 96B(2) of the Financial Services and Markets Act.
- (iii) 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 page 109. The interests of the Executive Directors also include awards under the Share Incentive Plan, details of which are set out on page 110.
- (iv) The Company's register of Directors' interests contains full details of Directors' shareholdings and any share awards under the Company's various share schemes.
- (v) Disclosure of the Directors' interests in share awards is given on pages 108 to 110 of the Remuneration Report and also in Note 24 – Related Party Transactions.

Between 2 January 2017 and 27 February 2017 there were no transactions in the Company's shares by the Directors.

### **Executive Directors' shareholdings and outstanding share awards**

<b>Executive Director</b>	<b>Beneficially owned at 31 December 2016<sup>(i)</sup></b>	<b>Outstanding PSP awards (performance conditions)<sup>(ii)</sup></b>	<b>SAYE options (no performance conditions)<sup>(iii)</sup></b>	<b>Outstanding DBS awards (no performance conditions)<sup>(iv)</sup></b>	<b>SIP shares (no performance conditions)<sup>(v)</sup></b>
David Bellamy	1,289,203	317,651	–	108,897	–
Andrew Croft	935,925	215,971	1,219	78,805	1,308
Ian Gascoigne	739,773	215,971	1,243	78,805	1,053
David Lamb	501,835	215,971	1,243	78,805	–

Notes:

- (i) Beneficially owned shares include those DBS Awards and SIP Shares set out in columns (iv) and (v) above.
- (ii) Details on the PSP awards are set out on page 108.
- (iii) Details on the SAYE options are set on page 109.
- (iv) Details on DBS awards are set out on page 109.
- (v) Details on the SIP shares are set out on page 110.

### **Dilution**

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

- Up to 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 2016, 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 2016.

<b>Share Scheme</b>	<b>Number of new ordinary shares of 15 pence each</b>	<b>% of total issued share capital as at 31 December 2016</b>
SAYE schemes	4,246,684	0.81%
Executive share schemes	10,721,865	2.03%
Partners' share schemes	9,368,513	1.78%
<b>Total</b>	<b>24,337,062</b>	<b>4.62%</b>

In addition, as at 31 December 2016, the Group's Employee Share Trust held 1,330,156 shares in the Company which were acquired to meet awards made under the PSP, executive share option schemes and awards made under the Deferred Bonus Scheme to Irish employees. In addition a further 1,272,805 shares are held to meet awards made in 2015 and 2016 under the Deferred Bonus Scheme and 300,948 shares are held to meet awards made in 2016 under the Restricted Share Plan.

A further 535,448 shares, registered to employees under the terms of the Group's Deferred Bonus Scheme, have been allocated by the Group's Employee Share Trust for awards made in 2014. These shares are allocated to the relevant individuals on a restricted basis whereby the recipients are not entitled to the shares until completion of the three year restricted period. Further details of the Deferred Bonus Scheme are set out on page 97.

### **Interests in Shares Held in Trusts**

Certain Executive Directors and employees are deemed to have an interest or a potential interest as potential discretionary beneficiaries under the St. James's Place Employee Share Trust. As such, they were treated as at 31 December 2016 as being interested in 2,348,511 ordinary shares of 15 pence in the Company, such shares being held by S G Hambros Trust Company (Channel Islands) Limited, the trustee of that trust.

# DIRECTORS' REMUNERATION REPORT continued

## Statement of Shareholding Voting at AGM

At last year's AGM held on 4 May 2016, the Directors' Remuneration Report received the following votes from shareholders:

	Remuneration Report	
	Total number of votes	% of votes cast
For	407,906,771	99.52
Against	1,611,329	0.39
Discretion*	359,800	0.09
<b>Total</b>	<b>409,877,900</b>	<b>100</b>
Abstentions	5,199,778	

\* Discretion – of which 358,347 votes were proxy votes lodged in favour of the Chair.

## Committee Membership and Attendance at the Committee Meetings

The membership and terms of reference of the Committee are reviewed annually and the terms of reference are available on the Company's website.

The members of the Committee are Simon Jeffreys, Baroness Wheatcroft and Roger Yates. There have been six Committee meetings during the year and all the members (as well as the Chair of the Board) attended each of the meetings (details of attendance at those meetings can be found on page 75).

## Advisers to the Committee

The Committee appointed independent remuneration consultants New Bridge Street (NBS) to advise on remuneration matters generally and this appointment is reviewed annually by the Committee. NBS is a signatory to the Remuneration Consultants' Code of Conduct, which requires its advice to be impartial and NBS has confirmed to the Committee its compliance with the Code.

The total fees paid to NBS for the advice provided to the Committee during the year were £94,688 (excluding VAT). Fees are charged on a 'time spent' basis.

NBS has not provided any other services to the Company during the year. However, certain subsidiaries of Aon plc, the parent company of NBS, have provided some investment advisory services to the Company during 2016 for which the fees were £50,000 (excluding VAT). The Committee has been advised of the basis on which NBS 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 by NBS to the Committee.

The Committee also seeks internal support from the CEO, CFO, Chair of the Board, Chair of Risk Committee, Chief Risk Officer and the Company Secretary. No Director is present at any part of a meeting of the Committee when their individual remuneration or contractual terms are being discussed.

## Engagement with Shareholders

The Committee is updated on the latest views of major shareholders (and their representative bodies) through meetings with investors (and their representative bodies) and from various written communications received, including published guidelines. The Chair of the Committee is happy to meet with shareholders on request to discuss any concerns regarding remuneration issues, should they arise.

## How the Policy will be Applied for 2017

### 2017 salary review

The base salaries of the Executive Directors are being increased in 2017. The current salaries as at 1 March 2016 and from 1 March 2017 are as follows:

Director	Salary from 1 March 2016	Salary from 1 March 2017	Increase from 1 March 2017
David Bellamy	£505,000	£520,000	3%
Andrew Croft	£365,000	£376,000	3%
Ian Gascoigne	£365,000	£376,000	3%
David Lamb	£365,000	£376,000	3%

## Annual bonus for 2017

The Executive Directors' maximum bonus opportunity for 2017 will be the same as for 2016 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 2017 will be paid in cash and the remaining 50% will be deferred in SJP 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 2017 EEV Operating Profit target, the Committee

maintained the new business and expense growth objectives at the same level as in previous years. However, it was recognised that, in comparison to the 2016 operating profit target, the 2017 contribution to operating profit from the unwind of the discount rate will be impacted negatively, by the lower discount rate, following the 0.7% reduction in the UK ten-year government gilt yield.

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 2017 Remuneration Report to the extent that they do not remain commercially sensitive at that time.

The team element of the 2017 annual bonus will be assessed by reference to key strategic targets based around the 2017 business plan, including elements relating to clients, shareholders and other key stakeholders. Specific objectives include: the delivery of excellent 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 system 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.

#### **Performance Share Plan awards for 2017**

The Executive Directors will each receive a PSP award in 2017 of 200% of salary.

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:.

<b>Performance level hurdle</b>	<b>TSR relative to the FTSE 51 to 150 (Note 1)</b>		<b>Average annual adjusted EPS growth (including the unwind of the discount rate) in excess of RPI (Note 2)</b>		<b>Average annual adjusted EPS growth (excluding the unwind of the discount rate) in excess of RPI (Note 2)</b>	
	<b>Performance required</b>	<b>% of one third of award vesting</b>	<b>Performance required</b>	<b>% of one third of award vesting</b>	<b>Performance required</b>	<b>% of one third of award vesting</b>
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%

Note 1: FTSE 51 to 150, excluding investment trusts and companies in the FTSE oil, gas producers and mining sectors. Straight line vesting occurs in between threshold and maximum vesting.

Note 2: The first EPS performance condition is calculated by reference to adjusted consolidated profit after tax on the EEV basis of accounting for both the life and unit trust businesses (on a fully diluted per share basis). The effect of the adjustment to the consolidated after tax figures will be to strip out the post-tax EEV investment variance and any economic assumption change in the final year of the performance period as these factors are not within the control of management and can produce wide variations to reported earnings due to stock market fluctuations. However, this measure of EPS is still impacted by stock market movements in the prior year due to the impact of any such movements on the unwind of the discount rate in the current year.

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

Straight line vesting occurs in between threshold and maximum vesting.

#### **Fees for the Chair and Non-executive Directors for 2017**

The fees for the Chair and Non-executive Directors from 1 January 2016 to 31 December 2016 are as set out in column 1 below. For 2017, in recognition of their increased workload, regulatory responsibilities and the size of the Group, the fees of the Chair have been increased by 3%, the Non-executive Directors base fees have been increased by 3%, the Committee Chairs' fee has been increased by 3% and the Senior Independent Director fees have been increased by 100%. The 2017 fee levels are set out in column 2 of the table below.

	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>
	<b>Fees from 1 January to 31 December 2016</b>	<b>Fees from 1 January to 31 December 2017</b>	<b>Percentage increase from 2016</b>
Chair	£190,000	£195,700	3%
Base fee	£59,945	£61,745	3%
Committee Chair	£20,000	£20,600	3%
Senior Independent Director	£2,780	£5,560	100%

Note: No Committee membership fees are payable.

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

**Roger Yates**

*Chair of the Remuneration Committee*

27 February 2017

# DIRECTORS' REPORT

The Directors (as set out on pages 68 and 69) present their Report and the Annual Report and Accounts and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

The content of the 'Management Report' required by the UK Financial Conduct Authority's (FCA) Disclosure and Transparency Rule DTR4.1 can be found in the Strategic Report and Governance sections of the Annual Report and Accounts. An indication of likely future developments can also be found in these sections.

Information disclosed in accordance with the requirements of the sections of the UK Financial Conduct Authority'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 180 and 181.

## Share Capital

### *Structure of the Company's Capital*

As at 31 December 2016, the Company's issued and fully paid up share capital was 527,482,348 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. Details of the movement in the issued share capital during the year are provided in Note 19 to the financial statements on page 170.

## Voting Rights

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

## **Restrictions on Voting Rights**

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

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

## **Articles of Association**

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

The Company proposes to amend its Articles at its forthcoming Annual General Meeting to increase the aggregate limit of non-executive remuneration, which has not increased since 2010, so as to ensure the Board has sufficient flexibility to adhere to the Remuneration Policy and meet the needs of succession plans in the future. In addition, a change to the membership and quorum requirements for the Company's Executive Board is proposed so that its constitution aligns with the requirements of a growing business. Other minor clarification changes are also being proposed and details are contained in the Notice of Annual General Meeting.

## **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 22 February 2017, the Company had been notified of the following interests disclosed to the Company under Disclosure and Transparency Rule 5:

Shareholder	Holding at 31 Dec 2016	% held at 31 Dec 2016*	Holding at 22 Feb 2017	% held at 22 Feb 2017*
Ameriprise Financial Inc	28,184,506	5.38	28,184,506	5.38
BlackRock, Inc	26,992,901	5.11	26,992,901	5.11
Prudential plc	N/A	N/A	27,682,923	5.24
FMR LLC	26,126,505	5.03	26,126,505	5.03
The Capital Group Companies, Inc	25,481,770	4.83	25,481,770	4.83

\* 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 110.

## Results and Dividends

The consolidated statement of comprehensive income is on page 127 and IFRS profit after tax for the financial year attributable to equity shareholders decreased to £112.2 million from £202.2 million in the prior year, principally due to recognition of £74.8 million of capital losses in the prior year. The profit before tax increased from £174.1 million to £486.3 million in the current year, principally due to the increase in charges deducted from Life Investment business in respect of policyholder tax, which is subsequently due to HMRC, as explained on page 38. This movement was mainly driven by relative investment performance in the year, reflecting the fact that the investment return was more positive in 2016 than the prior year. The profit before tax was also impacted negatively by the £22.9 million movement in DAC/DIR/PVIF intangibles, which is explained on page 36.

An interim dividend of 12.33 pence per share, which equates to £64.8 million, was paid on 30 September 2016 (2015: 10.72 pence per share/£56.0 million). The Directors recommend that shareholders approve a final dividend of 20.67 pence per share, which equates to £109 million (2015: final dividend of 17.24 pence per share/£90.4 million) to be paid on 12 May 2017 to shareholders on the register at the close of business on 7 April 2017.

Details of the Dividend Reinvestment Plan (DRP) are set out on page 196.

## Our People

Details of the Company's approach to maintaining an appropriately skilled and diverse workforce can be found in the Our People section of the Business Model on page 18.

The Company is committed to attracting and retaining talented people of both genders, and indeed of diverse skills and mind-sets in the widest sense. The Company has a policy of ensuring that no discrimination takes place with regards to its job applicants and employees. Appointments and promotions are made based on fair and considered judgements, with the individuals being assessed on their merits and skill sets. We need to make sure we are not unwittingly excluding any particular group from the opportunities we can offer or depriving ourselves of people who could bring benefits to our community.

We strive to give full and fair consideration to applications from and promotions of disabled people, having regard to their particular aptitudes and abilities, and, where appropriate, we will consider modifications to the working environment so they can take up opportunities or enhance their role. We will similarly make every effort in the event of an employee becoming ill or disabled, for example, by arranging appropriate training.

We believe that, by adopting best practice principles, we seek to ensure that our responsibilities are met as an equal opportunity employer and that everyone can enjoy an environment free from discrimination of any sort.

The right to collective bargaining has not been exercised by any of the Company's employees, however were they to do so, the Company would look to comply with due process.

The Company considers it important to provide its employees with a balanced work and home life, and does not expect its employees to work excessive hours.

The Company has a calendar of regular communication with employees and this includes a bi-annual employee satisfaction survey, the most recent of which was conducted in 2016.

# DIRECTORS' REPORT continued

The Company also offers a range of development options which reflect business priorities and offer employees the opportunity to grow their careers within the Group. Such opportunities include:

- An apprenticeship programme offering opportunities in a range of roles across the organisation;
- A rotational graduate programme providing diverse experience across the organisation;
- Higher Education partnerships delivering training and relevant qualifications within the wealth management industry;
- Membership of the Institute of Customer Service;
- A rolling programme of Knowledge Development Meetings;
- Support for employees seeking externally recognised professional qualifications;
- Management development activities for those with the interest and ability to develop their careers as leaders in the business; and
- Specific development programmes for the more specialist roles within the Company's Field Management Team.

As a Company, we believe that equity participation for employees, through the use of employee share plans, allows and encourages employees to feel a sense of ownership and share in the Company's success.

## Bribery Act 2010

The Board is responsible for the oversight of the Company's anti-bribery, corruption and whistleblowing policies and procedures. During 2016, the Company carried out its annual review of the adequacy of the policies established with the aim to prevent bribery and corruption by persons associated with the Group. This included reviewing the Anti-Bribery and Corruption Policy Statement, along with other related policies and procedures, and providing training to employees and Partners with regards to money laundering, financial crime, fraud, bribery and corruption via online training programmes, the completion of which is compulsory.

The Company also has a Whistleblowing policy, and encourages employees, Partners and other interested parties to report any instances of wrongdoing, anonymously, to either the Chair of the Audit Committee or the Money Laundering Reporting Officer.

During 2016, no employees or Partners were disciplined or dismissed due to non-compliance with the Anti-Bribery and Corruption policies and no fines were levied against the Company in relation to bribery or corruption.

The Anti-Bribery and Corruption Policy Statement and the Whistleblowing Policy and procedures are available to all employees and Partners via the Company's intranet.

## 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 £307 million as at 22 February 2017 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 £137 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 the notes to the financial statements on pages 157 to 167.

## Directors' Indemnity

Details of the indemnity provisions in place for the Directors, including qualifying third party indemnity provisions, can be found on page 74.

## Political 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.

## Annual General Meeting

The Company's Annual General Meeting will be held on Wednesday, 4 May 2017 at The Royal Aeronautical Society, 4 Hamilton Place, London W1J 7BQ at 11.00am.

### **Going Concern**

In conjunction with its assessment of longer term viability as set out on page 50, 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 twelve months from the date of approval of the Group financial statements.

### **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 they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors is aware of such information.

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

### **Independent Auditors**

As indicated by the Chair of the Audit Committee in the Annual Report last year, it was expected that, in the best interests of shareholders, the external audit contract would be tendered during 2016 in respect of the 2017 year-end audit. A competitive tender process was undertaken by the Audit Committee (further details of which can be found in the Audit Committee's Report) and the Board subsequently agreed to recommend to shareholders the reappointment of PricewaterhouseCoopers LLP (PwC) at the Annual General Meeting on 4 May 2017.

On behalf of the Board

**David Bellamy**

*Chief Executive*

27 February 2017

**Andrew Croft**

*Chief Financial Officer*

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

The Directors 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.

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

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Parent Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

**Elizabeth Kelly**

*Company Secretary*

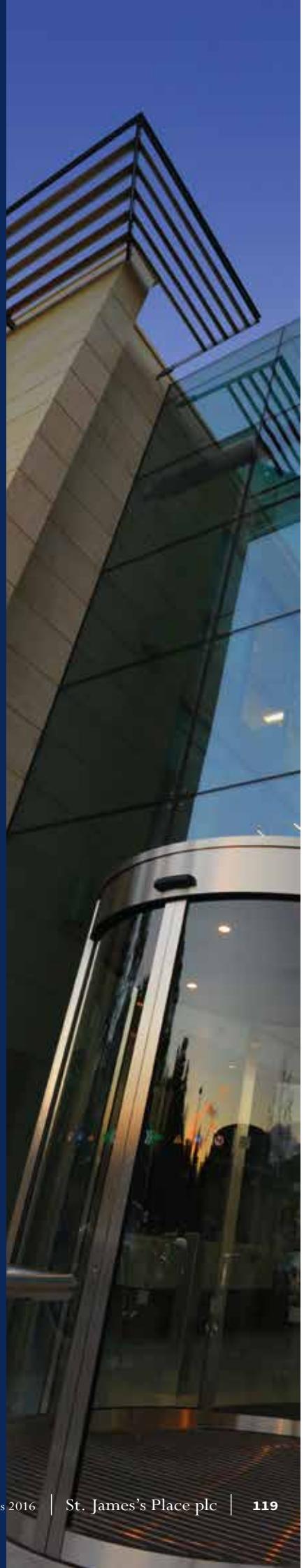
27 February 2017

# OUR RESULTS

Consolidated financial statements on international financial reporting standards basis.

## CONTENTS

- Independent Auditors' Report
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Financial Position
- Consolidated Statement of Cash Flows
- Notes to the Consolidated Financial Statements



# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST. JAMES'S PLACE PLC

## REPORT ON THE GROUP FINANCIAL STATEMENTS

### Our opinion

In our opinion, St. James's Place plc's group financial statements (the 'financial statements'):

- give a true and fair view of the state of the group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Consolidated Statement of Financial Position as at 31 December 2016;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRS as adopted by the European Union, and applicable law.

### Our audit approach

#### Context

This year's audit focused on the core aspects of the business such as the valuation of financial investments, the recoverability of the prepayment asset linked to the new administration system developed at an outsourced provider and the risk of fraud in revenue recognition. Developments during the year included the completion of the acquisition of the Rowan Dartington Group, as well as the acquisition of two smaller entities.

#### Overview

#### Materiality

- Overall group materiality: £24.25 million which represents 5% of profit before tax.

#### Audit scope

- The Group financial statements comprise the consolidation of approximately 60 individual components, each of which represents an individual entity within the Group or consolidation adjustments.
- We assessed each component and considered the contribution it made to the Group's profit before tax, whether it displayed any significant risk characteristics or whether it contributed a significant amount to any individual financial statement line item.
- The above assessment resulted in us identifying ten components that required audit procedures for the purpose of the audit of the Group financial statements.
- Nine of the components are based in the UK and were audited by the PwC UK Group audit team. The remaining component is based in the Republic of Ireland and was audited by PwC Dublin.
- By performing audit procedures on these ten components we achieved greater than 90% coverage of each material financial statement line item within the Group financial statements.

#### Areas of focus

- Risk of fraud in revenue recognition.
- Valuation of the prepayment asset in respect of the development of an administration platform at an outsourced provider.
- Recognition and disclosure of new acquisitions.
- Valuation of investments with a judgemental valuation, being investment property and derivatives.

#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

**Area of focus***Valuation of the prepayment asset in respect of the development of an administration platform at an outsourced provider*

The Group is charged costs by IFDS in respect of ensuring operational readiness 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 IFDS. The balance of the prepayment at 31 December 2016 was £121m. 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 amounts arising from the contractual terms the valuation of the prepayment asset was an area of audit focus.

*Recognition and disclosure of new acquisitions*

During 2016 the Group completed three acquisitions. IFRS 3 requires that, when businesses are acquired, management calculate the fair value of the assets and liabilities acquired, as well as the total consideration paid (including deferred or contingent consideration). The excess of the consideration over the net fair value of assets and liabilities is then recorded as goodwill. Calculating fair values of assets and liabilities and the potential value of contingent consideration often requires judgements and estimates, as such, this was an area of focus for our audit.

**How our audit addressed the area of focus**

In testing whether the asset was valued appropriately and whether an impairment was necessary we:

- agreed amounts capitalised in the year back to the service agreement and cash payments to IFDS.
- assessed the reasonableness of the assumptions underlying management's discounted cash flow calculating the anticipated cost savings that support the valuation of the prepaid cost asset in the consolidated statement of financial position.

We also agreed the cost savings for 2016 to the new service tariffs against the legacy platform tariff. We performed a sensitivity analysis on the inflation and discount rate assumptions as well as business flow to determine the potential impact of changes in these variables on the present value of future savings to check whether they would affect the carrying value of the asset this year.

We noted no material exceptions in our procedures and we determined that the disclosure of the transactions in the financial statements was appropriate.

The most significant of the acquisitions, that of the Rowan Dartington Group ('RD'), was agreed in principle prior to the 2015 accounts being signed and was disclosed as a subsequent event following legal completion. We performed audit work over this disclosure, including the initial calculation of fair value adjustments as part of the 2015 audit.

In 2016 we have audited the adjustments made to the RD calculation compared to that used at the 2015 year end. The key change was in respect to the subsequent sale of a subsidiary within the RD group, which achieved a value in excess of that included in the 2015 calculation of 'fair value of assets acquired'. We agreed adjustments back to supporting documentation such as the sale and purchase agreement.

For the other acquisitions in 2016, we obtained and reviewed the sale and purchase agreement and agreed that the accounting entries posted by management were in line with the details in the agreement.

For all three acquisitions we tested the disclosures made within the notes to the financial statements to ensure they were in line with the requirements of IFRS 3. We also reviewed the goodwill recognised on the acquisitions and considered whether there was any indication of impairment.

We noted no material exceptions in our procedures and we determined that the disclosure of the transactions in the financial statements was appropriate.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST. JAMES'S PLACE PLC continued

## Area of focus

### *Risk of fraud in revenue recognition*

ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve market expectations. In this regard we focused on transactions which included a judgemental element in their calculation, typical within the life insurance industry, as set out in note 2 to the financial statements. For the Group, revenue includes fees and commission income on investment contracts and investment advice, premiums on insurance business, and investment return.

We focused specifically on the following:

- Estimates/assumptions made by management that have a direct impact on revenue, as extended by Auditing Practices Board Practice Note 20 – ‘The audit of insurers in the United Kingdom’ (‘PN20’), for example the amortisation profile of Deferred Acquisition Costs (‘DAC’) and Deferred Income (‘DIR’).
- Journals posted impacting revenue in addition to the source system determined balance.

We also considered the recognition of income or costs which may have a close relationship to earned insurance premiums and fees, in accordance with PN20, such as reinsurance costs. The Group fully reinsures the UK insurance risk of its closed book of protection business and therefore we focused on whether the £31.5m of premium income associated with this business that was passed on to the reinsurer was complete.

Investment return relates largely to investment contract policyholders and third party holdings in consolidated unit trusts and so has not been included as an area of focus.

## How our audit addressed the area of focus

We assessed the critical accounting estimates and judgements as set out in note 2 to the financial statements that had a direct impact on revenue.

Specifically we:

- substantively tested the deferred income and acquisition costs and the amortisation of DIR and DAC, including assessing the future profitability of the products to which the income and acquisition costs related to ensure that profitability was sufficient to support the carrying value of the deferred balances; and
- confirmed substantively the classification of the Group’s products between insurance and investment business to check that insurance product revenue was appropriately included in the consolidated statement of comprehensive income and investment business (except for fees related to investment contract management) was excluded.

We confirmed that there were no new reinsurance arrangements during the year and agreed a sample of premiums ceded to the cash payment to the reinsurer.

Our work on the above areas of judgement was supported by controls testing and substantive procedures over all material revenue streams including:

- reconciling fees on investment business to confirmatory documentation provided by the asset custodian, State Street;
- testing internal controls over the accuracy and occurrence of revenue recognised in the financial statements;
- obtaining and reading the two International Standard on Assurance Engagements (‘ISAE’) 3402 ‘Assurance Reports on Controls at a Service Organisation’ reports issued by International Financial Data Services (‘IFDS’) relevant to the Group, in particular focusing on the controls designed to prevent and detect fraud operating over the Group administration systems owned and operated by IFDS;
- testing a sample of journal entries posted throughout the year to revenue accounts that met specific criteria to identify unusual or irregular items.

There were no issues in the ISAE 3402 reports that impacted our audit scope. We also performed testing of controls and substantive procedures on the IFDS policy administration system ‘Salas’ and at Capita in Ireland, where ISAE 3402 reports were not available.

Overall, we noted no material exceptions in our testing and found the judgements taken by the Directors to be reasonable.

**Area of focus**

*Valuation of investments with a judgemental valuation, being investment property and derivatives*

The Group financial statements include c. £70bn of investments. A large number of these are straight forward, vanilla instruments and as such do not require judgement in calculating the valuation of the investments.

However c. £2bn 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 the balances and the level of judgement involved, this was an area of focus for our audit.

**How our audit addressed the area of focus**

*Financial assets including derivatives*

SJP outsources investment custodian and valuation activities for financial assets, including derivatives, to State Street. Our audit procedures therefore focused on the evidence available over these outsourced processes.

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.

Where appropriate we placed reliance on the controls described in the ISAE 3402 report over the valuation and existence of the financial investments within the portfolio.

We independently re-priced a sample of derivative investments as at year end. We agreed our independent prices to those provided by State Street.

*Investment properties*

The investment property portfolio is managed by Orchard Street, with title deeds held by DLA Piper and regular valuations performed by CBRE.

We reconciled the listing of properties valued by CBRE to details provided by Orchard Street and also agreed the total valuation to that recorded in the general ledger.

We engaged our in house real estate valuation experts to review the methodology and key assumptions used by CBRE in valuing the portfolio. We also agreed factual inputs to the calculations (eg. rental income) to tenancy agreements.

We noted no material exceptions in our procedures.

**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 operational and geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured to reflect its vertically integrated wealth management business and operates predominantly within the United Kingdom.

Four of the components within the Group required an audit of their complete financial information. Of these two (St. James's Place UK plc and St. James's Place Unit Trust Group limited) were considered financially significant as they contributed greater than 15% of the Group's profit before tax. The remaining two (St. James's Place International Plc and the St. James's Place Unit Trusts) had specific risk characteristics which meant we considered them to require an audit of their 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. The St. James's Place Unit Trusts contribute materially to investments, some of which require judgemental valuations (derivatives and investment property).

All components aside from St. James's Place International Plc were audited by the Group audit team, PwC UK. St. James's Place International Plc is incorporated and regulated in the Republic of Ireland and was audited by PwC Dublin.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST. JAMES'S PLACE PLC continued

At the planning stage of the audit we provided written instructions to PwC Dublin to confirm the work we required them to complete and the materiality level they should work to. We held regular phone calls with the PwC Dublin 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 we obtained access to their electronic 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 four 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 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 90% 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 on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£24 million (2015: £9 million).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	Profit before tax is a generally accepted auditing benchmark.
Component materiality	For each component in our audit scope, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £17 million and £4 million. Certain components were audited to a local statutory entity 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 £1 million (2015: £0.4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## ***Going concern***

Under the Listing Rules we are required to review the Directors' Statement, set out on page 117, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' Statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' Statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

## **OTHER REQUIRED REPORTING**

### **Consistency of other information and compliance with applicable requirements**

#### ***Companies Act 2006 reporting***

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Corporate Governance Statement set out on page 86 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- the information given in the Corporate Governance Statement set out on pages 72 and 73 with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance Statement. We have nothing to report in this respect.

#### **ISAs (UK & Ireland) reporting**

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report.

the statement given by the directors on page 83, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's position and performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.

We have no exceptions to report.

the section of the Annual Report on page 81, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report.

#### **The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group**

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- the directors' confirmation on page 78 of the Annual Report, in accordance with provision C.2.1 of the Code, 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 50 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 material to add or to draw attention to.

We have nothing material to add or to draw attention to.

We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' 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 Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST. JAMES'S PLACE PLC continued

## Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

## Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 118, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the 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.

### What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

### Other matter

We have reported separately on the parent company financial statements of St. James's Place plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

### Jeremy Jensen (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

*Chartered Accountants and Statutory Auditors*

London

27 February 2017

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year Ended 31 December 2016	Year Ended 31 December 2015
		£'Million	£'Million
Insurance premium income		<b>52.2</b>	54.7
Less premiums ceded to reinsurers		(31.5)	(32.6)
<b>Net insurance premium income</b>		<b>20.7</b>	22.1
Fee and commission income	4	<b>1,703.9</b>	1,333.5
Investment return	6	<b>9,630.1</b>	1,755.8
Other operating income		-	1.5
<b>Net income</b>		<b>11,354.7</b>	3,112.9
Policy claims and benefits			
– Gross amount		(62.7)	(65.0)
– Reinsurers' share		21.7	28.5
<b>Net policyholder claims and benefits incurred</b>		<b>(41.0)</b>	(36.5)
Change in insurance contract liabilities			
– Gross amount		(64.6)	10.8
– Reinsurers' share		4.1	(0.5)
<b>Net change in insurance contract liabilities</b>		<b>(60.5)</b>	10.3
<b>Investment contract benefits</b>	11	<b>(9,541.8)</b>	(1,762.5)
<b>Expenses</b>	5	<b>(1,225.1)</b>	(1,150.1)
<b>Profit before tax</b>	3	<b>486.3</b>	174.1
Tax attributable to policyholders' returns	7	(345.7)	(22.8)
<b>Profit before tax attributable to shareholders' returns</b>		<b>140.6</b>	151.3
Total tax (expense)/credit	7	(374.6)	27.9
Less: tax attributable to policyholders' returns	7	345.7	22.8
Tax attributable to shareholders' returns	7	(28.9)	50.7
<b>Profit and total comprehensive income for the year</b>		<b>111.7</b>	202.0
Loss attributable to non-controlling interests		(0.5)	(0.2)
Profit attributable to equity shareholders		<b>112.2</b>	202.2
<b>Profit and total comprehensive income for the year</b>		<b>111.7</b>	202.0
		Pence	Pence
<b>Basic earnings per share</b>	19	<b>21.5</b>	38.9
<b>Diluted earnings per share</b>	19	<b>21.3</b>	38.5

The results relate to continuing operations.

The notes and information below and on pages 131 to 183 form part of these 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 to owners of the Parent							Non-controlling Interests £'Million	Total Equity £'Million		
	Shares in				Misc Reserves £'Million	Total £'Million					
	Share Capital £'Million	Share Premium £'Million	Trust Reserve £'Million	Retained Earnings £'Million							
At 1 January 2015	77.9	147.4	(10.5)	793.1	2.3	1,010.2	(0.1)	1,010.1			
Profit/(loss) and total comprehensive income/(expense) for the year					202.2	202.2	(0.2)	202.0			
Dividends	19				(130.8)	(130.8)		(130.8)			
Issue of share capital		0.3	1.9			2.2		2.2			
Exercise of options		0.5	9.0			9.5		9.5			
Consideration paid for own shares				(12.8)		(12.8)		(12.8)			
Shares sold during the year				4.7	(4.7)	-		-			
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust				0.1		0.1		0.1			
Retained earnings credit in respect of share option charges					14.8	14.8		14.8			
At 31 December 2015	78.7	158.3	(18.5)	874.6	2.3	1,095.4	(0.3)	1,095.1			
Profit/(loss) and total comprehensive income/(expense) for the year					112.2	112.2	(0.5)	111.7			
Dividends	19				(155.2)	(155.2)		(155.2)			
Issue of share capital	19		0.9			0.9		0.9			
Exercise of options	19	0.4	5.3			5.7		5.7			
Consideration paid for own shares				(5.5)		(5.5)		(5.5)			
Shares sold during the year				3.1	(3.1)	-		-			
Misc reserves on acquisition						0.2	0.2	0.2			
Retained earnings credit in respect of share option charges					22.7	22.7		22.7			
<b>At 31 December 2016</b>	<b>79.1</b>	<b>164.5</b>	<b>(20.9)</b>	<b>851.2</b>	<b>2.5</b>	<b>1,076.4</b>	<b>(0.8)</b>	<b>1,075.6</b>			

The number of shares held in the Treasury Share Reserve is given in Note 19 Share Capital on page 170.

Miscellaneous reserves represent other non-distributable reserves.

The notes and information on pages 131 to 183 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2016	As at 31 December 2015
		£'Million	£'Million
<b>Assets</b>			
Goodwill	8	<b>13.8</b>	10.1
Intangible assets			
– Deferred acquisition costs	8	<b>684.8</b>	745.0
– Acquired value of in-force business	8	<b>30.4</b>	33.6
– Computer software	8	<b>3.0</b>	4.3
		<b>732.0</b>	793.0
Property and equipment	9	<b>23.1</b>	8.0
Deferred tax assets	7	<b>199.9</b>	225.9
Reinsurance assets	14	<b>80.5</b>	85.0
Other receivables	12	<b>1,473.0</b>	967.2*
Investments			
– Investment property	10	<b>1,462.4</b>	1,344.9
– Equities		<b>46,598.7</b>	37,960.8
– Fixed income securities		<b>12,445.5</b>	8,934.0
– Investment in Collective Investment Schemes		<b>3,864.8</b>	3,269.6
– Derivative financial instruments		<b>729.1</b>	364.1
Cash and cash equivalents	10	<b>7,413.1</b>	5,325.1
<b>Total assets</b>		<b>75,022.1</b>	59,277.6
<b>Liabilities</b>			
Borrowings	16	<b>281.4</b>	181.8
Deferred tax liabilities	7	<b>614.8</b>	434.6
Insurance contract liabilities	14	<b>518.2</b>	463.5
Deferred income	8	<b>647.6</b>	413.5
Other provisions	15	<b>17.1</b>	15.4
Other payables	13	<b>1,173.6</b>	706.7*
Investment contract benefits	11	<b>53,307.1</b>	43,159.8
Derivative financial instruments		<b>281.9</b>	221.1
Net asset value attributable to unit holders	10	<b>17,032.0</b>	12,556.4
Income tax liabilities		<b>72.7</b>	29.6
Preference shares		<b>0.1</b>	0.1
<b>Total liabilities</b>		<b>73,946.5</b>	58,182.5
<b>Net assets</b>		<b>1,075.6</b>	1,095.1
<b>Shareholders' equity</b>			
Share capital	19	<b>79.1</b>	78.7
Share premium		<b>164.5</b>	158.3
Shares in trust reserve		<b>(20.9)</b>	(18.5)
Miscellaneous reserves		<b>2.5</b>	2.3
Retained earnings		<b>851.2</b>	874.6
Equity attributable to owners of the Parent		<b>1,076.4</b>	1,095.4
Non-controlling interests		<b>(0.8)</b>	(0.3)
<b>Total equity</b>		<b>1,075.6</b>	1,095.1
		<b>Pence</b>	Pence
<b>Net assets per share</b>		<b>203.9</b>	208.7

\* Some lines have been aggregated in the comparative to simplify the presentation. See Note 12 Other Receivables and Note 13 Other Payables for further information.

The financial statements on pages 127 to 183 were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:

**David Bellamy**  
*Chief Executive*

**Andrew Croft**  
*Chief Financial Officer*

The notes and information on pages 131 to 183  
form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year Ended 31 December 2016	Year Ended 31 December 2015
		£'Million	£'Million
<b>Cash flows from operating activities</b>			
Profit before tax for the year		<b>486.3</b>	174.1
Adjustments for:			
Depreciation	9	<b>4.4</b>	2.5
Amortisation of acquired value of in-force business	8	<b>3.2</b>	3.2
Amortisation of computer software	8	<b>3.4</b>	3.4
Share-based payment charge	20	<b>23.9</b>	15.7
Interest income		(26.6)	(23.9)
Interest expense		<b>4.9</b>	4.4
Increase in provisions		<b>1.7</b>	4.0
Exchange rate gains		(3.3)	-
<b>Changes in operating assets and liabilities</b>			
Decrease in deferred acquisition costs	8	<b>60.2</b>	68.0
Increase in investment property		(117.5)	(313.5)
Increase in other investments		(13,109.6)	(5,826.7)
Decrease in reinsurance assets		<b>4.5</b>	0.5
Increase in other receivables		(464.4)	(451.8)*
Increase/(decrease) in insurance contract liabilities		<b>54.6</b>	(10.9)
Increase in financial liabilities (excluding borrowings)		<b>10,207.8</b>	4,450.4
Increase/(decrease) in deferred income	8	<b>234.1</b>	(49.7)
Increase in other payables		<b>407.8</b>	282.1*
Increase in net assets attributable to unit holders		<b>4,475.6</b>	1,938.6
<b>Cash generated from operating activities</b>			
Interest received		<b>2,251.0</b>	270.4
Interest paid		<b>26.6</b>	23.9
Income taxes paid		(4.9)	(4.4)
		(87.7)	(61.7)
<b>Net cash generated from operating activities</b>		<b>2,185.0</b>	228.2
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	9	(19.6)	(4.0)
Acquisition of intangible assets	8	(2.1)	-
Acquisition of subsidiaries and other business combinations, net of cash acquired		(23.1)	(0.8)
<b>Net cash used in investing activities</b>		<b>(44.8)</b>	(4.8)
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital		<b>5.7</b>	9.5
Consideration paid for own shares		(5.5)	(12.8)
Proceeds from exercise of options over shares held in trust		-	0.1
Additional borrowings	16	<b>100.0</b>	175.0
Repayment of borrowings		(0.9)	(79.1)
Dividends paid	19	(155.2)	(130.8)
<b>Net cash used in financing activities</b>		<b>(55.9)</b>	(38.1)
<b>Net increase in cash and cash equivalents</b>		<b>2,084.3</b>	185.3
Cash and cash equivalents at 1 January	10	<b>5,325.1</b>	5,139.4
Exchange gains on cash and cash equivalents		<b>3.7</b>	0.4
<b>Cash and cash equivalents at 31 December</b>	10	<b>7,413.1</b>	5,325.1

\* Some lines have been aggregated in the comparative to simplify the presentation. See Note 12 Other Receivables and Note 13 Other Payables for further information.

The notes and information on pages 131 to 183 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 England and Wales.

### Statement of Compliance

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

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

As at 31 December 2016, the following amended standards, which the Group has adopted as of 1 January 2016, have not had any material impact on the Group's reported results:

- IAS 1 Amendment – Disclosure Initiative
- IAS 16 and IAS 38 Amendments – Clarification of Acceptable Methods of Depreciation and Amortisation
- IFRS 10, IFRS 12 and IAS 28 Amendments – Investment Entities: Applying the Consolidation Exception
- Annual Improvements to IFRSs 2012 – 2014 Cycle

As at 31 December 2016, 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 not yet effective:

- IAS 7 Amendment – Disclosure Initiative
- IAS 12 Amendment – Recognition of Deferred Tax Assets for Unrealised Losses
- IFRS 2 Amendment – Classification and Measurement of Share-based Payment Transactions
- IFRS 9 Financial Instruments
- IFRS 10 and IAS 28 Amendments – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 15 Revenue from Contracts with Customers (including subsequent IFRS 15 clarification)
- IFRS 16 Leases

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:

### IFRS 9 Financial Instruments

IFRS 9 incorporates new classification and measurements requirements for financial assets and liabilities, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, new hedge accounting requirements and enhanced disclosures in the financial statements. On adoption of this standard, which is mandatory for financial years commencing on or after 1 January 2018, following endorsement by the EU on 22 November 2016, certain financial assets will be reclassified but there will be no material on the statement of financial position or the statement of comprehensive income. The Group does not use hedge accounting and so this element of the new standard is not applicable.

### IFRS 15 Revenue from Contracts with Customers

The new standard establishes a principle based five step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. The Group is assessing the impact that IFRS 15 will have on the financial statements, where is it likely to impact DAC and DIR. IFRS 15 is mandatory for financial years commencing on or after 1 January 2018, following endorsement by the EU on 22 September 2016.

### IFRS 16 Leases

IFRS 16 was issued in January 2016. 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. 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. As at the reporting date, the Group has non-cancellable operating lease commitments of £134.4 million, see Note 16. On adoption of the standard, the right-of-use asset and liability for future payments are expected to be material to the statement of financial position, and there is expected to be a negative impact on the statement of comprehensive income initially which will reverse over time. 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.

The Group is assessing the quantum of the adjustments that will be required upon transition to IFRS 16, which is mandatory for financial years commencing on or after 1 January 2019, subject to EU endorsement.

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.

### 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 100,000 pounds. They are prepared on a historical cost basis, except for assets classified as investment property, available-for-sale financial assets 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.

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

## continued

### 1. ACCOUNTING POLICIES continued

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.

#### Summary of Significant Accounting Policies

##### (a) Basis of consolidation

The consolidated financial information incorporates the assets, liabilities and the results of the Company and of its subsidiaries. Subsidiaries are those entities in which the Group 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). 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 IAS 39 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 does 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 remeasured 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 remeasurement of the retained interest.

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

The St. James's Place Foundation is not consolidated within the financial information. This is because the Company does not control the Foundation in accordance with IFRS 10.

##### (b) Fee and commission income

Fee and commission income comprises:

- (i) Advice charges paid by clients who wish to receive advice with their investment in a St. James's Place or third party retail investment product;
- (ii) Commission, due in respect of products sold on behalf of third parties; and
- (iii) Fees charged on investment contracts (including fees charged to clients to match the policyholder tax element of the insurance Company's tax liability).

Advice charges and commission are recognised in full on acceptance and inception of the associated policy by the relevant product provider. Where the product provider retains the right to clawback of commission on an indemnity basis, turnover on sale of these products is recognised net of a provision for the estimated clawback.

Investment contract management fees are generally recognised as revenue as the services are provided. Initial fees, including dealing margins from unit trusts, which exceed the level of recurring fees and relate to the future provision of services, are deferred, and amortised over the anticipated period in which 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'), 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 (f) (iii). Fund fee commission and ongoing advice fee are recognised on an accruals basis.

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

### (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.

### (iii) 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 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 on a straight line basis over the expected lifetime of the Group's investment contracts. All other costs are recognised as expenses when incurred. Note, following the implementation of the Retail Distribution Review (RDR) on 31 December 2012, the initial advice costs are no longer an acquisition cost linked to the contractual right to benefit from providing investment management services and so they are no longer deferred.

The period over which costs are expected to be recoverable are as follows:

Insurance contracts:	6 years
Investment contracts:	12 – 14 years

### (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 policyholder's 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 paid. 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 distribution Company 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 distribution company. A proportion of the charge is then paid to the St. James's Place adviser ('Partner') who provides the advice (see (f)(i) Expenses).

### (j) Intangible assets

#### (i) Acquired value of in-force business

The acquired value of in-force business in respect of insurance business represents the present value of profits that are expected to emerge from insurance business acquired on business combinations. It is calculated at the time of acquisition using best estimate actuarial assumptions for interest, mortality, persistency and expenses, net of any impairment losses, and it is amortised 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 acquired 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.

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

## continued

### 1. ACCOUNTING POLICIES continued

#### (ii) Deferred acquisition costs

Refer to accounting policy (f) (iii).

#### (iii) 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.

#### (k) 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.

#### (l) 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.

#### (m) 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).

#### (n) Investments

The Group's investments 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 fair values of quoted financial investments, which represent the vast majority of the Group's investments, are based on the value within the bid-ask spread that is most representative of fair value. If the market for a financial investment is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models.

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

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

#### (o) 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.

#### (p) Other receivables

Other receivables are initially recognised at fair value and subsequently held at amortised cost less impairment losses, except for renewal income which is held 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 (ab) for information relating to the treatment of impaired amounts.

#### (q) 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 the profit and loss. All other cash and cash equivalents are classified as loans and receivables.

#### (r) 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.

**(s) 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 Company 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 derecognised when units allocated to the policyholder have been cancelled.

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

**(t) Deferred income**

The initial margin on financial instruments (including dealing margins from unit trusts) is deferred and recognized over the expected lifetime of the financial instrument.

**(u) 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 measured at fair value, since the underlying investment portfolios are managed on a fair value basis, and they are presented in the statement of financial position as net asset value attributable to unit holders. Income attributable to the third party interests is accounted for within investment income, offset by a corresponding change in investment contract benefits.

**(v) 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.

**(w) 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.

**(x) Other payables**

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

**(y) 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.

**(z) 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.

**(aa) 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.

**(ab) 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 (k) for the Group's impairment policy for goodwill.

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

## continued

### 1. ACCOUNTING POLICIES continued

#### (ii) Financial assets

Formal reviews to assess the recoverability of financial assets are carried out at each reporting date. The recoverability of such assets is measured and the asset is deemed impaired if there is objective evidence of impairment as a result of one or more loss events that have an impact on the expected future cash flows associated with the financial asset. When a loss is incurred the impairment loss recognised in the statement of comprehensive income is calculated as the carrying value of the asset less the projected future cash flows arising from the asset discounted at the original effective interest rate. The impaired assets are presented net of the impairment provision in the statement of financial position.

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

#### (ac) 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.

#### (ad) Segment reporting

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

#### (ae) Current and non-current disclosure

Assets which are expected to be recovered or settled no more than twelve 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 twelve months after the reporting date are disclosed as non-current.

Liabilities which are expected or due to be settled no more than twelve 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 twelve months after the reporting date are disclosed as non-current.

#### (af) 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 (IFRS) as adopted by the European Union. APMs are used to provide greater insight to the performance of the Group and the way it is managed by the Directors. The Glossary of Alternative Performance Measures on page 199 defines each APM, explains why it is used and, where applicable, how the measure can be reconciled to the IFRS financial statements.

## **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Judgements**

The primary areas in which the Group has applied judgement in applying accounting policies are in the classification of contracts between insurance and investment business and when applying the concept of control to determine which entities are subsidiaries.

### **Classification of Contracts between Insurance and Investment business**

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

### **Subsidiaries**

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

### **Deciding the Amount of Management Expenses that are Treated as Acquisition Expenses**

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

### **Estimates**

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

- Determining the value of insurance contract liabilities;
- Determining the fair value of investment contract benefits;
- Determining the fair value of investment property;
- Determining the fair value liability to policyholders for capital losses in unit funds;
- Amortisation and recoverability of deferred acquisition costs and deferred income;
- Determining the fair value, amortisation and recoverability of acquired in-force business;
- Fair value estimation of assets acquired;
- Determining the value of deferred tax assets;
- Recoverability of St. James's Place Partnership loans;
- Measurement of prepaid operational readiness costs; and
- Determining the fair value of share-based payments.

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

### **Measurement of insurance contract liabilities**

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

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

Greater detail on the assumptions applied is shown in Note 14.

### **Determining the fair value of investment contract benefits**

In accordance with IFRS 13, the Group categorises unit-linked insurance contracts as financial liabilities, carried on the statement of financial position at fair value. The fair value of unit linked liabilities is assessed by reference to the value of the underlying net asset value of the Group's unitised investment funds, determined on a bid value, at the reporting date. As the underlying net asset value is determined using inputs other than quoted prices but which are observable, either directly (that is, as prices) or indirectly (that is, derived from prices), the liability is categorised as a level 2 financial instrument. Further details of these valuations are described in Note 17.

### **Determining the fair value of financial instruments and investment property**

In accordance with IFRS 13, the Group categorises financial instruments carried on the statement of financial position at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques. These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information. Further details of these valuations are described in Note 17.

### **Valuing capital losses in the unit funds**

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

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

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

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

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

Deferred income on investment contracts is amortised on a straight line basis over the expected lifetime of the underlying contracts, although on certain contracts, the impact of early withdrawal charges means the income is effectively recognised over a shorter period.

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

## continued

### **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES** continued

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

Deferred acquisition costs relating to insurance and investment contracts are tested annually for recoverability by reference to expected future income levels. Future income levels are projected using assumptions consistent with those underlying our embedded value calculation.

#### ***Acquired in-force business***

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

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

#### ***Fair value estimation of assets acquired***

In accordance with IFRS 3 Business Combinations, as of the acquisition date, the Group recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree and classifies the identifiable assets acquired and liabilities assumed on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date. The Group measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

#### ***Determining the value of deferred tax assets***

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

#### ***Recoverability of St. James's Place Partnership loans***

During the normal course of business the Group provides loans to St. James's Place Partners in order to support the development and growth of the St. James's Place Partnership. The St. James's Place Partnership loans are initially recognised at fair value and subsequently held at amortised cost less impairment losses. The recoverability of loans is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset. The allowance for impairment losses on St. James's Place Partnership loans is management's best estimate of losses incurred in the portfolio at the statement of financial position date.

#### ***Measurement of prepaid operational readiness costs***

Included within prepayments are operational readiness costs relating to the new administration service agreement which are initially recognised at the amounts advanced. The prepayment is expensed in line with the provision of services under the service agreement. At each statement of financial position date, the value of the prepayment is assessed for impairment recognised against the present value of the estimated future contract benefits. In determining the present value of the estimated future contract benefits, the critical judgements are the levels of future business that will be serviced, the anticipated future service tariffs, termination fees payable and receivable under the contract and the rate used to discount amounts to present value.

#### ***Determining the fair value of share-based payments***

In determining the fair value of share-based payments and the related charge to the statement of comprehensive income, the Group makes assumptions about the future events and market conditions. In particular, judgement must be formed as to the likely number of share awards that will vest, and the fair value of each award granted. Further details of these assumptions used are described in Note 20.

### 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 composition of the segments has changed and comparatives have been restated on the new basis. 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 sets out the different types of revenue received from our wealth management business.

#### Segment Profit

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

#### *Underlying cash result*

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

More detail is provided in the Financial Review section of the Annual Report and Accounts.

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

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
<b>Underlying cash result after tax</b>	<b>199.5</b>	182.1
Share option expense	(23.9)	(15.0)
IFRS deferred tax adjustments	(21.1)	52.1
Insurance reserves	(1.6)	(1.8)
Back office infrastructure	(16.7)	(14.4)
Variance	(7.7)	3.8
DAC/DIR/PVIF	(16.8)	(4.8)
<b>IFRS profit after tax</b>	<b>111.7</b>	202.0
Shareholder tax	28.9	(50.7)
<b>Profit before tax attributable to shareholders' returns</b>	<b>140.6</b>	151.3
Tax attributable to policyholder returns	345.7	22.8
<b>IFRS profit before tax</b>	<b>486.3</b>	174.1

# 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 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
<b>EEV operating profit before tax</b>	<b>673.6</b>	660.2
Investment return variance	537.2	(24.4)
Economic assumption changes	(12.4)	0.9
<b>EEV profit before tax</b>	<b>1,198.4</b>	636.7
<b>Adjustments to IFRS basis</b>		
Deduct: amortisation of acquired value of in-force	(3.2)	(3.2)
Movement in life value of in-force (net of tax)	(642.7)	(187.6)
Movement in unit trust value of in-force (net of tax)	(257.6)	(176.4)
Tax of movement in value of in-force	(154.3)	(118.2)
<b>Profit before tax attributable to shareholders' returns</b>	<b>140.6</b>	151.3
Tax attributable to policyholder returns	345.7	22.8
<b>IFRS profit before tax</b>	<b>486.3</b>	174.1

#### Segment Assets

##### *Funds under Management (FUM)*

FUM, as reported in Section 1 of the Financial Review on page 29 is the measure of segment assets which is monitored on a monthly basis by the Board.

	31 December 2016	31 December 2015
	£'Million	£'Million
Investment	25,500.0	22,520.0
Pension	28,630.0	20,860.0
UT/ISA and DFM	21,180.0	15,230.0
<b>Total FUM</b>	<b>75,310.0</b>	58,610.0
Exclude client and third party holdings in non-consolidated unit trusts and DFM	(4,153.9)	(2,497.1)
Other	283.7	562.8
<b>Gross assets held to cover unit liabilities</b>	<b>71,439.8</b>	56,675.7
IFRS intangible assets (see page 39 Adjustment 2)		
including goodwill, DAC, PVIF, reinsurance and deferred tax	917.7	1,067.0
Shareholder gross assets (see page 39)	2,664.6	1,534.9
<b>Total assets</b>	<b>75,022.1</b>	59,277.6

#### 4. FEE AND COMMISSION INCOME

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
Advice charges	510.7	420.7
Third party fee and commission income	103.5	97.8
Wealth management fees	590.7	544.2
Investment management fees	52.6	137.5
Fund tax deductions	352.2	27.8
Discretionary fund management (DFM) fees	5.3	-
Fee and commission income before DIR amortisation	1,615.0	1,228.0
Amortisation of DIR	88.9	105.5
<b>Total fee and commission income</b>	<b>1,703.9</b>	1,333.5

#### 5. EXPENSES

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

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
Employee costs	150.8	121.2
Depreciation	4.4	2.5
Amortisation of acquired value of in-force business	3.2	3.2
Amortisation of DAC	98.8	100.1
Amortisation of computer software	3.4	3.4
Payments to Partners	599.7	518.5
Payment under operating leases	11.8	10.4
Fees payable to the Company's auditors and its associates for the audit of the Company and consolidated financial statements	0.1	0.2
Fees payable to the Company's auditors and its associates for other services:		
– The audit of the Company's subsidiaries (excluding Unit Trusts)	0.6	0.5
– Audit of the Company's Unit Trusts	0.3	0.3
– Audit-related assurance services	0.5	0.5
– Other non-audit services	0.1	–

#### Employee Costs

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
Wages and salaries	113.7	92.0
Social security costs	12.8	10.3
Other pension costs in relation to defined contribution schemes	8.0	6.8
Cost of employee share awards and options	16.3	12.1
<b>Total employee costs</b>	<b>150.8</b>	121.2
Average monthly number of persons employed by the Group during the year	1,735	1,430

The above information includes Directors' remuneration. The aggregate emoluments of the highest paid Director were £0.9 million (2015: £0.9 million), cash supplement in lieu of their defined contribution pension scheme was £0.1 million (2015: £0.1 million), they exercised 175,807 share options during 2016 (2015: 490,435) and 24,591 shares were released to them in respect of the deferred bonus scheme (2015: 49,563). Full details of the Directors' remuneration, share options, pension entitlements and interests in shares are disclosed in the Remuneration Report on pages 93 to 113.

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

continued

## 6. INVESTMENT RETURN

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
<b>Investment return on net assets held to cover unit liabilities:</b>		
Rental income	<b>72.4</b>	60.4
(Loss)/gain on revaluation of investment properties	<b>(23.4)</b>	74.0
Net investment return on financial instruments classified as fair value through profit and loss	<b>7,456.8</b>	1,396.0
	<b>7,505.8</b>	1,530.4
Income attributable to third party holdings in unit trusts	<b>2,094.5</b>	216.8
	<b>9,600.3</b>	1,747.2
<b>Investment return on shareholder assets:</b>		
Net investment return on financial instruments classified as fair value through profit and loss	<b>22.9</b>	2.7
Interest income on financial instruments held at amortised cost	<b>6.9</b>	5.9
<b>Total investment return</b>	<b>9,630.1</b>	1,755.8

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 £756.2 million (2015: £586.4 million).

## 7. INCOME AND DEFERRED TAXES

### Tax for the year

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
<b>Current tax</b>		
UK corporation tax		
– Current year charge	<b>171.8</b>	86.0
– Adjustment in respect of prior year	<b>(0.6)</b>	0.7
Overseas taxes		
– Current year charge	<b>4.2</b>	3.7
– Adjustment in respect of prior year	<b>(0.1)</b>	–
	<b>175.3</b>	90.4
<b>Deferred tax</b>		
Unrealised capital gains and losses in unit linked funds	<b>196.3</b>	(50.0)
<i>Unrelieved expenses</i>		
– Additional expenses recognised in the year	<b>(12.5)</b>	(11.6)
– Utilisation in the year	<b>18.7</b>	19.7
<i>Capital losses</i>		
– Additional losses recognised in the year	<b>(2.2)</b>	(74.8)
– Utilisation in the year	<b>12.6</b>	12.1
– Adjustment in respect of prior year	<b>0.1</b>	(1.1)
DAC, DIR and PVIF	<b>(11.6)</b>	(4.4)
Other items	<b>(4.4)</b>	(5.8)
Change in tax rate	<b>1.3</b>	(4.5)
Overseas taxes on losses	<b>0.3</b>	2.1
Adjustments in respect of prior periods	<b>0.7</b>	–
	<b>199.3</b>	(118.3)
<b>Total tax charge/(credit) for the year</b>	<b>374.6</b>	(27.9)
<b>Attributable to:</b>		
– policyholders	<b>345.7</b>	22.8
– shareholders	<b>28.9</b>	(50.7)
	<b>374.6</b>	(27.9)

The prior year adjustment in current tax above includes a credit of £1.4 million in respect of policyholder tax (2015: £1.0 million charge).

Included within the deferred tax on ‘other items’ is a charge of £0.2 million (2015: £1.8 million credit) relating to share-based payments. Details of share-based payments are disclosed in Note 20 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 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
Current tax charge for the year	<b>175.3</b>	90.4
Payments to be made in future years in respect of current year	<b>(72.6)</b>	(28.7)
Payments made in current year in respect of prior years	<b>30.6</b>	32.3
Other	<b>0.1</b>	(0.5)
<b>Tax paid</b>	<b>133.4</b>	93.5
Tax paid can be analysed as:		
– Taxes paid in UK	<b>129.0</b>	89.3
– Taxes paid in overseas jurisdictions	<b>1.9</b>	1.8
– Withholding taxes suffered on investment income received	<b>2.5</b>	2.4
<b>Tax paid</b>	<b>133.4</b>	93.5

### Movement in net deferred tax balance

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
<i>Deferred tax asset</i>	<b>225.9</b>	192.8
<i>Deferred tax liability</i>	<b>(434.6)</b>	(519.8)
Net deferred tax balance at 1 January	<b>(208.7)</b>	(327.0)
(Charge)/credit through the consolidated statement of comprehensive income	<b>(199.3)</b>	118.3
Arising on acquisitions during the year	<b>(6.9)</b>	–
<i>Deferred tax asset</i>	<b>199.9</b>	225.9
<i>Deferred tax liability</i>	<b>(614.8)</b>	(434.6)
<b>Balance at 31 December</b>	<b>(414.9)</b>	(208.7)

### Reconciliation of tax charge to expected tax

	<b>Year Ended 31 December 2016</b>	Year Ended 31 December 2015		
	£'Million	£'Million		
Profit before tax	<b>486.3</b>	174.1		
Tax attributable to policyholders' returns*	<b>(345.7)</b>	(22.8)		
Profit before tax attributable to shareholders' return	<b>140.6</b>	151.3		
Shareholder tax charge at corporate tax rate of 20% (2015: 20.25%)	<b>28.1</b>	<b>20%</b>	30.6	20.25%
<b>Adjustments:</b>				
<i>Tax regime differences</i>				
Lower rates of corporation tax in overseas subsidiaries	<b>(0.9)</b>	<b>(0.6%)</b>	(1.4)	(0.9%)
Expected shareholder tax	<b>27.2</b>	<b>19.3%</b>	29.2	19.3%
<i>Other</i>				
Non-taxable income	<b>(1.0)</b>		-	
Recognition and usage of capital losses arising in the Group	<b>(2.2)</b>		(74.8)	
Adjustment in respect of prior year	<b>(0.1)</b>		(1.5)	
Differences in accounting and tax bases in relation to employee share schemes	<b>0.7</b>		(5.4)	
Disallowable expenses	<b>1.2</b>		3.0	
Tax losses not recognised or past losses now recognised	<b>2.0</b>		1.8	
Other	<b>(0.2)</b>		1.5	
	<b>0.4</b>	<b>(0.3%)</b>	(75.4)	(49.8%)
<i>Change in tax rate</i>	<b>1.3</b>		(4.5)	
<b>Shareholder tax charge/(credit)</b>	<b>28.9</b>	<b>(20.6%)</b>	(50.7)	(33.5%)
<b>Policyholder tax charge</b>	<b>345.7</b>		22.8	
<b>Total tax charge/(credit) for the year</b>	<b>374.6</b>		(27.9)	

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

Tax calculated on profit before tax at 20% (2015: 20.25%) would amount to £97.3 million (2015: £35.3 million). The difference of £277.3 million (2015: £63.2 million) between this number and the total tax of £374.6 million (2015: £(27.9) million) is made up of the reconciling items above which total £0.8 million (2015: £(81.3) million) and the effect of the apportionment methodology on tax applicable to policyholder returns of £276.5 million (2015: £18.1 million).

### Deferred tax assets

	Expected utilisation	<b>31 December 2016</b>		31 December 2015
		Years	£'Million	
Unrelieved expenses (life insurance business)		6	<b>50.9</b>	57.1
Deferred income (DIR)		14	<b>39.7</b>	45.2
Capital losses (available for future relief)		10	<b>99.0</b>	113.1
Employee share scheme costs		3	<b>5.5</b>	5.8
Future capital allowances		6	<b>4.1</b>	3.0
Other			<b>0.7</b>	1.7
<b>Total deferred tax assets</b>			<b>199.9</b>	225.9

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

## continued

### **7. INCOME AND DEFERRED TAXES continued**

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 £4.1 million (2015: £1.4 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	<b>31 December 2016</b>	31 December 2015
	Years	£'Million	£'Million
Unrealised capital gains (and losses) on life insurance (BLAGAB) assets backing unit liabilities	6	<b>501.1</b>	304.8
Deferred acquisition costs (DAC)	14	<b>97.8</b>	117.8
Acquired value of in-force business (PVIF)	10	<b>5.4</b>	6.2
Renewal income assets	20	<b>8.6</b>	3.5
Other		<b>1.9</b>	2.3
<b>Total deferred tax liabilities</b>		<b>614.8</b>	434.6

#### **Future tax rate changes**

Future tax rate changes, including the further reduction in the corporation tax rate from 18% to 17% effective from 1 April 2020 which was enacted in the Finance Act 2016, have been incorporated into the deferred tax balances.

#### **Other tax matters**

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

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

	Goodwill	Acquired value of in-force business	Computer software & other specific software developments	DAC	DIR
	£'Million	£'Million	£'Million	£'Million	£'Million
<b>Cost</b>					
At 1 January 2015	10.1	73.4	13.6	1,579.1	(1,149.2)
Additions	-	-	-	32.1	(55.8)
<b>At 31 December 2015</b>	<b>10.1</b>	<b>73.4</b>	<b>13.6</b>	<b>1,611.2</b>	<b>(1,205.0)</b>
<b>At 1 January 2016</b>	<b>10.1</b>	<b>73.4</b>	<b>13.6</b>	<b>1,611.2</b>	<b>(1,205.0)</b>
<b>Additions</b>	<b>3.7</b>	<b>-</b>	<b>2.1</b>	<b>38.6</b>	<b>(56.0)</b>
<b>Addition due to reassessment of unit liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(267.0)</b>
<b>At 31 December 2016</b>	<b>13.8</b>	<b>73.4</b>	<b>15.7</b>	<b>1,649.8</b>	<b>(1,528.0)</b>
<b>Accumulated amortisation</b>					
At 1 January 2015	-	36.6	5.9	766.1	(686.0)
Charge for the year	-	3.2	3.4	100.1	(105.5)
At 31 December 2015	-	39.8	9.3	866.2	(791.5)
<b>At 1 January 2016</b>	<b>-</b>	<b>39.8</b>	<b>9.3</b>	<b>866.2</b>	<b>(791.5)</b>
<b>Charge for the year</b>	<b>-</b>	<b>3.2</b>	<b>3.4</b>	<b>98.8</b>	<b>(88.9)</b>
<b>At 31 December 2016</b>	<b>-</b>	<b>43.0</b>	<b>12.7</b>	<b>965.0</b>	<b>(880.4)</b>
<b>Carrying value</b>					
At 31 December 2015	10.1	33.6	4.3	745.0	(413.5)
<b>At 31 December 2016</b>	<b>13.8</b>	<b>30.4</b>	<b>3.0</b>	<b>684.8</b>	<b>(647.6)</b>
Current	-	3.2	0.9	98.7	(134.5)
Non-current	13.8	27.2	2.1	586.1	(513.1)
	<b>13.8</b>	<b>30.4</b>	<b>3.0</b>	<b>684.8</b>	<b>(647.6)</b>
<b>Outstanding amortisation period</b>					
At 31 December 2015	n/a	10 years	4 years	14 years	6–14 years
<b>At 31 December 2016</b>	<b>n/a</b>	<b>9 years</b>	<b>4 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 2016	31 December 2015
	£'Million	£'Million
SJP Asia companies	10.1	10.1
Technical Connection Limited	3.7	-
<b>Balance at 31 December</b>	<b>13.8</b>	<b>10.1</b>

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:	1.4%
Pre-tax discount rate:	3.0%

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

### Acquired 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.

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

continued

## 9. PROPERTY AND EQUIPMENT

	Assets held for Sale - Land	Fixtures and Fittings and Office Equipment	Computer Equipment	Total
	£'Million	£'Million	£'Million	£'Million
<b>Cost</b>				
At 1 January 2015	1.4	34.7	6.1	42.2
Additions	–	3.2	0.8	4.0
Disposals	(1.4)	(4.8)	(5.6)	(11.8)
At 31 December 2015	–	33.1	1.3	34.4
<b>At 1 January 2016</b>	<b>–</b>	<b>33.1</b>	<b>1.3</b>	<b>34.4</b>
<b>Additions</b>	<b>–</b>	<b>16.5</b>	<b>3.1</b>	<b>19.6</b>
<b>Disposals</b>	<b>–</b>	<b>(9.9)</b>	<b>–</b>	<b>(9.9)</b>
<b>At 31 December 2016</b>	<b>–</b>	<b>39.7</b>	<b>4.4</b>	<b>44.1</b>
<b>Accumulated depreciation</b>				
At 1 January 2015	–	28.4	5.9	34.3
Charge for the year	–	2.2	0.3	2.5
Eliminated on disposal	–	(4.8)	(5.6)	(10.4)
At 31 December 2015	–	25.8	0.6	26.4
<b>At 1 January 2016</b>	<b>–</b>	<b>25.8</b>	<b>0.6</b>	<b>26.4</b>
<b>Charge for the year</b>	<b>–</b>	<b>3.5</b>	<b>0.9</b>	<b>4.4</b>
<b>Eliminated on disposal</b>	<b>–</b>	<b>(9.8)</b>	<b>–</b>	<b>(9.8)</b>
<b>At 31 December 2016</b>	<b>–</b>	<b>19.5</b>	<b>1.5</b>	<b>21.0</b>
<b>Net book value</b>				
At 1 January 2015	1.4	6.3	0.2	7.9
At 31 December 2015	–	7.3	0.7	8.0
<b>At 31 December 2016</b>	<b>–</b>	<b>20.2</b>	<b>2.9</b>	<b>23.1</b>
Amortisation period (estimated useful life)		5 years	3 years	

## 10. INVESTMENTS, INVESTMENT PROPERTY AND CASH

### Net assets held to cover unit liabilities

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

	31 December 2016	31 December 2015
	£'Million	£'Million
<b>Assets</b>		
Investment property	<b>1,462.4</b>	1,344.9
Equities	<b>46,598.7</b>	37,960.8
Fixed income securities	<b>12,397.8</b>	8,850.9
Investment in Collective Investment Schemes	<b>2,997.4</b>	2,736.9
Derivative financial instruments		
– Currency forwards	86.5	33.8
– Interest rate swaps	40.0	13.5
– Collateralised mortgage obligations	510.2	238.7
– Index options	17.7	20.3
– Contracts for differences	8.2	10.7
– Equity rate swaps	26.2	16.1
– Foreign currency options	18.7	22.8
– Total return swaps	18.7	6.6
– Other derivatives	2.9	1.6
Cash and cash equivalents	<b>7,067.2</b>	5,091.6
Other receivables	<b>187.2</b>	603.9
<b>Total assets</b>	<b>71,439.8</b>	56,953.1
<b>Liabilities</b>		
Derivative financial instruments		
– Currency forwards	176.4	168.6
– Interest rate swaps	38.3	5.9
– Fixed Income options	–	6.1
– Index options	5.9	3.6
– Contracts for differences	2.9	4.3
– Equity rate swaps	30.2	5.8
– Foreign currency options	10.1	19.6
– Total return swaps	8.1	0.2
– Other derivatives	10.0	7.0
Other payables	<b>383.5</b>	585.2
<b>Total liabilities</b>	<b>665.4</b>	806.3
<b>Net assets held to cover linked liabilities</b>	<b>70,774.4</b>	56,146.8
Investment contract benefits	<b>53,307.1</b>	43,159.8
Net asset value attributable to unit holders	<b>17,032.0</b>	12,556.4
Unit linked insurance contract liabilities	<b>435.3</b>	376.5
Consolidation adjustments	–	54.1
<b>Net unit linked liabilities</b>	<b>70,774.4</b>	56,146.8

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 they are actively traded and managed to facilitate immediate settlement.

See accounting policy (ae) for further information on current and non-current disclosure.

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

continued

## 10. INVESTMENTS, INVESTMENT PROPERTY AND CASH continued

**Investment property**

	31 December 2016	31 December 2015
	£'Million	£'Million
Balance at 1 January	<b>1,344.9</b>	1,031.4
Additions	<b>131.6</b>	247.9
Capitalised expenditure on existing properties	<b>9.3</b>	5.9
Disposals	–	(14.3)
Changes in fair value	<b>(23.4)</b>	74.0
<b>Balance at 31 December</b>	<b>1,462.4</b>	1,344.9

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

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

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

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
Rental income	<b>72.4</b>	60.4
Direct operating expenses	<b>6.3</b>	5.8

At the year end, contractual obligations to purchase, construct or develop investment property amounted to £4.5 million (2015: £9.0 million) and to dispose of investment property amounted to £nil (2015: £nil).

## Cash and cash equivalents

	31 December 2016	31 December 2015
	£'Million	£'Million
Cash at bank	<b>341.1</b>	233.5
Cash held by third parties	<b>4.8</b>	–
Cash and cash equivalents not held to cover unit liabilities	<b>345.9</b>	233.5
Balances held to cover unit liabilities	<b>7,067.2</b>	5,091.6
<b>Total cash and cash equivalents</b>	<b>7,413.1</b>	5,325.1

All Cash and cash equivalents are considered current.

## 11. MOVEMENT IN INVESTMENT CONTRACT BENEFITS

	31 December 2016	31 December 2015
	£'Million	£'Million
Balance at 1 January	<b>43,159.8</b>	38,851.2
Deposits	<b>7,346.5</b>	6,039.1
Withdrawals	<b>(3,536.0)</b>	(2,704.3)
Movement in unit-linked investment contract benefits	<b>7,447.3</b>	1,545.7
Less: fees and other adjustments for reassessment of unit liability	<b>(1,110.5)</b>	(571.9)
<b>Balance at 31 December</b>	<b>53,307.1</b>	43,159.8
Current	<b>3,305.0</b>	3,237.0
Non-current	<b>50,002.1</b>	39,922.8
	<b>53,307.1</b>	43,159.8
<b>Movement in unit liabilities</b>		
Unit-linked investment contract benefits	<b>7,447.3</b>	1,545.7
Third party unit trust holdings	<b>2,094.5</b>	216.8
<b>Movement in investment contract benefits in consolidated statement of comprehensive income</b>	<b>9,541.8</b>	1,762.5

See accounting policy (ae) for further information on the current and non-current disclosure.

## 12. OTHER RECEIVABLES

	31 December 2016	31 December 2015
	£'Million	£'Million
Receivables in relation to unit liabilities	<b>834.1</b>	478.4
Other receivables in relation to insurance and unit trust business	<b>147.3</b>	111.7*
Operational readiness prepayment	<b>121.1</b>	76.5
Advanced payments to Partners	<b>31.2</b>	27.9
Other prepayments	<b>45.1</b>	37.7
St. James's Place Partnership loans	<b>212.2</b>	178.7
Renewal income assets	<b>58.9</b>	26.8
Miscellaneous	<b>23.1</b>	29.5
<b>Total other receivables</b>	<b>1,473.0</b>	967.2
Current	<b>1,137.9</b>	726.6
Non-current	<b>335.1</b>	240.6
	<b>1,473.0</b>	967.2

\* Balance includes £76.2 million of insurance and investment contract receivables previously disclosed as separate line items on the face of the consolidated statement of financial position in 2015. This reclassification has been made in order to simplify the presentation of the consolidated statement of financial position.

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

Receivables in net assets held to cover unit liabilities and in relation to insurance and unit trust business are short term settlement receivables, 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.

St. James's Place Partnership loans are interest bearing (linked to Bank of England base rate plus a margin), repayable on demand and secured against the future renewal income streams of the Partner. The St. James's Place Partnership loans are shown net of a £3.3 million provision (2015: £3.0 million). During the year £0.4 million of the provision was utilised (2015: £1.2 million utilised) whilst new provisions and adjustments to existing provisions increased the total by £0.7 million (2015: £1.3 million increase).

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

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

## continued

### **12. OTHER RECEIVABLES** continued Movement in renewal income assets:

	<b>2016</b> £'Million	2015 £'Million
At 1 January	<b>26.8</b>	29.1
Additions	<b>38.2</b>	1.4
Revaluation	<b>(6.1)</b>	(3.7)
<b>Total renewal income at 31 December</b>	<b>58.9</b>	26.8

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

	<b>31 December 2016</b>	31 December 2015
Lapse rate – SJP Partner renewal income*	<b>6% – 10%</b>	6% – 10%
Lapse rate – Non SJP renewal income*	<b>15% – 25%</b>	9% – 32%
Discount rate	<b>5.0% – 7.5%</b>	5.0%

\* 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.

### **13. OTHER PAYABLES**

	<b>31 December 2016</b> £'Million	31 December 2015 £'Million
Payables in relation to unit liabilities	<b>558.7</b>	311.0
Other payables in relation to insurance and unit trust business	<b>300.0</b>	134.0*
Accruals	<b>146.9</b>	112.4
Accruals for future payments to Partners	<b>74.2</b>	66.3
Miscellaneous	<b>93.8</b>	83.0
<b>Total other payables</b>	<b>1,173.6</b>	706.7
Current	<b>1,123.7</b>	651.7
Non-current	<b>49.9</b>	55.0
	<b>1,173.6</b>	706.7

\* Balance includes £45.9 million of insurance and investment contract payables and £108.3 million of claims outstanding previously disclosed as separate line items on the face of the consolidated statement of financial position in 2015. This reclassification has been made in order to simplify the presentation of the consolidated statement of financial position.

Included within miscellaneous is a Contract Payment of £49.8 million (2015: £48.3 million) which is non-interest bearing and repayable on a straight line basis over the life of a twelve year service agreement commencing in 2017.

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

## 14. INSURANCE 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

	2016 £'Million	2015 £'Million
Balance at 1 January	<b>463.5</b>	474.4
Movement in unit linked liabilities	<b>58.9</b>	(7.8)
Movement in liabilities		
– New business	–	0.2
– Existing business	<b>(0.4)</b>	(1.3)
– Other assumption changes	<b>3.2</b>	(1.2)
– Experience variance	<b>(7.0)</b>	(0.8)
Total movement in liabilities	<b>(4.2)</b>	(3.1)
<b>Balance at 31 December</b>	<b>518.2</b>	463.5
Unit linked	<b>435.4</b>	376.5
Non-unit linked	<b>82.8</b>	87.0
	<b>518.2</b>	463.5
Current	<b>81.0</b>	102.5
Non-current	<b>437.2</b>	361.0
	<b>518.2</b>	463.5

See accounting policy (ae) for further information on the current and non-current disclosure.

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

continued

## 14. INSURANCE LIABILITIES AND REINSURANCE ASSETS continued

**Reinsurance assets**

	2016 £'Million	2015 £'Million
<b>Reconciliation of the movement in the net reinsurance balance:</b>		
Reinsurance assets at 1 January	<b>85.0</b>	85.5
Reinsurance component of change in insurance liabilities	<b>(4.5)</b>	(0.5)
<b>Reinsurance assets at 31 December</b>		
Current	<b>12.6</b>	24.2
Non-current	<b>67.9</b>	60.8
	<b>80.5</b>	85.0

The overall impact of reinsurance on the profit for the year was a net charge of £5.7 million (2015: charge of £4.6 million).

### Assumptions used in the calculation of Insurance liabilities and reinsurance assets

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

<b>Assumption</b>	<b>Description</b>		
		Rate	2016
Interest rate	The valuation interest rate is calculated by reference to the long-term gilt yield at 31 December 2016. The specific rates used are between 1.0% and 1.4% depending on the tax regime (1.7% and 2.2% at 31 December 2015).		2015
Mortality	Mortality is based on Company experience and is set at 72% of the TM/F92 tables with an additional loading for smokers. There has been no change since 2006.		2015
Morbidity – Critical Illness	Morbidity is based on Company experience. There has been no change during 2016. Sample annual rates per £ for a male non-smoker are:	Age	2016
		25	0.000760
		35	0.001334
		45	0.003189
Morbidity – Permanent Health Insurance	Morbidity is based on Company experience. Sample annual rates per £ income benefit p.a. for a male non-smoker are:	Age	Rate
		25	0.00366
		35	0.00965
		45	0.02092
Expenses	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.	Product	Annual Cost
		Protection business	2016
			2015
Persistency	Allowance is made for a prudent level of lapses within the calculation of the liabilities. The rates have not changed in 2016. Sample annual lapse rates are:	2015 and 2016	Lapses
		Protection business	Year 1
			Year 5
			Year 10
		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 % has been applied to proportion the assumption e.g. application of a 10% sensitivity to a withdrawal assumption of 8% will reduce it to 7.2%.

<b>Sensitivity analysis</b>	<b>Change in assumption</b>	<b>Change in profit/(loss) before tax 2016</b>		<b>Change in profit/(loss) before tax 2015</b>	<b>Change in net assets 2016</b>	<b>Change in net assets 2015</b>
		<b>%</b>	<b>£'Million</b>			
Withdrawal rates	-10%	(1.0)	(1.0)	(0.9)	(0.9)	(0.9)
Expense assumptions	-10%	0.3	0.3	0.2	0.2	0.3
Mortality/morbidity	-5%	0.0	0.0	0.0	0.0	0.0

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

### 15. OTHER PROVISIONS AND CONTINGENT LIABILITIES

		<b>Total provisions</b>
		<b>£'Million</b>
At 1 January 2016		<b>15.4</b>
Utilised during the year		(8.8)
Additional provisions		10.5
<b>At 31 December 2016</b>		<b>17.1</b>
Current		<b>7.5</b>
Non-current		<b>9.6</b>
		<b>17.1</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 53, 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 their 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 (2015: £nil).

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

continued

## 16. BORROWINGS AND FINANCIAL COMMITMENTS

### Borrowings

	31 December 2016	31 December 2015
	£'Million	£'Million
Bank borrowings	<b>231.3</b>	132.0
Loan notes	<b>50.1</b>	49.8
<b>Total borrowings</b>	<b>281.4</b>	181.8
Current	<b>1.3</b>	1.0
Non-current	<b>280.1</b>	180.8
	<b>281.4</b>	181.8

In the prior year a £250 million revolving credit facility (repayable over five years with a variable interest rate) was entered into with a group of UK banks. The Group initially drew down £125 million under the fully-committed facility, with an additional £100 million being drawn in the current year.

In addition, during the prior year, the Group entered into a US Dollar \$160 million private shelf facility. The Group authorised the issue of £50 million of loan notes during the prior year in relation to the aforementioned facility. The notes were issued in Sterling, eliminating any Group currency risk. The notes are repayable over ten years with a variable interest rate.

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 2016	31 December 2015	31 December 2016	31 December 2015
	£'Million	£'Million	£'Million	£'Million
Bank of Scotland	<b>54.0</b>	77.2	<b>80.0</b>	90.0
Metro Bank plc	<b>35.6</b>	44.8	<b>95.0</b>	50.0
Santander plc	<b>47.2</b>	19.4	<b>50.0</b>	25.0
<b>Total loans</b>	<b>136.8</b>	141.4	<b>225.0</b>	165.0

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

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

### Financial commitments

The Group has commitments under non-cancellable operating leases in connection with the rental of office buildings and office equipment with varying lease end dates ranging from 2017 to 2041. The following table represents the future minimum lease payments under non-cancellable operating leases:

	31 December 2016		31 December 2015	
	£'Million	£'Million	£'Million	£'Million
Not later than one year	<b>15.6</b>	14.9		
Later than one year and not later than five years	<b>53.8</b>	50.1		
Later than five years	<b>65.0</b>	67.4		
<b>Total financial commitments</b>	<b>134.4</b>	132.4		

As at 31 December 2016, there was £0.2 million (2015: £0.1 million) of future minimum sublease payments expected to be received under non-cancellable subleases.

## 17. 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
- Currency risk

**Credit** risk is the risk of loss due to a debtor's non-payment of a loan or other line of credit. Credit risk also arises from holdings of cash and cash equivalents, deposits and formal loans with banks and financial institutions. The Group has adopted a risk averse approach to such risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives.

Risk	Description	Management
Shareholders' assets	Loss of assets or reduction in value	Shareholder funds are predominantly invested in AAA rated unitised money market funds 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 minimum specified levels. Consideration is also given to size, risk concentrations/exposures and ownership in the selection of reinsurers. The Group also seeks to diversify its reinsurance credit risk through the use of a spread of reinsurers.
Partner loans and advances	Inability of Partners to repay loans or advances from St. James's Place	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. Appropriate provision is made where there is objective evidence of impairment.

**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 16) 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 the 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.

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

## continued

### **17. FINANCIAL RISK continued**

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.
Tax	In adverse market conditions, when the Group is realising investment losses rather than gains, the working of the I-E tax regime can lead to short-term capital inefficiencies, including the deferral of the cash benefit arising from tax relief on expenses.	The tax position is monitored closely, in particular the size and sources of relevant income streams.
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 2016, 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.

#### **Currency risk**

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 financial assets and financial liabilities held in the Group's statement of financial position are summarised in the table below:

31 December 2016	Financial assets at fair value through profit and loss <sup>(1)</sup> £'Million	Financial liabilities measured at amortised cost £'Million		Total £'Million
		Loans and receivables £'Million		
<b>Financial Assets</b>				
Fixed income securities	47.7			47.7
Investment in Collective Investment Schemes <sup>(2)</sup>	867.4			867.4
Other receivables <sup>(3)</sup>				
– St. James's Place Partnership loans		212.2		212.2
– Renewal income assets	58.9			58.9
– Other		756.9		756.9
Total other receivables	58.9	969.1	-	1,028.0
Cash and cash equivalents		345.9		345.9
<b>Total financial assets</b>	<b>974.0</b>	<b>1,315.0</b>	<b>-</b>	<b>2,289.0</b>
<b>Financial Liabilities</b>				
Borrowings			281.4	281.4
Other payables			790.1	790.1
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>1,071.5</b>	<b>1,071.5</b>

31 December 2015	Financial assets at fair value through profit and loss <sup>(1)</sup> £'Million	Financial liabilities measured at amortised cost £'Million		Total £'Million
		Loans and receivables £'Million		
<b>Financial Assets</b>				
Fixed income securities	83.1			83.1
Investment in Collective Investment Schemes <sup>(2)</sup>	531.0			531.0
Other receivables <sup>(3)</sup>				
– St. James's Place Partnership loans		178.7		178.7
– Renewal income assets	26.8			26.8
– Other		294.8		294.8
Total other receivables	26.8	473.5	-	500.3
Cash and cash equivalents		233.5		233.5
<b>Total financial assets</b>	<b>640.9</b>	<b>707.0</b>	<b>-</b>	<b>1,347.9</b>
<b>Financial Liabilities</b>				
Borrowings			181.8	181.8
Other payables			323.2	323.2
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>505.0</b>	<b>505.0</b>

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

(2) 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.

(3) Other receivables excludes prepayments and unearned commission, which are not considered financial assets.

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

continued

## 17. FINANCIAL RISK continued

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

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

Year Ended 31 December 2016	Financial assets at fair value through profit and loss <sup>(1)</sup>	Financial liabilities measured at amortised cost		Total
		Loans and receivables	£'Million	
<b>Financial Assets</b>				
Fixed income securities	2.3			2.3
Investment in Collective Investment Schemes	2.9			2.9
Other receivables				
– St. James's Place Partnership loans		6.3		6.3
– Renewal income assets	(6.1)			(6.1)
Total other receivables	(6.1)	6.3		0.2
Cash and cash equivalents		1.2		1.2
<b>Total financial assets</b>	(0.9)	7.5	–	6.6
<b>Financial Liabilities</b>				
Borrowings			(4.9)	(4.9)
Other payables			(0.5)	(0.5)
<b>Total financial liabilities</b>	–	–	(5.4)	(5.4)

Year Ended 31 December 2015	Financial assets at fair value through profit and loss <sup>(1)</sup>	Financial liabilities measured at amortised cost		Total
		Loans and receivables	£'Million	
<b>Financial Assets</b>				
Fixed income securities	(1.1)			(1.1)
Investment in Collective Investment Schemes	3.0			3.0
Other receivables				
– St. James's Place Partnership loans		5.9		5.9
– Renewal income assets	(3.7)			(3.7)
Total other receivables	(3.7)	5.9	–	2.2
Cash and cash equivalents		1.4		1.4
<b>Total financial assets</b>	(1.8)	7.3	–	5.5
<b>Financial Liabilities</b>				
Borrowings			(4.4)	(4.4)
Other payables			(0.7)	(0.7)
<b>Total financial liabilities</b>	–	–	(5.1)	(5.1)

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

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); 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 assets and liabilities measured at fair value:

<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total balance</b>
	£'Million	£'Million	£'Million	£'Million
<b>Financial Assets</b>				
Fixed income securities		<b>47.7</b>		<b>47.7</b>
Investment in Collective Investment Schemes <sup>(1)</sup>	<b>867.4</b>			<b>867.4</b>
Renewal income assets		<b>58.9</b>		<b>58.9</b>
<b>Total financial assets</b>	<b>867.4</b>	<b>47.7</b>	<b>58.9</b>	<b>974.0</b>
<b>Financial Liabilities</b>				
<b>Total financial liabilities</b>	-	-	-	-
31 December 2015				
	Level 1	Level 2	Level 3	Total balance
	£'Million	£'Million	£'Million	£'Million
<b>Financial Assets</b>				
Fixed income securities		<b>83.1</b>		<b>83.1</b>
Investment in Collective Investment Schemes <sup>(1)</sup>	531.0			531.0
Renewal income assets		<b>26.8</b>		<b>26.8</b>
<b>Total financial assets</b>	531.0	83.1	26.8	640.9
<b>Financial Liabilities</b>				
<b>Total financial liabilities</b>	-	-	-	-

(1) 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, as described in the accounting policy (n). 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 12. 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 £5.4 million and a favourable change in valuation of £7.0 million, respectively.

There were no transfers between Level 1 and Level 2 during the year, nor into or out of Level 3.

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

## continued

### **17. FINANCIAL RISK** continued *Movement in Level 3 portfolios*

<b>Renewal income assets</b>	<b>31 December 2016</b>	31 December 2015
	<b>£'Million</b>	£'Million
Opening balance	<b>26.8</b>	29.1
Additions during the year	<b>38.2</b>	1.4
Losses recognised in the statement of comprehensive income	<b>(6.1)</b>	(3.7)
<b>Closing balance</b>	<b>58.9</b>	26.8
Unrealised losses	<b>(6.1)</b>	(3.7)
<b>Losses recognised in the statement of comprehensive income</b>	<b>(6.1)</b>	(3.7)

#### **Credit risk**

The following table sets out the maximum credit risk exposure and ratings of financial and other assets which are susceptible to credit risk:

<b>31 December 2016</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Unrated</b>	<b>Total</b>
	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>
Fixed income securities	4.8	42.9				47.7
Investment in Collective Investment Schemes <sup>(1)</sup>	867.4					867.4
Other receivables		86.8				941.2
Cash and cash equivalents		68.3	207.6	42.3	27.7	345.9
<b>Total</b>	<b>872.2</b>	<b>198.0</b>	<b>207.6</b>	<b>42.3</b>	<b>968.9</b>	<b>2,289.0</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.

<b>31 December 2015</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Unrated</b>	<b>Total</b>
	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>
Fixed income securities	3.9	79.2				83.1
Investment in Collective Investment Schemes <sup>(1)</sup>	531.0					531.0
Other receivables		85.0				415.3
Cash and cash equivalents		22.1	177.8	25.4	8.2	233.5
<b>Total</b>	<b>534.9</b>	<b>186.3</b>	<b>177.8</b>	<b>25.4</b>	<b>423.5</b>	<b>1,347.9</b>

Other receivables includes £212.2 million (2015: £178.7 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 taking into account a range of factors including default history, the nature or type of the Partner loan, exposure levels to individual Partners and whether the individual Partner is active or has left.

The loan balance is presented net of a £3.3 million provision (2015: £3.0 million). (See also Note 12.) The movement in the impairment provision will reflect utilisation of the existing provision during the year, but the overall cost of impaired loans (including new provisions) recognised within administration expenses in the statement of comprehensive income during the year was a charge of £1.8 million (2015: £1.4 million).

The value of the loans that are past due but not impaired is not considered to be material and has therefore not been aged.

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

### **Contractual maturity and liquidity analysis**

The following table sets out the contractual maturity analysis of the Group's financial assets and financial liabilities as at 31 December 2016:

<b>31 December 2016</b>	<b>Up to 1 year</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	£'Million	£'Million	£'Million	£'Million
<b>Financial Assets</b>				
Fixed income securities	<b>47.7</b>			<b>47.7</b>
Investment in Collective Investment Schemes	<b>867.4</b>			<b>867.4</b>
Other receivables				
– St. James's Place Partnership loans	<b>62.5</b>	<b>114.2</b>	<b>35.5</b>	<b>212.2</b>
– Renewal income	<b>10.1</b>	<b>26.1</b>	<b>22.7</b>	<b>58.9</b>
– Other	<b>756.9</b>			<b>756.9</b>
Total other receivables	<b>829.5</b>	<b>140.3</b>	<b>58.2</b>	<b>1,028.0</b>
Cash and cash equivalents	<b>345.9</b>			<b>345.9</b>
<b>Total financial assets</b>	<b>2,090.5</b>	<b>140.3</b>	<b>58.2</b>	<b>2,289.0</b>
<b>Financial Liabilities</b>				
Borrowings	<b>1.3</b>	<b>228.0</b>	<b>53.4</b>	<b>282.7</b>
Other payables	<b>740.2</b>	<b>25.1</b>	<b>24.8</b>	<b>790.1</b>
<b>Total financial liabilities</b>	<b>741.5</b>	<b>253.1</b>	<b>78.2</b>	<b>1,072.8</b>

31 December 2015	<b>Up to 1 year</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	£'Million	£'Million	£'Million	£'Million
<b>Financial Assets</b>				
Fixed income securities	40.7		42.4	83.1
Investment in Collective Investment Schemes	532.7			532.7
Other receivables				
– St. James's Place Partnership loans	62.2	105.1	11.4	178.7
– Renewal income	26.8			26.8
– Other	294.8			294.8
Total other receivables	383.8	105.1	11.4	500.3
Cash and cash equivalents	233.5			233.5
<b>Total financial assets</b>	<b>1,190.7</b>	<b>105.1</b>	<b>53.8</b>	<b>1,349.6</b>
<b>Financial Liabilities</b>				
Borrowings	1.0	126.7	54.1	181.8
Other payables	269.7	5.2	48.3	323.2
<b>Total financial liabilities</b>	<b>270.7</b>	<b>131.9</b>	<b>102.4</b>	<b>505.0</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

### **17. 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.

The carrying value of the unit liabilities may differ from the amount contractually required to pay at maturity. Maturity values of the financial liabilities vary with future client investment and withdrawals as well as investment return. Future value also derives from credit for notional capital losses in some life insurance (BLAGAB) funds. The contractual value required to be paid to unit holders as at 31 December 2016 would be £17.1 million lower than the liability reflected in the statement of financial position (2015: £9.6 million lower).

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

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

	<b>31 December 2016</b>	31 December 2015
	£'Million	£'Million
<b>Financial Assets and Investment Properties</b>		
Investment properties	42.8	128.6
Other assets backing unit liabilities	7,456.7	1,396.0
<b>Total financial assets and investment properties</b>	<b>7,499.5</b>	1,524.6
<b>Financial Liabilities<sup>(2)</sup></b>		
Unit liabilities	6,336.8	973.8
<b>Total financial liabilities</b>	<b>6,336.8</b>	973.8

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

(2) 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:

<b>31 December 2016</b>	Level 1 £'Million	Level 2 £'Million	Level 3 £'Million	<b>Total balance £'Million</b>
				£'Million
<b>Financial Assets and Investment Properties</b>				
Investment property			1,462.4	1,462.4
Equities	46,598.7			46,598.7
Fixed income securities		12,397.8		12,397.8
Investment in Collective Investment Schemes	2,996.0		1.4	2,997.4
Derivative financial instruments		729.1		729.1
Cash and cash equivalents	7,067.2			7,067.2
<b>Total financial assets and investment properties</b>	<b>56,661.9</b>	<b>13,126.9</b>	<b>1,463.8</b>	<b>71,252.6</b>
<b>Financial Liabilities</b>				
Investment contract benefits		53,307.1		53,307.1
Derivative financial instruments		281.9		281.9
Net asset value attributable to unit holders	17,032.0			17,032.0
<b>Total financial liabilities</b>	<b>17,032.0</b>	<b>53,589.0</b>	-	<b>70,621.0</b>

31 December 2015	Level 1 £'Million	Level 2 £'Million	Level 3 £'Million	Total balance £'Million
<b>Financial Assets and Investment Properties</b>				
Investment property			1,344.9	1,344.9
Equities	37,960.8			37,960.8
Fixed income securities		8,850.9		8,850.9
Investment in Collective Investment Schemes	2,735.9		2.7	2,738.6
Derivative financial instruments		364.1		364.1
Cash and cash equivalents	5,091.6			5,091.6
<b>Total financial assets and investment properties</b>	<b>45,788.3</b>	<b>9,215.0</b>	<b>1,347.6</b>	<b>56,350.9</b>
<b>Financial Liabilities</b>				
Investment contract benefits		43,159.8		43,159.8
Derivative financial instruments		221.1		221.1
Net asset value attributable to unit holders	12,556.4			12,556.4
<b>Total financial liabilities</b>	<b>12,556.4</b>	<b>43,380.9</b>	<b>-</b>	<b>55,937.3</b>

In respect of the derivative financial liabilities, £171.1 million of collateral has been posted at 31 December 2016, comprising cash and treasury bills (2015: £97.4 million), 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, as described in the accounting policy (n). 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 of the resulting fair value estimates are included in Level 2, except for certain equities and investments in Collective Investment Schemes (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, 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 options 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, 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

### **17. FINANCIAL RISK** 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 Collective Investment Schemes (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:

<b>Year Ended 31 December 2016</b>	<b>Investment property</b>		<b>CIS</b>
	<b>£'Million</b>	<b>£'Million</b>	
Opening balance	<b>1,344.9</b>		<b>2.7</b>
Transfer into Level 3	–		<b>0.4</b>
Additions during the year	<b>140.9</b>		–
Disposed during the year	–		–
Gains/(losses) recognised in the income statement	(23.4)		(1.7)
<b>Closing balance</b>	<b>1,462.4</b>		<b>1.4</b>
Realised losses	–		–
Unrealised gains	(23.4)		(1.7)
<b>Gains/(losses) recognised in the income statement</b>	<b>(23.4)</b>		<b>(1.7)</b>

Year Ended 31 December 2015	<b>Investment property</b>		<b>CIS</b>
	<b>£'Million</b>	<b>£'Million</b>	
Opening balance	1,031.4		29.9
Transfer into Level 3	–		0.3
Additions during the year	253.8		–
Disposed during the year	(14.3)		(27.4)
Gains recognised in the income statement	74.0		(0.1)
<b>Closing balance</b>	<b>1,344.9</b>		<b>2.7</b>
Realised losses	(5.8)		–
Unrealised gains	79.8		(0.1)
<b>Gains/(losses) recognised in the income statement</b>	<b>74.0</b>		<b>(0.1)</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 £1,462.4 million (2015: £1,344.9 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 in to the future, an assessment of a property's ability to remain as an attractive technical configuration to existing and prospective tenants in a changing market and a judgement to be reached on the attractiveness of a building, its location and the surrounding environment.

31 December 2016	Investment property classification			
	Office	Industrial	Retail & leisure	All
<b>Gross ERV (per sq ft)*</b>				
Range	<b>£14.66 – £96.50</b>	<b>£3.50 – £15.75</b>	<b>£4.50 – £427.84</b>	<b>£3.50 – £427.84</b>
Weighted average	<b>£31.63</b>	<b>£6.94</b>	<b>£15.05</b>	<b>£13.74</b>
<b>True equivalent yield</b>				
Range	<b>3.9% – 8.4%</b>	<b>5.3% – 7.3%</b>	<b>4.8% – 13.6%</b>	<b>3.9% – 13.6%</b>
Weighted average	<b>5.4%</b>	<b>6.1%</b>	<b>5.9%</b>	<b>5.8%</b>
31 December 2015				
<b>Gross ERV (per sq ft)*</b>				
Range	£14.75 – £90.01	£3.00 – £15.00	£5.00 – £365.46	£3.00 – £365.46
Weighted average	£30.18	£6.59	£14.73	£13.22
<b>True equivalent yield</b>				
Range	3.7% – 8.0%	5.4% – 7.1%	4.7% – 13.1%	3.7% – 13.1%
Weighted average	5.4%	6.1%	6.0%	5.8%

\* Equivalent rental value (per square foot)

### Sensitivity of Level 3 valuations

The valuation of certain equities and investments in Collective Investment Schemes (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 to the valuation of the investment properties. Any change in the value of investment property is matched by the associated movement in the policyholder liability and therefore would not impact on the shareholder net assets.

Investment property significant unobservable inputs	Effect of reasonable possible alternative assumptions		
	Carrying value	Favourable changes	Unfavourable changes
		£'Million	£'Million
31 December 2016	<b>1,462.4</b>	<b>1,598.3</b>	<b>1,341.9</b>
31 December 2015	1,344.9	1,469.3	1,235.2

### 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 policyholders. (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

### 18. CAPITAL MANAGEMENT AND ALLOCATION

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

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

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

The Group's 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, albeit recognising the regulatory requirement. For other regulated companies we generally hold capital based on the regulatory requirement uplifted by a specified margin.

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

<b>Entity</b>	<b>Regulatory Body and Jurisdiction</b>
St. James's Place UK plc	PRA and FCA: Long-term insurance business
St. James's Place International plc	Central Bank of Ireland: Life insurance business
St. James's Place Unit Trust Group Limited	FCA: UCITS Management Company
St. James's Place Investment Administration Limited	FCA: Investment Firm
St. James's Place Wealth Management (PCIS) Limited	FCA: Securities and Futures Firm
St. James's Place Wealth Management plc	FCA: Personal Investment Firm
BFS 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 (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 the impact of the implementation of Solvency II is included in the Financial Review on page 43 and in the separate Solvency and Financial Condition Report document. The overall capital position for the Group at 31 December 2016, assessed on the Standard Formula basis, is presented in the following table:

<b>31 December 2016</b>	<b>Group</b>
	<b>£'Million</b>
IFRS total assets	<b>75,022.1</b>
Less Solvency II valuation adjustments and unit linked liabilities	(73,952.1)
Solvency II net assets	<b>1,070.0</b>
<i>Management Solvency Buffer (MSB)</i>	<b>527.0</b>
<i>Excess of free assets over MSB</i>	<b>543.0</b>
Solvency II VIF	<b>2,707.9</b>
Risk margin	(779.2)
Standard formula SCR (A)	(2,046.5)
Sub-total	(117.8)
<b>Solvency II Free Assets (B)</b>	<b>952.2</b>
Solvency II ratio ((A +B)/A)	<b>147%</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 section on Risk and Risk Management on page 49.

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

Although there has been a significant change in the approach to assessing 'required capital' during the year (as a result of Solvency II), there has been no material change in the level of capital required, or in the Group's management of capital. All regulated entities exceeded the minimum solvency requirements at the reporting date and during the year.

### **Capital composition**

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

	<b>31 December 2016</b>	31 December 2015
	£'Million	£'Million
Share capital	<b>79.1</b>	78.7
Share premium	<b>164.5</b>	158.3
Shares in trust reserve	<b>(20.9)</b>	(18.5)
Miscellaneous reserves	<b>2.5</b>	2.3
Retained earnings	<b>851.2</b>	874.6
Shareholders' equity	<b>1,076.4</b>	1,095.4
Non-controlling interests	<b>(0.8)</b>	(0.3)
<b>Total equity</b>	<b>1,075.6</b>	1,095.1

The above assets do not all qualify as regulatory capital. The required minimum regulatory capital and analysis of the assets that qualify as regulatory capital are outlined in Section 4 of the Financial Review on page 39, 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

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

### Share Capital

	Number of Ordinary Shares	Called up Share Capital £'Million
At 1 January 2015	519,447,391	77.9
– Issue of share capital	206,366	–
– Exercise of options	5,011,455	0.8
At 31 December 2015	524,665,212	78.7
– Issue of share capital	108,819	–
– Exercise of options	2,708,317	0.4
<b>At 31 December 2016</b>	<b>527,482,348</b>	<b>79.1</b>

The total authorised number of ordinary shares is 605 million (2015: 605 million), with a par value of 15 pence per share (2015: 15 pence per share). All issued shares are fully paid.

Included in the issued share capital are 3,954,525 (2015: 3,605,740) shares held in the Shares in Trust Reserve with a nominal value of £0.6 million (2015: £0.5 million). The shares are held by the SJPC Employee Share Trust and the St. James's Place 2010 SIP Trust to satisfy certain share-based payment schemes. The trustees of the SJPC Employee Share Trust retain the right to dividends on the shares held by the Trust but have chosen to waive their entitlement to the dividends on 1,330,156 shares during 2016 and 1,727,510 shares during 2015. No dividends have been waived on shares held in the St. James's Place 2010 SIP Trust in 2016 or 2015.

The number of shares reserved for issue under options and contracts for sale of shares, including terms and conditions, is included within Note 20.

### Earnings per Share

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
<b>Earnings</b>		
Profit after tax attributable to equity shareholders ( <i>for both basic and diluted EPS</i> )	<b>112.2</b>	202.0
	<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>522.6</b>	519.1
Adjustments for outstanding share options	<b>3.3</b>	5.2
Weighted average number of ordinary shares ( <i>for diluted EPS</i> )	<b>525.9</b>	524.3
	<b>Pence</b>	Pence
<b>Earnings per share (EPS)</b>		
Basic earnings per share	<b>21.5</b>	38.9
Diluted earnings per share	<b>21.3</b>	38.5

### Dividends

The following dividends have been paid by the Group:

	Year Ended 31 December 2016	Year Ended 31 December 2015	Year Ended 31 December 2016	Year Ended 31 December 2015
	Pence per Share	Pence per Share	£'Million	£'Million
Final dividend in respect of previous financial year	<b>17.24</b>	14.37	<b>90.4</b>	74.8
Interim dividend in respect of current financial year	<b>12.33</b>	10.72	<b>64.8</b>	56.0
<b>Total dividends</b>	<b>29.57</b>	25.09	<b>155.2</b>	130.8

The Directors have recommended a final dividend of 20.67 pence per share (2015: 17.24 pence). This amounts to £109 million (2015: £90.4 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 12 May 2017 to those shareholders on the register as at 7 April 2017.

## 20. SHARE-BASED PAYMENTS

During the year ended 31 December 2016, the Group operated a number of different equity and cash settled share-based payment arrangements, which are aggregated as follows:

- SAYE plan – this is a standard HMRC approved scheme that is available to all employees where individuals may contribute up to £250 per month over three years to purchase shares at a price not less than 80% of the market price at the date of the invitation to participate;
- Share incentive plan (SIP) – this is an HMRC approved scheme which is available to all employees where individuals may invest up to an annual limit of £1,500 of pre-tax salary in SJP shares, to which the Company will add a further 10%. If the shares are held for five years, then they may be sold free of income tax or CGT;
- Executive deferred bonus schemes – under these plans the deferred element of the annual bonus is used to purchase shares at market value in the Company. The shares are held by the Company until vesting after three years and, in addition to the performance targets, which apply prior to any entitlement being granted, further performance conditions may also apply on vesting;
- Executive performance share plan – the Remuneration Committee of the Group Board may make awards of performance shares to the Executive Directors and other senior managers. Two-thirds of shares awarded to Directors are subject to an earnings growth condition of the Group and one-third of shares awarded to Directors are subject to a comparative total shareholder return (TSR) condition, both measured over a three-year period. Further information regarding the vesting conditions of the earnings growth and total shareholder return dependent portions of the award is given in the Remuneration Report on page 98. Awards made to senior managers are largely only subject to the earnings growth condition of the Group;
- Partner share option schemes – these were offered to the Partners of the St. James's Place Partnership and vest over three to six years subject to satisfying personal 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 the year of the award and validation over the following three years. The last award under this scheme was made in 2010;
- Partner and Adviser chartered plan - a new 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 new business levels in a specified twelve month period and validation over the following three years. The first award under these schemes was made in 2016; and
- 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 SJP Group and maintains any applicable professional qualifications.

Share options outstanding under the various share option schemes, together with shares due under the deferred bonus schemes at 31 December 2016, amount to 11.5 million shares (2015: 7.1 million). Of these, 5.4 million (2015: 1.1 million) are under option to Partners of the St. James's Place Partnership, 4.7 million (2015: 4.7 million) are under option to executives and senior management (including 1.3 million (2015: 1.5 million) under option to Directors as disclosed in the Remuneration Report, on pages 108 to 110), 0.3 million (2015: nil) are under option to employees who became employees of the Group on acquisition of the Rowan Dartington Group and 1.1 million (2015: 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

### 20. SHARE-BASED PAYMENTS continued

The table below summarises the share-based payment awards made in 2015 and 2016:

	SAYE	Share Incentive Plan	Executive Deferred Bonus	Executive Performance Share Plan	Partner and Adviser Chartered Plan	Restricted Share Plan
<b>Awards in 2015:</b>						
Date of grant	25 March and 25 September	26 March	26 March	26 March and 15 September	–	–
Number granted	637,327	5,245	675,097	729,506	–	–
Contractual life	3.5 years	3 years	3 years	3.5 – 6 years	–	–
Vesting conditions	3 year saving period	3 year saving period	3 years' service and achievement of personal targets in some instances	3 years' service and achievement of earnings and TSR targets	–	–
<b>Awards in 2016:</b>						
Date of grant	24 March	24 March	24 March	24 March and 26 September	29 July	29 July
Number granted	460,065	5,591	613,382	857,125	5,374,449	323,300
Contractual life	3.5 years	3 years	3 years	3.5 – 6 years	3.5 years	3.5 years
Vesting conditions	3 year saving period	3 year saving period	3 years' service and achievement of personal targets in some instances	3 years' service and achievement of earnings and TSR targets	3 year saving period	3 year saving period

### 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:

	SAYE	Share Incentive Plan	Executive Deferred Bonus	Executive Performance Share Plan	Partner and Adviser Chartered Plan	Restricted Share Plan
<b>Valuation model</b>	Black Scholes	Black Scholes	Black Scholes	Monte Carlo	Black Scholes	Black Scholes
<b>Awards in 2015</b>						
Fair value (pence)	263.3/161.4 <sup>(2)</sup>	979.0	979.0/982.5	979.0 <sup>(4)</sup>	–	–
Share price (pence)	990.0/836.6	979.0	979.0	979.0 <sup>(5)</sup>	–	–
Exercise price (pence)	738.0/724.0	0.0	0.0	0.0	–	–
Expected volatility (% pa) <sup>(1)</sup>	25/25	N/A	N/A	25	–	–
Expected dividends (% pa)	2.4/3.0	N/A	N/A <sup>(3)</sup>	N/A	–	–
Risk-free interest rate (% pa)	0.7/0.9	N/A	N/A	N/A	–	–
Volatility of competitors (% pa)	N/A	N/A	N/A	18 to 48	–	–
Correlation with competitors (%)	N/A	N/A	N/A	20	–	–
<b>Awards in 2016</b>						
Fair value (pence)	250.7	935.5	935.5	493.9/935.5	822.0	894.0
Share price (pence)	935.5	935.5	935.5	935.5	920.0	894.0
Exercise price (pence)	687.0	0.0	0.0	0.0	15.0	0.0
Expected volatility (% pa) <sup>(1)</sup>	27.0	N/A	N/A	27.0	29.0	N/A
Expected dividends (% pa)	3.0	N/A	N/A	N/A	3.2	N/A
Risk-free interest rate (% pa)	0.6	N/A	N/A	N/A	0.1	N/A
Volatility of competitors (% pa)	N/A	N/A	N/A	17 to 44	N/A	N/A
Correlation with competitors (%)	N/A	N/A	N/A	20.0	N/A	N/A

Notes:

- (1) Expected volatility is based on an analysis of the Company's historic share price volatility over a period (typically three or five years) which is commensurate with the expected term of the options or the awards.
- (2) In 2015 and 2016, the vesting period for the SAYE plan was three years. The vesting period may be extended by up to six months in order to catch up on missed contributions.
- (3) Dividends payable on the shares during the restricted period are paid out during the restricted period for the executive deferred bonus schemes and no dividend yield assumption is therefore required.
- (4) The awards made under the executive performance share plan are dependent upon earnings growth in the Company (two-thirds of the award) and a total shareholder return of a comparator group of companies (one-third of the award). This results in having two fair values for each of the awards made in the table above, the first being in relation to the comparator total shareholder return and the second relating to the Company's earnings growth.
- (5) Awards were made under the executive performance share plan on two separate occasions during 2016 (2015: two).

	<b>Year Ended 31 December 2016</b>	<b>Year Ended 31 December 2016</b>	Year Ended 31 December 2015	Year Ended 31 December 2015
	<b>Number of options</b>	<b>Weighted average exercise price</b>	Number of options	Weighted average exercise price
<b>SAYE</b>				
Outstanding at start of year	<b>1,162,588</b>	<b>£6.15</b>	1,458,774	£3.86
Granted	<b>460,065</b>	<b>£7.48</b>	637,327	£7.30
Forfeited	<b>(272,877)</b>	<b>£7.19</b>	(88,461)	£5.52
Exercised	<b>(319,073)</b>	<b>£3.53</b>	(845,052)	£2.82
Outstanding at end of year	<b>1,030,703</b>	<b>£7.28</b>	1,162,588	£6.15
Exercisable at end of year	<b>786</b>	<b>£4.04</b>	108,103	£2.75
<b>Executive Share Options</b>				
Outstanding at start of year	-	-	54,270	£2.43
Exercised	-	-	(54,270)	£2.43
Outstanding at end of year	-	-	-	-
<b>Partner Share Options</b>				
Outstanding at start of year	<b>1,146,226</b>	<b>£3.35</b>	3,407,365	£2.91
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	<b>(1,127,126)</b>	<b>£3.33</b>	(2,261,139)	£2.69
Outstanding at end of year	<b>19,100</b>	<b>£4.55</b>	1,146,226	£3.35
Exercisable at end of year	<b>19,100</b>	<b>£4.55</b>	1,146,226	£3.35

The average share price during the year was 914.6 pence (2015: 921.5 pence).

The SAYE plan options outstanding at 31 December 2016 had exercise prices of 404 pence (786 options), 676 pence (207,521 options), 792 pence (197,458 options), 669 pence (181,693), 748 pence (436,624) and a weighted average remaining contractual life of 2.1 years.

The options outstanding under the Partner share option schemes at 31 December 2016 had exercise prices ranging from 438 pence to 465 pence and a weighted average remaining contractual life of 0.2 years.

#### Share Incentive Plan (nil cost option – no proceeds on exercise)

	<b>Year Ended 31 December 2016</b>	Year Ended 31 December 2015
	<b>Number of options</b>	Number of options
<b>Outstanding at start of year</b>		
Granted	<b>24,892</b>	23,069
Forfeited	<b>5,591</b>	5,245
Exercised	<b>(825)</b>	(879)
<b>Outstanding at end of year</b>	<b>27,256</b>	24,892
<b>Exercisable at end of year</b>	<b>13,134</b>	3,711

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

	<b>Year Ended 31 December 2016</b>	Year Ended 31 December 2015
	<b>Number of options</b>	Number of options
<b>Outstanding at start of year</b>		
Granted	<b>3,187,940</b>	5,212,411
Forfeited	<b>857,125</b>	729,506
Exercised	<b>(98,535)</b>	(245,272)
<b>Outstanding at end of year</b>	<b>2,953,269</b>	3,187,940
<b>Exercisable at end of year</b>	<b>514,297</b>	310,188

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

continued

## 20. SHARE-BASED PAYMENTS continued

### Partner Performance Share Plan (15 pence per share on exercise)

	Year Ended 31 December 2016	Year Ended 31 December 2015
	Number of options	Number of options
Outstanding at start of year	<b>15,000</b>	95,500
Granted	-	-
Forfeited	-	-
Exercised	<b>(15,000)</b>	(80,500)
Outstanding at end of year	-	15,000
Exercisable at end of year	-	15,000

### Partner and Adviser Chartered Plan (15 pence per share on exercise)

	Year Ended 31 December 2016	Year Ended 31 December 2015
	Number of options	Number of options
Outstanding at start of year	-	-
Granted	<b>5,374,449</b>	-
Forfeited	<b>(7,512)</b>	-
Exercised	-	-
Outstanding at end of year	<b>5,366,937</b>	-
Exercisable at end of year	-	-

### Executive Deferred Bonus (nil cost option – no proceeds on exercise)

	Year Ended 31 December 2016	Year Ended 31 December 2015
	Number of shares	Number of shares
Outstanding at start of year	<b>1,658,301</b>	1,676,958
Granted	<b>613,382</b>	675,097
Forfeited	<b>(12,789)</b>	(26,339)
Exercised	<b>(425,458)</b>	(667,415)
Outstanding at end of year	<b>1,833,436</b>	1,658,301
Exercisable at end of year	-	-

### Restricted Share Plan (nil cost option – no proceeds on exercise)

	Year Ended 31 December 2016	Year Ended 31 December 2015
	Number of shares	Number of shares
Outstanding at start of year	-	-
Granted	<b>323,300</b>	-
Forfeited	<b>(1,440)</b>	-
Exercised	-	-
Outstanding at end of year	<b>321,860</b>	-
Exercisable at end of year	-	-

### **Early exercise assumptions**

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

1. SAYE plan – all option holders are assumed to exercise halfway through the six month exercise window.
2. Executive, sales management and partner share option schemes – it is assumed that 10% of option holders exercise their options each year irrespective of the level of the share price. For the remainder it is assumed that one-half will exercise their options each year if the share price is at least 33% above the exercise price.

### **Allowance for performance conditions**

The executive performance share plan includes a market based performance condition based on the Company's total shareholder return relative to an index of comparator companies. The impact of this performance condition has been modelled using Monte Carlo simulation techniques, which involve running many thousands of simulations of future share price movements for both the Company and the comparator index. For the purpose of these simulations it is assumed that the share price of the Company and the comparator index are 20% (2015: 20%) correlated and that the comparator index has volatilities ranging between 17% p.a. to 44% p.a. (2015: 18% p.a. to 48% 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 2016 therefore include an allowance for the actual performance of the Company's share price relative to the index over the period between 1 January 2016 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:

	<b>Year Ended 31 December 2016</b>	Year Ended 31 December 2015
	£'Million	£'Million
Equity settled share-based payment expense	<b>22.7</b>	14.7
Cash settled share-based payment expense	<b>1.2</b>	1.0
<b>Total share-based payment expense</b>	<b>23.9</b>	15.7

### **Liability recognised in the statement of financial position**

The liability recognised in the statement of financial position in respect of the cash settled share-based payment awards is as follows. This liability is included within other payables on the face of the statement of financial position. None of the liability at 31 December 2016 or 31 December 2015 is in respect of vested cash settled share-based payments:

	<b>Year Ended 31 December 2016</b>	Year Ended 31 December 2015
	£'Million	£'Million
<b>Liability for cash settled share-based payments</b>	<b>3.1</b>	1.6

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

## continued

### 21. BUSINESS COMBINATIONS AND DISPOSALS

#### Business combinations

During the year the Group acquired the following subsidiaries in line with the Group's strategic objective of broadening the business model, expanding the client proposition and growing the Partnership:

Subsidiary undertaking	Principal activity	% Shareholding	Date of acquisition
<b>Rowan Dartington Group</b>			
Rowan Dartington Holdings Limited	Holding Company	100%	08/03/2016
Rowan Dartington & Co Limited	Stockbroker and Investment Manager	100%	08/03/2016
Stafford House Investments Limited	Independent Financial Adviser	100%	08/03/2016
Ardan International Limited	Investment Platform	92.5%	08/03/2016
Dartington Portfolio Nominees Limited	Non-trading	100%	08/03/2016
Rowan Dartington Trustees Limited	Non-trading	100%	08/03/2016
RD Portfolio Nominees Limited	Non-trading	100%	08/03/2016
Colston Portfolio Nominees Limited	Non-trading	100%	08/03/2016
Cabot Portfolio Nominees Limited	Non-trading	100%	08/03/2016
Ardan Nominees Limited	Non-trading	100%	08/03/2016
<b>Others</b>			
Technical Connection Limited	Tax and Advisory Services	100%	18/04/2016
Now Financial Solutions Limited*	Independent Financial Adviser	100%	29/04/2016

\* Post acquisition, Now Financial Solutions Limited changed its name to Hale Financial Solutions Limited.

Acquisition-related costs of £0.2 million have been charged to administration expenses in the consolidated income statement for the year ended 31 December 2016.

#### Rowan Dartington Group

The Rowan Dartington Group acquisition contributed £9.8 million to revenue and a £3.9 million loss before income tax for the period between the acquisition date and the statement of financial position date. Had the above acquisitions been consolidated from 1 January 2016, they would have contributed £11.4 million to revenue and a £4.8 million loss before income tax to the consolidated statement of comprehensive income for the period.

The net assets, fair value adjustments and consideration for these acquisitions are summarised below (all values shown as at their acquisition dates):

	Book value £'Million	Fair value adjustment £'Million	Total £'Million
Financial assets	7.8	39.1	46.9
Cash and cash equivalents	1.2	—	1.2
Financial liabilities	(7.6)	(6.6)	(14.2)
<b>Total</b>	1.4	32.5	33.9
Consideration			19.9
Cash consideration			7.2
Deferred consideration			6.8
Contingent consideration			33.9
<b>Total consideration</b>			

It is expected that the contingent consideration will be paid in full with no changes to the amount initially recognised; however, should the target number of Investment Executives not be met, the contingent consideration will decrease on a pro-rata basis down to a value of £nil. Of the remaining balance to be settled at acquisition, a further £2.4 million was settled on 6 September 2016 and the Group expects that £2.4 million will be settled by 9 March 2017, £5.7 million by 6 September 2017 and £3.5 million by 8 March 2019.

## Other acquisitions

The net assets, fair value adjustments and consideration for these acquisitions are summarised below (all values shown as at their acquisition dates):

	Book value	Fair value adjustment	Total
	£'Million	£'Million	£'Million
Financial assets	0.3	2.2	2.5
Cash and cash equivalents	0.9	-	0.9
Financial liabilities	(0.5)	(0.4)	(0.9)
<b>Total</b>	0.7	1.8	2.5
Consideration			
Cash consideration			3.8
Deferred consideration			0.3
Contingent consideration			2.1
<b>Total consideration</b>			6.2
<b>Goodwill</b>			3.7

Goodwill comprises the value placed on the experience and expertise of the Technical Connection Limited management team within the tax and advisory sector.

Of the £2.1 million contingent consideration, £1.2 million is in relation to the acquisition of Technical Connection Limited. It is expected that the £1.2 million contingent consideration will be paid in full with no changes to the amount initially recognised; however, should the target number of consultancy hours provided to SJP Partners and the level of Techlink subscriptions not be met, the contingent consideration will decrease on a pro-rata basis down to a value of £nil.

The remaining £0.9 million contingent consideration is in relation to the acquisition of Now Financial Solutions Limited (now Hale Financial Solutions Limited) and is payable if certain performance targets are met, being based on the individual Partner performance. It is expected that the £0.9 million contingent consideration will be paid in full with no changes to the amount initially recognised; however, should the performance targets not be met, the contingent consideration will decrease on a pro-rata basis down to a value of £nil.

Of the total remaining balance to be settled, the Group expects that £0.4 million will be settled by 29 April 2017, £0.8 million will be settled by 18 April 2018, £0.4 million will be settled by 29 April 2018 and £0.8 million will be settled by 18 April 2019.

## Disposals

During the year the Group sold 100% of its investments in the following subsidiaries in line with the Group's objective to simplify the Group structure and remove non-core operations:

Subsidiary undertaking	Principal activity	Date of disposal	Net assets on date of disposal	Profit/(loss) on disposal
			£'Million	£'Million
Ardan International Limited	Investment Platform	30/12/2016	4.0	nil
Ardan Nominees Limited	Non-trading	30/12/2016	-	nil
St. James's Place Trust Company Jersey Limited	Trustee Services	21/06/2016	0.1	(0.1)

In line with IFRS 3, no gain or loss arose on the sale of Ardan International Limited and its subsidiary as it was sold within the twelve month adjustment period following acquisition, resulting in a fair value adjustment being processed in the business combination note resulting in the reduction of goodwill.

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

## continued

### 22. INTERESTS IN UNCONSOLIDATED ENTITIES

#### Unconsolidated structured entities

The Group operates investment vehicles, such as unit trusts, primarily to match unit holder liabilities. The investment vehicles are primarily financed by investments from unit holders. 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 policyholder liabilities. However, the maximum exposure to loss is equal to the carrying value of the investment, with the balance being included within investments in Collective Investment Schemes. At 31 December 2016, the total net asset value of unconsolidated unit trusts in which the Group held a beneficial interest was £2,857.5 million (2015: £2,702.4 million).

The following unit trusts are not consolidated within the Group financial statements; however, the Group does act as the manager of these unit trusts.

Name of entity	% of ownership interest		Nature of relationship	Measurement method	Net asset value as at 31 December	
	2016	2015			2016	2015
St. James's Place Property Unit Trust	<b>0.00</b>	0.00	Manager of unit trust	N/A	<b>£1,005.0</b>	859.2
St. James's Place UK High Income Unit Trust	<b>10.72</b>	9.64	Manager of unit trust	Fair value through profit or loss	<b>£1,852.5</b>	1,843.2
						<b>£2,857.5</b>
						2,702.4

As at 31 December 2016 the value of the Group's interests in the individual unconsolidated unit trusts were £nil (2015: £nil) in St. James's Place Property Unit Trust and £198.6 million (2015: £177.7 million) in St. James's Place UK High Income Unit Trust.

#### Associates

The following unit trust, registered in England and Wales, is not consolidated within the Group financial statements; however it does meet the criteria of an associate.

Name of entity	% of ownership interest		Nature of relationship	Measurement method	Net asset value as at 31 December	
	2016	2015			2016	2015
St. James's Place UK High Income Unit Trust	<b>10.72</b>	9.64	Manager of unit trust	Fair value through profit or loss	<b>£1,852.5</b>	1,843.2
						<b>£1,852.5</b>
						1,843.2

## 23. SUBSIDIARY UNDERTAKINGS

### Principal subsidiaries:

#### **Investment Holding Companies**

St. James's Place Investments plc\*  
 St. James's Place Wealth Management Group plc\*  
 St. James's Place DFM Holdings Limited\*

#### **Life Assurance**

St. James's Place UK plc  
 St. James's Place International plc (*incorporated in Ireland*)#

#### **Unit Trust Management**

St. James's Place Unit Trust Group Limited

#### **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\*\*

#### **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

\* Directly held by St. James's Place plc.

\*\* The Company also operates a branch in the Republic of Ireland.

# The Company also operates a branch in Singapore.

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

### 23. SUBSIDIARY UNDERTAKINGS continued

Included below and on the following page is a full list of the entities within the St. James's Place plc Group at 31 December 2016:

Entity	Company number	Registered office	Country of incorporation	Principal activity	Audit exemption
Australian Expatriate Services Limited	01954254	1st Floor, Henley Building, 5 Queen's Road Central, Hong Kong	Hong Kong	Overseas Distribution	No
BFS Financial Services Limited	04609753	*	England and Wales	Financial Advice	Yes
Cabot Portfolio Nominees Limited	03636010	*	England and Wales	Nominee Company	Yes
Chapman Associates Limited	03047530	*	England and Wales	Financial Advice	Yes
Chapman Hunter Group Limited	06034452	*	England and Wales	Holding Company	Yes
Colston Portfolio Nominees Limited	02763967	*	England and Wales	Nominee Company	Yes
Dartington Portfolio Nominees Limited	01489542	*	England and Wales	Nominee Company	Yes
G.M.B. Financial Services Limited	04074782	*	England and Wales	Non-trading	Yes
Hale Financial Solutions Limited	04373946	*	England and Wales	Financial Advice	Yes
Lansdown Place Group Holdings Limited	06390547	2 Oakfield Road, Clifton, Bristol, England, BS8 2AL, United Kingdom	England and Wales	Holding Company	Yes
LP Auto Enrolment Solutions Limited	08257531	2 Oakfield Road, Clifton, Bristol, England, BS8 2AL, United Kingdom	England and Wales	Pension Auto-enrolment	Yes
LP Financial Management Limited	02195886	2 Oakfield Road, Clifton, Bristol, England, BS8 2AL, United Kingdom	England and Wales	Financial Advice	Yes
LP Holdco Limited	08323278	2 Oakfield Road, Clifton, Bristol, England, BS8 2AL, United Kingdom	England and Wales	Holding Company	No
Lansdown Place Wealth Management Limited	05458948	2 Oakfield Road, Clifton, Bristol, England, BS8 2AL, United Kingdom	England and Wales	Financial Advice	Yes
M.H.S. (Holdings) Limited	0559995	*	England and Wales	Non-trading	Yes
PFPTime Limited	04047197	*	England and Wales	Financial Advice	Yes
RD Portfolio Nominees Limited	02752124	*	England and Wales	Nominee Company	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
Rowan Dartington Trustees Limited	05224173	*	England and Wales	Nominee Company	Yes
SJP AESOP Trustees Limited	04089795	*	England and Wales	Nominee Company	Yes
SJPC Corporate Investments Limited	01476292	*	England and Wales	Holding Company	Yes
Stafford House Investments Limited	03866935	*	England and Wales	Financial Advice	Yes
St. James's Place (Hong Kong) Limited	0275275	1st Floor, Henley Building, 5 Queen's Road Central, Hong Kong	Hong Kong	Overseas Distribution	No
St. James's Place (PCP) Limited	02706684	*	England and Wales	Transacts and Services SJP Income Streams	No
St. James's Place (Properties) Limited	06890166	*	England and Wales	Non-trading	Yes
St. James's Place (Shanghai) Limited	310000400640051	Unit 2006-2007, Tower 1 (North), 1515 West Nanjing Road, Jing'an, China	China	Overseas Distribution	No
St. James's Place (Singapore) Private Limited	200406398R	80 Raffles Place, #26-01 UOB Plaza, Singapore 048624, 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 EIS Limited	10110255	*	England and Wales	Non-trading	Yes

<b>Entity</b>	<b>Company number</b>	<b>Registered office</b>	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Audit exemption</b>
St. James's Place International (Hong Kong) Limited	2207694	1/F 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 Investments plc	01773177	*	England and Wales	Holding Company	Yes
St. James's Place Management Services (Asia) Limited	02293151	1st Floor, Henley Building, 5 Queen's Road Central, Hong Kong	Hong Kong	Management Services	No
St. James's Place Management Services Limited	2661044	*	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 S.A.	B17089	c/o Vistra (Luxembourg) Sarl, 15 Rue Edward Steichen, 4th Floor, Luxembourg, L-2540	Luxembourg	Non-trading	Yes
St. James's Place UK plc	02628062	*	England and Wales	Life Assurance	No
St. James's Place Unit Trust Group Limited	0947644	*	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 plc	02627518	*	England and Wales	Holding Company	No
St. James's Place Wealth Management International Pte. Ltd	201323453N	80 Raffles Place, #26-01 UOB Plaza, Singapore 048624, Singapore	Singapore	Holding Company	No
St. James's Place Wealth Management plc	04113955	*	England and Wales	UK Distribution	No
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

Where indicated above, the 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 2016.

All Group companies have an accounting reference date of 31 December. Unless otherwise stated, the tax residency of each subsidiary is the same as the country of incorporation.

100% of the ordinary share capital is held for the above subsidiaries with the exception of LP Holdco Limited (08323278), where 43.32% of ordinary share capital is held (comprising 100% of the nominal value of the Class A ordinary shares and 64% of the nominal value of the Class C ordinary shares, which together confer 60% of voting rights), and Lansdown Place Group Holdings Limited (06390547), where 92.4% of the ordinary share capital is held by LP Holdco Limited (comprising 95% of the nominal value of the Class A ordinary shares, 100% of the nominal value of the Class B and D ordinary shares, and 71% of the nominal value of the Class C shares).

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

## continued

### **23. SUBSIDIARY UNDERTAKINGS** continued

In addition, the Group financial statements consolidate the following unit trusts, all of which are registered in England and Wales:

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 Managed Unit Trust  
St. James's Place Continental European Unit Trust  
St. James's Place Corporate Bond Unit Trust  
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 Ethical 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 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 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 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

## 24. RELATED PARTY TRANSACTIONS

### Transactions with St. James's Place unit trusts

In respect of the non-consolidated St. James's Place managed unit trusts that are held as investments in the St. James's Place life and pension funds, there was a charge recognised of £0.3 million (2015: £10.1 million income) and the total value of transactions with those non-consolidated unit trusts was £53.0 million (2015: £43.0 million). Net management fees receivable from these unit trusts amounted to £17 million (2015: £22.3 million). The value of the investment into the non-consolidated unit trusts at 31 December 2016 was £198.6 million (2015: £176.5 million). These transactions are all with the Group's associate as set out in Note 22.

### 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 is set out in the Remuneration Report on page 103, in addition to the disclosure below.

The Remuneration Report also sets out transactions with the Directors under the Deferred Bonus Scheme, the Performance Share Plan, the Executive Share Scheme and the SAYE Share Option Schemes, together with details of the Directors' interests in the share capital of the Company.

The remuneration paid to key management personnel is as follows:

	Year Ended 31 December 2016	Year Ended 31 December 2015
	£'Million	£'Million
Short term employee benefits	<b>3.5</b>	3.2
Post-employment benefits	<b>0.4</b>	0.4
Other long-term benefits	<b>1.9</b>	1.6
Share-based payment	<b>1.9</b>	1.6
<b>Total</b>	<b>7.7</b>	6.8

The charge to the statement of comprehensive income in respect of the share-based payment awards made to the key management personnel of St. James's Place was £3.4 million (2015: £3.7 million).

The total value of St. James's Place funds under management held by related parties of the Group as at 31 December 2016 was £26.5 million (2015: £20.4 million). The total value of St. James's Place plc dividends paid to related parties of the Group during the year was £1.4 million (2015: £1.3 million).

Commission, advice fees and remuneration of £2.9 million (2015: £1.7 million) was paid, under normal commercial terms, to St. James's Place Partners and employees who were related parties by virtue of being connected persons with key management personnel. The outstanding amount payable at 31 December 2016 was £0.3 million (2015: £0.1 million).

Outstanding at the year end were Partner loans of £1.6 million (2015: £0.4 million) due from St. James's Place Partners who were related parties by virtue of being connected persons with key management personnel. During the year £0.7 million (2015: £0.1 million) was advanced and £0.3 million (2015: £0.1 million) was repaid by Partners who were related parties. St. James's Place Partnership loans are interest bearing (linked to Bank of England base rate plus a margin), repayable on demand and secured against the future renewal income streams of that Partner.

At the start of the year, related parties of key management personnel held nil (2015: 176,740) shares and options under various St. James's Place plc share option schemes. During the year 28,273 (2015: 23,413) shares and options were granted, nil (2015: 1,235) options lapsed and nil (2015: 113,568) options were exercised.



# PARENT COMPANY

## CONTENTS

- 
- Independent Auditors' Report
  - Parent Company Financial Statements (Financial Reporting Standard 101)



# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST. JAMES'S PLACE PLC

## REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

In our opinion, St. James's Place plc's parent company financial statements (the 'financial statements'):

- give a true and fair view of the state of the parent company's affairs as at 31 December 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Parent Company Statement of Financial Position as at 31 December 2016;
- the Parent Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

## OTHER REQUIRED REPORTING

### *Companies Act 2006 reporting*

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

### *ISAs (UK & Ireland) reporting*

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the parent company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

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
- the 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.

### *Directors' remuneration report - Companies Act 2006 opinion*

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### *Other Companies Act 2006 reporting*

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

As explained more fully in the Statement of Directors' Responsibilities set out on page 118, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the 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.

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

**OTHER MATTER**

We have reported separately on the group financial statements of St. James's Place plc for the year ended 31 December 2016.

**Jeremy Jensen (Senior Statutory Auditor)**

*for and on behalf of PricewaterhouseCoopers LLP*

*Chartered Accountants and Statutory Auditors*

London

27 February 2017

# PARENT COMPANY STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2016	As at 31 December 2015
		£'Million	£'Million
Investment in subsidiaries	2	<b>375.5</b>	352.8
<b>Current assets</b>			
Amounts owed by Group undertakings	6	<b>484.9</b>	242.1
<b>Current liabilities</b>			
Corporation tax liabilities		(0.7)	(0.7)
Amounts owed to Group undertakings	6	<b>(191.4)</b>	-
<b>Net current assets</b>		<b>292.8</b>	241.4
<b>Net assets</b>		<b>668.3</b>	594.2
 <b>Equity</b>			
Share capital	3	<b>79.1</b>	78.7
Share premium		<b>164.5</b>	158.3
Share option reserve		<b>130.0</b>	107.3
Miscellaneous reserves		<b>0.1</b>	0.1
Retained earnings		<b>294.6</b>	249.8
<b>Total shareholders' funds</b>		<b>668.3</b>	594.2

The financial statements on pages 188 to 194 were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:

**David Bellamy**  
*Chief Executive*

**Andrew Croft**  
*Chief Financial Officer*

The notes and information on pages 190 to 194 form part of these financial statements.

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

Note	Share Capital	Share Premium	Share Option Reserve	Miscellaneous Reserves	Retained Earnings	Total Shareholders' Funds
	£'Million	£'Million	£'Million	£'Million	£'Million	£'Million
At 1 January 2015	77.9	147.4	92.6	0.1	190.4	508.4
Profit and total comprehensive income for the year					190.2	190.2
Dividends	5				(130.8)	(130.8)
Issue of share capital	3	0.3	1.9			2.2
Exercise of options		0.5	9.0			9.5
Cost of share options expensed in subsidiary				14.7		14.7
At 31 December 2015	78.7	158.3	107.3	0.1	249.8	594.2
Profit and total comprehensive income for the year					200.0	200.0
Dividends	5				(155.2)	(155.2)
Issue of share capital	3		0.9			0.9
Exercise of options		0.4	5.3			5.7
Cost of share options expensed in subsidiary				22.7		22.7
<b>At 31 December 2016</b>	<b>79.1</b>	<b>164.5</b>	<b>130.0</b>	<b>0.1</b>	<b>294.6</b>	<b>668.3</b>

As at 31 December 2016 the total distributable reserves of the Company were £294.6 million (2015: £249.8 million). Information on the Company's dividend policy can be found within Note 5 on page 192.

The notes and information on pages 190 to 194 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 costs 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.

### FRS 101 – Reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- 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 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.

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 £200.0 million (2015: £190.2 million) which can be seen in the statement of changes in equity on page 189.

### Going concern

The Company is non-trading and has positive net assets, therefore 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 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.

## 2. INVESTMENT IN SUBSIDIARIES

	Cost £'Million	Share Awards Granted £'Million	Impairment Provision £'Million	Net Book Value £'Million
<b>At 1 January 2015</b>	311.4	92.6	(1.9)	402.1
<b>Movements in the year</b>				
Impairment expense	–	–	(64.0)	(64.0)
Share awards granted	–	14.7	–	14.7
<b>At 31 December 2015</b>	311.4	107.3	(65.9)	352.8
<b>Movements in the year</b>				
Eliminated on derecognition of subsidiaries dissolved in the year	(42.0)	–	42.0	–
Share awards granted	–	22.7	–	22.7
<b>At 31 December 2016</b>	<b>269.4</b>	<b>130.0</b>	<b>(23.9)</b>	<b>375.5</b>

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

During the year St. James's Place Partnership Limited, a subsidiary of the Company, was dissolved. The investment in this subsidiary was carried at nil net book at 31 December 2015, with the cost of £42.0 million having been fully provided for in previous years.

### Principal Subsidiary Undertakings at 31 December 2016

<b>Investment Holding Companies</b>	St. James's Place Investments plc St. James's Place Wealth Management Group plc St. James's Place DFM Holdings Limited St. James's Place UK plc St. James's Place International plc ( <i>incorporated in Ireland</i> )* St. James's Place Unit Trust Group Limited St. James's Place Investment Administration Limited St. James's Place Wealth Management plc St. James's Place Management Services Limited** St. James's Place Acquisition Services Limited St. James's Place International Distribution Limited Rowan Dartington & Co. Limited
<b>Life Assurance</b>	
<b>Unit Trust Management</b>	
<b>Unit Trust Administration and ISA Management</b>	
<b>Distribution</b>	
<b>Management Services</b>	
<b>IFA Acquisitions</b>	
<b>Asia Distribution</b>	
<b>Discretionary Fund Management</b>	

\* The Company operates a branch in Singapore.

\*\* The Company 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. A full list of the St. James's Place Group subsidiary undertakings can be found on pages 180 and 181 of the St. James's Place Annual Report and Accounts.

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

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS continued

## 3. SHARE CAPITAL

	Number of Ordinary Shares	Called up Share Capital £'Million
At 1 January 2015	519,447,391	77.9
– Issue of shares	206,366	0.3
– Exercise of options	5,011,455	0.5
At 31 December 2015	524,665,212	78.7
– Issue of shares	108,819	–
– Exercise of options	2,708,317	0.4
<b>At 31 December 2016</b>	<b>527,482,348</b>	<b>79.1</b>

The total authorised number of ordinary shares is 605 million (2015: 605 million), with a par value of 15 pence per share (2015: 15 pence per share). All issued shares are fully paid.

2,817,136 shares (2015: 5,217,821) were issued in the year at a nominal value of £0.4 million (2015: £0.8 million), for which the Company received consideration of £6.6 million (2015: £11.7 million).

## 4. AUDITORS' REMUNERATION

The total audit fee in respect of the Group is set out in Note 5 on page 141 of the consolidated financial statements. The audit fee charged to the Company for the year ended 31 December 2016 is £1,000 (2015: £1,000).

## 5. DIVIDENDS

The following dividends have been paid by the Group:

	Year Ended 31 December 2016	Year Ended 31 December 2015	Year Ended 31 December 2016	Year Ended 31 December 2015
	Pence per share	Pence per share	£'Million	£'Million
Final dividend in respect of previous financial year	<b>17.24</b>	14.37	<b>90.4</b>	74.8
Interim dividend in respect of current financial year	<b>12.33</b>	10.72	<b>64.8</b>	56.0
<b>Total</b>	<b>29.57</b>	25.09	<b>155.2</b>	130.8

The Directors have recommended a final dividend of 20.67 pence per share (2015: 17.24 pence). This amounts to £109 million (2015: £90.4 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 12 May 2017 to those shareholders on the register as at 7 April 2017.

### Dividend resources

The Company's policy is to increase the dividend in line with the underlying performance of the business, measured with reference to the cash and underlying cash result. 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 plc, 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 43 and further information about regulation and capital requirements is included in Note 18 on page 168.)

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 2016, the total distributable reserves of the Company were £294.6 million (2015: £249.8 million). The Directors are satisfied that this is sufficient to support the proposed dividend of £109 million.

## Cash resources

The shareholder cash resources within the Group at 31 December 2016 were £345.9 million (2015: £233.5 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 attributable to shareholders was £199.5 million on an underlying cash basis (2015: £182.1 million), and £175.4 million on a cash basis (2015: £171.5 million) as set out in the Financial Review on page 41. Under both bases the cash generated during the year is sufficient to cover the total proposed dividend for 2016 of £109 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 130.

## 6. RELATED PARTY TRANSACTIONS AND BALANCES

At the year end the following related party balances existed. All related parties in the tables below are subsidiaries of the Company, whether directly or indirectly held:

	31 December 2016	31 December 2015
	£'Million	£'Million
<i>Investments in Group companies</i>		
St. James's Place Wealth Management Group plc	<b>216.6</b>	194.9
St. James's Place Investments plc	<b>157.9</b>	157.9
St. James's Place DFM Holdings Limited	<b>1.0</b>	-
<b>Total</b>	<b>375.5</b>	352.8
<i>Intra group debtors</i>		
St. James's Place Wealth Management Group plc	<b>423.2</b>	-
St. James's Place Partnership Services Limited	<b>60.7</b>	-
St. James's Place DFM Holdings Limited	<b>1.0</b>	-
St. James's Place Investments plc	-	238.8
St. James's Place Management Services Limited	-	1.4
St. James's Place International Distribution Limited	-	1.9
<b>Total</b>	<b>484.9</b>	242.1
<i>Intra group creditors</i>		
St. James's Place Management Services Limited	<b>0.7</b>	-
St. James's Place Investments plc	<b>190.7</b>	-
<b>Total</b>	<b>191.4</b>	-

During the year, the Company received £200.7 million (2015: £254.9 million) dividends from subsidiary undertakings.

The total value of St. James's Place funds under management held by related parties of the Company as at 31 December 2016 was £26.5 million (2015: £20.4 million). The total value of dividends paid to related parties of the Company during the year was £1.4 million (2015: £1.3 million).

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS continued

## 6. RELATED PARTY TRANSACTIONS AND BALANCES

continued

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 2016 of:

BFS Financial Services Limited	04609753
Cabot Portfolio Nominees Limited	03636010
Chapman Associates Limited	03047530
Chapman Hunter Group Limited	06034452
Colston Portfolio Nominees Limited	02763967
Dartington Portfolio Nominees Limited	01489542
G.M.B. Financial Services Limited	04074782
Hale Financial Solutions Limited	04373946
Lansdown Place Group Holdings Limited	06390547
LP Auto Enrolment Solutions Limited	08257531
LP Financial Management Limited	02195886
Lansdown Place Wealth Management Limited	05458948
M.H.S. (Holdings) Limited	00559995
PFPTime Limited	04047197
RD Portfolio Nominees Limited	02752124
Rowan Dartington Holdings Limited	07470226
Rowan Dartington Trustees Limited	05224173
SJP AESOP Trustees Limited	04089795
SJPC Corporate Investments Limited	01476292
Stafford House Investments Limited	03866935
St. James's Place (Properties) Limited	06890166
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 EIS Limited	10110255
St. James's Place International Distribution Limited	08798683
St. James's Place Investments plc	01773177
St. James's Place Nominees Limited	08764214
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 Remuneration Report on page 103.

## 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.

# OTHER INFORMATION

## CONTENTS

- Shareholder Information
- How to Contact us and Advisers
- St. James's Place Partnership Locations
- Glossary of Alternative Performance Measures
- Glossary of Terms



# SHAREHOLDER INFORMATION

## ANALYSIS OF NUMBER OF SHAREHOLDERS

Analysis by Number of Shares	Holders	%	Shares Held	%
1 – 999	2,401	44.38	892,083	0.17
1,000 – 9,999	2,105	38.91	6,231,838	1.18
10,000 – 99,999	572	10.57	18,108,979	3.43
100,000 and above	332	6.14	502,249,448	95.22
	5,410	100.00	527,482,348	100.00

## 2017 FINANCIAL CALENDAR

Ex-dividend date for final dividend	Thursday, 6 April 2017
Record date for final dividend	Friday, 7 April 2017
Announcement of first quarter new business	Tuesday, 25 April 2017
Annual General Meeting	Thursday, 4 May 2017
Payment date for final dividend	Friday, 12 May 2017
Announcement of Interim Results and second quarter new business	Thursday, 27 July 2017
Ex-dividend date for interim dividend	Thursday, 31 August 2017
Record date for interim dividend	Friday, 1 September 2017
Payment date for interim dividend	Friday, 29 September 2017
Announcement of third quarter new business	Tuesday, 24 October 2017

The above dates are subject to change and further information on the 2017 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 Reimbursement Plan (DRIP) Form, which is available from our Registrars, Computershare Investor Services PLC. Their contact details are on page 197.

## 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.com/dealing/uk](http://www.computershare.com/dealing/uk).

## ELECTRONIC COMMUNICATIONS

If you would like to have access to shareholder communications such as the Annual Report and the Notice of General Meeting through the internet rather than receive them by post, please register at [www.investorcentre.co.uk/ecomms](http://www.investorcentre.co.uk/ecomms).

# HOW TO CONTACT US AND ADVISERS

## HOW TO CONTACT US

### **Registered Office**

St. James's Place House  
1 Tetbury Road  
Cirencester  
Gloucestershire  
GL7 1FP

Tel: 01285 640302  
[www.sjp.co.uk](http://www.sjp.co.uk)

### **Chair**

Sarah Bates  
email c/o: [liz.kelly@sjp.co.uk](mailto:liz.kelly@sjp.co.uk)

### **Chief Executive**

David Bellamy  
email: [david.bellamy@sjp.co.uk](mailto:david.bellamy@sjp.co.uk)

### **Chief Financial Officer**

Andrew Croft  
email: [andrew.croft@sjp.co.uk](mailto:andrew.croft@sjp.co.uk)

### **Company Secretary**

Elizabeth Kelly  
email: [liz.kelly@sjp.co.uk](mailto:liz.kelly@sjp.co.uk)

### **Customer Service**

Caroline Hallat  
Tel: 01285 878140  
email: [caroline.hallat@sjp.co.uk](mailto:caroline.hallat@sjp.co.uk)

### **Analyst Enquiries**

Tony Dunk  
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email: [tony.dunk@sjp.co.uk](mailto:tony.dunk@sjp.co.uk)

### **Media Enquiries**

Bell Pottinger  
Tel: 020 3772 2566  
email: [SJP@BellPottinger.com](mailto:SJP@BellPottinger.com)

## ADVISERS

### **Bankers**

**Bank of Scotland**  
150 Fountainbridge  
Edinburgh  
EH3 9PE

### **Barclays Bank PLC**

1 Churchill Place  
London  
E14 5HP

### **Metro Bank plc**

One Southampton Row  
London  
WC1B 5HA

### **Santander UK plc**

2 Triton Square  
Regents Place  
London

### **The Royal Bank of Scotland**

135 Bishopsgate  
London  
EC2M 3UR

### **Brokers**

**JPMorgan Cazenove Limited**  
25 Bank Street  
London  
E14 5JP

### **Bank of America Merrill Lynch**

2 King Edward Street  
London  
EC1A 1HQ

### **Independent Auditors**

**PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London  
SE1 2RT

### **Registrars & Transfer Office**

**Computershare Investor Services PLC**  
The Pavilions  
Bristol  
Bridgwater Road  
BS13 8AE  
email: [webqueries@computershare.co.uk](mailto:webqueries@computershare.co.uk)  
Tel: 0370 702 0197  
[www.investorcentre.co.uk/contactus](http://www.investorcentre.co.uk/contactus)

# ST. JAMES'S PLACE PARTNERSHIP LOCATIONS

## UNITED KINGDOM

**1 ABERDEEN**  
Mark Wyllie  
[mark.wyllie@sjp.co.uk](mailto:mark.wyllie@sjp.co.uk)  
Tel: 0122 420 2400

**2 GLASGOW**  
Ross Cameron  
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Tel: 0141 304 1700

**3 EDINBURGH**  
Steve Herkes  
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Tel: 0131 459 9200

**4 NEWCASTLE**  
Philip Pringle  
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Tel: 0191 260 5373

**5 BELFAST**  
Keith Willett  
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Tel: 028 9072 6500

**6 LEEDS**  
Tim Willis  
[tim.willis@sjp.co.uk](mailto:tim.willis@sjp.co.uk)  
Tel: 0113 244 4054

**7 MANCHESTER**  
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## ASIA



# 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:

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
Solvency II net assets	<p>Based on IFRS Net Assets, but with the following adjustments:</p> <ol style="list-style-type: none"> <li>1. Reflection of the recognition requirements of the Solvency II regulations for assets and liabilities. In particular this removes, DAC, DIR, PVIF, other intangibles and some other small items which are treated as inadmissible from a regulatory perspective; and</li> <li>2. Adjustment to remove the matching client assets and the liabilities as these do not represent shareholder assets.</li> </ol> <p>No adjustment is made to deferred tax as this is treated as an allowable asset in the Solvency II regulation.</p>	<p>Our ability to satisfy our liabilities to clients, and consequently our solvency, is central to our business. By removing the liabilities which are fully matched by assets, this presentation allows the reader to focus on the business operation. It also provides a simpler comparison with other wealth management companies.</p>	Refer to page 39.
Cash results, Operating cash result and Underlying 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 share option costs, are excluded.</li> </ol> <p>The Operating cash result reflects the regular emergence of cash from the business operations. The Underlying cash results additionally reflects the cash impact of the strategic investments we are making.</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 methodology recognises non-cash items such as deferred tax and share options. By contrast, dividends can only be paid to shareholders from appropriately fungible assets. The Board therefore uses the cash results to monitor the level of cash generated by the business.</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 is particularly useful in considering the supportability of dividends and sustainable dividend growth.</p>	Refer to page 34 and also see Note 3 - Segment Profit.

# GLOSSARY OF ALTERNATIVE PERFORMANCE MEASURES

## continued

<b>APM</b>	<b>Definition</b>	<b>Why is this measure used?</b>	<b>Reconciliation to the financial statements</b>
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.
Total embedded value	A discounted cash flow valuation methodology, assessing the long-term economic value of the business.  Our embedded value is determined in line with the EEV principles, originally set out by the Chief Financial Officers (CFO) Forum in 2004, and amended for subsequent changes to the principles, including those published in April 2016, following the implementation of Solvency II.	Life business and wealth management business differ from most other businesses, in that the expected shareholder income from the sale of a product emerges over a long period in the future. We therefore complement the IFRS and cash results by providing additional disclosure on an Embedded Value basis, which brings into account the net present value of expected future cash flows, as we believe that a measure of total economic value of the Group is useful to investors.	Not applicable.
EEV profit	Derived as the movement in the Total EEV during the year.	Both the IFRS and Cash results reflect only the cash flows in the year. However, our business is long-term, and activity in the year can generate business with a long-term value. We therefore believe it is helpful to understand the full economic impact of activity in the year, which is the aim of the EEV methodology.	See Note 3 – Segment Profit.
EEV operating profit	A discounted cash flow valuation methodology, assessing the long-term economic value of the business.  Our embedded value is determined in line with the EEV principles, originally set out by the Chief Financial Officers (CFO) Forum in 2004, and amended for subsequent changes to the principles, including those published in April 2016, following the implementation of Solvency II.  The EEV operating profit reflects the total EEV result with an adjustment to strip out the impact of stock market and other economic effects during the year.	Both the IFRS and cash results reflect only the cash flows in the year. However, our business is long-term, and activity in the year can generate business with a long-term value. We therefore believe it is helpful to understand the full economic impact of activity in the year, which is the aim of the EEV methodology.  Within the EEV, many of the future cash flows derive from fund charges, which change with movements in stock markets. Since the impact of these changes is typically unrelated to the performance of the business, we believe that the EEV operating profit (reflecting the EEV profit, adjusted to reflect only the expected investment performance and no change in economic basis) provides the most useful measure of embedded value performance in the year.	See Note 3 – Segment Profit.
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.
Net asset value 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.

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
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>In effect the shareholder tax is assessed by calculating the expected level of tax implied by the post-tax result, but with explicit adjustment in the calculation for any significant one-off tax adjustments.</p> <p>The remainder of the tax charge represents tax on policyholder's investment returns.</p> <p>This calculation method is consistent with the legislation relating to the calculation of the tax on shareholder's 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 don't perform in line with the business, it is beneficial to be able to identify the two elements separately. We therefore refer to that part of the overall tax charge, which is deemed attributable to policyholders, as policyholder tax, and the rest as shareholder tax.</p>	Disclosed as separate line items in the statement of comprehensive income on page 127.
Profit before shareholder tax	A profit measure which reflects the IFRS result adjusted for policyholder tax, but before deduction of shareholder tax. Within the consolidated statement of comprehensive income the full title of this measure is 'Profit before tax attributable to shareholders' returns.'	The IFRS methodology requires that the tax recognised in the financial statements should include the tax incurred on behalf of policyholders in our UK life assurance Company. Since the policyholder tax charge is unrelated to the performance of the business, we believe it is useful to separately identify the profit before shareholder tax, which reflects the IFRS profit before tax, adjusted for tax paid on behalf of policyholders.	Disclosed as a separate line item in the statement of comprehensive income on page 127.
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 (known as DAC – Deferred Acquisition Costs and DIR – Deferred Income). Due to the retail distribution review (RDR) regulation change in 2013, there was a step change in the progression of these items in our financial statements, which resulted in significant accounting presentation changes despite the fundamentals of our vertically-integrated business remaining unchanged. We therefore believe it is useful to consider the IFRS result having removed away the impact of movements in these intangibles as it better reflects the underlying performance of the business.	Refer to page 34.
Net asset value 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 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, IFDS.

## **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**

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 each year through a survey distributed with the annual 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 IMA.

## **Field Management Team**

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 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 funds under management 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 23.

## **International Financial Data Services (IFDS)**

A provider of investor and policyholder, administration and technology services. IFDS 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.

## **International Financial Reporting Standards (IFRS)**

These are accounting regulations 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. They are also responsible for monitoring the performance of our fund managers, and, if circumstances should change and it becomes necessary, then they are responsible for changing the fund manager as well.

## **Net Inflows**

Gross inflows less the amount of funds under management withdrawn by clients during the same period. The net inflows is the growth in funds under management not attributable to investment performance.

## **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 Regulatory 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.

## **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**

New 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 Foundation**

The independent grant making charity established at the same time as the Company in 1992. More information about the Foundation can be found on page 61 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 businesses 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.



