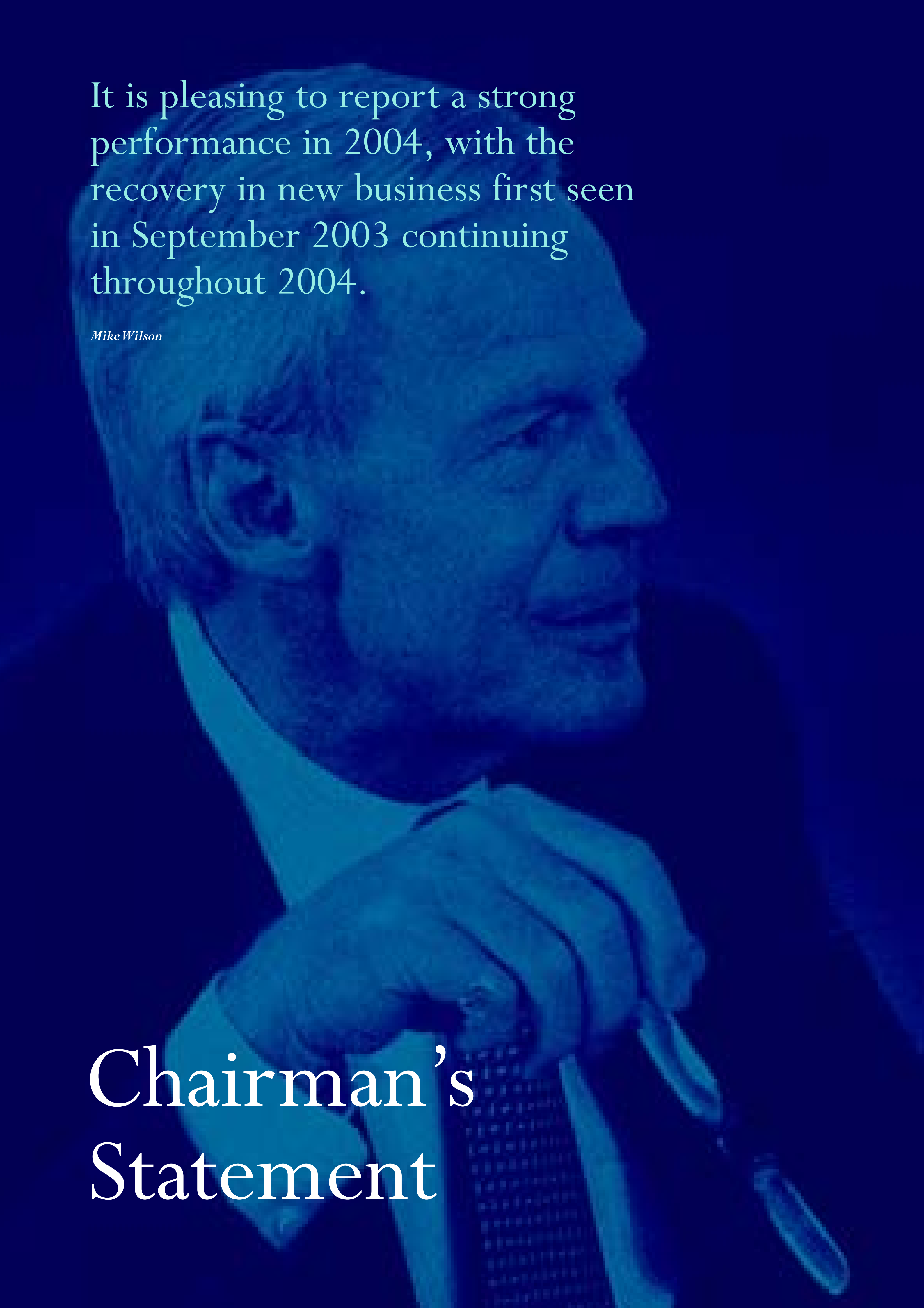
Report & Accounts 2004

ST. JAMES'S PLACE CAPITAL plc

CONTENTS

Company Registration Number 3183415

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	**£' Million**
Achieved profit basis		
Life business	**62.9**	44.0
Unit trusts	**29.5**	19.4
Other	**(4.6)**	(2.5)
IT systems development	**(5.6)**	(3.4)
Operating profit before tax	**82.2**	57.5
Total profit before tax	**142.3**	103.9
Shareholders' funds	**633.2**	527.3
Modified statutory solvency basis		
Life business	**9.0**	1.6
Unit trusts	**12.0**	11.0
Other	**(4.6)**	(2.5)
IT systems development	**(5.6)**	(3.4)
Operating profit before tax	**10.8**	6.7
Total profit before tax	**38.8**	10.1
Shareholders' funds	**215.0**	179.6
New business		
New business (RP & 1/10th SP)	**£177.3 million**	£148.8 million
St. James's Place Partnership – number of partners	**1,131**	1,124
Funds under management	**£9.5 billion**	£7.9 billion
Wealth management – gross fees received	**£21.2 million**	£20.8 million



It is pleasing to report a strong performance in 2004, with the recovery in new business first seen in September 2003 continuing throughout 2004.

Mike Wilson

Chairman's Statement

This is my first statement since assuming the role of Chairman on 1 September 2004. These Financial Statements also include the Chief Executive's statement on pages 5 to 9 and a Financial Commentary on pages 10 to 17.

Financial Performance

It is pleasing to report a strong performance in 2004, with the recovery in new business first seen in September 2003 continuing throughout 2004. New business from long-term savings and investment (measured on the industry basis of annual premiums plus one tenth of single premiums) was up 19% over the year.

The pre-tax profits for the full year on the Modified Statutory Solvency Basis ("MSSB") were £38.8 million (2003: £10.1 million). Shareholders will recall that the MSSB result reflects the underlying current year cash flows of the business. Therefore, due to the long term nature of life assurance business, we also present our results on the Achieved Profit Basis which takes into account future expected cash flows from the in-force business. The Board remains of the view that this basis provides a more meaningful measure of the Company's performance.

The pre-tax Achieved Profit result for the year at £142.3 million was up 37% over the 2003 pre-tax profit of £103.9 million, whilst the operating profit for the year was £82.2 million (2003: £57.5 million), an increase of 43%.

Within both the MSSB and the Achieved Profit result for the year is the profit of £28 million from the disposal of our holding in Life Assurance Holding Corporation ("LAHC") announced on 1 July 2004.

The Financial Commentary on pages 10 to 17 provides further details on the results for the year and the disposal of LAHC.

Final Dividend and Outlook

Subject to the approval of shareholders at the Annual General Meeting, a final dividend of 1.6 pence per share will be paid to shareholders on the register on 11 March 2005, making a total of 2.85 pence for the full year, up from 2.75 pence in 2003. The proposed dividend payment date is 18 May 2005. This 3.6% increase in the 2004 full year dividend reflects the Board's belief that the Group is now in a position to be able to continue to grow dividends in the future.

Partners and Staff

2004 has been an exceptionally busy period for the Group and probably the busiest year in our history. Despite the challenges, detailed in Mark Lund's Chief Executive's Statement, once again both members of the Partnership and our staff have continued to show their enthusiasm and commitment. On behalf of the Directors and shareholders I would therefore like to thank all members of the St. James's Place community for their contribution to our 19% growth in new business last year.

Foundation

The St. James's Place Foundation, the Group's charitable trust, is an integral part of the day to day life of the St. James's Place community. Over 85% of our community give to the Foundation on a monthly basis by Gift Aid and throughout the year there are many fund raising social events held.

The money raised from Gift Aid, social events and sponsorship for individual challenges is matched by the Group. Including this matching, a record £1.5 million was raised for the Foundation in 2004.

Succession and Board Changes

During the second half of 2004 we completed the final part of the previously announced succession plan.

On 1 September 2004 Mark Lund was appointed Chief Executive and I took over as full time Chairman from Sir Mark Weinberg, who continues to be closely involved with the Group as an active President.

In addition, on 1 September 2004 Andrew Croft, whose appointment as Group Finance Director was announced in June 2003, joined the Board and Sarah Bates was appointed as an independent non-executive Director.

I am delighted to announce an additional Board appointment with effect from the Annual General Meeting on 12 May 2005. Subject to shareholder approval, Simon Gulliford will join the Board as an independent non-executive Director. Simon has a wealth of marketing experience, most recently as Group Marketing Director of Barclays plc.

Lord Weir and Anthony Loehnis will be resigning from the Board with effect from the AGM on 12 May 2005. Both William and Anthony have played an important role in overseeing the development of the Company and I would like to thank them both on behalf of the Board and shareholders for their immense contribution, support and commitment over the years.

We expect a number of other changes to the Board over the next year or so in order to achieve full compliance with the new Combined Code.

I would like to take this opportunity on behalf of the shareholders and the SJP community both past and present, to thank Sir Mark Weinberg for his invaluable contribution in building St. James's Place, in just 13 years, to a FTSE 250 company and one of the United Kingdom's leading wealth management groups.

We look forward to Mark's continued involvement with the Group as President and Chairman of the Investment Committee, as well as playing a role in strategic planning.

Mike Wilson
28 February 2005

St. James's Place is very much a growth company and we see exciting prospects for continued growth over the longer term, which we believe will deliver superior shareholder returns.

Mark Lund

Chief Executive's Statement

This is my first statement since assuming the role of Chief Executive on 1 September 2004.

St. James's Place is very much a growth company and we see exciting prospects for continued growth over the longer term, which we believe will deliver superior shareholder returns. We focus all our efforts on the UK marketplace and our aim is to be regarded by clients as the most professional and trusted adviser on wealth management. We have, and will continue to have, an exclusive relationship with the St. James's Place Partnership for the distribution of the products and services available from St. James's Place.

New Business

Our longer term goal is to grow new business by 15 – 20% per annum. It is therefore very pleasing to be able to report that in 2004 new business from long-term savings and investments grew by 19% (as measured on the industry measure of annual premiums, plus one tenth of single premiums). There was particularly strong growth in the first two quarters of 2004 resulting in a 31% increase for the first half compared with the same period in 2003. As a consequence the quarter by quarter comparisons will become easier as 2005 progresses.

All classes of business grew and we were particularly pleased to see new single premiums of £1.2 billion, which included a 32% increase in unit trust business and a 40% increase in single premium pensions business. Gross fees from our other wealth management services rose by 2% to £21.2 million (2003: £20.8 million).

The St. James's Place Partnership

Whilst membership of the St. James's Place Partnership rose by only 1% during the year to 1,131 it is pleasing to note that individual Partner productivity increased by 18% during 2004. We remain committed to attracting the highest quality advisers and to maintaining the highest standards by retaining only those Partners who are profitable to the Group.

Many financial advisers have been awaiting the final depolarisation rules and, since these rules were only published in early December, have yet to make decisions about where their own futures are best served. For the financial advisers who can meet our quality standards we believe we are the right home for them. We remain confident that St. James's Place will be one of the chief beneficiaries of depolarisation as experienced Independent Financial Advisers consider their own options for the future.

Investment Management

2004 was a more stable year for the markets and the FTSE All-Share Index posted a gain over the year of 9.2%. Once again the overall performance of our funds has been very pleasing and more than met our goal of generating consistent and superior investment results for our investors.

The Investment Committee remains at the heart of our investment approach. Two new members joined the Committee during 2004 – Sarah Bates, our recently appointed independent non-executive Director and myself. We also engaged the services of Keith Goulborn as property adviser, who is a specialist commercial property consultant and former manager of Unilever plc's UK operational and corporate property portfolio.

Delivering strong investment performance is the primary objective of the Investment Committee and we are naturally very pleased when this is independently recognised by the industry awards we continue to receive. Lipper/Citywire named Andrew Green, investment manager of our GAM Managed Funds and the Recovery Unit Trust, as investment manager of the year for 2004, and placed five of our ten external investment managers in their survey naming the top 100 fund managers. Standard & Poor's once again recognised our investment performance with awards for two funds in 2004, the THSP Managed and the Far East Pension Funds. In addition, the Combined Actuarial Performance Services (CAPS) survey ranks three of our five Managed Funds Pension Funds within the top 10 of all Managed Funds surveyed over the 12-month period ending 31 December 2004. Overall, a very pleasing year for St. James's Place investment performance.

In April 2004 we added a commercial property fund to our UK range of life and pension funds. This fund is managed by Insight Investment and the inflows exceeded all expectations with £185 million under management as at 31 December 2004.

Also during the year we appointed the Californian based investment firm Reed Conner & Birdwell to manage our range of North American funds.

We are particularly pleased that funds under management at 31 December 2004 were £9.5 billion, up 20% since the start of the year.

Regulation and Compliance

The year saw significant effort expended on the implementation of substantial regulatory change – the most substantial change many of us have experienced during our time in the industry.

The key regulatory changes have been:

- On 1 October 2004 mortgage regulation became effective.
- On 14 January 2005 general insurance products became regulated.
- The regulations for depolarisation were announced on 1 December 2004 requiring adoption by 1 June 2005.
- Life companies were required to implement the FSA's new Prudential Sourcebook.

The above, combined with our commitment to having industry leading compliance standards, resulted in our employees and the St. James's Place Partnership expending considerable cost and time on making these changes.

Investment in IT Systems
We have previously announced a major IT infrastructure project through our Service Delivery Infrastructure programme (SDI). SDI will transform our new business processing with a modern and efficient electronic system. The first phase of the software has been delivered and is in the process of being implemented in our offices throughout the UK. The total cost of the project continues to remain in line with our original £12 million estimate. During the year we have incurred expenditure of £5.6 million, bringing the total cost to date to £9 million. The remaining £3 million of cost is expected to be incurred this year.

Partners and Employees
Mike Wilson, in his statement, has already covered the magnificent job performed during the year by the Partnership and our employees. I would just like to add my thanks to the whole St. James's Place community, including our outsource service providers, for their efforts in 2004 – they are exceptionally committed and dedicated teams.

2005 Developments
Depolarisation has arrived and companies are required to adopt the new rules no later than 1 June of this year.

We have made the decision to depolarise during May, once our busy first quarter and the tax year-end is complete. However, as shareholders will be aware, St. James's Place is already well down the road to being depolarised and our panels of providers for mortgages, protection and pensions already reflect this approach. We do not intend to make any significant changes to these panels but we do intend to take advantage of the opportunity to fill any gaps which depolarisation allows us to do. Recently, we enhanced our offering by adding a panel of providers for Private Medical Insurance and Group Risk, and in May we will increase the range of products we can offer to clients by adding Pension Annuities, Immediate Needs Annuities, Group Pension Plans, Section 32 Plans and Offshore Funds. Our aim is to continue to manufacture around 80% of our new business.

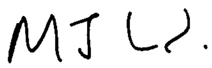
The other significant development relates to the changes the Government will be implementing in April 2006 in respect of Pensions Simplification. We welcome this change and regard it as an important development which should give rise to significant new business opportunities as the demand from clients for trusted face to face advice grows in our target market place. With this very much in mind, we are continuing to devote significant effort to the development of our pensions offering for the post Pensions A-Day market.

Outlook
We are in a period of unprecedented change and this is set to continue. 2005 has already seen the introduction of

general insurance regulation; by the half-year we will enter the new depolarised regulatory regime and in April 2006 the new pensions rules come into force. We believe that these changes present us with opportunities to strengthen and grow our business.

In addition to this regulatory and Government driven change, we feel that over the longer term the social and economic backdrop is very much in our favour. People are living longer than ever before and as a consequence need to provide for a longer life expectancy and a longer retirement. Just as importantly, the responsibility for pension provision is continuing to transfer from the State and companies to individuals. For many there is no longer certainty upon retirement. The task of determining how much to save and invest, where to make those investments, how to monitor their performance and how to structure the retirement pot effectively, will be a challenge they will not wish to take on alone.

Our proven adviser based approach to wealth management, built around experienced members of the St. James's Place Partnership, who provide trusted face to face advice to clients, places us in a uniquely strong position to capitalise on these opportunities.



Mark Lund
28 February 2005

Taking into account the £28 million profit from the disposal of LAHC plus a small profit arising from changes to the economic assumptions, the total pre-tax achieved profit for the year was £142.3 million (2003: £103.9 million).

Andrew Croft

Financial Commentary

The Financial Commentary is presented in two sections: a section providing a commentary on the results for the year and a second section covering other matters of interest to shareholders and investors.

Section 1: Commentary on the Results for the Year

In common with previous reports, we have presented our results on a Modified Statutory Solvency Basis (MSSB), which reflects the current year cash flow and an Achieved Profit basis, bringing into account the value of future cash flows on the in-force business.

The Commentary covers the results on both bases.

Modified Statutory Solvency Basis (MSSB)

The MSSB result is shown on pages 48 to 84. The table below shows the pre-tax profit of the Group on this basis.

	Year Ended 31 December 2004 £' Million	Year Ended 31 December 2003 £' Million
Life business	**9.0**	1.6
Unit trust business	**12.0**	11.0
Other	**(4.6)**	(2.5)
	16.4	10.1
IT systems development	**(5.6)**	(3.4)
Operating profit	**10.8**	6.7
LAHC	**28.0**	3.4
Total pre-tax profit	**38.8**	10.1

The life business pre-tax profit for the year was £9.0 million (2003: £1.6 million). The result includes a pre-tax reserve of £4.0 million, within the long-term business provision, against an adverse outcome of a VAT case awaiting judgment from the European Court of Justice. Further details of this case and its possible implications can also be found in section 2 of this commentary.

The profits for the unit trust business were £12.0 million pre-tax (2003: £11.0 million). As previously commented in the 2004 Interim Statement, there has been a minor change in the expense recharging mechanism and the current year profit is after an additional expense allocation of £2.2 million.

The other operations of the business incurred a loss for the year of £4.6 million pre-tax (2003: loss of £2.5 million). In the Interim Report shareholders were notified of forthcoming one-off costs in the second half of the year of between £2-3 million, relating to our commitment to having leading compliance standards. The actual costs were at the top end of the range and have been included in this £4.6 million loss. In addition, in the second half of the year, we have provided an amount of £1.0 million in respect of the potential redress required on some 11,250 in-force endowment policies.

As mentioned in the Chief Executive's Statement, the costs incurred on the strategic IT systems development during the year were £5.6 million pre-tax (2003: £3.4 million pre-tax).

Taking into account these factors the pre-tax operating profit was £10.8 million, up from £6.7 million in 2003. Excluding the cost of the strategic IT systems development, the pre-tax profits were £16.4 million (2003: £10.1 million).

As shareholders are aware we disposed of our holding in LAHC during the year and have reported a profit on the disposal of £28 million which is as set out in Note 8 of the Accounts.

The resulting total pre-tax profits for the year were £38.8 million, compared with £10.1 million in 2003.

The total net assets on the Modified Statutory Solvency Basis were £215.0 million (2003: £179.6 million) resulting in a net asset per share of 48.9 pence (2003: 41.6 pence).

Achieved Profit Basis

The table below summarises the pre-tax profit of the combined business.

	Year Ended 31 December 2004 £' Million	Year Ended 31 December 2003 £' Million
Life business	**62.9**	44.0
Unit trust business	**29.5**	19.4
Other	**(4.6)**	(2.5)
	87.8	60.9
IT systems development	**(5.6)**	(3.4)
Operating profit	**82.2**	57.5
Investment return	**30.0**	55.3
Economic assumption changes	**2.1**	(1.1)
Tax & solvency changes	**-**	(11.2)
Profit from core business	**114.3**	100.5
LAHC	**28.0**	3.4
Total pre-tax profits	**142.3**	103.9

The life business operating profit for the year was £62.9 million (2003: £44 million) and a full analysis of this result is shown on page 91. The significant improvement is predominantly the result of higher new business profit for the year, which at £23.7 million (2003: £13.5 million) was some 76% higher than in 2003. There was a negative experience variance of £2.8 million (2003: negative £6.9 million) principally arising from the £4.0 million reserve in the long-term business provision previously noted.

The operating profits of the unit trust business were up 52% at £29.5 million (2003: £19.4 million) with the increase resulting from higher new business profit of £14.3 million (2003: £11.5 million) and a positive experience variance of £5.9 million (2003: positive £2.2 million). The growth in the new business profit reflects both the higher new business volumes and the small change to the expense recharging noted earlier. The positive experience variance reflects an improvement in the persistency of the business. A full analysis of the result is shown on page 96.

As noted earlier in this statement, the other operations of the Group incurred a loss for the year of £4.6 million (2003: loss of £2.5 million) and the costs of the strategic IT systems development were £5.6 million (2003: £3.4 million).

The resulting pre-tax operating profit for the year was £82.2 million (2003: £57.5 million) and the operating profit, excluding the IT systems development project, was up 44% from £60.9 million to £87.8 million.

During the year the average after tax increase in our fund prices was some 6% above the achieved profit assumption resulting in a positive investment variance of £30 million (2003: £55.3 million).

Taking into account the £28 million profit from the disposal of LAHC referred to earlier plus a small profit arising from changes to the economic assumptions, the total pre-tax achieved profit for the year was £142.3 million (2003: £103.9 million).

The total net assets on an achieved profit basis at 31 December 2004 were £633.2 million (2003: £527.3 million) resulting in a net asset per share of 144.1 pence (2003: 122.1 pence per share).

SECTION 2: OTHER MATTERS

Noted below are a number of issues about the Group that are of interest to shareholders.

(i) Expenses

This section provides a reminder to shareholders of categories and nature of expenditure incurred.

Shareholders will recall that "commission, investment expenses and third party administration costs" are met from corresponding policy margins. Any variation in these costs flowing from changes in the volumes of new business or the level of the stock markets does not directly impact the profitability of the Company.

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

"Establishment costs" are the running costs of the Group's infrastructure and are relatively fixed in nature in the short term. Consequently these costs remain broadly the same irrespective of new business volumes.

The "contribution from third party product sales" reflects the net income received from wealth management sales of £2.8 million (2003: £5.3 million), sales of stakeholder products of £2.1 million (2003: £1.5 million) and sales through the Protection Panel of £9.3 million (2003: £6.7 million).

In previous commentaries we have provided a breakdown of the life company expenditure into the categories detailed above. A large number of shareholders have requested the analysis be extended to cover the combined financial services activities.

	Year Ended 31 December 2004 £' Million	Year Ended 31 December 2003 £' Million
Paid from policy margins		
Commission	**99.1**	83.6
Investment expenses	**25.2**	19.5
Third party administration	**20.5**	18.9
	144.8	122.0
Direct expenses		
Other new business related costs	**16.7**	15.4
Establishment costs	**71.7**	73.8
Contribution from third party product sales	**(14.2)**	(13.5)
	74.2	75.7
	219.0	197.7

We have undertaken a review of the capacity of our property portfolio, particularly since a growing number of recruits now have their own offices. As a result of this review the Board took the decision in early 2005 to announce the closure of one office and the contraction of a number of other locations into less space, freeing up some 10% of our regional property capacity. If this unutilised space remains unlet then it is likely we will need to establish a provision of some £1.8 million in the first half of 2005 to cover the expected future rental of this space. We expect future annualised savings from these moves to be in the region of £0.8 million.

(ii) Tax position

As highlighted in previous financial commentaries, the UK life company has not been receiving full tax relief for all of its expenses, as the tax relief is principally obtained by offset against tax deductions on the income and capital gains arising in the unit linked funds. Hence if the unit linked funds do not realise sufficient capital gains, or if realised capital gains are sheltered by realised capital losses carried forward, full tax relief is not obtained.

At 31 December 2004 there are approximately £116.0 million of excess unrelieved expenses which are being carried forward, which require fund tax deductions of some £23.2 million to obtain relief. In addition to the unrelieved surplus expenses, there is also a further £200 million of expenses, which under the life company tax regulations are deferred over a period of seven years and will fall into account in future years. The fund tax deductions ultimately required to relieve these deferred expenses would be some £40 million. The cash crystallisation of these tax deductions is dependent upon the level and timing of future net realised capital gains.

For 2004 the fund tax deductions booked in the MSSB result are only £10.1 million (2003: £7.6 million), which is some £7.0 million lower than would ordinarily be expected. On an Achieved Profit basis, the impact of the shortfall of fund deductions, measured as the difference between the expected tax deductions and the net present value of deductions anticipated in future years, is lower (approximately £3-4 million).

At 31 December 2004, in aggregate the net realised and unrealised position of the funds was more or less neutral and the higher stock market levels have provided a greater degree of likelihood that fund deductions will be received in the near future.

Consequently, at the end of the year, an MSSB deferred tax asset of £7.3 million (2003: £ nil) has been recognised in relation to those expenses expected to be relieved against these fund deductions.

The total future value of modelled fund deductions on the Achieved Profit basis places a value of £34 million on these expenses (2003: £22.6 million).

(iii) European Court of Justice VAT Case

On 12 January 2005 the Advocate General (AG) released his opinion in a European Court of Justice case, the Arthur Andersen (C-472/03) case. If the Court follows the AG's opinion, the VAT exemption for insurance related services may be removed resulting in the addition of VAT to the administration charges incurred on insurance related outsourced contracts.

SJPC is actively following this case and is reviewing the options available to reduce or mitigate any adverse decision from the Court. Both the MSSB and Achieved Profit result include a pre-tax cost of £4.0 million included in the long-term business provision, being the increase in future policy maintenance costs arising from this decision.

Shareholders should be aware that in the event of an adverse decision, in addition to this impact on the existing business, there would also be an on-going impact on the Achieved Profit value of new business – in the current year this impact would, without any mitigating actions, have been between £1–2 million pre-tax.

We understand the European Court of Justice is scheduled to make its decision on 3 March 2005.

(iv) Operational Risks and Solvency Requirements

Operational Risks

The Financial Commentary in the 2003 Report and Accounts provided some detail on the operational risks of the Group. Shareholders will recall from this commentary that St. James's Place Capital:

- is a unit linked business and has no with-profit business
- has never written business with onerous investment guarantees or options
- has a conservative investment strategy for shareholder assets
- has no defined benefit pension scheme liabilities
- matches, wherever possible, its liabilities to appropriate assets to minimise exposure to fluctuating stock markets and interest rates
- has never sold 'flavour of the year' products such as high tech funds, precipice bonds and split-capital investment trusts.

Solvency Requirements

The required minimum solvency margin for the two life businesses is currently approximately £30 million. All of the insurance companies are capitalised to support their planned business without the need for further capital resources.

There are no formal intra-group arrangements in place to provide capital to particular funds or business units.

The FSA has recently issued Policy Statements 04/16 – Integrated Prudential Sourcebook for Insurers, which took effect from January 2005. This policy statement includes the framework for life companies to calculate their own Individual Capital Assessment (ICA). Typically this involves placing a realistic value on the assets and liabilities of the Company and making explicit allowances in the valuation for the actual business risks. We have completed the first ICA for the UK life company and we do not foresee an increase in the capital required to support the business.

In calculating the Achieved Profit result, the cost of maintaining this solvency capital is deducted from the value placed on the in-force business – the total amount deducted at 31 December 2004 was approximately £7.2 million post tax (2003: £8.1 million).

(v) FRS27 and Related Memorandum of Understanding

FRS 27 for Life Assurance was published in December 2004 with a view to full compliance for accounting periods ending on or after 23 December 2004. In view of the tight timescales to implementation, the Accounting Standards Board (ASB) has agreed to certain modifications to the disclosure requirements for 2004.

These modified requirements are set out in a Memorandum of Understanding (MOU) to which the ASB, Association of British Insurers and representatives of the life insurance industry are signatories. Accordingly we have set out below the various disclosures required by the MOU.

The life assurance business of the Group, which is transacted within the long-term funds of approved insurance companies, is all non-profit business, comprising both unit linked and non-linked business. Life assurance assets attributable to shareholders have been determined by deducting the regulatory value of insurance and other liabilities from the value of assets.

The capital available in respect of the life assurance business is summarised in the table below.

	SJP UK £' Million	SJPI £' Million	Others/ Consolidation Adjustment £' Million	Group Total £' Million
Shareholders' funds outside fund	7.0	-	48.3#	55.3
Shareholders' funds inside fund	70.0	40.2	49.5*	159.7
Total shareholders' funds	77.0	40.2	97.8	215.0
Adjustments on regulatory basis:				
Adjustment to assets	(5.4)	(11.9)	-	(17.3)
Other adjustments	(16.3)	(4.5)	-	(20.8)
Total available capital resources	55.3	23.8	97.8	176.9

This represents the other net assets of the Group including capital allocated to other regulated businesses.

* This adjustment represents the purchased value of in-force business within the life funds.

The sensitivity of the life assurance shareholders' funds to changes in market conditions is set out in Note 25 to the Accounts.

Regulatory capital required and the capital management policies of the Group are noted in Section (iv) of this commentary.

Restrictions apply to the transfer of assets from any long-term funds. At all times each long-term fund must maintain an excess of admissible assets over liabilities. Transfers of assets from the shareholders' funds are subject to normal accounting rules relating to distributable reserves. Within each business unit there are no restrictions on the use of capital.

(vi) Developments in Achieved Profit Reporting

On 5 May 2004, a Forum of Chief Financial Officers drawn from the major European insurance companies launched the European Embedded Value Principles (the EEV principles) and agreed to adopt these principles in calculating embedded values included as supplementary financial reporting from the end of 2005.

SJPC intend to adopt the EEV principles in 2005 and will provide details of expected impact on the financial numbers at the half year.

(vii) International Financial Reporting Standards

As shareholders will be aware, SJPC, like other listed companies, will be reporting our 2005 Financial Statements using International Financial Reporting Standards (IFRS).

The introduction of IFRS will impact the MSSB results, which will be replaced with figures prepared on the new basis. We will continue to publish Achieved Profit results as Supplementary Information.

As highlighted in previous financial commentaries, the two main IFRSs that impact on the Group are IFRS2 – Share Based Payments and IFRS4 – Insurance Contracts. The major areas of impact on the Financial Statements are as follows:

(i) IFRS 2 requires the fair value of share options to be expensed over the vesting period of the options. This is expected to reduce the future profitability of the Group by £1.5 million per annum, however there will be little change to the opening net asset position at 1 January 2005.

(ii) IFRS 4 requires the pure protection contracts sold by the Group to continue to be accounted for under the UK Generally Accepted Accounting Practice existing at the end of 2004.

(iii) IFRS 4 requires the investment contracts sold by the Group (e.g. life bonds, pensions and unit trust business) to be accounted for under IAS 39 Financial Instruments and IAS 18 Revenue. IAS 18 Revenue requires the initial charge arising on new business to be spread over the term of the contract, rather than being reported as income at point of sale. Similarly, the incremental costs of acquiring the business (e.g. commission) are also required to be spread over the deemed term of the contract. This spreading of income and costs will give rise to a Deferred Acquisition Cost (DAC) Asset and a Deferred Income Reserve (DIR) in the Balance Sheet.

For our contracts the initial charge is generally greater than the cost of acquiring the business, and hence the DIR will be greater than the DAC. Consequently, there is a net deferral of income, although the underlying cash flows remain unaffected.

Premiums received on investment contracts will be accounted for as deposits under IFRS and only the margin arising will be reported in the income statement rather than the total single premium.

(iv) Where the Group's life funds invest into the Group's unit trusts, it may be necessary to consolidate these holdings.

(v) There will be some significant presentational changes to both the revenue statements and balance sheet.

(vi) There is a significant outstanding industry wide issue to be resolved in respect of the valuation of unit linked assets and unit linked liabilities and we are awaiting the final conclusion in respect of this issue.

Taking into account the impact of the above changes and subject to the resolution of outstanding industry wide issues, we believe there will be no significant difference in reported statutory profits but Group net assets may be reduced by up to £10 million.

Shareholders should be aware that this financial impact is unaudited and therefore subject to change, particularly as there remains a degree of uncertainty on some key standards and interpretation.

Andrew Croft
28 February 2005

St. James's Place fully supports all the initiatives aimed at ensuring companies adopt a responsible attitude towards their stakeholders and in particular to clients, staff, suppliers and the community.

Our Clients

Our mission statement is 'To be regarded as the most professional and trusted provider of advice on wealth management'. The provision of high quality advice comes via members of the St. James's Place Partnership who build strong relationships with their clients. Our Partners' strategy is focused on being able to offer clients a comprehensive range of products and services and we consult regularly with them so that the needs and expectations of clients are clearly understood. In an environment where trust is paramount, all clients have peace of mind with the St. James's Place guarantee which states that 'the St. James's Place Group stands behind and guarantees the advice given by members of the Partnership when recommending any of the products and services provided by companies in the St. James's Place Group'.

In view of the fact that high quality advice is at the heart of our proposition, we place great emphasis on clearly communicating the characteristics of our products and services to clients. When it comes to settling life and health claims we take a positive approach recognising the fact that at such times clients need support and reassurance. Inherent within everything we do is our desire to be fair and reasonable to clients and all our stakeholders. We fully support the new guidelines from the Financial Services Authority for treating customers fairly.

Our Employees

We firmly believe that our employees give us a sustainable competitive advantage in a marketplace where high quality service is a necessity. The attitude, knowledge, skills and commitment of our people is a strong differentiator and we continue to invest in training and development programmes so that they are able to meet the needs of our business and customers. Our values of integrity, openness and fairness are the foundations for the way we deal with our people.

Our staff retention rate is 90% and attracting new employees has rarely posed an issue for us. Days lost through sickness stands at 3.1 days per employee per year, which is significantly below the national average. We remain committed to our equal opportunities policy for potential and existing employees, recognising people's individual ability and merit, free from any form of discrimination.

The performance and development of our people is encouraged and supported with a formalised and standard appraisal system. Our reward package is competitive with a comprehensive range of benefits being given to all employees. Employee bonuses are carefully constructed to align with the Company's objectives and the performance of the individual. Senior managers are also given the opportunity to participate in share incentive schemes, which are again dependent upon the Company's performance and whether personal objectives have been met. Recognising the benefit of all employees having an equity interest in the Company, everyone is given the opportunity to join the Share Save scheme and acquire discounted shares. 75% of all employees are now members of this scheme.

We remain committed to an open style of communication and actively encourage feedback from our people. Managers are encouraged to run regular one-to-one discussions and team meetings with staff. Directors and senior managers also regularly visit all the St. James's Place office locations in order to disseminate key corporate messages and obtain valuable feedback. We utilise our own intranet and e-mail systems to provide information quickly but still feel there is no substitute for face-to-face communications so we actively encourage and train our managers in this skill. Our working environments are created to satisfy Health and Safety Regulations and in 2006 work is planned to commence the construction of a new Head Office in the historic Cotswold town of Cirencester. This will be a purpose built office facility creating 45,000 square feet of space.

Underpinning all of the Group's personnel policies is a well-established awareness of statutory and social responsibilities with regard to the employment of disabled staff, whether it be their recruitment or subsequent management. The Group's approach ensures that every effort is made to achieve continuity of employment in the event of an employee becoming disabled. Similarly, best practice principles ensure that the Group's responsibilities are met as an equal opportunity employer.

The St. James's Place Foundation

The ethos of raising money within the working environment, for the benefit of the less fortunate members of society, plays an important role in the lives of those associated with St. James's Place.

Forming a charitable trust was included in the original business plan for J. Rothschild Assurance (later renamed St. James's Place). In 1999 the St. James's Place Capital and the J. Rothschild Assurance Charitable Trusts were merged and renamed The St. James's Place Foundation ("the Foundation").

Each of the Company's regional offices and departments within head office organise fundraising events. These range from raffles bringing in a few hundred pounds, to auctions of promises and other social events, which often raise several thousand pounds. Every social event is looked upon as an opportunity to raise funds for the Foundation. Many of the Company's local and national suppliers are happy to support the Foundation and regularly donate cash or goods to aid our fundraising efforts.

In addition to group events, individuals also push themselves to the limit in an effort to raise as much sponsorship as possible from their contacts and clients. The challenges taken up include: the Sahara Marathon, a 12-team all day Triathlon, a 5-Peaks Mountaineering Challenge, 3 Marathons in 3 different countries in 3 weeks and many more.

In 2004, more than 150 people descended on a Zip Slide from the top of Guys Tower, Warwick Castle. As well as being great fun, the day raised over £100,000. In addition, in January 2005 staff and partners raised a further £90,000 for the Tsunami Appeal.

Alongside these ad hoc fundraising initiatives, the Foundation has consistently promoted the benefits of Gift Aid and supported these by deductions from payroll and, in the case of Partners, deductions from their gross earnings. This has had two major benefits. Firstly, it provides regular monthly income to the Foundation and secondly, the Foundation can reclaim the tax relief provided under the Gift Aid regime.

The Company is very proud of the fact that 85% of the St. James's Place community of 1,500 people are making regular monthly donations to the Foundation through Gift Aid. This demonstrates the commitment to the Foundation throughout the Company at every level. Over £338,000 of the money raised in 2004 was as a result of these regular monthly donations.

Every pound raised by members of the SJPC community is matched by the Company and 2004 was another record breaking year, with funds raised exceeding £750,000 which when matched by the Company's contribution generated £1.5 million of new funds for the Foundation.

Supporting the Foundation's fundraising activities is a key corporate objective. The management team, from the top down, focuses on this aspect of the Company's business, in much the same way as it does on other key objectives.

The Foundation's management committee, in consultation with the rest of the community, establish a "theme" framework for awarding grants. For 2004 there have been two themes, the first being "Cherishing the Children", whereby any charity that has a project in the UK that is for the direct benefit of physically disabled children or those suffering from a mental condition or those suffering from a life threatening or degenerative illness, can apply for a grant from the Foundation.

The second theme is the Hospice Movement, whereby the Foundation makes grants to hospices in the UK for items such as equipment, the cost of therapy and other treatments.

In addition to the grants awarded under the "themes", and largely as a result of the additional monies available to the Foundation from the Company's "matching" policy, the Foundation has been able to enter into a seven year commitment to Hope & Homes for Children, a UK based charity which provides family homes and other support for children orphaned by war or disaster. More than £1 million in total has been paid over to Hope & Homes for Children in the last 5 years.

In 2001 the Foundation entered into an arrangement with the Variety Club of Great Britain to fund 21 Sunshine Coaches for children with disabilities at special schools / organisations located near to each of the Company's offices. This entailed a commitment approaching £400,000 in all. As at 31 December 2004, commitments have been entered into for the purchase of 18 coaches, the majority of which are in use already. It is hoped that a close and lasting relationship will be formed between the school / organisation and the members of the local offices.

In total, over £4,450,000 has been given in grants to all causes since the Foundation was established just over 13 years ago and the Foundation has approximately £1.6 million available for future distribution.

The Foundation is proud of what has been achieved over the past 13 years and we look forward to the challenge of sustaining and increasing its growth so that even more people may benefit from its success.

The Environment

The Company's Corporate Environmental Policy can be found on its website www.sjp.co.uk, and continues to form the basis of the group's approach to reducing environmental impacts. The policy objectives are used to drive the changes in processes and procedures in order to work towards reducing CO_2 emission levels wherever possible.

In 2002 the Action Energy programme, working in conjunction with the Carbon Trust, undertook several site surveys making recommendations to enable improvements to be made. As a consequence of this, St. James's Place has adopted several of these suggestions and has implemented these adjustments through its maintenance company, with the objective of improving working practices and moving towards reducing CO_2 emissions from heating and cooling systems.

A recycling of paper programme was initiated in 2002 and is now well established with 2004 showing a significant increase of 48% on 2003 tonnage recycled. Other recycling programmes exist for PCs, mobile phones and toner cartridges, with any monies returned from this recycling being passed to the St. James's Place Foundation.

The Company's investment in technology is expected to give rise to significant benefits of electronic processing and should be substantially implemented by the end of 2005. This should result in less paper being processed and our usage of paper is expected to decrease on a proportionate basis. Other benefits will be a reduction in the need to photocopy as much information and the electricity used for this activity should also reduce.

In 2004 we also introduced a new strategy for many of our internal communications which has resulted in the vast majority of information now being disseminated to our community via both e-mail and our own intranet systems. We have also held our print spend on brochures and other marketing literature in 2004 to the same level as our spend in 2003.

The Company has also introduced electronic communication for shareholders. Shareholders can now elect to receive Company documentation through the internet rather than by post, which reduces printing and distribution costs and aids the environment by saving paper. Details on how to register for electronic communications can be found on page 99.

The Group uses the services of a firm of energy consultants who check, monitor and produce our annual usage figures for energy consumption, while our Fleet Management Company supplies mileage and fuel usage figures. These are all included along with paper usage in an internal report which compares CO_2 emission rates and measures Ecopoints used. The Company's environmental performance is measured and reported by the Environmental Officer to the Operations Director, who in turn reports any significant issues to the Managing Director.

Following establishment of adequate baseline date for 2003/4, the Group will this year seek to establish appropriate environmental targets for its most significant environmental impacts.

For those investors particularly interested in investing in environmentally friendly companies and to comply with the policy on socially responsible investment by Trustees of Occupational Pension Schemes, the Group offers ethical funds. These funds invest in companies demonstrating sound environmental and social policies. The Investment Committee of the Board meets regularly to monitor and review the performance of all the funds under management against a series of defined criteria.

The Group will continue its focus on the various initiatives described in this update in 2005 and beyond and ensure that Corporate and Social Responsibility remains at the forefront of its business.

PRESIDENT

Sir Mark Weinberg

Aged 73, founded the St. James's Place Group with Mike Wilson in 1991 and was Chairman of St. James's Place Capital plc until 1 September 2004, when he became President. He currently chairs the Investment Committee. He originally practised as a barrister and was formerly Deputy Chairman of the Securities and Investments Board, the forerunner to the Financial Services Authority.

THE PRESENT DIRECTORS OF THE COMPANY ARE:

Mike Wilson ***Chairman***

Aged 61, founded the St. James's Place Group with Sir Mark Weinberg in 1991 and was Chief Executive until 1 September 2004. He is a member of the Compliance Committee and Nomination Committee. He has worked in the life assurance industry since 1963 and with Sir Mark Weinberg since 1968. He is a trustee of the St. James's Place Foundation, was a non-executive director of Vendôme Luxury Group plc between 1993 and 1998 and was formerly Chairman of the Mental Health Foundation.

Mark Lund ***Chief Executive***

Aged 47, became Chief Executive on 1 September 2004 following his appointment as Deputy Chief Executive and Chief Executive Designate on 5 January 2004. He was formerly Chief Executive of J P Morgan FundsHub and Chief Executive of Virgin Direct, prior to which he was a director of Henderson Investors plc, where he worked for ten years. He is a member of both the Compliance Committee and the Investment Committee of the SJPC Board. He is a Member of the Securities Institute, the UK Society of Investment Professionals and the CFA Institute. He is also a trustee of the St. James's Place Foundation.

Charles Bailey ***Non-executive Director***

Aged 70, was appointed to the Board as an independent non-executive Director in September 1998, and is a member of the Remuneration, Audit and Compliance Committees. Previously a Partner of Price Waterhouse, he is also a director of RIT Capital Partners plc, of Antofagasta plc, a mining company, and of Atrium Underwriting plc, a listed Integrated Lloyd's Vehicle.

Sarah Bates ***Non-executive Director***

Aged 46, joined the Board as an independent non-executive Director on 1 September 2004 and is a member of the Investment Committee. She is a director of F&C Pacific Investment Trust, Invesco English and International Trust, New India Investment Trust, as well as a strategic investment advisor to the Merseyside and East Riding Pension Funds and lay advisor to the investment committee of the Royal College of Surgeons. She has a law degree from Trinity Hall, Cambridge and an MBA from London Business School.

David Bellamy ***Managing Director***
Aged 52, was appointed to the position of Managing Director on 1 January 2002, having previously fulfilled the role of Group Operations Director. He has worked in the insurance industry since 1973 and joined the Group in April 1991. He was appointed to the board of St. James's Place UK plc in 1993 and to the Board of St. James's Place Capital plc in September 1997, with specific responsibilities for SJPC's operational facilities. He is a member of the Compliance Committee and a trustee of the St. James's Place Foundation.

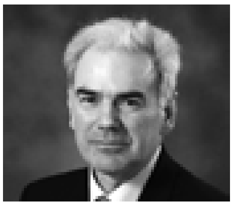
Andrew Croft ***Group Finance Director***
Aged 40, joined the Group as Financial Accountant in 1993 and was promoted to various roles culminating in his appointment as Finance Director of St. James's Place Capital plc on 1 September 2004. He qualified as a Chartered Accountant at PriceWaterhouseCoopers in 1988 and has a degree in Accounting and Economics from Southampton University. He is also a trustee of the St. James's Place Foundation.

James Crosby ***Non-executive Director***
Aged 49, is a non-independent non-executive Director representing HBOS plc, appointed in June 2000. He was appointed Chief Executive of Halifax in 1999 and Chief Executive of HBOS plc in 2001. He is also a non-executive director of ITV plc and of the Financial Services Authority. He is a Fellow of the Faculty of Actuaries.

Ian Gascoigne ***Group Sales Director***
Aged 48, was appointed to the Board as Group Sales Director on 1 January 2003. His specific responsibilities include the recruitment, growth and development of the St. James's Place Partnership. He has worked in the insurance industry since 1986 and joined the Group in December 1991. He was appointed to the Board of St. James's Place UK plc in 1997 and is a member of the Compliance Committee. He has a degree from Lancaster University and an MA from Leicester University and is also a trustee of the St. James's Place Foundation.

Phil Hodkinson ***Non-executive Director***
Aged 46, was appointed to the Board as a non-independent non-executive Director on 21 February 2002 representing HBOS plc and is a member of the Audit Committee. He was appointed Chief Executive of the Insurance and Investment Division of HBOS plc in September 2001 and is a director of Sainsbury's Bank plc, Esure Insurance Limited and Business in the Community. He is a Fellow of the Institute of Actuaries.

Anthony Loehnis CMG ***Non-executive Director***
Aged 69, is considered by the Board to be a non-independent non-executive Director, by virtue of his position as a former executive Director of the Company. He joined the reconstructed Board in May 1996 and is Chairman of the Compliance Committee and a member of the Investment Committee. Directorships external to the Group include Alpha Bank London Limited, Mitsubishi Securities International plc and AGCO Corporation (USA). He is also a director and treasurer of the UK-Japan 21st Century Group. He was formerly a director of SG Warburg Group plc and was an executive director of the Bank of England.



Derek Netherton ***Non-executive Director***
Aged 60, is an independent non-executive Director, appointed in May 1996. He is Chairman of the Audit Committee and a member of the Remuneration Committee. He is Chairman of Greggs plc and his non-executive directorships outside the Group include Next PLC and Hiscox plc. He is a Fellow of the Institute of Actuaries and was formerly a director of J. Henry Schroder & Co Limited.

Michael Sorkin ***Non-executive Director***
Aged 62, was appointed to the Board as an independent non-executive Director in January 2002 and is a member of the Remuneration and Nomination Committees. He joined Hambros Bank in 1968 and was a director of Hambros PLC between 1986 and 1999 and a Managing Director of SG Hambros from 1999 to 2001. He is Vice Chairman of Investment Banking at N M Rothschild Corporate Finance Limited and a non-executive director of J Z Equity Partners plc.

Grenville Turner ***Non-executive Director***
Aged 47, was appointed to the Board on 20 December 2002 as a non-independent non-executive Director, representing HBOS plc. He is Chief Executive of Intelligent Finance, a division of HBOS plc, having formerly fulfilled the role of Head of Intermediary Sales at HBOS plc Retail Division. Other directorships include Halifax Estate Agencies Limited and Centrica Personal Finance Limited.

The Viscount Weir ***Non-executive Director***
Aged 71, joined the Board of RIT and Northern plc, a predecessor company of St. James's Place Capital plc, in 1982 as an independent non-executive Director. He is Chairman of the Remuneration Committee and a member of the Nomination and Audit Committees. He is also honorary President of Balfour Beatty plc and a director of C P Ships Limited. He was formerly Chairman of the Weir Group plc and a director of The Bank of England, British Steel Corporation and other companies. He is Chairman of the Trustees of the St. James's Place Pension Scheme.

PROPOSED BOARD APPOINTMENT
Simon Gulliford
It is proposed that, subject to shareholder approval, Simon Gulliford be appointed to the Board as an independent non-executive Director at the AGM on 12 May 2005. Aged 46, he is Chief Executive of Simon Gulliford Ltd, an independent marketing consultancy, prior to which he was Group Marketing Director of Barclays plc. Other directorships include William Jackson & Sons Ltd and Archant Newspapers. Formerly he was also Marketing Development Director of EMAP plc and Marketing Director of Sears plc. He is a Council member of the Marketing Group of Great Britain and a Fellow of the Marketing Society.

The Directors present their Report & Accounts of the Company for the year ended 31 December 2004.

Results and Dividends

The Company made a profit after tax on the Modified Statutory Solvency Basis of £36.8 million during the year ended 31 December 2004 (2003: £6.6 million).

An interim dividend of 1.25 pence per share (2003: 1.25 pence per share) was paid on 14 September 2004. The Board recommends payment of a final dividend of 1.6 pence per share (2003: 1.5 pence per share) on 18 May 2005 to shareholders on the register at the close of business on 11 March 2005. A resolution to renew the Directors' authority to offer a scrip dividend will be put to Shareholders at the forthcoming Annual General Meeting.

The consolidated profit and loss account on pages 51 and 52 shows the profit for the year and the consolidated balance sheet on pages 54 and 55 shows the state of affairs of the Group at 31 December 2004.

A full review of the results for the year is given in the Financial Commentary on pages 10 to 17.

Status of Company

The Company is registered as a public limited company under the Companies Act 1985.

Activities

The Company is a financial services holding company with principal interests in wealth management including life assurance and unit trust management. A full review of the activities of the Group is given in the Chairman's Statement on pages 2 to 4 and the Chief Executive's Statement on pages 5 to 9.

Substantial Shareholders

The Directors are aware of the interests of the following companies in 3% or more of the ordinary issued share capital of the Company as at 28 February 2005:

HBOS plc: 263,599,813 (59.99%)
Fidelity International Ltd: 22,645,204 (5.15%)

Directors

The present Directors of the Company are listed on pages 22 to 24.

Mark Lund was appointed to the Board on 5 January 2004 and he was elected by shareholders at the Annual General Meeting in May 2004. Mario D'Urso resigned from the Board on 20 February 2004.

On 1 September 2004, Andrew Croft and Sarah Bates were appointed to the Board and pursuant to the Articles of Association, they will retire at the forthcoming Annual General Meeting and offer themselves for re-election.

On 1 September 2004, Lord Stevenson of Coddenham stepped down as President and Sir Mark Weinberg resigned as Chairman and as a Director of the Company and became President. On the same day, Mike Wilson was appointed Chairman and Mark Lund became Chief Executive of the Company.

It was recently announced that Lord Weir and Anthony Loehnis would be resigning from the Board at the Annual General Meeting on 12 May 2005 and that Simon Gulliford would be appointed as a non-executive Director of the Company with effect from the conclusion of the AGM, subject to election by shareholders at the AGM.

Pursuant to the Articles of Association, all those Directors who were elected or last re-elected at or before the Annual General Meeting held in 2002 shall retire from office by rotation. The Directors retiring by rotation are Charles Bailey, Phil Hodkinson, Derek Netherton and Michael Sorkin and they will be seeking re-election.

The articles of association of the Company disapply the provisions of s.293(7) of the Companies Act 1985 relating to special notice requirements for the re-election of Directors over the age of 70.

Further details on the background of those Directors seeking re-election are set out in the Directors' Biographies on pages 22 to 24 and in the Notice of the Annual General Meeting.

The Chairman is pleased to confirm that those non-executive Directors seeking re-election continue to be effective in their roles on the Board and its Committees and have demonstrated their continued commitment.

Details of all Directors' service contracts are set out in the Remuneration Report on pages 40 to 41.

Directors' Interests

The interests of the Directors in the share capital of the Company and in the share capital of HBOS plc, being the Company's holding company, as at 31 December 2004, and any changes between that date and the date of this Report, are given in the Remuneration Report on pages 46 to 47.

Except as stated in the Remuneration Report, no Director has, or has had during the year under review, any beneficial interest in any contract or arrangement with the Company or any of its subsidiaries as defined by the Companies Act 1985 or pursuant to the Listing Rules published by the FSA.

Creditors' Payment Policy

The payment of supplier invoices is made on the Company's behalf by St. James's Place Management Services Limited ("SJPMS"), a subsidiary company. It is SJPMS's policy to pay creditors in accordance with the CBI Better Practice Payment Code on supplier payments. SJPMS's average number of days purchases outstanding in respect of trade creditors at 31 December 2004 was 26 days (2003: 31 days).

Charitable Donations and Political Contributions

As agreed by shareholders in 2000, the Group pays an amount to the St. James's Place Foundation (a charitable trust) each year which matches donations received during the year by the Foundation on a pound for pound basis, up to a limit determined by the Directors from time to time, which was set at £700,000 for 2004. During the year ended 31 December 2004, the Group contributed £685,388 to the St. James's Place Foundation. A list of charitable donations made by the Foundation will be available at the Annual General Meeting, together with a report which outlines the basis on which priorities for donations have been established. The Group made no political donations during the year.

Employees

Full details of the number of employees within the Group as at 31 December 2004 and the costs related to those employees are shown in Note 11 on page 69.

Details of the Group's approach to employee development and communication and the Group's policy for the employment, training and development of the disabled can be found in the Corporate and Social Responsibility Report on pages 18 to 19.

Auditors

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Hugh Gladman
Company Secretary

"The Company is committed to achieving high standards of corporate governance and to maintaining high levels of integrity and ethical standards in all of its business dealings".

Corporate Governance

The Company has a policy of seeking to comply with established best practice in the field of corporate governance. This report explains the approach the Company has taken to apply the principles and provisions set out in the revised Combined Code.

During 2003 and 2004 the Board carried out a review of the Group's corporate governance policies following publication by the Financial Reporting Council of the revised Combined Code on corporate governance in July 2003. The Board considers that the Company has complied throughout the financial period ending 31 December 2004 with the provisions of the revised Combined Code on corporate governance, except in relation to provision A.3.2 that at least half the Board comprises non-executive Directors determined by the Board to be independent, provision C.3.1 that the Audit Committee should wholly comprise independent non-executive Directors and provision A.2.2 regarding Mike Wilson's appointment as Chairman on 1 September 2004.

The Company currently complies with the provisions of the previous Combined Code that at least a majority of the non-executive Directors are independent. However, the Board intends to comply with provision A.3.2 of the revised Combined Code that at least half the Board comprises independent non-executive Directors by the Annual General Meeting in 2006, notwithstanding the difficulties of doing so given the right of HBOS plc, under the Relationship Agreement referred to on pages 32 to 33, to appoint three Directors to the Board.

The process to achieve compliance with provision A.3.2 has already commenced following the announcement of the resignation of Viscount Weir and Anthony Loehnis with effect from the Annual General Meeting on 12 May 2005, to be replaced (subject to shareholder approval) by Simon Gulliford, further details of whom can be found on page 24. Further changes to the Board will be made over the next year. In addition, HBOS has confirmed that it will reduce the number of non-executive Directors it appoints to the Board, pursuant to the Relationship Agreement, from three to two, should this be required in order to secure compliance with provision A.3.2 of the revised Combined Code by the Annual General Meeting in 2006.

In relation to provision C.3.1, the Audit Committee includes one non-independent non-executive Director (Phil Hodkinson) as an appointee of HBOS plc in accordance with the Relationship Agreement. The Board believes that Mr Hodkinson makes a considerable contribution to the work of the Audit Committee, particularly given his life assurance and actuarial experience.

The appointment of Mike Wilson as Chairman of the Board on 1 September 2004 was made following consultation with major shareholders. Generally, major shareholders, like the Board, were firmly of the view that it was highly beneficial to the Group for Mike Wilson to become Chairman on Mark Lund being appointed Chief Executive, given the need for continuity following the resignation of the co-founder of the Group (Sir Mark Weinberg), his industry experience and his close relationships with members of the St. James's Place Partnership.

The Board

The Company applies the provisions of the Combined Code through the Board and its Committees, which meet regularly and have ready access to all relevant information required to enable effective decision making.

With effect from 2005 the Board will meet six times a year, with additional meetings arranged on an ad hoc basis as required. During 2004 there were four Board Meetings at which all Directors were present with the exception of the following:

Meeting	*Apologies*
July 2004	Ian Gascoigne
	AnthonyLoehnis
	Viscount Weir

Board members are given appropriate documentation in advance of each Board meeting. This will normally include detailed reports on current trading, operational issues (including compliance and risk issues), as well as papers from the Finance Director on accounting and financial matters. The Board also receives reports from the Chairmen of the various Committees of the Board.

The Board has a formal schedule of matters specifically reserved to it. The primary responsibilities of the Board are to:

- determine the overall strategy of the Group;
- ensure that the Group's operations are well managed and proper succession plans are in place;
- review major transactions or initiatives proposed by the executive directors;
- implement appropriate corporate governance procedures;
- periodically review the results and operations of the Group;
- ensure that proper accounting records are maintained and adequate controls are in place to safeguard the assets of the Group from fraud and other significant risks;
- identify and manage risk; and
- decide the Group's policy on charitable and political donations.

In addition, a Board Control Manual sets out the primary policy and decision-making mechanisms within the Group and defines the terms of reference of the Committees set out below and the Group's risk policies. It also contains the detailed job descriptions of the Directors showing their individual responsibilities. The Board Control Manual is reviewed by the Board annually.

The statement of Directors' responsibilities in preparing the accounts is set out on page 33 and the statement from the auditor on its reporting responsibilities is on pages 49 to 50. The statement on going concern can be found on page 33.

The Roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board, Mike Wilson, and the Chief Executive, Mark Lund, is clearly defined and has been approved by the Board. It is the responsibility of the Chairman, Mike Wilson, to ensure the continued effectiveness of the Board of Directors and he liaises with the Chief Executive, Mark Lund, to make recommendations to the Board on Group strategy. Any other significant commitments of the Chairman are disclosed in his biography on page 22. The Chief Executive's primary responsibility is to manage the Group and implement the strategies adopted by the Board.

The Board delegates day to day business and risk management control to the executive Directors and other senior executives, who meet twice a month to consider operational issues as well as business development plans, financial and operating budgets and forecasts, capital expenditure proposals and key performance indicators. Their decisions are communicated throughout the Group as appropriate.

Directors and Directors' Independence
Following the resignation of Mario d'Urso in February 2004 the Board consisted of five executive and eight non-executive Directors. With effect from 1 September 2004, upon the appointment of Sarah Bates, the number of non-executive Directors increased to nine. Five of the non-executive Directors were considered by the Board to be independent of management and free from any business or other relationships which could materially interfere with the exercise of their judgement, being Viscount Weir, Charles Bailey, Sarah Bates, Derek Netherton and Michael Sorkin.

The Board has considered the independence of Viscount Weir, Charles Bailey and Derek Netherton with particular care, given that they have been appointed to the Board for a period greater than six years. The Board strongly believes that these Directors contribute significantly through their individual skills and their considerable knowledge of both the Company and the financial services industry. In particular, they continue to demonstrate a strong independence of management in the manner in which they discharge their responsibilities as Directors. Accordingly, the Board is satisfied with, and believe their actions clearly demonstrate that, in the absence of any other relevant factors, Viscount Weir, Charles Bailey and Derek Netherton were independent non-executive Directors during 2004. However, to ensure the progressive refreshing of the Board, Viscount Weir and Anthony Loehnis will retire as Directors at the forthcoming Annual General Meeting and it is intended that further changes to the Board will be made in the next year.

The terms and conditions of appointment of the non-executive Directors are available on request.

The Senior Independent Director
The senior independent non-executive Director during the year was Viscount Weir. Viscount Weir is available to meet shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through the existing mechanisms for investor communication. It is intended that Michael Sorkin will replace Viscount Weir as the senior independent Director following the Annual General Meeting.

Professional Development
Directors receive training in their duties and responsibilities on appointment as part of an induction process designed to assist them in their understanding of the business. The Directors are regularly updated on their duties and responsibilities and have access to the advice of the Company Secretary and to independent professional advice where needed in furtherance of their duties. Further training is made available as necessary to ensure that the whole Board is kept abreast of relevant developments applicable to their roles and topical issues are also addressed at the start of each Board meeting. Non-executive Directors may also meet with major shareholders as necessary.

Performance Evaluation
During 2004 the Chairman held separate meetings with the non-executive Directors and the non-executive Directors also met without the Chairman present. The Board carried out an annual evaluation of its own performance and of its committees and individual Directors by way of a detailed questionnaire. Various changes were made to Board procedures as a result of feedback arising from the Board evaluation process, for example changes to the information contained in Board packs and an increase in the number of Board meetings from four to six per year. The non-executive Directors are responsible for the performance evaluation of the Chairman, taking into account the views of the executive Directors.

Board Committees

The Board has formally constituted five committees, being the Audit, Nomination, Remuneration, Compliance and Urgent Issues Committees. The membership and Terms of Reference of the Board committees are reviewed at least annually and are available on request and summarised below.

Audit Committee

The Audit Committee, chaired by Derek Netherton, comprises two other independent non-executive Directors (Charles Bailey and Viscount Weir) and one non-independent non-executive Director (Phil Hodkinson) as an appointee of HBOS plc in accordance with the Relationship Agreement.

The Committee members have considerable financial experience, in particular Phil Hodkinson, as a Fellow of the Institute of Actuaries. It can be seen from the Directors' biographical details, appearing on pages 22 to 24, that the other members of the Committee also bring to it a wide range of experience.

During 2004 the Committee met five times with all members present with the exception of the April, July and December meetings where Viscount Weir was absent and the November meeting where Phil Hodkinson was absent. It meets with executive Directors and management, as well as privately with both the external and internal auditors and its responsibilities are to:

- examine any matters relating to the financial affairs of the Group, including reviewing and advising the Board on the Company's interim and annual financial statements, its accounting policies and compliance with accounting standards;
- review the nature and scope of the work to be performed by the external auditors, the results of the audit work and the responses of management;
- make recommendations on the appointment and remuneration of the external auditors and to monitor their performance;
- review the non-audit services provided by the external auditors and to maintain responsibility for ensuring the independence, cost effectiveness and objectivity of the external auditors;
- monitor and oversee the Group's internal control procedures and risk management processes;
- approve the internal audit plan for the year and receive reports on, and review, the results of such internal audits including the response of management;
- review the activities, resources, organisational structure and operational effectiveness of the internal audit function;
- receive reports from the internal audit function on the adequacy and effectiveness of the Group's control framework;
- carry out an annual review of the Group's system of internal control; and
- assess the appropriateness of the Group's 'whistleblowing' procedures.

During the year, the Committee formally reviewed draft interim and annual reports and associated preliminary and interim announcements, focussing on key areas of judgement, accounting policies and any changes required to those. It reviewed reports of the Risk Assurance and Internal Audit functions and external audit findings. The Committee reviewed at each meeting a progress report on the internal audit plan and received regular updates on the implementation of that plan.

The Audit Committee annually reviews the services being provided by the external auditors. In order to ensure auditor objectivity and independence, the Committee has established a financial limit of £100,000 on the fees that can be paid to the external auditors in respect of non-audit advice and consultancy work. The Committee reviews the auditors' independence annually. Consideration will be given to undertaking an audit tender process in 2006.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in the Notes to the Accounts on page 69.

Remuneration Committee

The Remuneration Committee comprises solely independent non-executive Directors. The Committee, chaired by the Viscount Weir, also comprises Charles Bailey, Derek Netherton and Michael Sorkin. A summary of the terms of reference of the Remuneration Committee is set out below:

- to determine all aspects of executive Director and senior management remuneration;
- to determine the discretionary bonus scheme for executive Directors and to review the performance of the Directors against the scheme;
- to determine appropriate incentives to executive Directors to encourage enhanced performance including grants of options or awards of shares and determining the policy and performance conditions of such grants or awards;
- to determine the policy for and scope of termination payments and severance terms for executive Directors; and
- to be responsible for selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee.

Further details on the work of the Committee is set out in the Remuneration Report on page 35.

Meetings are held on an ad-hoc basis as issues arise. The Committee met twice during 2004 with all members present to determine remuneration issues for the year. The Committee also met three times in early 2005.

Nomination Committee

Mike Wilson took over the chair of the Nomination Committee from Sir Mark Weinberg in September 2004. The Committee considers appointments to the Board and the independence of any proposed new non-executive Directors. The other members of the Nomination Committee are Viscount Weir and Michael Sorkin.

The Committee meets as required. During 2004 the Committee members considered matters surrounding Board succession and the appointments of Sarah Bates and Andrew Croft. As regards Sarah Bates, a detailed specification of the role and capabilities required for the appointment of a new independent non-executive Director was prepared and this specification was then passed to an external search agency to identify potential candidates. As a result of this process, Sarah Bates was identified as a suitable candidate and following thorough interviewing and referencing, the appointment was recommended to the Board by the Committee.

In 2005 a similar process was carried out in relation to the appointment of Simon Gulliford.

Andrew Croft's appointment as Group Finance Director was announced in June 2003. As a result of his performance in the role, the Nomination Committee recommended his appointment to the Board with effect from 1 September 2004.

A summary of the terms of reference of the Committee is set out below:

- to review the structure, size and composition of the Board and evaluate the balance of skills, knowledge and experience required for a role and the preparation of a description of any new role and the capabilities required;
- to consider new appointments and to make recommendations on suitable candidates to the Board; and
- to consider succession planning for senior executive positions and the need for the progressive refreshing of the Board.

Meetings are held on an ad-hoc basis as issues arise and resolutions were passed by written resolution where it was impractical to convene a formal meeting. The Committee held two formal meetings in 2004 and all members were present.

Compliance Committee
The Compliance Committee, chaired by Anthony Loehnis, is made up of executive (David Bellamy, Ian Gascoigne, Mark Lund and Mike Wilson) and non-executive Directors (Anthony Loehnis and Charles Bailey) to deal explicitly with regulatory risks and issues. The Committee's main responsibilities are:

- reviewing the adequacy and effectiveness of the compliance and regulatory risk policies and procedures of the Group;
- monitoring the results of regulatory visits to the Group;
- approving the compliance monitoring plan for the year and receiving reports on, and reviewing the results of, such compliance monitoring activity; and
- making recommendations for changes in regulatory risk related practices or procedures.

During 2004 the Committee met five times to discuss a number of regulatory issues affecting the Group.

Investment Committee
The Investment Committee, chaired by Sir Mark Weinberg, is made up of executive (Mark Lund) and non-executive Directors (Anthony Loehnis and Sarah Bates) and is responsible for monitoring the performance and suitability of the external fund managers, with assistance from investment consultants Stamford Associates. It met four times during 2004. Its main responsibilities are to ensure that the fund managers follow the terms of their agreements with the Company, to make recommendations regarding the appointment or removal of fund managers and to oversee market risk.

Urgent Issues Committee
Comprising the Chairman or the Chief Executive and at least two other Directors, one of whom must be a non-executive Director, the role of the Urgent Issues Committee is to make decisions on matters of urgency which cannot await the next meeting of the Board. It can act only by unanimous decision. If this cannot be reached, the issue under consideration will be referred for decision to the full Board. The Committee did not meet during 2004.

Directors' and Officers' Insurance
The Group has taken out insurance covering Directors and officers against liabilities which they may incur in their capacity as Directors or officers.

Relations with Shareholders
The Board maintains close relationships with institutional shareholders through dialogue and frequent meetings. In addition, there are regular meetings with the Company's brokers, Cazenove and Co Limited and Dresdner Kleinwort Wasserstein, who facilitate meetings with other investors and their representatives. Attendance notes from such meetings are circulated to members of the Board so they are aware of the views of major shareholders. The senior independent Director is available for consultation with shareholders should the need arise. Non-executive Directors are also available to meet with major shareholders on request.

The Company's Annual General Meeting is held in London where members of the Board are available to answer shareholders' questions on the activities of the Board and its Committees. Where possible, the timing and location of the meeting is designed to encourage the participation of small shareholders.

Relationship with HBOS plc
A quoted company which has a majority shareholder must be capable at all times of carrying out its business independently of such a shareholder and all transactions and relationships between the company and the controlling shareholder must be at arm's length and on a normal commercial basis. To this end, the Company and Halifax Group plc entered into the Relationship Agreement to regulate the relationship between the two companies after the completion of the Partial Offer in June 2000. Following the merger of Halifax and Bank of Scotland on 10 September 2001, the Relationship Agreement was novated to HBOS plc.

The principal purpose of the Relationship Agreement is to ensure that the Company can operate independently of the HBOS group and to provide that the relationship between members of the HBOS group and the SJPC Group will be conducted on an arm's length basis. Under the Agreement, the HBOS group has power to appoint a number of Directors to the Board and its committees. The number varies in relation to HBOS shareholding in the company. At present, HBOS has exercised its right to appoint three non-executive Directors to the SJPC Board and a representative to the Audit Committee of the Company.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are also required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard 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 consider that, in preparing the financial statements on pages 51 to 84, the Group has used appropriate accounting policies, which have been consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

The Guidance issued in December 2001 by the Association of British Insurers entitled "Supplementary Reporting for Long Term Insurance Business (the Achieved Profits Method)" requires the Directors to prepare supplementary information presented under the Achieved Profits Method in accordance with the guidance, as set out on pages 86 to 92.

In preparing the achieved profits supplementary information, the Directors are required to:

- select suitable methodologies and then apply them consistently;
- determine assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then apply them consistently;
- state whether applicable accounting standards have been followed in relation to the residual assets, subject to any material departures disclosed and explained in the supplementary information; and
- prepare the supplementary information on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

Going Concern

The Directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Risk Management and Internal Control

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. This includes financial, operational and compliance controls and risk management. The Audit and Compliance Committees along with an appropriately staffed and qualified Risk Assurance (internal audit) function support the Directors in the discharge of these responsibilities.

In establishing the system of internal control, the Directors have regard to materiality of relevant risk, the likelihood of a risk occurring and the cost of mitigating risk. It is therefore designed to manage, rather than eliminate risk and as such can provide only reasonable and not absolute assurance against the risk of material misstatement or loss. The Group's risk appetite and risk policies are documented in a manner consistent with the Prudential Sourcebook.

The Directors and senior managers of the Group are committed to maintaining a strong controls culture within all business areas and have established processes for evaluating and managing the significant risks faced by the Group. In particular, the Group's senior management adopts a risk management process that identifies the key vulnerabilities and risks facing each business area and reports, via Risk Assurance, to the Audit Committee on how these risks and vulnerabilities are being managed. The Risk Assurance audit function adopts a risk based approach, with their work plans being derived from assessments of the key risks facing the business, adopted as necessary to deal with any emerging issues.

The Group's senior management have clear defined responsibilities and accountabilities for managing specific areas of risk and these are documented in individual job descriptions consistent with the Group's risk policies. These are subject to frequent review to ensure that they remain aligned with business developments and any new or emerging risks.

The processes set out above were in place for the year under review and up to the date of approval of the annual report and accounts and accord with the Turnbull Guidance. In February 2005, the Audit Committee conducted an annual review that considered the effectiveness of the Group's systems of internal controls during 2004, including financial, operational, compliance and other risk management systems.

The review also includes the nature and scope of the ongoing monitoring processes, including the Risk Assurance function, and the potential impact on these processes as a result of any changes during the year to the Group's risk profile.

Statement of Business Practice

To further the Group's continued commitment to Corporate Governance, the Company has published a statement of business practice. This statement, in the form of a booklet entitled "Our Approach", is provided to all employees and members of the St. James's Place Partnership and covers areas such as:

- the Group's objectives;
- the St. James's Place brand and how its integrity and value is maintained;
- the Group's corporate culture and management style;
- how the Group deals with internal and external communication; and
- the Group's commitment to the St. James's Place Foundation, a charitable trust, more details of which can be found on pages 19 and 20.

The booklet emphasises the values of integrity, trust, openness, partnership and teamwork and is designed to guide individual and corporate actions, decisions and standards.

The Directors have pleasure in presenting their Remuneration Report for the financial year ended 31 December 2004, in accordance with the Companies Act 1985. The Report will be put to shareholders for approval at the forthcoming AGM. It also contains additional information required by the Listing Rules of the Financial Services Authority and by the new Combined Code referred to in the Corporate Governance Report on page 27.

The sections marked with an asterisk ("*") have been audited by KPMG Audit Plc.

The Remuneration Committee

The Remuneration Committee (the "Committee"), on behalf of the Board, determines the remuneration packages of the Chairman and executive Directors of the Company. The Committee also monitors remuneration of the Executive Committee and supervises the operation of the executive long term incentive schemes.

The Committee comprises The Viscount Weir as Chairman, Derek Netherton, Charles Bailey and Michael Sorkin, all of whom are independent non-executive Directors. The membership and terms of reference of the Committee are reviewed at least annually and the terms of reference are available on request. Details of the number of meetings of the Committee during the year can be found in the Corporate Governance Report on page 31.

The Company Secretary, Hugh Gladman, acts as Secretary to the Committee, providing advice on legal and regulatory issues and the design and operation of the long term incentive schemes. At the Committee's request, Committee meetings are also attended by other executives, in particular Mark Lund, the Chief Executive and Mike Wilson, the Chairman, who make recommendations to the Committee regarding changes to the remuneration packages of individual Directors or policy generally. Such recommendations are discussed by the Committee and adopted or amended as the Committee sees fit. No Director is present at any part of a meeting of the Committee when his own remuneration or contractual terms are being discussed.

The Committee also has access, as required, to professional advice and market data and this was provided by Monks Partnership and New Bridge Street Consultants LLP ("NBSC") in 2004. Both firms were appointed by the Committee to provide advice on executive remuneration, long term incentives and other remuneration issues and have not provided any other services to the Company.

Remuneration Policy

The Committee applies the principles set out in the Combined Code when setting remuneration policy. Overall, the Committee aims to set executive remuneration at an appropriate level to attract, retain and motivate executives of the necessary calibre.

The policy for setting the Chairman's remuneration is set out on page 39. For other executive Directors, the policy is set out below.

When looking at total remuneration (salary, pension, fringe benefits, annual bonus and long term incentives), the Committee aims to set salary, pension and fringe benefits at around the median position for companies of similar size in the UK financial services market, with significant annual bonus and long term incentive awards enhancing an executive's potential total remuneration, but only if stretching short term and long term performance targets are achieved. In this way, the Committee aims to incentivise the Directors to achieve above average results compared to competitor organisations. The incentive schemes are designed to be retentive in nature as well as linking the value of an award to movements in the share price, in line with shareholder interests.

The Committee has followed the provisions of Schedule A to the new Combined Code in designing schemes of performance-related remuneration. Further details of all of the above elements of remuneration are set out below.

Salaries

Salaries are reviewed annually in January, using data on the salaries and benefits for executives of other financial services groups and companies in other sectors of a comparable size to the Company.

In September 2004, Mike Wilson became Chairman of the Group, Mark Lund Chief Executive and Andrew Croft was appointed to the Board as Finance Director. In view of these changes, the Committee decided to increase the salaries of Mark Lund and Andrew Croft to £350,000 and £200,000 respectively, with effect from 1 September 2004, on the understanding that their salaries would be more fully reviewed in January 2005.

The Committee carried out a full review of the salaries of all the executive Directors in January 2005, with the help of data provided by NBSC. As stated above, the Committee aimed to set salary levels at around the median position for companies of a similar size in the UK financial services market, with adjustments then being made to take into account the responsibility and accountabilities of each role, the experience of the relevant individual and any other relevant factors. On this basis, the Committee approved the following salaries for the executive Directors with effect from 1 January 2005:

	New Salary	**Previous Salary**
Mike Wilson	£500,000	£450,000
Mark Lund	£380,000	£350,000
David Bellamy	£250,000	£210,000
Ian Gascoigne	£250,000	£220,000
Andrew Croft	£230,000	£200,000

Further details about the decisions of the Committee regarding the remuneration of Mike Wilson are contained on page 39.

Annual Cash Bonus

For 2005, the Committee has determined that the maximum cash bonus will be 60% of salary, as in 2004, which would only be payable if the Committee considers that "outstanding" performance has been achieved by the Group and also by the individual Director concerned. Up to 40% of salary will be awarded by reference to the performance of the Group, largely based on growth in operating profit before tax, although the Committee retains the discretion to amend the bonus, up or down, to take into account other relevant factors such as the Group's performance compared with competitor organisations, regulatory issues and completion of other business plan objectives. Up to a further 20% of salary will be awarded by reference to individual performance and the achievement of personal objectives set at the start of the year. Following his appointment as Chairman, Mike Wilson will no longer participate in the annual bonus scheme.

No executive Director has a contractual right to receive an annual bonus award and the performance targets set by the Committee are based on a sliding scale, to encourage top-end achievement. The satisfaction of the targets will be assessed by reference to the Company's internal management information systems, which the Committee believes is the most appropriate method, given the internal nature of the performance targets.

Deferred Bonus

Connected to the annual cash bonus scheme is the deferred bonus scheme under which any amount payable to a Director by way of annual cash bonus in any year is matched by an equal amount paid pursuant to the deferred bonus scheme.

Under the deferred bonus scheme, the deferred element of the annual bonus is used to purchase shares (at market value) in the Company to be held in an employee trust. The shares held in the trust vest to the Director after three years and are not subject to further performance conditions due to the performance targets which apply prior to any entitlement being granted, although entitlement to the award is normally lost if the executive Director ceases to be employed by the Group prior to vesting.

The Committee believes that the deferred bonus scheme is an effective incentive for the executive Directors, whilst at the same time offering strong retentive characteristics going forward, as well as being aligned with shareholder interests due to the value of the award on vesting being dependent on share price performance.

Long Term Incentive Schemes

All UK employees of the Group, including the executive Directors, are eligible to enter into a Save As You Earn (SAYE) contract, under which they are able to save up to £250 per month, and at the end of the 3 or 5 year savings period acquire shares in the Company at a price not less than 80 per cent of the market price at the date of the invitation to participate.

Since 1997 the Company has operated a discretionary share option scheme for executive Directors and senior employees under which options are granted at market value. With the help of NBSC, the Committee has reviewed the merits of this arrangement, taking into account recent changes in accounting rules, market practice, the views of institutional shareholders and the relative advantages and disadvantages of share option schemes and performance share plans.

As a result of this review, the Committee has decided to seek shareholder consent at the forthcoming AGM for the approval of a new Performance Share Plan (PSP). This will enable the Committee to make awards of performance shares rather than grants of share options. The Committee believes that PSP awards will act as a better incentive mechanism for the executive Directors and senior management and also be more retentive, whilst at the same time reducing the accounting costs which would otherwise have been incurred by continuing with share option grants. Full details of the proposed PSP are set out in the Notice of the AGM and a brief summary of the plan's performance conditions is set out below.

The Committee will be able to make annual conditional awards of performance shares worth up to 200% of salary to an individual in normal circumstances, although initial grants will be restricted to 150% of base salary for the executive Directors. Awards will vest after three years subject to the achievement of a performance condition.

For the purposes of the initial awards in 2005, two-thirds of the shares will be subject to an earnings growth condition and one-third of the shares will be subject to a comparative Total Shareholder Return ("TSR") condition, both measured over a single three-year period. The Committee believes that this will provide an appropriate balance of targets that both incentivise the executives whilst also keeping their interests aligned with those of shareholders.

The Committee has set out the initial earnings targets, taking into account the relatively low base point from where the growth targets will be measured. The Committee will ensure that appropriately demanding targets are set for each award but recognises that this level of growth is unlikely to be appropriate for subsequent awards if profitability recovers strongly and earnings are measured from a much higher base point.

Earnings per share is calculated by reference to adjusted consolidated profit after tax on the achieved profit basis of accounting for both the life and unit trust businesses (on a fully diluted per share basis). The adjustment to the consolidated after tax figures will be to strip out any earnings from Life Assurance Holding Corporation (an investment that has been sold), the achieved profit investment variance and any economic assumption change. Shareholders will appreciate that these factors are not within the control of management, with the latter two factors combined producing wide variations in reported earnings due to stock market fluctuations.

The two-thirds of the shares based on earnings will vest if the following growth targets are achieved:

Average annual earnings growth	**Proportion exercisable**
Below RPI+12.5%	Zero
RPI+12.5%	25%
RPI+22.5% or more	100%
Between the above points	Pro rata between 25% and 100%

A consistent approach will be taken to measuring earnings over the transition period to international accounting standards.

The one third of shares based on TSR will vest as follows:

Company's ranking compared to comparator group[#] at end of performance period	**Proportion exercisable**
Below median	Zero
Median	25%
Upper quartile	100%
Between the above points	Pro rata

[#] The initial comparator group will comprise: Aberdeen Asset Management, AMVESCAP, Aviva, Bradford & Bingley, Britannic Group, Close Brothers, F&C Asset Management, Friends Provident, HHG, Investec, Legal & General, Old Mutual, Prudential, Rathbone Brothers, Royal & SunAlliance, Schroders, Singer & Friedlander, Teather & Greenwood. These companies were selected by the Committee as a result of having business interests comparable to those of the St. James's Place Group.

Pension and Death in Service Benefits

Employer contributions of 17.5% of base salary are made to the money purchase section of the Group's occupational pension scheme for the executive Directors, with the exception of Mark Lund who receives a contribution of 15% of base salary.

Sir Mark Weinberg received a salary supplement to his base salary in lieu of the above pension contributions until the date of his resignation from the Board. To the extent that pension contributions were restricted by the earnings cap, such shortfalls were paid by way of taxable salary.

The costs of the pension and death in service arrangements for the executive Directors during the year ended 31 December 2004 are shown on pages 43 and 44.

Chairman's Package

The Committee reviewed Mike Wilson's salary and benefits package and the terms of his service agreement in January 2005, following his appointment as Chairman with effect from 1 September 2004. With the help of NBSC, a benchmarking exercise against the packages of other full time executive Chairmen was undertaken, although it was apparent that wide variations in responsibilities and remuneration meant that it was difficult to make meaningful comparisons across comparator companies. In view of Mike Wilson's ongoing full time commitment to the Group, his financial services experience and importance to the ongoing success of the business, the Committee decided to increase his salary to £500,000 per annum but, in light of his new role as Chairman, he will not be entitled to participate in the annual discretionary bonus scheme or the accompanying deferred bonus scheme. His salary increase is designed to maintain his total remuneration, compared to 2004, taking into account that he will no longer be entitled to participate in the said bonus schemes.

The Committee believes that Mike Wilson should be entitled to participate in, and receive annual awards under the PSP, if approved by shareholders at the AGM. However, awards will be granted on the basis that any shares in the Company which vest to Mike Wilson following the satisfaction of the performance condition should be retained by him until he ceases to be a Director of the Company, less any shares required to meet any tax liability on vesting.

The Committee also decided to extend Mike Wilson's service agreement to 5 December 2008, being the date of his 65th birthday, although either party can terminate the agreement earlier on giving 12 months' notice.

Service Agreements

It is the Committee's policy that service agreements should generally terminate on the executive's 60th birthday and should not contain notice periods in excess of one year. The terms and conditions of the Directors' service agreements are reviewed regularly and all service agreements contain an express obligation on the executive to mitigate his loss in the event the agreement is terminated. In addition, the Company reserves the right to pay an amount representing the value of salary and benefits in lieu of any outstanding period of notice on a monthly basis so that, should the executive obtain alternative employment during the notice period, the monthly payments can be reduced to take into account any earnings received under the new employment.

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

Details of the current service agreements of the executive Directors are set out below.

Mike Wilson's service agreement dated 15 May 2002 can be terminated, inter alia, by either party giving the other not less than twelve months' written notice. The agreement will automatically terminate on 5 December 2008 (or such later date as the parties shall agree) and provides for an annual salary of £500,000 and benefits in kind, including life assurance, pension provision, private health insurance and a company car together with a chauffeur.

Mark Lund's service agreement dated 15 May 2002 can be terminated, inter alia, by either party giving the other not less than twelve months' written notice. The agreement will automatically terminate on Mark Lund's 60th birthday and provides for an annual salary of £380,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car.

David Bellamy's service agreement dated 15 May 2002 can be terminated, inter alia, by either party giving the other not less than twelve months' written notice. The agreement will automatically terminate on David Bellamy's 60th birthday and provides for an annual salary of £250,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car.

Ian Gascoigne's service agreement dated 19 March 2003 includes a provision for termination, inter alia, by either party giving the other not less than twelve months' written notice. The agreement will automatically terminate on Ian Gascoigne's 60th birthday and provides for an annual salary of £250,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car.

It is intended that the service agreement for Andrew Croft, which, at the date of publication, is in the process of being drafted, will include provision whereby the agreement can be terminated, inter alia, by either party giving the other not less than twelve months' written notice. The agreement will automatically terminate on Andrew Croft's 60th birthday and provides for an annual salary of £230,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car.

The service agreement for Sir Mark Weinberg was replaced on 1 September 2004 to reflect his resignation as Chairman and his appointment as President. His previous agreement provided for an annual salary of £200,000. The Company entered into a new service agreement with Sir Mark Weinberg on 1 September 2004 to reflect his new position as honorary President. The agreement provides for an annual salary of £150,000 and there are no further benefits in kind. The agreement can be terminated, inter alia, by either party giving the other not less than 3 months' notice.

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

Non-executive Directors

The remuneration of the non-executive Directors is determined by the Board as a whole, within the limits set by the provisions of the Articles of Association. The Board reviewed the fees paid to the non-executive Directors in early 2005, in light of the increase in the number of Board meetings and increased responsibilities due to the new Combined Code and other corporate governance changes.

The Board decided to increase the basic annual fee to £20,000 per annum with effect from 1 January 2005, with additional fees being paid in respect of Board Committee and other responsibilities.

Set out below are the annual fees currently payable to the non-executive Directors:

Director	£ Fees paid 2004	£ Fees per annum 2005	Date of Letter of Appointment	Year of re-election at AGM
Charles Bailey	30,000	42,500	15 Mar 1999	2005
Sarah Bates	20,000	30,000	26 July 2004	2005
James Crosby#	15,000	20,000	19 June 2000	2007
Phil Hodkinson#	20,000	30,000	23 Jan 2002	2005
Anthony Loehnis	37,500	55,000	17 Mar 1999	2005
Derek Netherton	30,000	37,500	15 Mar 1999	2005
Michael Sorkin	20,000	35,000	16 Oct 2001	2005
Grenville Turner#	15,000	20,000	3 Dec 2002	2006
The Viscount Weir	27,500	37,500	15 Mar 1999	2005

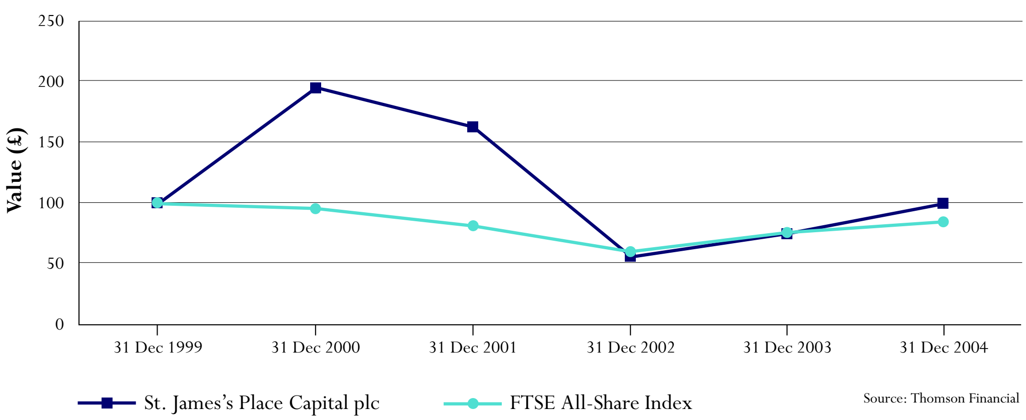
Notes:
i) Fees to directors marked with # are payable directly to HBOS plc.

The non-executive Directors do not have service contracts or benefits in kind arrangements and do not participate in any of the Group's pension or long-term incentive arrangements with the exception of Anthony Loehnis, who holds share options as a result of his former position as an executive Director of the Company. The term of the appointment of each non-executive Director (other than the three appointed by HBOS plc pursuant to the Relationship Agreement described more fully on pages 32 to 33) is for 3 years, terminating on the date on which the non-executive Director is required to retire by rotation at the AGM, at which time the appointment will be reviewed by the Board. Any period of service longer than six years is subject to particularly rigorous review by the Board.

Performance Graph

The graph below, prepared in accordance with the Companies Act 1985, shows a comparison of the Company's TSR performance against the FTSE All-Share index over the last five financial years. The Company considers this to be the most appropriate comparative index, given the broad nature of the index and the companies within it.

Total shareholder return



This graph looks at the value, by the end of 2004, of £100 invested in St. James's Place Capital plc on 31 December 1999 compared with that of £100 invested in the FTSE All-Share Index. The other points plotted are the values at intervening financial year-ends.

Directors' Remuneration*

Total Directors' remuneration for the year ended 31 December 2004 is shown below, with comparative figures for the year ended 31 December 2003:

	Year Ended 31 December 2004 £	Year Ended 31 December 2003 £
Aggregate emoluments		
Fees to non-executive Directors	211,411	215,000
Emoluments to executive Directors	2,619,364	1,838,091
Aggregate gains on exercise of share options	-	30,694
Company contributions to money purchase pension schemes	205,010	150,500
	3,035,785	2,234,285

The following table, which has been prepared in accordance with regulatory requirements, sets out the elements of Directors' aggregate emoluments for the year ended 31 December 2004 or for the period ended 31 December 2004 if appointed during the year.

Director	Salaries & Fees £	Bonus £	Deferred Bonus £	Death In Service & Other Benefits £	2004 Aggregate Emoluments £	2003 Aggregate Emoluments £
Charles Bailey	30,000	-	-	-	30,000	25,000
Sarah Bates	6,667	-	-	-	6,667	-
David Bellamy	210,000	73,500	73,500	32,696	389,696	347,038
Andrew Croft	66,667	80,000	80,000	9,885	236,552	-
James Crosby	15,000	-	-	-	15,000	15,000
Ian Gascoigne	220,000	77,000	77,000	29,825	403,825	330,011
Phil Hodkinson	20,000	-	-	-	20,000	20,000
Anthony Loehnis	37,500	-	-	-	37,500	37,500
Mark Lund	314,744	122,500	122,500	39,277	599,021	-
Derek Netherton	30,000	-	-	-	30,000	30,000
Michael Sorkin	20,000	-	-	-	20,000	20,000
Grenville Turner	15,000	-	-	-	15,000	15,000
Mario d'Urso	9,744	-	-	-	9,744	25,000
Sir Mark Weinberg	156,667	-	-	31,769	188,436	280,352
The Viscount Weir	27,500	-	-	-	27,500	27,500
Mike Wilson	450,000	157,500	157,500	36,834	801,834	711,205

Notes:

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

ii) The fees in respect of the services of James Crosby, Phil Hodkinson and Grenville Turner were paid directly to HBOS plc.

iii) The salaries and fees of £156,667 for Sir Mark Weinberg include £23,333 as a salary supplement in lieu of pension provision.

iv) Company contributions to money purchase pension schemes for David Bellamy, Andrew Croft, Ian Gascoigne, Mark Lund and Mike Wilson were £36,750, £11,667, £38,500, £39,343 and £78,750 respectively. No other Directors had any such contributions made on their behalf.

v) For the annual cash bonus in 2004, executive Directors could earn up to 30% of salary by reference to Group performance based on growth in new business, control over expenses and other business plan targets set at the start of the year. A further payment of up to 30% of salary could be earned by reference to individual performance, based on personal objectives set at the start of the year and the executive's performance generally in 2004. On this basis, the Committee awarded a bonus of 35% of salary to each of the executive Directors with the exception of Andrew Croft who was awarded 40% of salary. A deferred share bonus of equal value will be paid into the deferred bonus scheme during 2005.

Share Awards

The tables below set out details of share awards that have been granted to individuals who were Directors during 2004 and which had yet to vest at some point during the year.

Deferred Bonus Scheme – shares held during 2004

The table below sets out details of the awards held by Directors under the deferred bonus scheme during 2004, the benefits of which are still to vest.

Director	Balance as at 1 January 2004#	Released during year(i)	Granted during year(ii)	Balance as at 31 December 2004
David Bellamy	31,963	23,855	28,263	36,371
Andrew Croft#	1,821	1,821	15,477	15,477
Ian Gascoigne	28,442	21,686	26,917	33,673
Mark Lund	-	-	-	-
Mike Wilson	75,849	57,831	60,565	78,583

or date of appointment

Notes:

i) Following the end of the restricted period, these shares were released to the Directors on 29 March 2004. These shares were originally awarded on 28 March 2001 when the share price was £3.62. The share price on 29 March 2004 was £1.78.

ii) Share awards were granted on 30 March 2004, equal in value to the 2003 annual cash bonus.
These shares will be held in trust for a restricted period ending on 30 March 2007. The share price on 30 March 2004 was £1.77½.

iii) Outstanding awards at the year-end relate to share awards granted in 2004 (see ii) and 2002 (where the restricted period ends on 1 April 2005). The share price at the date of award for the 2002 grant (2 April 2002) was £2.86.

iv) No award under the deferred bonus scheme was made to the executive Directors in relation to the year ended 31 December 2002.

Executive Share Option Schemes – options held during 2004

Details of the options held by the Directors in 2004 under the Company's executive scheme (together with any outstanding options held under the previous scheme operated by St. James's Place Wealth Management Group plc) and any movements during the year are as follows:

Director	Options held at 1 January 2004#	Granted in year	Exercised in year	Options held at 31 December 2004	Exercise price	Date from which exercisable	Expiry date
David Bellamy	375,000	-	-	375,000	£1.33	1 July 2001 to 1 July 2003	13 Jul 2007
	131,250	-	-	131,250	£2.40	23 May 2005	23 May 2012
	353,932	-	-	353,932	£0.89	10 Mar 2006	10 Mar 2013
	-	176,470	-	176,470	£1.78½	27 Feb 2007	27 Feb 2014
Andrew Croft#	57,419	-	-	57,419	£1.33	1 July 2003	13 July 2007
	30,000	-	-	30,000	£1.45	15 Mar 2007	15 Mar 2012
	25,000	-	-	25,000	£1.45	13 Dec 2005	13 Dec 2010
	144,351	-	-	144,351	£1.19½	6 June 2006	6 June 2013
	134,453	-	-	134,453	£1.78½	27 Feb 2007	27 Feb 2014
Ian Gascoigne	9,187	-	-	9,187	1.71p	19 Jan 2003	19 Jan 2006
	208,434	-	-	208,434	£1.33	1 July 2002 to 1 July 2003	13 July 2007
	109,375	-	-	109,375	£2.40	23 May 2005	23 May 2012
	337,078	-	-	337,078	£0.89	10 Mar 2006	10 Mar 2013
	-	184,873	-	184,873	£1.78½	27 Feb 2007	27 Feb 2014
Mark Lund	-	750,000	-	750,000	£1.78½	27 Feb 2007	27 Feb 2014
Anthony Loehnis	41,668	-	-	41,668	£1.57	1 April 2001	18 Dec 2007
Mike Wilson	450,000	-	-	-	£3.52½	11 Dec 2004 to 11 Dec 2005	11 Dec 2010
	758,426	-	-	758,426	£0.89	10 Mar 2006	10 Mar 2013
		378,151	-	378,151	£1.78½	27 Feb 2007	27 Feb 2014

or date of appointment

Notes:

i) On 24 February 2004, the options granted to Mike Wilson on 11 December 2000 to acquire 450,000 shares at an exercise price of £3.52½ per share, lapsed in accordance with the Scheme rules as a result of the performance condition which applied to these options not being met.

ii) Anthony Loehnis' options were granted to him while he was an executive Director of the Company.

iii) The exercise price corresponds with the market price (as defined in the Scheme rules) on the date on which the options were granted. At 31 December 2004 the mid market price for SJPC shares was £2.12. The range of prices between 1 January 2004 and 31 December 2004 was between £1.58 and £2.15.

iv) For options granted prior to 2004 to be exercisable requires the Company to have satisfied a performance target based on growth in operating profit of at least RPI plus 5% per annum over a 3 year period. For options granted in 2004, the Company's EPS must have grown by an average annual rate of RPI+3% to 5% over a fixed 3 year period for 33.33% to 100% of the options to be exercisable.

SAYE Share Option Schemes – options held in 2004

Details of the options held by the Directors in 2004 under the scheme and the equivalent predecessor scheme are as follows:

Director	Options held at 1 January 2004#	Granted in year	Exercised in year	Options held at 31 December 2004	Exercise price	Date from which exercisable	Expiry date
David Bellamy	22,812	-	-	22,812	£0.72	1 May 2008	31 Oct 2008
Andrew Croft#	13,125	-	-	13,125	£0.72	1 May 2006	31 Oct 2006
Ian Gascoigne	13,125	-	-	13,125	£0.72	1 May 2006	31 Oct 2006
Mark Lund	-	11,354	-	11,354	£1.44	1 May 2009	31 Oct 2009
Mike Wilson	22,812	-	-	22,812	£0.72	1 May 2008	31 Oct 2008

or date of appointment

Share Interests*

St. James's Place Capital plc

The interests of Directors in the share capital of the Company as at the beginning of the year, or as at the date of appointment, if applicable, and as at 31 December 2004, or at the date of resignation, if applicable, are given below:

	31 December 2004† Ordinary Shares of 15 pence each		1 January 2004# Ordinary Shares of 15 pence each	
Director	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial
Charles Bailey	14,490	-	14,490	-
Sarah Bates#	-	-	-	-
David Bellamy	442,596	238,100	438,188	238,100
Andrew Croft#	19,477	-	19,477	-
James Crosby	-	-	-	-
Ian Gascoigne	197,736	-	192,505	-
Phil Hodkinson	-	-	-	-
Anthony Loehnis	6,062	-	6,062	-
Mark Lund#	22,580	-	-	-
Derek Netherton	10,000	-	10,000	-
Michael Sorkin	-	-	-	-
Grenville Turner	-	-	-	-
Sir Mark Weinberg†	3,233,488	-	3,233,488	-
The Viscount Weir	1,277	-	1,277	-
Mike Wilson	5,078,583	750,000	5,075,849	750,000

\# or date of appointment
† or date of resignation

Notes:
i) The beneficial interests set out above include deferred bonus scheme awards held in trust for the Directors, details of which are set out on page 44.
ii) The Company's register of Directors' interests contains full details of Directors' shareholdings and options to subscribe for shares in the Company.

Between 31 December 2004 and 28 February 2005 there were no transactions in the Company's shares by Directors.

HBOS plc

The Directors had no interests in the share capital of HBOS plc as at 31 December 2004 except for the beneficial interests given below:

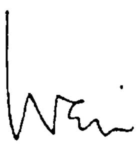
Director	31 December 2004 Ordinary Shares of 25 pence each	1 January 2004 Ordinary Shares of 25 pence each
James Crosby	279,407	184,280
Ian Gascoigne	3,500	3,500
Phil Hodkinson	112,919	28,806
Grenville Turner	29,156	12,600
Mike Wilson	1,500	1,500

Between 31 December 2004 and 28 February 2005 there have been no transactions in shares of HBOS plc by Directors.

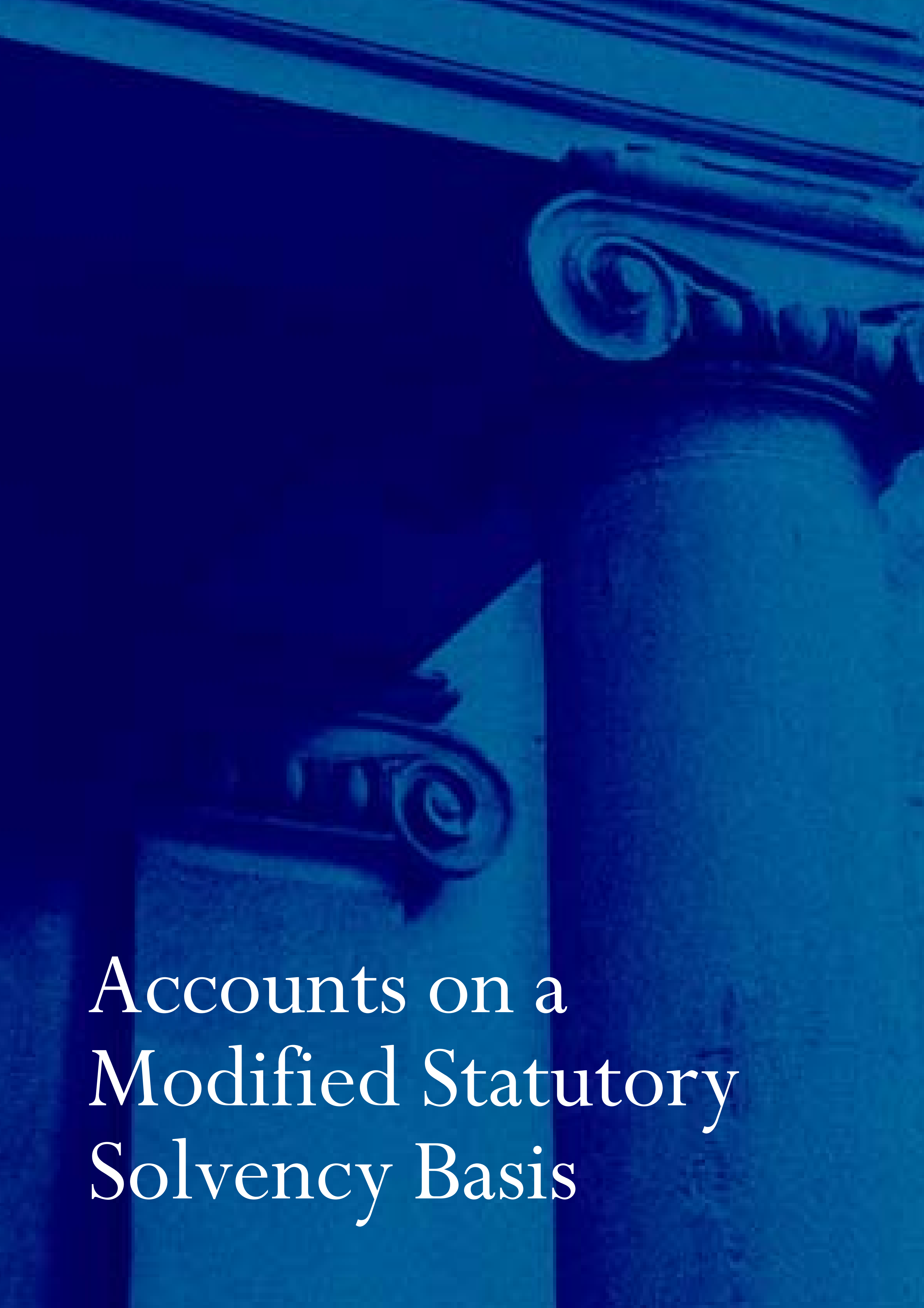
Interests in Shares Held in Trusts

Certain executive Directors and employees are deemed to have an interest or a potential interest as potential discretionary beneficiaries under the SJPC Employees Share Trust. As such, they were treated as at 31 December 2004 as being interested in 564,477 ordinary shares of 15p held by S G Hambros Trust Company (Guernsey) Limited, the trustee of that trust.

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



The Viscount Weir
Chairman, Remuneration Committee
28 February 2005



Accounts on a Modified Statutory Solvency Basis

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ST. JAMES'S PLACE CAPITAL PLC

We have audited the financial statements on pages 51 to 84. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 33, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 27 to 34 reflects the Company's compliance with the nine provisions of the 2003 FRC code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
28 February 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT
LONG-TERM BUSINESS TECHNICAL ACCOUNT

	Notes	**Year Ended 31 December 2004 £' Million**	Year Ended 31 December 2003 £' Million
Earned premiums, net of reinsurance			
Gross premiums written	2	**1,134.8**	990.2
Outwards reinsurance premiums	2	**(27.2)**	(27.9)
		1,107.6	962.3
Investment income	3	**452.5**	74.3
Unrealised gains on investments		**360.0**	1,014.0
Other technical income		**1.4**	0.1
		1,921.5	2,050.7
Claims incurred, net of reinsurance			
Claims paid			
- Gross amount		**(498.9)**	(360.5)
- Reinsurers' share		**23.3**	21.0
		(475.6)	(339.5)
Change in the provision for claims			
- Gross amount		**0.5**	(4.6)
- Reinsurers' share		**(1.6)**	(1.4)
		(1.1)	(6.0)
	4	**(476.7)**	(345.5)
Changes in other technical provisions, net of reinsurance			
Long-term business provision			
- Gross amount		**8.6**	(8.0)
- Reinsurers' share		**(6.9)**	20.2
		1.7	12.2
Technical provisions for linked liabilities		**(1,260.4)**	(1,538.2)
Net operating expenses	5	**(160.6)**	(155.5)
Investment expenses and charges		**(21.0)**	(16.1)
Other technical charges		**(2.1)**	(2.5)
Tax attributable to the long-term business	6	**8.0**	(3.4)
		(1,911.1)	(2,049.0)
Balance on the long-term business technical account		**10.4**	1.7

The notes and information on pages 59 to 84 form part of these accounts.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT

	Notes	**Year Ended 31 December 2004** **£' Million**	Year Ended 31 December 2003 £' Million
Balance on the long-term business technical account		**10.4**	1.7
Tax credit attributable to balance on long-term business		**(1.4)**	(0.1)
Shareholders' profit from long-term business		**9.0**	1.6
Investment income			
Income from associated undertaking		-	3.4
Income from other investments	7	**3.3**	3.9
Investment expenses and charges	10	**(1.2)**	(2.1)
Other income			
Income from unit trust operations	9	**12.0**	11.0
Other income		**4.0**	3.5
Other charges		**(16.3)**	(11.2)
Operating profit		**10.8**	10.1
Profit on sale of investment – LAHC	8	**28.0**	-
Profit on ordinary activities before tax	10	**38.8**	10.1
Tax on profit on ordinary activities	6	**(2.0)**	(3.5)
Profit on ordinary activities after tax, being profit for the financial year		**36.8**	6.6
Dividends	12	**(12.3)**	(11.8)
Retained profit/(loss) for the financial year		**24.5**	(5.2)
		Pence	Pence
Dividend per share	12	**2.85**	2.75
Basic earnings per share	13	**8.5**	1.5
Diluted earnings per share	13	**8.2**	1.5
Basic and diluted adjusted earnings per share	13	**2.0**	1.5

In arriving at operating profit, unless otherwise stated, all amounts are in respect of continuing operations, in both the current and previous year.

The profit on sale of the investment in LAHC is classified as a discontinued operation.

In accordance with the amendment to FRS3 no note of historical cost profits has been prepared as the Group's only material gains and losses on assets relate to the holding and disposal of investments.

The Group has no other recognised gains and losses during the current and previous year and therefore a separate statement of total recognised gains and losses has not been presented.

The notes and information on pages 59 to 84 form part of these accounts.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Opening shareholders' funds	**179.6**	186.0
Profit for the financial period	**36.8**	6.6
Dividends	**(12.3)**	(11.8)
Retained profit /(loss) for the period	**24.5**	(5.2)
P&L reserve credit in respect of share option charges	**0.5**	0.8
Consideration paid for own shares	**(1.4)**	(2.5)
Issue of share capital	**11.8**	0.5
Net increase /(decrease) to shareholders' funds	**35.4**	(6.4)
Closing shareholders' funds	**215.0**	179.6

The notes and information on pages 59 to 84 form part of these accounts.

Assets	Notes	**2004** £' Million	2003 £' Million
Investments			
Land and buildings	15	**1.4**	1.3
Other financial investments			
Shares and other variable yield securities	16	**-**	31.6
Debt securities and other fixed income securities	17	**57.6**	52.8
Deposits with credit institutions		**71.8**	69.7
		129.4	154.1
	34	**130.8**	155.4
Acquired value of long-term business in-force	18	**49.5**	51.6
Assets held to cover linked liabilities	19	**7,456.2**	6,195.8
Reinsurers' share of technical provisions			
Long-term business provision		**66.1**	73.3
Claims outstanding		**4.2**	5.8
		70.3	79.1
Debtors			
Debtors arising out of direct insurance operations			
– due from policyholders		**8.5**	4.5
Other debtors	20	**55.9**	52.5
		64.4	57.0
Other assets			
Tangible assets	21	**5.7**	5.8
Cash at bank and in hand	34	**88.0**	48.4
		93.7	54.2
Prepayments and accrued income			
Deferred acquisition costs		**44.5**	53.5
Other prepayments and accrued income		**4.2**	5.1
		48.7	58.6
Total assets		**7,913.6**	6,651.7

The notes and information on pages 59 to 84 form part of these accounts.

Liabilities		**2004**	2003
	Notes	**£' Million**	£' Million
Capital and reserves			
Called up share capital	22	**65.9**	64.8
Share premium account	24	**15.9**	5.1
Shares to be issued	24	**0.1**	0.2
Other reserves	24	**2.2**	2.2
Profit and loss account	24	**141.6**	117.4
		225.7	189.7
Own shares reserve	24	**(10.7)**	(10.1)
Equity shareholders' funds		**215.0**	179.6
Technical provisions			
Long-term business provisions	25	**104.3**	112.9
Claims outstanding		**19.9**	20.4
		124.2	133.3
Technical provisions for linked liabilities		**7,456.2**	6,195.8
Provisions for other risks and charges	27	**22.4**	16.1
Creditors			
Creditors arising out of direct insurance operations		**11.2**	9.4
Amounts owed to credit institutions	28	**22.4**	53.6
Amounts due to reinsurers	25	**11.3**	11.6
Other creditors including taxation and social security	29	**16.5**	15.2
Proposed dividends	12	**7.0**	6.4
		68.4	96.2
Accruals and deferred income		**27.4**	30.7
Total liabilities		**7,913.6**	6,651.7

The financial statements on pages 51 to 84 were approved by the Board of Directors on 28 February 2005 and signed on its behalf by:

M Lund
Chief Executive

A Croft
Finance Director

The notes and information on pages 59 to 84 form part of these accounts.

BALANCE SHEET OF THE PARENT COMPANY AT 31 DECEMBER

	Notes	2004 £' Million	2003 £' Million
Fixed Assets			
Investment in subsidiary undertakings	14	**311.4**	311.4
Current Assets			
Amounts owed by group undertakings		**-**	61.8
Other debtors		**0.2**	0.2
		0.2	62.0
Creditors: amounts falling due within one year			
Amounts owed to group undertakings		**(178.8)**	(240.6)
Proposed dividend	12	**(7.0)**	(6.4)
Other creditors		**(1.4)**	(1.2)
		(187.2)	(248.2)
Net current liabilities		**(187.0)**	(186.2)
Total assets less current liabilities		**124.4**	125.2
Capital and reserves			
Called up share capital	22	**65.9**	64.8
Share premium account	24	**15.9**	5.1
Shares to be issued	24	**0.1**	0.2
Profit and loss account	24	**42.5**	55.1
Equity shareholders' funds	26	**124.4**	125.2

The financial statements on pages 51 to 84 were approved by the Board of Directors on 28 February 2005 and signed on its behalf by:

M Lund
Chief Executive

A Croft
Finance Director

The notes and information on pages 59 to 84 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT
(EXCLUDING POLICYHOLDER FUNDS)

	Notes	**Year Ended 31 December 2004 £' Million**	Year Ended 31 December 2003 £' Million
Shareholders' net cash outflow to long-term business		**-**	-
Other operating cash flows attributable to shareholders		**19.8**	13.9
Net cash inflow from operating activities	31	**19.8**	13.9
Interest			
Interest received		**3.2**	3.7
Interest paid		**(1.2)**	(2.1)
		2.0	1.6
Taxation			
Corporation tax paid		**(5.2)**	(3.5)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(3.1)**	(1.7)
Sale of fixed assets		**0.4**	0.4
Consideration paid for own shares		**(1.4)**	(2.5)
		(4.1)	(3.8)
Acquisitions and disposals			
Net disposal proceeds from sale of investment in LAHC		**64.4**	-
Equity dividends paid		**(3.8)**	(11.8)
Net cash inflow/(outflow) before financing		**73.1**	(3.6)
Financing			
(Repayment)/draw down of loan		**(31.2)**	8.6
Issue of ordinary share capital		**3.7**	0.5
		(27.5)	9.1
Net cash inflow in the year		**45.6**	5.5
Net cash inflow was applied as follows:			
Increase in cash holdings		**48.6**	7.2
Net portfolio investments			
Withdrawals from credit institutions		**(3.0)**	(1.7)
Net investment of cash flows		**45.6**	5.5

The notes and information on pages 59 to 84 form part of these accounts.

Notes to the Accounts

1. Principal Accounting Policies

The consolidated financial statements of the Company and its wholly owned life insurance and non insurance subsidiary undertakings, have been prepared in accordance with the provisions of section 255A of, and the special provisions relating to insurance groups of Schedule 9A to, the Companies Act 1985.

The financial statements are prepared in accordance with applicable accounting standards, which have been applied consistently except as noted below, and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated November 2003.

The Company's financial statements have been prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985 adopting the exemption conferred by Section 230 of that Act of omitting the profit and loss account.

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertakings drawn up to 31 December each year.

Profit recognition relating to the value of long-term business in-force
Profits emerging on long-term assurance business in-force are determined in accordance with the Modified Statutory Solvency Basis of reporting, which is consistent with the ABI SORP.

Under this method, the statutory result arising in the period, which includes the long-term business provision determined in consultation with the Appointed Actuaries following their annual investigations, is required to be adjusted under the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 for certain items, including the deferral of acquisition costs and movements in certain reserves, which are recognised in the long-term business technical account.

Premiums
Premiums are accounted for when receivable, other than unit-linked premiums, which are credited to revenue when the associated liability is established. Reinsurance premiums are charged as they become payable.

Investment return
Investment return comprises investment income including dividends, interest, realised investment gains and losses, movements in unrealised investment gains and losses and related expenses.

Dividends are included as investment income on the date that shares become quoted ex-dividend. Interest and expenses are included on an accruals basis. Realised investment gains and losses are calculated as the difference between net sales proceeds and the purchase price. Unrealised investment gains and losses represent the difference between the valuation of investments at the balance sheet date and their original cost or, if they have been previously valued, their valuation at the last balance sheet date. Net rental income is recorded when due.

Claims
Claims are charged to revenue when they become due for payment or, in the case of deaths, when notification of death is received. Recoveries from risk reassurances are included in the same period as the relevant claims.

Acquisition costs
Costs of acquiring new insurance contracts principally comprise commission and costs associated with policy issue and underwriting, which are not matched by policy charges. Such costs are deferred and amortised against margins in the future revenues of the insurance contracts, to the extent that the amounts are recoverable out of the margins. This deferred acquisition cost is included as an asset within the balance sheet. Movements in that asset are shown in acquisition expenses.

In all instances the deferred acquisition costs are calculated before tax with an appropriate charge or credit being made for deferred tax.

Investments
Investments held to cover linked long-term assurance liabilities are stated at their current value. Investments comprise listed securities, units in authorised unit trusts and OEICs, deposits and property.

Listed investments are included at mid-market value, units in unit trusts and OEICs are at published mid prices and deposits are included at cost. Land and buildings occupied by the Group for its own activities, which are depreciated over their useful economic lives of 50 years, are stated at market value on a vacant possession basis for existing use. Unlisted investments are included at Directors' valuation.

Derivative instrument contracts, which comply with regulatory requirements for use within the internal linked funds, are held at market value. All derivatives are used solely for hedging purposes.

All realised and unrealised gains and losses on investments held within the long-term business fund are dealt with in the technical account. Realised and unrealised gains and losses on other investments are included in profit before taxation in the non-technical account.

Investment in subsidiary undertakings
Investments in subsidiary undertakings are valued at cost less any provision for impairment in value.

Goodwill
Goodwill represents the difference between the fair value of the consideration paid and the fair value of the separately identifiable assets and liabilities arising on the acquisition.

Prior to 1998, purchased goodwill was eliminated against reserves as a matter of accounting policy, as all such transactions took place before FRS10 became effective on 23 December 1998. As permitted under the transitional arrangements of FRS10, such amounts previously written off to reserves have not been reinstated as an asset, but will be charged to the profit and loss account on disposal of the businesses to which they relate.

Long-term business provision and technical provisions
The long-term business provision is calculated on actuarial principles. The calculation is in accordance with statutory reporting for solvency and uses the gross premium method.

The provisions held for linked liabilities are the unit liabilities together with certain non-unit provisions.

Whilst the directors consider that the gross long-term business provision and the related reinsurance recovery is fairly stated on the basis of current experience and economic conditions, the ultimate liability will vary as a result of subsequent changes in experience and economic conditions and may result in adjustments to the amount provided in future.

The provision, estimation techniques, and assumptions are periodically reviewed in the light of changes in experience and economic conditions with any changes in estimates reflected in the long-term business technical account as they occur.

Present value of acquired long-term business in-force
In accordance with the ABI SORP, the present value of acquired long-term business in-force ("PVIF") is recognised as an additional asset within the consolidated balance sheet.

The value determined at the date of acquisition is amortised over the anticipated lives of the related contracts in the portfolio. The rate of amortisation is chosen by considering the profile of the in-force business acquired and the expected reduction in its value over time. The carrying value of the amortised PVIF asset is also tested for impairment on an annual basis.

The amortisation charge for the year is charged to the long-term business technical account, included within other technical charges.

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Tangible fixed assets
The cost of fixed assets is their purchase cost, together with any incidental cost of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, over the expected useful economic lives as follows:

	% per annum
On a straight line basis:	
Computers	33⅓
Fixtures and fittings	20
Office equipment	20
Motor vehicles	25

Leases
Costs in respect of operating leases are charged on a straight line basis over the lease term.

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Pensions
The SJPC Group operates a defined contribution personal pension plan for its employees.
The contributions payable to the scheme are recognised for the accounting period in which they occur.

The Group also has an occupational scheme with both a defined contribution and a defined benefit section. The defined benefit section is closed to new members. Employer contributions on the defined contribution section are recognised for the accounting period in which they occur. No employer contributions were made for the defined benefit section.

Share options
A charge is recognised on options granted to subscribe for new shares in SJPC, or options over shares held by the SJPC Employee Share Trust, based on the difference between the market value of SJPC shares at the date of the award, and the exercise price. Where appropriate, this charge is spread over the period that performance criteria apply. Deferred charges, to be charged in future years, will be adjusted to reflect evidence regarding whether the performance criteria will be met.

The consideration paid for shares acquired by the SJPC Employee Share Trust that have not yet vested unconditionally to option holders, is recorded in the own shares reserve.

At the vesting date the surplus or deficit between the initial consideration paid for the shares and the proceeds recievable on vesting is transferred to the profit and loss reserve.

2. Segmental Analysis

An analysis of premiums written, profit and the net assets of the Group's principal activities are set out below:

Premiums written

		Year Ended 31 December 2004	Year Ended 31 December 2003
		£' Million	£' Million
Net premiums comprise:			
Life business			
Single premiums		**675.9**	587.5
Regular premiums		**92.3**	97.8
Reinsurances	– Risk	**(12.8)**	(13.6)
		755.4	671.7
Pension business			
Single premiums		**240.1**	168.4
Regular premiums		**109.4**	118.6
Reinsurances	– Risk	**(1.2)**	(1.3)
		348.3	285.7
Permanent health insurance			
Regular premiums		**17.1**	17.9
Reinsurances	– Risk	**(13.2)**	(13.0)
		3.9	4.9
		1,107.6	962.3
Gross premiums comprise:			
Individual business		**979.3**	890.4
Group contacts		**155.5**	99.8
		1,134.8	990.2
Gross new annualised premiums comprise:			
Life – single premiums		**675.9**	587.4
Life – regular premiums		**11.1**	11.3
Pension – single premiums		**240.1**	168.4
Pension – regular premiums		**13.2**	13.2
Permanent health		**1.9**	3.2
		942.2	783.5

The insurance business written by the Group relates to only direct insurance that is principally sold in the UK. The Irish life business written was £196.9 million (2003: £189.8 million).

2. Segmental Analysis (continued)

Profit on ordinary activities

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Life business	**9.0**	1.6
Unit trust business	**12.0**	11.0
Other	**(4.6)**	(2.5)
IT systems development	**(5.6)**	(3.4)
Operating profit	**10.8**	6.7
LAHC	**28.0**	3.4
Profit on ordinary activities before tax	**38.8**	10.1
Taxation		
Life business	**1.4**	0.1
Unit trust business	**(3.6)**	(3.3)
Other	**0.2**	0.7
LAHC	**-**	(1.0)
	(2.0)	(3.5)
Profit on ordinary activities after tax	**36.8**	6.6

The life profit before tax is analysed as a loss from the UK life business of £2.7 million (2003 loss: £4.6 million) and a profit from the Irish life business of £11.7 million (2003 profit: £6.2 million).

Net assets

	31 December 2004	31 December 2003
	£' Million	£' Million
UK life business	**118.7**	118.7
Irish life business	**43.5**	33.1
LAHC	**-**	31.6
Unit trust business	**3.0**	6.9
Other net assets	**49.8**	(10.7)
	215.0	179.6

3. Investment Income

Technical account

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Income from listed investments	**203.5**	152.4
Income from other investments	**3.4**	2.7
Gains/(losses) on the realisation of investments	**245.6**	(80.8)
	452.5	74.3

The income shown in the technical account represents the whole of the investment income arising in the Group's long-term business fund. The investment income shown in the non-technical account arises from non-life companies.

4. Claims

The aggregate claims are as follows:

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Deaths	**35.9**	35.5
Surrenders	**432.8**	305.1
Income protection benefits	**14.8**	12.8
Maturities	**14.9**	11.7
	498.4	365.1
Reinsurances		
– Risk	**(21.7)**	(19.6)
Total claims incurred	**476.7**	345.5

Surrenders include encashment of single premium plans and regular withdrawals.

5. Net Operating Expenses: Long-Term Business Technical Account

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Acquisition commission	**48.5**	46.4
Other acquisition costs	**52.8**	55.7
Change in deferred acquisition costs	**8.7**	4.0
	110.0	106.1
Administrative expenses	**22.9**	25.8
Renewal commission	**27.7**	23.6
	160.6	155.5

6. Taxation

Long-term business technical account

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
UK Corporation tax		
– current year charge	**-**	1.4
Group relief		
– current year credit	**(1.6)**	(1.9)
– prior year charge	**0.2**	0.4
Overseas taxes	**3.5**	4.6
Deferred tax credit	**(10.1)**	(1.1)
	(8.0)	3.4

6. Taxation (continued)

Non-technical account

(a) Analysis of tax charge in year

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
UK Corporation tax		
– current year charge	**1.6**	2.3
– prior period credit	**(1.6)**	(5.2)
Group relief		
– current year charge	**1.8**	0.9
– prior period charge	**1.6**	4.6
Taxation attributable to the balance on the long-term technical account	**(1.4)**	(0.1)
Share of taxation of associated undertakings	**-**	1.0
Total current tax charge for the year	**2.0**	3.5

(b) Factors affecting the tax charge for the current year

The standard rate of corporation tax in the UK is 30% (2003: 30%). The differences to this in the actual current tax charge for the period (which excludes the deferred tax charge) are explained below:

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Profit on ordinary activities before tax	**38.8**	10.1
Corporation tax charge at 30%	**11.6**	3.0
Effects of:		
Tax bases of life insurance profit	**(4.1)**	(0.6)
Disposal of LAHC - exemption from CGT under Schedule 7AC TCGA 1992 (note 8)	**(8.2)**	-
Expenditure not deductible for tax purposes	**3.6**	1.0
Timing on capital allowances	**(0.9)**	0.1
Current tax charge for the year	**2.0**	3.5

7. Income from Other Investments

Non-technical account

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Interest receivable	**3.2**	3.7
Other investment income	**0.1**	0.2
	3.3	3.9

8. Profit on Sale of Investment

On 24 August 2004, the investment of a holding of 22.7% of the shares of Life Assurance Holding Corporation Limited was disposed of generating the following profit:

	Year Ended 31 December 2004
	£' Million
Consideration received	**66.6**
Deferred consideration	**11.6**
Transaction costs	**(2.1)**
Carrying value of investment	**(31.6)**
Provision for warranties	**(16.5)**
	28.0

The provision of £16.5 million relates to possible claims under the transaction warranties and indemnities for which there is a maximum potential liability of £22.4 million. To the extent provisions are not required, these would be released and further profit on the disposal would be reported. As at 28 February 2005 no warranties claims have been received by SJPC.

The disposal qualifies for Capital Gains Tax exemption under Schedule 7AC TCGA 1992 and therefore the proceeds are non-taxable.

The deferred consideration has been withheld in an interest bearing escrow account against certain indemnities.

9. Income from Unit Trust Operations

An analysis of income generated by the Group's unit trust management activity is shown below:

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Turnover	**29.6**	22.8
Operating expenses	**(17.6)**	(11.8)
	12.0	11.0

10. Profit on Ordinary Activities Before Taxation is After Charging/(Crediting)

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Amortisation of acquired value of in force	**2.1**	2.4
Depreciation charged during the year		
Tangible fixed assets	**2.9**	2.8
Auditor's remuneration		
Audit services	**0.3**	0.3
Further assurance services	**-**	0.1
Hire of assets under operating leases		
Office equipment	**0.3**	0.4
Property leases	**6.8**	7.3
Interest payable on bank loans	**1.2**	2.1
Operating lease income	**(0.5)**	(0.3)

Of the total audit fee £50,000 (2003: £50,000) relates to the audit of the parent company's consolidated accounts. This fee is paid by another Group company.

The operating profit using longer term investment return assumptions is not materially different to the reported operating profit using actual investment returns.

11. Employee Costs

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Staff costs		
Wages and salaries	**22.3**	20.9
Social security costs	**2.6**	2.5
Other pension costs	**2.3**	2.1
	27.2	25.5
Average number of persons employed by the Group during the year:	**505**	488

The above information includes Directors' costs.

Details of the Directors' remuneration, share options, pension entitlements and interests in shares are disclosed in the Remuneration Report on pages 35 to 47.

12. Dividends

	Year Ended 31 December 2004	Year Ended 31 December 2003	**Year Ended 31 December 2004**	Year Ended 31 December 2003
	Pence Per share	Pence Per share	**£' Million**	£' Million
Interim dividend paid	**1.25**	1.25	**5.3**	5.4
Final dividend proposed	**1.60**	1.50	**7.0**	6.4
	2.85	2.75	**12.3**	11.8

The proposed dividend of 1.6 pence per share is payable on 18 May 2005 to those shareholders on the register on 11 March 2005.

13. Earnings per Share

	Year Ended 31 December 2004	Year Ended 31 December 2003
	Pence	Pence
Basic earnings per share	**8.5**	1.5
Adjustments – disposal of LAHC	**(6.5)**	-
Basic adjusted earnings per share	**2.0**	1.5
Diluted earnings per share	**8.2**	1.5
Adjustments – disposal of LAHC	**(6.2)**	-
Diluted adjusted earnings per share	**2.0**	1.5

The following table sets out the various profit figures and number of shares taken into account in the above calculations:

	Year Ended 31 December 2004	Year Ended 31 December 2003
Profit on ordinary activities after taxation	**£36.8 m**	£6.6m
Adjustments – disposal of LAHC	**£(28.0 m)**	-
Adjusted profit after tax	**£8.8 m**	£6.6m
Weighted average number of shares (including shares to be issued)	**434.6 m**	430.3 m
Diluted weighted average number of shares	**449.3 m**	433.6 m
Number of share options for which diluted effect taken account of	**52.3 m**	55.4 m

14. Investment in Subsidiary Undertakings

	Company
	£' Million
At 1 January 2004	**311.4**
Movement in the year	-
At 31 December 2004	**311.4**

Principal Subsidiary Undertakings at 31 December 2004

Investment Holding

St. James's Place Investments plc

St. James's Place Wealth Management Group plc

Life Assurance

St. James's Place UK plc

St. James's Place International plc (incorporated in Ireland)

Unit Trust Management

St. James's Place Unit Trust Group Limited

Financial Services

St. James's Place Wealth Management plc (formerly St. James's Place Financial Services Limited)

Management Services

St. James's Place Management Services Limited

A full list of subsidiaries is available on request from the registered office.

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

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

15. Investments – Land and Buildings

The freehold property was independently valued as at 31 December 2004 by Doherty & Baines, Chartered Surveyors, on an open market basis, in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors.

16. Shares and Other Variable Yield Securities

	31 December 2004	31 December 2003
	£' Million	£' Million
LAHC	**-**	31.6

On 24 August 2004, the investment of a holding of 22.7% of the shares of LAHC was sold (see Note 8).

17. Debt Securities and Other Fixed Income Securities

The cost of these investments is £50.1 million (2003: £49.7 million), relating to investments listed on a recognised Stock Exchange.

18. Acquired Value of Long-Term Business In-Force

	31 December 2004	31 December 2003
	£' Million	£' Million
Value at start of period	**51.6**	54.0
Amortisation	**(2.1)**	(2.4)
Value at end of period	**49.5**	51.6

The acquired value of in-force relates to the acquisition of St. James's Place Wealth Management Group plc in 1997.

19. Assets Held to Cover Linked Liabilities

Assets held to cover linked liabilities comprise the following:

	31 December 2004	31 December 2003
	£' Million	£' Million
Market Value		
Land and property	**129.8**	-
Government securities	**570.8**	414.1
Other fixed interest securities	**29.0**	88.8
Ordinary shares	**5,394.7**	4,420.8
Unit trusts and OEICs	**511.7**	417.7
Deposits	**799.4**	837.3
Other	**20.8**	17.1
	7,456.2	6,195.8
Historic cost	**6,814.4**	6,551.9

20. Other Debtors

	31 December 2004	31 December 2003
	£' Million	£' Million
St. James's Place Partnership loans	**18.1**	29.9
Deferred LAHC proceeds	**11.6**	-
Management charges	**8.3**	7.4
Corporation tax	**7.6**	5.5
Dealing debtors	**1.7**	0.9
Stock of units	**1.8**	2.2
Other	**6.8**	6.6
	55.9	52.5

St. James's Place Partnership loans include £22.4 million (2003: £23.6 million) under an equitable assignment, which is described in more detail in Note 28. The St. James's Place Partnership loans are secured by the future renewal commission receivable by the Partner on the in-force business sold by the Partner.

21. Tangible Assets

	Fixtures, Fittings, Computers and Office Equipment	Motor Vehicles	Total
	£' Million	£' Million	£' Million
Cost			
At 1 January 2004	25.2	1.7	26.9
Additions	2.5	0.6	3.1
Disposals	(1.0)	(0.6)	(1.6)
At 31 December 2004	26.7	1.7	28.4
Depreciation			
At 1 January 2004	20.3	0.8	21.1
Charge for the year	2.5	0.4	2.9
Disposals	(0.9)	(0.4)	(1.3)
At 31 December 2004	21.9	0.8	22.7
Net book value			
At 31 December 2003	4.9	0.9	5.8
At 31 December 2004	4.8	0.9	5.7

22. Share Capital

	Number	Nominal Value
		£' Million
Authorised		
Ordinary shares at 15p each		
At 1 January 2004 and 31 December 2004	605,000,000	90.8

	Number	Nominal Value
		£' Million
Issued, Allotted and Fully Paid Ordinary shares at 15p each		
At 1 January 2004	431,927,882	64.8
Issue of shares	7,396,864	1.1
At 31 December 2004	439,324,746	65.9

7,396,864 shares were issued during the year (2003: 1,215,628), 4,447,263 as a scrip dividend and 2,949,601 for cash consideration of £3.7 million (2003: £0.5 million) on exercise of options.

23. Share Options

On the acquisition of the remaining share capital of St. James's Place Wealth Management Group plc in 1997, SJPC agreed to issue further shares, up to a maximum of 25.8 million, to satisfy the exercise of options held over shares at the time of acquisition. A reserve for shares to be issued was established in recognition of the commitment and 29,126 shares have still to be issued from this reserve.

During the year options over 5.6 million shares have been granted at a range of prices between £1.61¾ and £2.49.

Options outstanding under the various share option schemes at 31 December 2004 amount to 52.3 million shares (31 December 2003: 55.4 million). Of these, 35.1 million are under option to Partners of the St. James's Place Partnership, 13.8 million are under option to executives and senior management (including 4.2 million under option to Directors as disclosed in the Remuneration Report on page 45) and 3.4 million are under option through the SAYE scheme. These are exercisable on a range of future dates.

The SJPC Employee Share Trust is used to acquire shares in the open market to match options granted to employees and directors. The market value of shares held in the trust at 31 December 2004, that had not vested unconditionally to option holders, is £10.7 million (2003: £10.1 million). The consideration paid for shares over which options have not yet been granted was £1.0 million.

The total number of options including those in the SJP Employee Trust, together with their anticipated proceeds, are set out in the table below.

Earliest date of exercise	**Average Exercise price**	**Number of share options outstanding**	**Anticipated Proceeds**
	£	**Million**	**£' Million**
Immediate	1.68	23.1	38.7
Jan - Jun 2005	2.08	1.3	2.7
Jul - Dec 2005	1.45	5.3	7.7
Jan - Jun 2006	0.94	4.9	4.6
Jul - Dec 2006	1.42	3.1	4.4
Jan - Jun 2007	1.64	5.3	8.7
Jul - Dec 2007	1.51	4.5	6.8
Jan - Jun 2008	0.96	2.6	2.5
Jul - Dec 2008	1.29	0.7	0.9
Jan - Jun 2009	1.57	0.7	1.1
Jul - Dec 2009	1.20	0.5	0.6
Jan - Jun 2010	2.00	0.2	0.4
Jul - Dec 2010	1.00	0.1	0.1
		52.3	79.2

Included within those share options that are immediately exercisable are 12.5 million options with an expiry date before the end of July 2007 with anticipated proceeds of £16.7 million.

24. Reserves

Group	**Share Premium Account**	**Shares to be Issued Reserve***	**Other Reserves**	**Profit and Loss Account**	**Own Shares Reserve**
	£' Million	**£' Million**	**£' Million**	**£' Million**	**£' Million**
At 1 January 2004	5.1	0.2	2.2	117.4	(10.1)
Release of reserve on issue of shares	0.1	(0.1)	-	-	-
Consideration paid for own shares	-	-	-	-	(1.4)
Own shares vesting charge	-	-	-	(0.8)	0.8
Credit in respect of share option charges	-	-	-	0.5	-
Scrip dividend	7.3	-	-	-	-
Exercise of options	3.4	-	-	-	-
Retained profit for the year	-	-	-	24.5	-
At 31 December 2004	15.9	0.1	2.2	141.6	(10.7)

* The shares to be issued reserve was established on the acquisition of St. James's Place Wealth Management Group plc ("SJPWM") to account for the share options in SJPWM that were unexercised at the acquisition date as detailed in Note 23. The movement in the reserve during the year occurred on the exercise of these options.

The Other Reserves of £2.2 million are not distributable.

24. Reserves (continued)

Company	**Share Premium Account**	**Shares to be Issued Reserve**	**Profit and Loss Account**
	£' Million	**£' Million**	**£' Million**
At 1 January 2004	5.1	0.2	55.1
Release of reserve on issue of shares	0.1	(0.1)	-
Scrip dividend	7.3	-	-
Exercise of options	3.4	-	-
Retained loss for year	-	-	(12.6)
At 31 December 2004	15.9	0.1	42.5

As permitted by Section 230 of the Companies Act 1985 the Company has not published a separate profit and loss account. The loss for the financial year dealt with in the accounts of the Company was £0.3 million (2003: £0.2 million loss).

The distributable reserves of the Company were £31.8 million (2003: £45.0 million) after taking account of the own shares reserve.

25. Long-Term Business Technical Provisions

The long-term business provision is based on the annual investigation of the long-term business.
The assumptions underlying the calculation of the provision for statutory solvency purposes have been determined by the respective Board of Directors of the insurance companies on advice of professionally qualified actuaries. All such values have been determined in accordance with the regulatory requirements and in accordance with generally accepted actuarial and accounting practice. The assumptions are detailed in the returns to the regulatory authorities that are due to be submitted during the first half of 2005 and will then be available to any shareholder on request.

The principal assumptions used in calculating the provisions for linked and non-linked policies are noted below together with details on the sensitivity of these assumptions which are subject to a margin of prudence.

Linked policies
The total liability for unit linked policies is equal to the sum of the value of the assets to which the contracts are linked and the long-term business provision. The long-term provision consists of sterling reserves designed to cover any future cash flows without recourse to additional capital and takes account of the risks and uncertainties for each separate class of business.

The cash flows are projected assuming:

- contracts remain in force until their natural expiry;
- unit growth rates of between 4.8% and 6% per annum (2003: between 4.8% and 6%), depending on the tax status and territory of the contract;
- a projection of current expenses assuming inflation of between 2.9% and 4% per annum (2003: between 3.5% and 4%) depending on the territory of the contract; and
- mortality and morbidity costs are determined following a comparison of market data with actual experience. The rates used are based on recognised industry tables or tables provided by reassurers, suitably adjusted to reflect this comparison.

25. Long-Term Business Technical Provisions (continued)

The key assumptions used were in the following ranges of the published tables shown:

Risk	Assumption
Mortality	
Whole life assurance business	75% - 130% AM/AF92
Single premium business	90% AM/AF92
Morbidity	74% - 285% CIBT93 adj

The resulting cash flows are discounted to calculate the long-term provision at a rate of interest of between 3.0% and 4.75% (2003: between 3.5% and 4.75%), depending on the tax status and territory of the contract.

Non-linked policies

The long-term provisions for non-linked policies are calculated using the gross premium valuation method. Under this method the provision is equal to the discounted value of any excess of future contractual benefits over future premiums, taking account of the risks and uncertainties for each separate class of business using prudent assumptions for investment return, costs and insurance risks. The assumed rate of investment return is 3.0% (2003: 3.25%) for this business. Mortality and morbidity costs are determined following a comparison of market data with actual experience. The rates used are based on recognised industry tables, suitably adjusted to reflect this comparison. The key assumptions used were in the following ranges of the published tables shown:

Risk	Assumption
Mortality	75% - 140% TM/TF92
Morbidity	74% - 285% CIBT93 adj

Sensitivities

The calculation of the long-term technical provision is sensitive to changes in the above assumptions and market conditions.

Wherever possible it is the policy of the Group to match the long-term technical provisions with appropriate assets to reduce the overall impact of changes in the investment yields on shareholder funds. The table below shows the estimated impact of changes in assumptions on the long-term provision, net of reassurance, and the overall impact on shareholder funds, taking account of changes in asset values.

Assumption	Change	Impact on the Long-Term Provision	Impact on the Shareholder Funds
		£' Million	£' Million
Unit growth	+1%	(0.9)	0.9
	-1%	1.1	(1.1)
Investment return	+1%	(5.9)	2.3
	-1%	8.3	(3.6)
Expense inflation	+1%	7.7	(7.7)
	-1%	(5.8)	5.8

25. Long-Term Business Technical Provisions (continued)

Critical illness experience
As previously reported, in 2001 the Group entered into a financial reassurance arrangement with respect to the uncertainty on its critical illness claims experience. Under the terms of this financial reassurance arrangement, the reassurer has agreed to maintain the current reassurance rates, provided it can recover experience in excess of those rates from profits on future new business written by the Group. These arrangements remain in place.

The Group has included in its statutory long-term provision prior to reassurance, reserves of £11.3 million (2003: £11.6 million) as a result of the financial reassurance, although the net provision (after reassurance) remains unchanged. This financial reassurance has been accounted for in accordance with FRS 5 "Reporting the substance of transactions" and accordingly there is a liability of £11.3 million (2003: £11.6 million). The cash balance outstanding under the arrangement at 31 December 2004 was, however, £ nil (2003: £ nil).

Options and guarantees
None of the business written by the life assurance companies in the Group features options and guarantees whose potential value is affected by the behaviour of financial variables.

Other
Following the recent Advocate General's opinion on a case relating to the repositioning of the VAT exemption for insurance related services (see Financial Commentary for further details), a long-term business reserve of £4.0 million pre-tax has been established against any adverse outcome (31 December 2003: £nil).

26. Reconciliations of Movements in Equity Shareholders' Funds

Company	**Year Ended 31 December 2004**	Year Ended 31 December 2003
	£' Million	£' Million
Loss for the financial year	**(0.3)**	(0.2)
Dividends	**(12.3)**	(11.8)
Retained loss for the financial year	**(12.6)**	(12.0)
Issue of share capital	**11.8**	0.5
Net reduction to shareholders' funds	**(0.8)**	(11.5)
Opening shareholders' funds	**125.2**	136.7
Closing shareholders' funds	**124.4**	125.2

27. Provisions for Other Risks and Charges

	Deferred Tax	Other Provisions	Total
	£' Million	**£' Million**	**£' Million**
At 1 January 2004	14.8	1.3	16.1
(Credit)/charge to the profit and loss account	(10.1)	16.4	6.3
Cash paid	-	-	-
At 31 December 2004	4.7	17.7	22.4

Other provisions consist of £16.5 million to meet possible claims under the transaction warranties and indemnities on the sale of the Group's investment into LAHC, £1 million in respect of the policyholder costs of redress for endowment business and £0.2 million in respect of the outstanding SJPC obligations remaining from the Halifax acquisition of 60% of the share capital of SJPC plc in June 2000. The value of the Halifax related provision is dependent, amongst other things, on the current SJPC share price.

The year end deferred tax liability is analysed as follows:

	31 December 2004	31 December 2003
	£' Million	£' Million
Deferred acquisition costs	**12.0**	14.8
Valuation of tax losses	**(7.3)**	-
	4.7	14.8

As mentioned in the Financial Commentary, SJPC has unrelieved expenses of £116.0 million.
The tax losses comprising excess and deferred expenses have been recognised to the extent to which they are considered to be recoverable. The unprovided deferred tax asset is £15.9 million at 31 December 2004.

28. Amounts Owed to Credit Institutions

	31 December 2004	31 December 2003
	£' Million	£' Million
Bank loan	**22.4**	53.6

Bank facility
On 1 January 2004 the Group had an unsecured revolving credit facility amounting to £60 million expiring on 7 November 2007, arranged on a bilateral basis with the Royal Bank of Scotland plc and the Bank of Scotland plc. The amount outstanding under this facility at the start of the year was £30.0 million at an interest rate of 4.71% per annum.

During the year the outstanding amount was repaid and the bank facility cancelled.

28. Amounts Owed to Credit Institutions (continued)

Fixed Sum Guarantee
The Company has previously granted a Fixed Sum Guarantee to Bank of Scotland in connection with loans made to members of the St. James's Place Partnership by Bank of Scotland.

Under the terms of the Guarantee, Bank of Scotland agrees, at the request of the Company, to provide loans ("Partner Loans") either by way of new loans or by an equitable assignment of an existing loan to the members of the St. James's Place Partnership. In the event of default on any of these Partner Loans, the Company guarantees to repay the outstanding balance of the loan. The Guarantee can be terminated at any time by the Company by giving three months notice and on settlement of the outstanding balance. At 1 January 2004, the balance of Bank of Scotland loans covered by this guarantee was £15 million and at 31 December 2004 the balance was £52.5 million.

Under the terms of the Assignment Agreement, the Assigned Loans remain legally in the name of the Group and in accordance with FRS 5 "Reporting the substance of the transaction", the balance of these loans of £22.4 million is shown as an asset within other assets and a liability within amounts owed to credit institutions.

29. Other Creditors Including Taxation and Social Security

	31 December 2004	31 December 2003
	£' Million	£' Million
Trade creditors	**10.4**	9.2
Dealing creditors	**1.1**	0.9
Corporation tax	**5.0**	5.1
	16.5	15.2

30. Pensions Arrangements

Personal Pensions
Defined contribution personal pension plans are operated for SJPC's employees. Total pension costs of employer contributions to these plans in the year were £2.0 million (2003: £1.9 million). There were £nil prepaid or outstanding contributions outstanding at the year end (2003: £nil).

Occupational Scheme
The occupational scheme has two sections, a defined contribution section and a defined benefits section.

Defined benefits section
The defined benefits section is closed to new members and has no active members. Accordingly, there have been no employer contributions during the year. The residual liabilities to the pensioners and deferred pensioners have been matched by purchased annuities (both immediate and deferred) from insurance companies and therefore no surplus or deficit will arise.

The last valuation of the scheme was carried out at 1 January 2002. The scheme is fully funded and estimated to have £nil surplus at 31 December 2004 (2003: £nil).

Defined contribution section
The defined contribution section is operated for SJPC's senior employees. Employer contributions during the year for existing members were £0.3 million (2003: £0.2 million).

31. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Operating profit before tax	**10.8**	10.1
Interest paid	**1.2**	2.1
Interest received	**(3.2)**	(3.7)
Profit relating to long-term business	**(9.0)**	(1.6)
Profit on sale of fixed assets	**(0.1)**	(0.1)
Depreciation	**2.9**	2.8
Share of profit of associated undertakings	-	(3.4)
P&L credit in respect of share option charges	**0.5**	-
Decrease in debtors and prepayments	**9.5**	3.2
(Decrease)/increase in creditors	**(0.2)**	10.1
Decrease/(increase) in debtor from long-term business	**7.4**	(5.6)
Net cash inflow from operating activities	**19.8**	13.9

32. Movement in Opening and Closing Portfolio Investments, Net of Financing

	31 December 2004	31 December 2003
	£' Million	£' Million
Increase in cash holdings	**48.6**	7.2
Repayment/(draw down) of loan	**31.2**	(8.6)
Portfolio investments: deposits with credit institutions	**(3.0)**	(1.7)
Total movement in portfolio investments, net of financing	**76.8**	(3.1)
Portfolio investments, net of financing at 1 January	**(14.6)**	(11.5)
Portfolio investments, net of financing at 31 December	**62.2**	(14.6)

33. Movement in Cash, Portfolio Investments and Financing

	1 January 2004	**Cash flow**	**31 December 2004**
	£' Million	**£' Million**	**£' Million**
Cash at bank	19.1	48.6	67.7
Deposits with credit institutions	19.9	(3.0)	16.9
Bank loan	(53.6)	31.2	(22.4)
	(14.6)	76.8	62.2

34. Reconciliation of Investments and Cash to Balance Sheet

	31 December 2004	31 December 2003
	£' Million	£' Million
Shareholder portfolio investments	**16.9**	19.9
Land and buildings	**1.4**	1.3
Shares and other variable yield securities (LAHC)	**-**	31.6
Long-term business portfolio investments	**112.5**	102.6
Total investments per balance sheet	**130.8**	155.4
Shareholder cash	**67.7**	19.1
Long-term business cash	**20.3**	29.3
Total cash at bank and in hand per balance sheet	**88.0**	48.4

35. Financial Commitments

At 31 December 2004 the Group had annual commitments under non-cancellable operating leases, which expire as follows:

	31 December 2004	31 December 2003
	£' Million	£' Million
Office equipment:		
Within one year	**-**	0.6
Between two and five years	**0.3**	0.3
Property leases:		
Within one year	**-**	-
Between two and five years	**1.3**	1.2
In more than five years	**6.0**	5.8
	7.6	7.9

36. Related Party Transactions

HBOS plc
The relationship between SJPC and the HBOS Group is governed by a Relationship Agreement details of which are given in the Corporate Governance Report on page 32.

SJPC also has arm's length arrangements with HBOS as follows:

- Commission from the sale of banking services for St. James's Place Bank (a division of Halifax plc). The amounts receivable during the year were £3.0 million (2003: £4.1 million).

36. Related Party Transactions (continued)

- Commission from the sale of Stakeholder pensions for Clerical Medical. The amounts receivable during the year were £2.9 million (2003: £3.7 million).

- Commission from the sale of Halifax, Bank of Scotland and Birmingham Midshires mortgages. The amounts receivable during the year were £5.4 million (2003: £4.1 million).

- HBOS plc provided a guarantee to the Company's reassurers in respect of the Company's obligations in relation to the arrangements described in Note 25. The guarantee, which is on normal commercial terms, continues for a maximum of ten years with an annual amount payable by the Company of £0.5 million.

- During the year, deposits were placed with Bank of Scotland on normal commercial terms. At 31 December 2004 these deposits amounted to £7.7 million (2003: £0.2 million).

- At the beginning of the year, as part of a syndicate, the Bank of Scotland plc provided a 50% share of a revolving credit facility of £30 million (2003: £30 million) on normal commercial terms. This facility was cancelled during the year.

- SJPC has previously granted a Fixed Sum Guarantee for £70 million to Bank of Scotland in respect of certain loans made by Bank of Scotland to members of The St. James's Place Partnership. The total amount of loans covered by this guarantee at 31 December 2004 is £52.5 million (2003: £15 million).

- Insight Investment Management Limited, ("Insight"), a subsidiary of HBOS plc, has been appointed as discretionary investment manager to a number of SJPC life, pension and unit trust funds. Total investment management fees payable to Insight during the year were £1.5 million (2003: £nil).

- During the year, £0.1 million was paid to HBOS plc in respect of the services of non-executive SJPC Board Directors and for the provision of assistance with various SJPC internal projects.

- SJPC Board Directors have been included in a directors' and officers' policy negotiated on a group basis by HBOS.

Directors' transactions
Total contributions paid by the Directors during the year to various life and unit trust contracts issued by Group companies under normal terms, amounted to £0.1 million (2003: £0.1 million).

No other contract of significance existed at any time during the year in which a Director was materially interested or which required disclosure as a related party transaction under Financial Reporting Standard 8 - Related Party Disclosures

37. Ultimate Parent Company

The ultimate parent undertaking is HBOS plc, a company registered in Scotland. HBOS plc is the parent of the largest group in which the results of the Company are consolidated. Copies of the consolidated accounts of HBOS plc may be obtained from The Mound, Edinburgh, EH1 1YZ.

The immediate parent company is HBOS Insurance and Investment Group Limited, a company registered in England and Wales.

Supplementary Information on an Achieved Profit Basis for Life Business only (Unit Trust on Statutory Basis)

Achieved Profit Result

The following supplementary information shows the result for the Group adopting an achieved profit basis for reporting the results of its wholly owned life businesses.

Summarised income statement

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Life business	**62.9**	44.0
Unit trust business	**12.0**	11.0
Other	**(4.6)**	(2.5)
	70.3	52.5
IT systems development	**(5.6)**	(3.4)
Operating profit	**64.7**	49.1
Investment return variances	**20.6**	36.8
Economic assumption changes	**2.2**	(1.2)
One off budget changes	**-**	(7.6)
Cost of solvency capital	**-**	(3.6)
Profit from core business	**87.5**	73.5
Profit from other business		
LAHC	**28.0**	3.4
Achieved profit on ordinary activities before tax	**115.5**	76.9
Taxation		
Life business	**(23.4)**	(19.0)
Unit trust business	**(3.6)**	(3.3)
Other	**0.2**	0.7
LAHC	**-**	(1.0)
	(26.8)	(22.6)
Achieved profit on ordinary activities after tax	**88.7**	54.3
Dividends	**(12.3)**	(11.8)
Retained achieved profit for the financial year	**76.4**	42.5

The supplementary information on pages 86 to 92 were approved by the Board of Directors on 28 February 2005 and signed on its behalf by:

M Lund
Chief Executive

A Croft
Finance Director

The notes and information on pages 89 to 92 form part of this supplementary information.

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Reconciliation of the movement in the life achieved profit shareholders' funds		
Opening shareholders' funds on an achieved profit basis	**441.1**	399.8
Post tax profit for the year	**88.7**	54.3
Dividends	**(12.3)**	(11.8)
P&L reserve credit in respect of share option charges	**0.5**	0.8
Consideration paid for own shares	**(1.4)**	(2.5)
Issue of share capital	**11.8**	0.5
Shareholders' funds on an achieved profit basis carried forward	**528.4**	441.1

Consolidated Balance Sheet at 31 December Including Life Business on an Achieved Profit Basis

	2004	2003
Assets	**£' Million**	£' Million
Investments		
Land and buildings	**1.4**	1.3
Other financial investments	**129.4**	154.1
	130.8	155.4
Value of in-force business		
– Long-term insurance	**362.9**	313.1
Assets held to cover linked liabilities	**7,456.2**	6,195.8
Reinsurers' share of technical provisions	**70.3**	79.1
Debtors	**64.4**	57.0
Other assets	**93.7**	54.2
Prepayments and accrued income	**4.2**	5.1
Deferred acquisition costs	**44.5**	53.5
Total Assets	**8,227.0**	6,913.2
Liabilities		
Capital and reserves		
Called up share capital	**65.9**	64.8
Share premium account	**15.9**	5.1
Shares to be issued	**0.1**	0.2
Other reserves	**457.2**	381.1
	539.1	451.2
Own shares reserve	**(10.7)**	(10.1)
Equity shareholders' funds	**528.4**	441.1
Technical provisions	**124.2**	133.3
Technical provisions for linked liabilities	**7,456.2**	6,195.8
Provisions for other risks and charges	**22.4**	16.1
Creditors	**68.4**	96.2
Accruals and deferred income	**27.4**	30.7
Total Liabilities	**8,227.0**	6,913.2

I. Basis of Preparation

The supplementary information on pages 86 to 92 shows the Group's life results as measured on an achieved profit basis, which includes the results of the Group's long-term assurance business on a basis determined in accordance with the ABI Guidance "Supplementary Reporting for long term assurance business (the achieved profits method)" issued in December 2001. All other transactions and balances have been determined in accordance with the MSSB accounting policies noted on pages 59 to 62. The objective of the Achieved Profit basis is to provide shareholders with more realistic information on the financial position and performance of the Group than that provided by the modified statutory solvency basis.

The Group's unit trust business is not included on an achieved profit basis within this supplementary information although it is in the unaudited financial information.

II. Methodology and Assumptions

The Achieved Profits methodology recognises as profit the discounted value of the expected future statutory surpluses arising from the contracts in force at the period end ("the value of long-term business in force"). These future surpluses are calculated by projecting future cash flows using realistic assumptions for each component of the cash flow. Actuarial assumptions for the mortality, morbidity and persistency experience of the contracts, expenses and taxation expected to be incurred are based on recent experience and are reviewed annually. The future economic and investment conditions are based on the period end conditions and are likely to change from year to year.

Economic Assumptions

The principal economic assumptions used within the cash flows at 31 December 2004 are set out below alongside the comparatives for 31 December 2003.

	Year Ended 31 December 2004	Year Ended 31 December 2003
Risk discount rate (net of tax)	**8.00%**	8.25%
Future investment returns:		
- Fixed Interest	**4.50%**	4.75%
- Equities	**7.00%**	7.25%
- Unit-linked funds:		
- Capital growth	**3.70%**	3.75%
- Dividend income	**2.80%**	3.00%
- Total	**6.50%**	6.75%
Expense inflation	**4.25%**	4.25%
Indexation of capital gains	**1.80%**	1.75%

The risk discount rate is used to discount the projected future cash flows from the business in-force to a present value. The rate is set by reference to the assumed future investment returns.

II. Methodology and Assumptions (continued)

The assumed future pre-tax returns on fixed interest securities are set by reference to the 15 year gilt yield index. The other investment returns are set by reference to this assumption.

The expense inflation and indexation of capital gains assumptions are based on the rate of inflation implicit in the current valuation of 15 year index-linked gilts (2.75% at 31 December 2004). The expense inflation assumption is increased by a 1.5% loading to reflect increases in earnings and the indexation of capital gains is reduced by 0.5%.

Experience Assumptions
The principal experience assumptions were derived as follows. All experience assumptions are reviewed regularly.

The persistency experience is derived where possible from the Company's own experience, or otherwise from external industry experience.

Maintenance expenses have been set in line with the costs charged by the Company's third party administrators, together with an allowance for the Company's own maintenance costs.

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

There is a provision of £6.9 million before tax (31 December 2003: £12.5 million) within the cash flows to provide for adverse morbidity and persistency experience on critical illness plans.

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

In projecting future surpluses allowance has been made for the cost of maintaining a statutory solvency margin on the business in force.

Recurring single premiums are treated as if they were individual single premiums.

Future taxation has been determined assuming a continuation of the current tax legislation.

The achieved profits results are calculated on an after-tax basis and are grossed up to the pre-tax level for presentation in the profit and loss account. The rate of tax used was 30% except for the Irish life business, which was grossed up at 12.5%. These are unchanged from 31 December 2003.

Following the recent Advocate General's opinion on a case relating to the repositioning of the VAT exemption for insurance related services (see Financial Commentary for further details), a long-term business reserve of £4.0 million pre-tax has been established against any adverse outcome (31 December 2003: £nil).

III. Components of Life Achieved Profit

The pre-tax components of the Achieved Profit result for life are shown below.

The basic operating Achieved Profit is determined using the assumptions as set out above in note II. This value is subsequently adjusted to take into account items considered to be short-term variations to these longer-term assumptions to show the total achieved pre- and post-tax profit for the respective periods.

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
New business contribution	**23.7**	13.5
Profit from existing business		
Unwind of discount rate	**38.1**	32.1
Experience variances	**(2.8)**	(6.9)
Operating assumption changes	**0.7**	2.8
Investment income	**3.2**	2.5
Life operating achieved profit before tax	**62.9**	44.0
Investment return variances	**20.6**	36.8
Economic assumption changes	**2.2**	(1.2)
One off budget changes	**-**	(7.6)
Cost of solvency capital	**-**	(3.6)
Life achieved profit before tax	**85.7**	68.4
Attributed tax	**(23.4)**	(19.0)
Life achieved profit after tax	**62.3**	49.4

The economic assumption changes reflect the effect of the movement in the economic bases noted in the methodology and assumptions. The operating assumption changes reflect one-off changes to other assumptions used in the calculation of the achieved profit.

New business contribution after tax is £17.5 million (2003: £10.3 million).

IV. Sensitivities

The table below shows the impact of changes in economic assumptions on the reported value of new business and value of long-term business in force of changes to the risk discount rate, the assumed rate of long-term investment return and market movements.

		Change in new business contribution		Change in the post-tax value of long-term business in-force
		Pre-tax £' Million	**Post-tax £' Million**	**£' Million**
Reported value at 31 December 2004		23.7	17.5	362.9
Risk discount rate	+1%	(5.2)	(3.7)	(23.3)
	-1%	5.6	4.0	24.7
Investment return	+1%	4.8	3.4	21.3
	-1%	(4.5)	(3.2)	(21.9)
Current	x110%	(3.2)	(2.3)	(14.3)
withdrawal rate	x90%	3.5	2.5	15.6
Unit values	+10%	-	-	32.3
	-10%	-	-	(29.5)

INDEPENDENT AUDITOR'S REPORT TO ST. JAMES'S PLACE CAPITAL PLC ON THE ACHIEVED PROFITS SUPPLEMENTARY INFORMATION

We have audited the supplementary information on pages 86 to 92 in respect of the year ended 31 December 2004. The supplementary information has been prepared in accordance with the guidance issued in December 2001 by the Association of British Insurers entitled "Supplementary Reporting for Long Term Insurance Business (the Achieved Profits Method)" ('the guidance') using the methodology and assumptions set out on pages 89 to 90. The supplementary information should be read in conjunction with the primary financial statements, which are on pages 51 to 84.

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described on page 33 the directors' responsibilities include preparing the supplementary information on the Achieved Profits basis in accordance with the guidance issued by the Association of British Insurers. Our responsibilities as independent auditors in relation to the supplementary information are established in the United Kingdom by the Auditing Practices Board by our profession's ethical guidance and the terms of our engagement.

Under the terms of engagement we are required to report to the Company our opinion as to whether the supplementary information has been properly prepared in accordance with the guidance using the methodology and assumptions set out on pages 89 to 90. We also report if we have not received all the information and explanations we require for this audit.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the supplementary information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the achieved profits supplementary information is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of the supplementary information.

Opinion

In our opinion, the achieved profits supplementary information for the year ended 31 December 2004 has been properly prepared in accordance with the guidance using the methodology and assumptions set out on pages 89 to 90.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
28 February 2005

Unaudited Financial Information on the Combined Life and Unit Trust Achieved Profits

The following information shows the results for the Group of adopting a methodology similar to the achieved profit basis for reporting unit trust business.

Summarised income statement

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
Life business	**62.9**	44.0
Unit trust business	**29.5**	19.4
Other	**(4.6)**	(2.5)
	87.8	60.9
IT systems development	**(5.6)**	(3.4)
Operating profit	**82.2**	57.5
Investment return variances	**30.0**	55.3
Economic assumption changes	**2.1**	(1.1)
One off budget changes	**-**	(7.6)
Cost of solvency capital	**-**	(3.6)
Profit from core business	**114.3**	100.5
Profit from other business		
LAHC	**28.0**	3.4
Achieved profit on ordinary activities before tax	**142.3**	103.9
Taxation		
Life business	**(23.4)**	(19.0)
Unit trust business	**(11.6)**	(11.4)
Other	**0.2**	0.7
LAHC	**-**	(1.0)
	(34.8)	(30.7)
Achieved profit on ordinary activities after tax	**107.5**	73.2

Summarised net asset statement

	31 December 2004	31 December 2003
	£' Million	£' Million
Value of in-force		
- Unit trust	**104.8**	86.2
- Long-term insurance	**362.9**	313.1
Other net assets	**165.5**	128.0
Consolidated net assets under achieved profit basis	**633.2**	527.3
Net asset per share (pence)	**144.1**	122.1

A. Basis of Preparation

The information on pages 95 to 98 shows the Group's results as measured on an achieved profit basis, which includes the results of the Group's unit trust business on a similar basis to the ABI Guidance "Supplementary Reporting for long term assurance business (the achieved profits method)" issued in December 2001.

The assumptions used to determine the unit trust achieved profit result are consistent with those used for life business, which are disclosed on pages 89 and 90.

B. Components of the Life and Unit Trust Achieved Profit

Unit trust business

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
New business contribution	**14.3**	11.5
Profit from existing business		
Unwind of discount rate	**9.3**	7.4
Experience variances	**5.9**	2.2
Operating assumption changes	**-**	(1.7)
Unit trust operating achieved profit before tax	**29.5**	19.4
Investment return variances	**9.4**	18.5
Economic assumption changes	**(0.2)**	0.1
Unit trust achieved profit before tax	**38.7**	38.0
Attributed tax	**(11.6)**	(11.4)
Unit trust achieved profit after tax	**27.1**	26.6

The economic assumption changes reflect the effect of the movement in the economic bases noted in the methodology and assumptions. The operating assumption changes reflect one-off changes to other assumptions used in the calculation of the achieved profit.

New business contribution after tax is £10.0 million (2003: £8.0 million).

B. Components of the Life and Unit Trust Achieved Profit (continued)

Unit trust and life business combined

	Year Ended 31 December 2004	Year Ended 31 December 2003
	£' Million	£' Million
New business contribution	**38.0**	25.0
Profit from existing business		
Unwind of discount rate	**47.4**	39.5
Experience variances	**3.1**	(4.7)
Operating assumption changes	**0.7**	1.1
Investment income	**3.2**	2.5
Operating achieved profit before tax	**92.4**	63.4
Investment return variances	**30.0**	55.3
Economic assumption changes	**2.0**	(1.1)
One off budget changes	**-**	(7.6)
Cost of solvency capital	**-**	(3.6)
Achieved profit before tax	**124.4**	106.4
Attributed tax	**(35.0)**	(30.4)
Achieved profit after tax	**89.4**	76.0

The economic assumption changes reflect the effect of the movement in the economic bases noted in the methodology and assumptions. The operating assumption changes reflect one-off changes to other assumptions used in the calculation of the achieved profit.

New business contribution after tax is £27.5 million (2003: £18.3 million).

C. Sensitivities

The table below shows the impact of changes in economic assumptions on the reported value of new business and value of long-term business in force of changes to the risk discount rate, the assumed rate of long-term investment return and market movements for the combined life and unit trust business.

		Change in new business contribution		Change in the post-tax value of long-term business in-force
		Pre-tax £' Million	**Post-tax £' Million**	**£' Million**
Reported value at 31 December 2004		38.0	27.5	467.7
Risk discount rate	+1%	(6.3)	(4.5)	(29.2)
	-1%	6.8	4.8	31.0
Investment return	+1%	6.1	4.3	28.2
	-1%	(5.7)	(4.1)	(28.5)
Current withdrawal rate	x110%	(4.1)	(2.9)	(19.8)
	x90%	4.5	3.2	21.5
Unit value	+10%	-	-	42.9
	-10%	-	-	(40.1)

D. Reconciliation of MSSB Figures to Achieved Profit Figures

	2004	2003
	£' Million	£' Million
MSSB profit before tax	**38.8**	10.1
Movement in life value of in-force	**76.7**	66.8
Achieved profit before tax for life business	**115.5**	76.9
Movement in unit trust value of in-force	**26.8**	27.0
Total achieved profit before tax	**142.3**	103.9
MSSB net assets	**215.0**	179.6
Less: purchased value of in-force	**(49.5)**	(51.6)
Add: life value of in-force	**362.9**	313.1
Achieved profit net assets for life business	**528.4**	441.1
Add: unit trust value of in-force	**104.8**	86.2
Total achieved profit net assets	**633.2**	527.3

Analysis of Number of Shareholders

Analysis by Number of Shares	Holders	%	Shares held	%
1 - 999	2,947	41.08	1,239,755	0.28
1,000 - 9,999	3,472	48.40	10,271,306	2.34
10,000 - 99,999	601	8.38	16,571,079	3.77
100,000 and above	153	2.14	411,242,606	93.61
	7,173	**100%**	**439,324,746**	**100%**

Financial Calendar

Ex-dividend date for final dividend	9 March 2005
Calculation period for scrip final dividend	9 March 2005 to 15 March 2005
Record date for final dividend	11 March 2005
Latest date for receipt of scrip dividend mandates	26 April 2005
Announcement of first quarter new business	11 May 2005
Annual General Meeting	12 May 2005
Payment date for final dividend	18 May 2005
Announcement of Interim Results and second quarter new business	26 July 2005
Announcement of third quarter new business	1 November 2005

Dividends

If, subject to shareholder approval, you would prefer to receive new shares instead of cash dividends, please complete a scrip dividend mandate which is available from the Registrars, Computershare Investor Services plc. Their contact details are on page 100.

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 Capital plc shares on the London Stock Exchange. If you are interested in this service telephone 0870 703 0084.

Electronic Communications

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

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