Standard Life

Standard Life half year results 2017

9.00 am Tuesday, 8 August 2017

Keith Skeoch, Chief Executive

So, that's pretty much nine o'clock on the button, so I will start. Good morning and welcome to Standard Life's interim results presentation, as we come to the end of the latest chapter in Standard Life's long history and look forward to opening the next.

I'm joined on the stage by Luke Savage, our Chief Financial Officer, Barry O'Dwyer, the CEO of our Pensions and Savings business; and also, in the front row are a number of senior executives from Standard Life, including Rod Paris, our CIO, and Colin Walkin, our COO. It's also a particular pleasure to welcome Martin Gilbert, up in the back row, from Aberdeen. After this introduction and presentations from Luke and myself, the team will be delighted to have and answer any questions you may have.

I assume mobile phones are switched off and you've all had time to read the Z clause.

Delivering returns to shareholders

I've had the pleasure of playing some role in these presentations over the last 11 years and it's certainly been an interesting 11 years, to be involved in leading the business and dealing with some significant changes in the operating environment. Standard Life has moved from survival mode, post demutualisation, to a full-scale reshaping of the business. During this time, our continual focus has been on building our simple, capital-light business model and its focus on growing assets to drive fee-based revenue and delivering returns to shareholders. We have not only reshaped Standard Life during this period but also delivered a total return of 11.5% per annum since demutualisation, compared with around about 6% for the FTSE 100. The benefits associated with strong strategic execution are most visible really over the course of the last five years, as success in our core fee-based businesses, underpinned by the sale of the bank, the healthcare businesses and Canada, helped deliver a total return of 17.4% compared with just over 9% for the FTSE.

Creating a diversified world-class investment company

In my mind, this only serves to reinforce the importance of strategic delivery. Targeted investment in diversification and growth, financial discipline and strengthening our relationship with clients and customers have been right at the heart of our approach to generating shareholder value, not only over the long run but also during the first six months of 2017, when I believe, we continued to make good progress towards creating a world-class investment company.

Delivering across our simple business model

We increased our AUA, grew fee-based revenue by 5%, maintained our financial discipline with a stable cost/income ratio and delivered a 6% increase in operating profit, allowing us to grow cash flow and deliver a 7.00p interim dividend to shareholders, representing growth of 8.2%. Now, Luke will take us through the detail in a moment, but my perspective was this was a strong performance, as evidenced by the continued growth in profits and dividends. Gross and net inflows benefited from a record six months for our Retail platforms and continued steady inflows into Workplace. Institutional and Wholesale redemptions were impacted by the lagged impact of 2016's investment performance, which actually came back strongly in the first half of the year. The proposed merger with Aberdeen, largely as anticipated, also resulted in slower gross flows, particularly in the Institutional channel. It's the diversification of these flows and the strong relationships we enjoy with customers and clients, combined with continued financial discipline that provides the foundations for continued strategic delivery.

After we hear from Luke about the first half, I'll come back and give an update on the merger, which by the way, I think is going quite well. Luke.

Luke Savage, Chief Financial Officer

Delivering profitable growth

Thank you, Keith, and good morning, ladies and gentlemen. So, as Keith said, we've delivered good growth in our fee-based revenues, up 5% on last year, and again constituting around 95% of total income. In contrast, our operating expenses are up by less than 3% and that 3% is after taking into account the impact of taking on the loss-making Elevate platform. The contribution from our India and China associates and joint ventures, at £53 million, is up over 40% from last year and now represents nearly 15% of operating profit. And while, in combination, as Keith said, that has driven our total operating profit up by 6%, within that our all-important fee-based operating profit is up by 13%.

Non-operating items

At the same time, non-operating items are down versus 2016. Key drivers of the £40 million net figure are costs associated both with the merger with Aberdeen together with the transfer of our Hong Kong business into our China JV, and those two items have been offset by favourable movements in short-term investment returns.

Just on Hong Kong, we're very pleased with the progress we're making on the transfer of our operation to Heng An Standard Life, where the combination of Heng An and Standard Life is highly complementary. It enhances the ranges of services that Heng An can provide to its customers and it increases the range of products that our Hong Kong operation can distribute to its customers.

Now, as usual, I'm going to be talking to the results following the format of our business model, starting first with increasing assets.

Stable assets benefiting from investment performance

As Keith said, our business has been resilient in the first half of 2017, with assets up 1% to £362 billion. Across our growth channels, we saw £19.3 billion of gross inflows, down just over £1 billion on last year, while, at the same time, redemptions picked up to £19.9 billion; that's around £3 billion up on last year, in large part driven by GARS; and I'll come back to both of those figures on the next slide.

Moving across, outflows on our mature fee books which, as you'll be aware, are in natural runoff, were stable and in line with expectations at £2.9 billion. And then moving across again, we benefited from over £8 billion of investment performance and other market movements.

Diversification enhanced by investment company business model

Now, here we show, on the left-hand of the two tables, how the reduction in gross flows breaks down by channel. So, you can see Wholesale is down a little, Institutional a little more markedly, while Workplace and Retail are both up, and Retail up particularly strongly. Now, to us, it demonstrates clearly how channel flows respond differently to given market conditions, a clear strength of the diversified investment company model.

We can see that even more clearly when we exclude GARS, which has seen reduced although still significant gross inflows of £2.9 billion. And you can see we've broken that out at the bottom left-hand side below the subtotal. And excluding the GARS flows, you can see that other flows, excluding GARS, have actually increased by 13%.

Then turning to the right-hand table, where we're showing net flows by channel, the GARS impact is clearer. Again, at the bottom of the table, net flows ex GARS are up by a significant 32% and that is even after the tempering effect of the merger on short flows that Keith touched on a moment ago. So, strong testament to the benefit of our drive to diversify by product and by channel.

Institutional and Wholesale outflows impacted by GARS

Looking more closely at Standard Life Investments, the growth channels you can see on the right-hand table, on the top, as you would expect, the bulk of the net outflows were driven by GARS and the net flows into other products were positive at £1.2 billion. Now, relative to the second half of 2016, we have seen an increase in Institutional outflows from GARS, with net outflows, as stated, of £3.2 billion, given the usual lag in response to the weak investment performance that we saw in 2016.

In contrast, Wholesale GARS net outflows, which are quicker to respond to investment performance, have slowed as investment performance has continued to improve. In fact, if you look at GARS to the year to 30th June, its return was actually plus 4.4%.

As I've just said, other products saw net inflows of £1.2 billion, which were materially in line with last year. The Institutional channel, which can be lumpy, saw modest outflows, but Wholesale, in contrast, saw net inflows into other products doubled from £0.9 billion to £1.8 billion, a reflection of both the improving investor sentiment and stronger investor performance.

Continuing growth in Workplace and Retail assets

Turning to our Workplace and Retail business, again we see the benefit of diversity coming through. Net inflows were strong, representing an annualised 8% of opening assets under administration, with assets up 36% year-on-year. Now, that's driven in part by the acquisition of the Elevate business, in part by continued strong net inflows across both channels, and in part by positive market movements.

In Workplace, where flows are very steady and predictable, we've grown regular premiums by 7% to £1.6 billion for the period and these average around 75% of total inflows.

In Retail, our leading proposition across both the Elevate and the Wrap platform have driven flows up some 70% to £3.4 billion from £2 billion last year.

In our own Wrap platform business, net inflows are up 48%, helped by pensions freedoms and by people undertaking DB to DC pension switches in the current low interest rate environment.

Now, flows into Elevate have been particularly pleasing. At the time of agreeing to purchase the Elevate business there were around £10 billion of assets on the platform, since when we've seen growth of around 20% such that there's now £12 billion on the platform, and IFAs are clearly seeing the benefit of Elevate being part of Standard Life and they're committing assets to the platform as a consequence.

Strong adviser demand for our award-winning platforms

And the total growth in platform assets has been impressive, on the point of breaking through £50 billion, having nearly tripled in the 3.5 years that we show on the chart here. Now, this is a market where scale is critical to profitability and a market where, through our continued investment in the business, we have grown our Wrap platform assets, even excluding Elevate, at a CAGR of 29% over the past five years. It's growth that's been driven by consistently strong net inflows, which in the first six months of this year were almost as high as the whole of 2016.

Growth channels driving increase in fee revenue

Turning now to revenue, you can see that fees from our growth channels are up 7% in the period, while fee income from our mature books has again remained stable at £220 million. On the chart to the right-hand side, revenue yields are marginally down, with the slight reduction being largely a function of mix not pricing pressure. So, Wholesale has seen margins stable while Institutional margins have fallen two basis points as a function of GARS representing a little less of the total asset mix. And in Retail, the inclusion of Elevate has brought down the average by between one and two basis points, as per our guidance at the year end. And it's also worth noting that as well as the impact of mix, in Workplace, a one-off last year relating to the introduction of Solvency II boosted the comparative then by a couple of basis points.

Spread/risk margin continues to benefit from asset/liability management

So, turning to the 5% of our business that derives from traditional insurance risk, the big move here is the absence of the £22 million one-off benefit from Solvency II in last year's figures. Now, we've seen that partially offset by a favourable mortality experience in the first half as a result of periodic annuity verification work that we undertake, and we wouldn't expect that to repeat in the second half.

In ALM, as well as £10 million of yield enhancement activity versus our guidance of £15 million for the year, we've also realised a gain of £7 million through closer asset/liability matching.

Now, for the full year, we would guide to a further £5 million of yield enhancement activity but, as always, I would caveat that by saying it is very much a function of prevailing market conditions enabling us to execute effectively.

Maintaining financial discipline to drive down unit costs

In terms of lowering unit costs, you can see in the waterfall chart that our absolute costs, excluding 1825 and Elevate, are actually down £14 million year-on-year and that is after allowing for the headwinds from the impact of the weaker pound on the non-sterling element of our cost basis.

On the right, we've held the overall headline cost/income ratio flat at 62%, but that masks a much stronger position with regard to the underlying ratio. If we strip out 1825 and Elevate from both years, our cost/income ratio this year would be around 60%, down one percentage point versus 2016, demonstrating good progress against the commitment we made in respect of strong financial discipline.

Growth in fee revenue and financial discipline driving profit

So, putting all of those components of our business model together, we can clearly see that the growth in fee revenue in combination with strong financial discipline has been the driver of our profit in the period. We've seen a lower contribution from capital management as a function of the way we account for our pension scheme, but this has been more than offset by a strong performance from our associates and JVs. So, in combination, we've driven up profitability from our fee business some 13% period-on-period.

Operating Profit by Business Unit

Let's now take a closer look at that by business unit. I'll come back to Standard Life Investments, UK Pensions and Savings and India on subsequent slides, so here just a brief comment on Europe.

The period-on-period movement that arises from 2016 is because you'll remember 2016 also benefited from a one-off on the introduction of Solvency II that hasn't repeated in 2017. If we adjust for that, we would again continue to guide to around £30 million for the European business for 2017.

So, now let's dive into a bit more detail on the major business units.

Financial discipline driving profit in Standard Life Investments

If we look at SLI, fee revenue is in line with last year, but strong discipline around the cost base has driven profits up by 8% to £190 million. Now, that, in turn, has enabled us to bring down the cost to income ratio to

57% or, to put that another way, we've continued to achieve the 45% EBITDA margin that we hit at the end of 2016.

Now, the other point I'd draw your attention to on this slide is the improved investment performance in the yellow dots across the bottom. We've significantly improved the one-year performance figure, up from 20% at the year end to the 85% that you see here and, as we've said before, this is an important driver in investor sentiment in the Wholesale channel. Our three and five-year figures, which are themselves important drivers of sentiment in the Institutional channel, have remained very strong at 74 and 85% respectively, almost unchanged from the year end.

Workplace and Retail driving increase in revenue and profit in UK Pensions and Savings

In Pensions and Savings, again excluding 1825 and Elevate, we've seen fee revenues up by £21 million, that's some 7%, whilst total costs are up by just £4 million and that is after a £6 million increase in management fees payable to SLI off the back of higher assets that SLI is managing on behalf of the Pensions and Savings business. So, costs within the Pensions and Savings business are actually down £2 million despite the very significant increase in assets under administration. Again, it's evidence of our financial discipline together with the leverage we've built in to our scalable platforms.

Moving across, the operating loss from growing 1825 and Elevate was a very modest £3 million, and that's a function of the growth in assets we've driven onto the platform that I touched on earlier, as well as starting to deliver synergies in line with our integration plans. As I said, we're very pleased with how that business is performing and how we're well on the way towards turning it to profit, but that said, for the second half the phasing of our integration activities, some of which come through as operating expenses, means we may see a small uptick in that second half loss.

Just on 1825, our advisory business, we expect that to reach breakeven by the end of this year, very much in line with our original plans.

I've already touched on other significant items on this slide, apart from pointing out that the cost/income ratio in the bottom right-hand corner, which has gone up overall, will actually have fallen from 60 to 59%, again excluding Elevate and 1825, so again maintaining a good underlying trend.

Recognising the value of our Indian associates

Our Indian businesses also continue to do very well and, we believe, are a source of significant value. Firstly, on the left, with regard to our Life business, you can see that the business continued to go from strength to strength: half-year profits of £27 million are well ahead of last year off the back of strong sales, favourable market movements as well as our increasing stake. Now, it's a very exciting market where HDFC Life has around a 16% market share and we continue to see double-digit premium growth.

Now, we've recently announced that we will be IPO-ing HDFC Life, with Standard Life offering for sale up to 5.43% out of our total shareholding of 35%, a move which we believe will provide transparency into the value of that remaining holding.

Then, on the right-hand side of the chart, you can see that our Asset Management business, which is reported within our SLI figures, has continued to grow strongly as well. Our share of half-year profits has increased to £20 million off the back of assets growing at a compound annual growth rate of over 20% for the past five years. Now, this is a business where we see value not just through the growth in the business itself but as domestic Indian investors start to look outwards for global product, we are well placed to provide that product to HDFC Asset Management and even more so once the merger with Aberdeen completes.

So, here we're invested in two great businesses, both performing very well and both leveraging what is one of India's premier brands.

Solvency position remains strong and stable

So, that was all I was going to say on the operating results. In terms of solvency, the investor view of capital, both the quantum of our surplus and the ratio remains stable. In fact, at the margin they've improved to £3.5 billion and 220%. Our pure regulatory view, which we've shown here as well, is also stable and, as we've said before, these figures remain stable over a wide range of stress scenarios and we've included the usual detail on how that moves as a slide in the Appendix. But, as a fee-based business, regulatory capital is not a constraint on us. What we focus on is cash, with a strong long-term correlation between income, profit and cash generation.

Cash generation supports our progressive dividend

Cash generation in this period is up 1%, more muted than operating profit, as a function of certain capex expenditure together with our conservative approach to the inclusion of our associates and joint ventures. There we bring in just the dividends, which are up £4 million in the period, rather than the profits, which are up by 316 million.

As well as our cash generation, we continue to hold over £800 million of liquid resources at plc level, materially unchanged from last year. And that £800 million gives us confidence in our ability to maintain our progressive dividend policy, including during periods of stress. It gives us confidence in our ability to fund our existing growth initiatives, including the integration of Elevate and the merger with Aberdeen. And it gives us confidence in our ability to seize opportunities to accelerate our growth strategy should they arise.

Interim dividend up 8.2% to 7p

It's against that backdrop of a strong balance sheet and strong liquid resources that we've announced an interim dividend of seven pence per share, up 8.2% from last year and now in our 11th year of unbroken record of delivering on our progressive dividend policy, a policy that is something we intend to continue following the proposed merger with Aberdeen.

On that note, I'd like to thank you for listening and hand you back to Keith.

Keith Skeoch, Chief Executive

Standard Life is well placed for the next phase of its transformation to a world-clas investment company

Thanks, Luke. Although the latest chapter in Standard Life's long 192-year-old history comes to a close in the next few days on, I believe, a high note, we will of course open a new and exciting chapter with the completion of the merger with Aberdeen. From the outset, we've made it clear that the rationale for this merger is strategic and it's the complementary nature of what we both do that creates the opportunity to create a world-class investment company that delivers for our clients, our people and our shareholders. So, the opening of this new chapter will see an acceleration of strategy and Martin and I and our teams have been working hard to ensure that it gets off to a strong start.

Merger on track for effective date of 14 August 2017

Our regulatory and competition approvals are in place. Full UK approvals were received a couple of weeks ago and that has facilitated pre-approval by the final batch of 18 regulatory bodies around the world. Detailed planning work across 12 workstreams has been completed to ensure that we're day one ready for August the 14th. Our combined leadership teams throughout the business have been identified, announced and are working well together so we can hit the ground running. The new visual identity for Asset Management and the plc has been created and is ready to be rolled out.

As well as day one readiness, a great deal of work and thought has gone into organisational design and structure for the combined business. This will help ensure that the £200 million per annum of synergies are not just delivered but that we continue to make progress from day one. That will also ensure we continue to focus on delivering our vision of a well-diversified, world-class investment company.

Creating a well-diversified business with scale

What does that mean? For us, it means that the combined strengths of Standard Life and Aberdeen will generate a business with considerable scale: £670 billion of AUA, of which nearly 90% or £583 billion will be managed directly by Aberdeen Standard Investments. A combined business with revenue of £2.8 billion, profits in excess of £1.1 billion before any synergies have been delivered. The sources of asset growth that drive revenues and profits will also be well-diversified by geography, asset class and by business area.

Enhanced by our leading positioning in UK pensions and savings market

That includes the assets under administration gathered by Standard Life's leading position in the domestic pensions and savings market, with strong flows, which we've seen in the first half of the year, and a track record of long-term sustainable growth.

Truly global footprint with enhanced proximity to clients

Standard Life Aberdeen will operate on a truly global scale: offices in 50 global locations serving customers in 80 countries around the world. It'll also have a unique portfolio of strategic relationships spread across North America, Japan, China and India. Scale, however, is much more than size or bulk. It's about having a compelling offering that will help meet clients' and customers' evolving needs. Needs that will continue to change as the savings and investment landscape continues to be buffeted by the big four trends I've talked about in previous presentations.

Highly complementary investment capabilities with aligned investment philosophies and processes

We, together, can deliver such a broad and compelling offering against this changing landscape because our investment skills are complementary and the broad philosophies we deploy to generate return are aligned: we are both long-term, we are both research-based and we both believe that the fundamentals drive return. It's the bringing together of our complementary investment componentry that will provide scale across the product suite. This will help us deliver innovative investment solutions for clients, whether they are de-risking pension schemes who need liability aware solutions, post-retirement solutions who are seeking income or yield, or more traditional clients who need strong but well-diversified returns. Perhaps even more importantly, we both recognise that the day job is about operating as a team to deliver performance and service to our clients.

With recognition across institutional and mutual funds

What excites me about this broad and compelling offering is that it's not only visible but it's already recognised in the marketplace. We have a very broad range of strategies recommended by consultants or ranked by Morningstar, but only overlap in six.

Clear opportunity to leverage the strength of existing client relationships

This creates a clear opportunity to leverage the strengths of our existing client relationships, particularly because across each company's top 50 clients we only have four in common, so the opportunity to utilise our client relationships as well as our deeper and broader distribution networks to sell funds and strategies that are already ranked is a big strength for Standard Life Aberdeen.

Merger accelerates transformation to a diversified world-class investment company

So, as we turn the pages and look forward to opening the next chapter for Standard Life Aberdeen, our strategic focus is very firmly in place. Our teams have worked hard and well together and we're ready to hit the ground running and commence the integration that will help to create a world-class investment company that delivers for our clients, our people and our shareholders. The merger delivers for clients because it brings together our complementary investment strengths and will give clients and customers even greater choice and service. It delivers for our people because together we have the scale to create greater opportunities as we continue to enhance our broad and compelling offering to meet changing client needs. That provides the foundation for generating continued global growth and the ability for deeper and stronger client and customer relations. It delivers for shareholders because the financial benefits that flow from the strategic logic are equally compelling. The complementary nature of our investment skills, our distribution networks and our clients will deliver increased diversification of revenue and earnings. Our continued financial discipline, evidenced not just in Standard Life's interim results but the rigour of the integration planning process, I believe, augurs very well for the delivery of the £200 million of synergies within three years of completion. A strong balance sheet and cash generation will support continued investment in innovation and growth and our people, as well as, as Luke pointed out, the continuation of our progressive dividend policy.

I'm very proud of all that Standard Life has delivered since becoming a plc 11 years ago, but very focused, very excited about what Standard Life Aberdeen will deliver for clients, our people and our shareholders as we create a world-class investment company.

Finally, on behalf of the team, as we approach the reclassification of Standard Life Aberdeen to the diversified financials sector, I'd like to say what a real pleasure it's been working with everybody in the room over the last 11 years or so, whether it's been answering your questions, debating your views to ensure that shareholders have the clearest possible understanding of our business. This, of course, will continue with Standard Life Aberdeen – ticker SLA – and I hope that many of you will continue your coverage, but I wanted to take the opportunity, before we move to questions, to say thank you on behalf of the Standard Life team.

I'd also like to take the opportunity to thank Luke for all his hard work and support and say what a real pleasure it's been working with Luke and being on the road with Luke.

With that Barry, Luke, I and other people in the room would be more than delighted to try and answer your questions. Thank you.

Q&A

<u>Question 1</u>

Andy Sinclair (Bank of America Merrill Lynch): Thanks. It's Andy Sinclair from BofA Merrill Lynch. Three questions, if that's okay; firstly, is on India, for the joint venture IPO. I just wondered if you could give us an update on the thoughts for use of any proceeds for that coming from the Indian IPO and will all proceeds be remitted back to the holding company.

Secondly was on MyFolio; MyFolio maybe didn't see quite the step up in flows that Retail has seen. I just wondered if you could give us any update on MyFolio there?

And thirdly is just on Workplace pensions. I just wonder, Barry, if you can give us a bit of an update there. We've seen flows kind of a little bit up, but flattish year-on-year. I just wondered if you could give us an update on the environment. Thanks.

Keith Skeoch: If I do MyFolio, pass to Luke on India and then to Barry on Workplace pensions. MyFolio continues to do very well. It continues to tick along and generate good, strong flows. We're very excited by the fact that we've launched MyFolio in Germany and we're starting to get good traction, and we're in conversation elsewhere in the world; Hong Kong and China thinking about the way in which we could use MyFolio to go on to other platforms. Luke, the proceeds.

Luke Savage: So, on India joint venture, the IPO and the proceeds, yes, we would endeavour to flow the proceeds up to plc. As you know, we try to keep all surplus resources at the plc level, because it gives us kind of the flexibility that I touched on. In terms of use of the proceeds, at this point we're not even allowed to speculate on how big those proceeds might be, under the various securities laws that we're constrained to. I guess all I would say is I think we've got a proven track record of either putting those cash resources to work or, if we don't have use for them, to return them by way of special dividend or the B/C share scheme that we did post-Canada. So, too early to comment on where and how they might be used.

Barry O'Dwyer: Andy, on Workplace flows, I suppose the way that we think about it is that the regular heartbeat underneath the Workplace flows are the regular contributions and you'll have seen that they're up 7% year-on-year, from £1.5 billion to £1.6 billion. If we look forward, that will be enhanced by the auto-enrolment increases in 2018 and 2019, so we should be getting to a run rate next year of, full-year, £3.5 billion or thereabouts, the year after about £4 billion. So, you will see that sort of heartbeat underlying the Workplace flows and then, on top of that, there's the sort of new business versus scheme losses, etc, which is a little bit more difficult to predict and it's a little bit more lumpy. But we've very, very happy with the core flows and the growth in the core flows in Workplace.

Andrew Sinclair: That's great, thanks.

Question 2

Lance Burbidge (Autonomous): Thanks. It's Lance Burbidge from Autonomous. Just a follow up on the Workplace. The margin was obviously down, I think, primarily because of the one-off dropping out, but where do you see Workplace margins moving to in future?

The second one is on Wholesale, Retail and Workplace, which are obviously the strength in your flows in the first half from Standard Life. I wondered if there's any specific benefits that Aberdeen brings to those lines of business in future.

And then there's a rather cryptic comment in the results about 'some elements of revenue do not rise in line with market-related AUA growth'. I wonder what you might mean by that.

Keith Skeoch: Luke, do you want to deal with that one first?

Luke Savage: Okay, that's an easy one, which is, there are places where we charge fees, for example, in 1825, where it might be an hourly rate for fees rather than a function of AUA, so that fee will not move as the assets move.

Lance Burbidge: It's tiny, I assume, at the moment.

Luke Savage: Other examples might be auto-enrolment, where we charge £100 a month fee to the corporate times 12 months, times thousands of schemes, is another example.

Barry O'Dwyer: And the SIPP outer ring: so, if you invest in property, etc, in SIPP, we get fees in sterling rather than in bps. On the Workplace margins, Luke explained the Solvency II wrinkle that was in last year's numbers. Really the Workplace revenue margin is a consequence of how fast each individual scheme is growing, and for the largest, highest-quality schemes obviously they command the lowest price and those schemes have performed better in the first half than – relatively better than the rest of the book, so you'll see basically that Workplace margin vary with, I suppose, the underlying scheme growth.

In terms of your question on the utilisation of Aberdeen's specialisms, if you like, or expertise in the Retail and Workplace market, we're particularly excited to come to terms and to understand more about Aberdeen's quant capability, particularly in Workplace. So, we do think that what Aberdeen are bringing will be additive, certainly to my part of the business.

Keith Skeoch: And just to add to that two other things. The Parmenion platform is a really interesting aspect that would be additive to Wrap and Elevate and it's a very interesting digital offering. One of the things that Aberdeen brings in terms of Wholesale is also diversification in terms of what is, I think, a pretty broad range of investment trusts, something that Standard Life Investments has been less significant in. So, you take those two things with, you know, this ability to manufacture smart beta in particular and it's a really interesting combination.

Question 3

Greig Paterson (Keefe, Bruyette & Woods Ltd): Thank you. Grieg Paterson, KBW. Three questions. One is, I wonder if you could just update where you are in terms of Lloyds and your discussion there RE possible distribution opportunities.

The second point is, I wonder if you could just illuminate, for those who don't watch it too carefully, what the current status is for Aberdeen in terms of its relative performance versus peers. Maybe a second quarter update would be interesting there.

And the third point, in terms of the merger and the employee benefit consultant panels, I wonder if you can just give us an update, you know, where you've been put on negative watch or any progress you've made to try and bring those sort of ratings back to normal. Thanks.

Keith Skeoch: On the first two, I'm afraid I need to remind you I'm still bound by the fact that we're in an offer period and, therefore, bound by the Takeover Code, so there's very little I can say about Lloyds apart from to repeat what we said in the prospectus: that it'd be absolutely fantastic to have a much deeper and stronger relationship with a very significant client of the combined group and also have access to, you know, a very large book and high-quality book of retail business. And so we'll be working very hard, both Martin and I, to deepen and strengthen those relationships.

There's not much I can say about where Aberdeen are in terms of their relative performance, because we're still in the offer period. I'm not sure there's been a recent update to the market.

On consultants, actually it's pretty much business as usual. You know, we are competing and winning some mandates, we're launching some new strategies which have consultant support. There are few consultant pitches where we got to the final and they have either been put on hold or we have been moved away. So, it's pretty much business as usual. Nothing dramatic. It's tended to be consultants putting us on watch and wait and see and my guess is that will, you know, continue for a little while yet.

Question 4

Andy Hughes (Macquarie): Andy Hughes from Macquarie. Sorry, couple of questions if I could. The first one is on the non-GARS net flows in the quarter. So, if I got it right, you have like £1 billion of non-GARS net flows in Q1 and it dropped to £0.2 billion in Q2 probably due to the merger, but the surprise to me was when I looked at the asset flows by type, and the one I would have thought that would have had the bigger net outflows would have been the equities business and that was only down at minus £0.1 billion and the fixed income came out a bit more negative that it has been over previous periods. Any idea – if you can give us an idea as to what's going on with the kind of non-GARS SLI flows?

Keith Skeoch: They are pretty positive and momentum is in place. Second quarter slightly distorted by one institutional mandate of reasonable size. Underpinning that, there is continued, I think, decent momentum.

Andy Hughes: Any idea how big that one was?

Keith Skeoch: I think, that was about £400 million.

Andy Hughes: £400 million. And the second question was on the corporate business. So, obviously, you have great solvency II surplus within the local business and I was just wondering the PRA has highlighted that some people in the corporate space are adding life cover to contracts to get round the contract boundaries and boost the solvency II surplus. So, I'm guessing you don't do that but if you were to do that, what would the – any idea roughly how positive it will be for Standard Life? And if other people have to stop doing it, would that impact the pricing and therefore would you see the corporate market pricing going up? Thank you.

Luke Savage: Okay, but we don't do it – off the top of my head, I have no idea what the impact will be but afterwards we have our actuary – the Standard Life Actuary in the room. You can, perhaps, raise it with Jonathan Pears afterwards. As for what other people do and the impact it would have on them, I don't know. You know that we are predominately a fee-based business. From regulatory perspective, we generate capital rather than consume capital which is why we don't focus on it. It is why we focus on cash.

<u>Question 5</u>

Ravi Tanna (Goldman Sachs): Thanks. It's Ravi Tanna from Goldman Sachs. Three questions, please. So, the first one is on your retail flow performance which was obviously very strong and you have referenced that the benefit that you have enjoyed from the DB transfer business. I was wondering if you could give us a sense of kind of what scale of benefit that's been and what your gross flow contribution from DB transfer was and also the advice process you have in place around that business, please.

The second question is on the platform market. There has been discussion around the ban to trail commissions and I suspects Standard Life might be a beneficiary here but I was wondering if you could just comment on an again what proportion of the marketplace is, perhaps, likely to be displaced by that change.

And then third one was on the asset management side. Clearly again, in light of regulatory comments from the FCA around the performance of multi-asset funds and also given the outflows that you've experienced, are there any changes in your thoughts around pricing strategy for either GARS or other product offerings that you have? I know you've taken a fairly consistent view on that in the past but has anything changed in your thinking given regulatory or market headwinds?

Keith Skeoch: No, premium price for a premium product, Barry.

Barry O'Dwyer: Yeah, on the retail flow as you point out, this has been a record each one for both gross flows and for net flows into retail. Of the £6.7 billion in gross flows from retail £0.9 billion is DB to DC transfers. So, it's a useful contributor but it's just that, essentially.

You asked about the advice process. It's important to remember the vast majority of this business is third party advice. So, it's advice by IFAs and we're essentially, just providing the platform. There is a small amount of DB to DC transfer of business in 1825 and as you might imagine, that's a very tightly controlled advice process.

On platform, the displacement as a result of the ban – or potential ban on trail commission – it's quite difficult to call that actually because if you look at what happened post-RDR there perhaps wasn't as much displacement as a result of RDR partially because there's such a large tail, if you like, of small fund sizes on which trail commission being paid and therefore the abolition of trail, if it happened, in aggregate might be a large sum of money but it isn't enough for an IFA to go and revisit thousands of clients on an individual basis. So, I think, I'd be a little bit circumspect about the disruption to the market caused by the banned trail.

Question 6

Colm Kelly (UBS): Colm Kelly from UBS. One question on the cash flow. So, historically, there has been very strong growth in the cash generation of the business and that's fuelled the dividend growth. Clearly at half-year there was 1% year-on-year growth which seems to track the asset growth more closely than it does the operating profit of the IFRS results. So, when we think about full year and a bit beyond that, given the outflows that you are seeing, you know, somewhat dragging on the asset growth, should we have an expectation for a slightly slower cash growth over the next period versus what we have seen in the past?

Luke Savage: Yeah, so there are two real things that create the muted cash generation compared to profits. One is as I said our joint ventures; we are prudent in the way we treat those joint ventures. We don't recognise the profits that they generate. We recognise the dividends that we receive out of them. So, we've had a really strong first half in those JVs, up to, you know, £53 million up £16 million pounds in the period whereas the dividend increase year-on-year has only been £4 million.

Now, if you actually look at the amount of cash we've generated, it's about 250 million so 1% of that is £2.5 million. So, the difference between 1% an 6% is, you know, kind of £12 million in cash. So, effectively the JVs on their own, arguably make up that in time, you know, muting of the number.

At the same time, it's fair to say that in this particular period, the difference between the depreciation which we take out of our P&L and the capex which we adjust back in, they are two relatively big numbers because as you know, you know, we continue year in year out to invest in future growth. Part of that is technology, part of that is premises and if you are taking two relatively large numbers then you can end up in a given period just because of the – not random, but uneven nature in which capex comes through. The small net difference can actually be significant in and of itself.

So, the JV impact if we continue to see strong growing profits with more modest dividends growth, then that will continue to dampen the cash generation. At the same time, the IPO of HFC Life should help to counter that. The capex, I think, is just an anomaly at this particular period.

Question 7

Gordon Aitken (RBC): It's Gordon Aitken from RBC. Three questions, please. First one, India, I mean, that's the big driver of the beat against expectations. Just to what extent is that being driven by demonetisation? And in the period since demonetisation, you seem to be taking share from LIC, just wondering why.

And second on the pensions and savings business and you mentioned the drop in revenue bps from 57 to 54 and there's the – obviously, Solvency II wrinkle you mentioned Barry, but what's the average bps for the new gross flows, please?

And just to close on workplace and you see very steady net inflow there. When does the unbundled to bundled DC opportunity really kick in and how much is that now? Thank you.

Barry O'Dwyer: Yeah, we don't have a number on the BPS yield on the new gross flow so we just calculate that and disclose that on an aggregate basis, but as I say – as I said it in the answer to Lance I think earlier, it is – it's a function of our success, if you like, with the highest quality schemes that we have taken on board over the last decade, that they are growing faster than some of the older schemes or potentially, even some of the new, auto enrolment schemes that are at the price cap of 75 bps. So, you just see that mix coming through, that mixed impact coming through.

On the unbundled to bundled, and this is a continuing opportunity; it's continuing slow opportunity because there's a – large amounts of conflicts of interest, as well as everything else to overcome, in terms of moving that market from unbundled to bundled. But we think the long-term drivers are still there. The bundled market as it gets more and more efficient, it means that the case for moving from unbundled to bundled gets better year-on-year. So, it will move and the opportunity, as you know, is vast but it is, I suppose taking several years and I think part of that is as a result of auto enrolment actually that, you know, the going through the programme of auto enrolment has been a top priority over the past couple of years and now, there's some evidence that large corporates are thinking about moving from unbundled to bundled but it's – we've seen only a trickle so far.

Keith Skeoch: On India, I think we are benefitting from demonetisation. If you look pre-demonetisation, the market share of in particular the bank assurance channel that HDFC Life was strong on was under pressure because it had much stronger KYC requirements. Actually, that's beginning to turn the other way and because of improved KYC and in fact, their digital capabilities, I think, you are beginning to see an improvement in market share.

Question 8

Oliver Steel (Deutsche Bank): So first question on Elevate. I think you did actually give us a figure for Elevate and 1825, but just so that it's clear in my mind at least, what are the revenues and the expenses for Elevate just so that we can back – so that I can back them out from both sides.

And I suppose linked to that on Elevate, you talked about sort of, expenses, I guess, on something where the loss increasing in the second half. So, just what's going on there and what's your timetable still on getting up to a normal level of profit at Elevate?

And then secondly, just coming back to this question on the UK Life margin and I'm sort of, putting it in aggregate now. I think you've show your margins on a 12-month rolling basis so you've come out with 58 to 54 but actually if I do first half to first half, it's more like 59 to 52 and I can't quite reconcile that as being just the effect of Elevate and larger workplace schemes growing faster than smaller workplace schemes. And so, can you sort of – can you sort of think a bit harder as to whether there's anything else going on there? Thanks.

Luke Savage: So, I didn't actually give a figure for revenue and expenses for 1825 and Elevate and off the top of my head, I don't want to quote a number off the top of my head. What I did say was that the net loss for them was in the order of £3 million for the first six months but due to the timing of integration expenses for Elevate in particular, that we would expect a small uptake in the second half. So, in terms of what that might look like, it might be closer to £10 million for the full year rather than taking the £3 million and doubling it.

I think in terms of the margin, I'll let Barry talk to some of that but the – you've got to remember the solvency II in there was a couple of basis points which was in the first half of last year and not the first half of this year as one of the drivers in that.

Barry O'Dwyer: Yeah, just a couple of things on that. First of all, just to reiterate the Elevate plan is on course so in line with the previous guidance we gave. On the margin, if you look at some of the disclosures we've made, 54 to 51 on workplace which, as Luke said, includes the solvency II wrinkle and this mix effect that I talked about earlier. 46 to 44 on Retail; some of that is Elevate. You'll remember that we've increased the price for new Elevate clients since acquisition but the existing Elevate clients are on the deal they had prior to acquisition and so, that dilutes the margin on our platforms.

And also there's some – there's a quality mix impact in there as well particularly some of the DB to DC, we've got very, very high average case sizes and they obviously trigger the highest level of large fund discounts. So, there's a little bit of a discount effect in there as well.

And finally, we've got the mature book which is still very substantial, the margin on that going from 77 to 75. A few things happening on that including a reduction in price on legacy workplace schemes and as a result of the IPB report and the IGC implementation of that. So, they went from – some legacy schemes went from 1.02% to 1% or capped at 1%. So, there's a little bit of an impact from price capping in there and between the three, that explains the reduction of the revenue margin.

Question 9

Ashik Musaddi (JP Morgan): Just a few questions on the cost base. So, if I think about UK cost base, you mentioned that ex-Elevate your cost base was down £4 million on an absolute basis and that included the £6 million back from the transfer pricing of SLUK to SLI. So, that's a £10 million improvement which is quite chunky because it's like 5% of your UK cost base. How should we think about this number going forward? Because we are talking about absolute decline in cost base rather than bps decline. So, that's one question. How should we think about it going forward? Is it like a continuing focus for next two, three, four years as well? Or is it just like a one off improvement?

Secondly, on SLI, again, your cost base went down by £13 million, £14 million. Is it a function of revenue or AUM? Or is it just a function of business as usual i.e. you are focusing on reducing cost base in SLI irrespective of what's going on in the revenue and the AUM side?

And third one would be on the asset – on your capital. I mean, you have £800 million holding company cost. As flagged earlier, you would receive something from cash, from Indian IPO as well. So, that is basically, quite a lot of holding company cash because you have sufficient capital, I guess, in the subs as well. So, what are your plans for that holding company cash? Are you thinking about any bolt-ons in workplace, in platform or anywhere else? Any thoughts on that would be great. Thank you.

Luke Savage: Well, perhaps, if I start by picking up on the costs in the UK, there is actually £4 million increase in costs including the £6 million. So, when you back out the £6 million, you end up with a net £2 million reduction rather than £10 million which is quite a different sort of scale of net reduction. And, maybe, Barry if you want to talk about the opportunities in terms of Evolve and customer ops to what that can do?

Barry O'Dwyer: Yeah, okay. Yeah, we continue as you would expect to invest in cost reduction exercises. We are a very efficient business as you probably know in terms of looking across the industry, we are a cost leader but we still identify opportunities and I think actually at the year-end Paul, my predecessor, talked a little bit about what we are doing at workplace to make our employer platform much more efficient. That's been very well received by the clients that use it and that will drive us on efficiency improvements.

Obviously, we have got the Elevate integration which will drive further improvements and as Luke was saying, we're investing in improvements to the customer experience particularly prioritising the Digital First strategy. So, as that implements, we expect to see further cost savings in the back office, but it is a series of incremental improvements, really.

Keith Skeoch: On SLI, it's absolutely financial discipline and the recognition that we need in over the medium-term to continue to reinvest in the business and the best means of finding means of reinvesting in the business is your own resources. So, actually, as revenue slowed, then actually the appropriate adjustments were made to costs. So, making sure that the cost/income ratio came down, maintained that EBITA margin at 45%. Of course, there were not a lot of costs associated with, you know, the substantial winning of new books of business. So, it's the kind of dynamic optimisation of the cost structure that I think you would expect from a fund manager.

Luke Savage: Then around the £800 million surplus, we have said that the Aberdeen integration is going to cost in the order of £320 million, that's cash that needs to come from somewhere. So, that's one use that some of that £800 million will be going to. We need to continue to fund the work on the integration of Elevate. In the short-term we will be paying an interim dividend, assuming the merger completes on Monday on the expanded share base of around 3 billion shares. So, there's an incremental cost over and above the profits that have been driven from our own business because we will be paying on the Aberdeen shareholders as well as our own.

And then as Keith has touched on, we've continued to invest, so the, you know, the Ignis acquisition, the Elevate acquisition, built out of 1825, the increase in our India stake, has all been financed out of our own resources without coming back to shareholders or debt holders.

As we have said before, you know, if we can't put that money to use in a reasonable order, then we would always look at, you know, return to shareholders but it's not the right time to be, you know, talking about that at this point.

Question 10

Ben Bathurst (Societe Generale): It's Ben Bathurst from Soc Gen. I've got a question on the UK. Looking at drawdown, I wonder if you could give some colour on the market – the movements in the six months split between market movements and also net flows. I was also hoping you could perhaps, give an update on the progress of the direct drawdown proposition whether or not that's been growing as well as you might have hoped a year or so again?

Barry O'Dwyer: Yeah, I suppose it's as you were, if you like it's steady as she goes on drawdown and you will have seen from the FCA study on what's happening in the non-advised draw-down market that actually our experience is pretty consistent with right across the industry. We have seen a move to taking cash at the smaller end and technically, all of those customers go into drawdown before taking cash, particularly, obviously, if they are staggering it over a couple of tax year – tax year-ends if you like.

The flows into drawdown are continuing to be positive. We have – we are now up at £2.4 billion in Active Money Personal Pension which is our main non-advised drawdown vehicle up from £2 billion in – at year-end. So, that's a combination of inflows of £0.5 billion and some outflows in market movements for the rest but, yeah, it's still an important product for us. Small in the grand scheme of things compared to our advised platform but it's an important product for allowing people access to the pension freedoms.

Question 10

Abilash PT (HSBC): Hi, it's Abilash from HSBC. I've got two questions, please. First one is just another one on the cost; excluding 1825 and Elevate you are already at 60% cost income ratio in the medium-term previously highlighted to drive it down below that. Is that still the expectations? Or should we just be thinking about more stabilisation there?

And on the platform side, the FC has launched a platform review. Given that you have got three platforms now; do you have any expectations around that? Thanks.

Keith Skeoch: On costs and future expectations, I think it's important to note a couple of things. Yeah, one of the things that will come with the merger is the creation of that £200 million of cost synergies which will help drive down the medium-term cost income ratio. Of course, the extent to which we start to give guidance and we have metrics for financial discipline going forward, will be a subject matter for the new Standard Life Aberdeen board which meets in September. So, we will come back at some point and update on those issues.

Barry O'Dwyer: On the platform review we really welcome this. So, actually one of the hallmarks of the Standard Life Wrap when we launched it nearly 11 years ago, was around transparency. So, we never had retro sessions between fund managers in the platform and all the benefits of pricing were always passed onto the end client. So, from our perspective, and you might remember when we – when we went through RDR and we introduced super clean pricing for asset managers, we got a bit of flak in the press for that, but it was largely because we wanted to create an opportunity for our fund managers to compete on price on our platform and I think that's exactly what the FCA are trying to achieve with this, trying to make sure that end clients get maximum value for money.

Question 11

Alan Devlin (Barclays): Thank you. Alan Devlin from Barclays. A couple of questions. First of all, I wonder if you could update us your thoughts on the annuity portfolio. As one of your competitors would be potentially selling a similarly sized portfolio.

And then just on the workplace. In the £3.5 billion to £4 billion of flows, you referenced, what are you assuming for updates when the contribution levels actually increase?

And then the final question on the DB or the DB to DC the £0.9 billion of flows; what do you think the opportunities is in that market? Obviously the DB market is huge in itself; how much do you think of that could flow to the DC market? Thanks.

Barry O'Dwyer: Okay, I'll start on the updates and maybe hand to one of you guys on the annuity portfolio. The – we're – it's very, very, difficult to predict updates. We're currently at I think around 6% of opt-outs. Market is about 9%, so – but we're all conscious of the fact that we are at the early stages of auto enrolment; we haven't seen the step up. So, we factored in a prudent allowance. I think I'll just leave it at that in terms of – for opt outs in 2018 and 2019 but there is an allowance for increased opt outs in there.

On the £0.9 billion flows, again, this is quite difficult to predict because obviously, it's a function of long-term interest rates. Now assuming long-term interest rates stay low, then this opportunity could last for a couple of years but it's like any market, and in particular, I suppose DB, the large transfer values in DB are skewed towards a very small number of people because DB schemes tended to benefit people who served for quite a long time and rolls quickly through the ranks. So, there are a small number of people and that's manifest in the very high average transfer value that we see on our book.

We've been encouraging the IFA's advisors more generally to focus on the low risk opportunity in DB which tends to be very wealthy people with independent income that aren't reliant on the DB income in retirement. There is a substantial pool remaining. We think there's maybe a couple years at this sort of level of flow but it should tail-off at that stage, again assuming that the interest environment stays as it is currently.

Keith Skeoch: On the annuity portfolio, our position remains the same; there is nothing of any significance to say at the moment.

Any more questions? No? In which case, thank you very much. Again, a real pleasure. The next time we meet, I'll be set up here with Martin, delivering the first set of preliminary results for Standard Life Aberdeen. Thank you very much. Thank you for coming along. Thank you for your questions and I hope you all have a good day.

[END OF TRANSCRIPT]

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