2015 Full Year Results

Friday 19th February 2016

Keith Skeoch – Chief Executive

Good morning and thank you for coming along today. I am joined on the podium by my fellow Executive Directors, Luke Savage our CFO, Paul Matthews the CEO of UK and Europe Pensions and Savings. And for the first time, Colin Clark, Head of our Global Client Group. We are also joined in the audience by some of our Executive Team, notably Rod Paris, our Chief Investment Officer and Raj Singh, our Chief Risk Officer.

It is a particular pleasure to be reporting on 2015 because against a background of difficult markets, we have delivered another year of growth in assets, revenue, profit and dividend. Over the course of the next 45 minutes both I and the team will cover three areas. A brief introduction and overview from me to provide some context for the 2015 results. A detailed review of the 2015 results from Luke. I will then return to provide an update on the strategic direction and my vision for the future of Standard Life. After the question and answer session, with Luke, Paul, Colin and myself, there will be a deep dive into Solvency II and Standard Life's position led by Luke and some of his senior team.

2015 was a year when Standard Life continued to drive both performance and growth. Growth was most visible in the areas that are the key drivers for assets, revenue, cash flow and profit. The Wholesale and Institutional client channels, when combined with the Retail and Workplace new propositions delivered to UK customers can be characterised as our growth channels.

Across all of our growth channels we saw gross inflows of £40.8bn, accounting for 95% of all new business with net inflows of £14.9bn or 8% of starting assets under management. This growth which was well diversified by channel, asset class and geography was largely responsible for the increase in our operating profit to £665m. And the delivery of our final dividend which increases by 8% making a total of 18.36p for the year.

As you will see in more detail later, we have a well capitalised business and a stable Solvency II surplus which benefits our clients and customers as well as our shareholders. As well as our maintained focus on financial delivery, we continue to invest in the future, we launched 13 new investment funds and propositions. We helped 50,000 people through pension freedoms and continue to add valuable customers through auto enrolment. We also agreed to increase our stake in HDFC Life to 35%. In this context one of the particularly important points about today's results is that they reflect the team not just focusing on financial delivery, but also the continued execution of strategy and the long-term emphasis on building a fee-based capital light business. It is a strategy and a business model that has served us well as we have re-shaped the business over the last decade to deal with volatile markets, shifting savings and pensions policies, changing client and customer needs. Furthermore the team and I also believe that it is fit for purpose for the future as we build a simplified and well diversified world-class investment company. Specifically its design helps us take advantage of four major trends which are shaping the savings and investment landscape. The democratisation of financial risk as individuals take greater responsibility for their financial future, the need to rebuild trust, the impact of innovation technology and digitalisation and the slow growth, low inflation and compressed return environment we are all learning to live with.

These trends also influence the way we think about our business and the way in which Standard Life needs to adapt and evolve to meet the changing needs of the clients and customers we serve. With this in mind and a firm eye on the future, Standard Life sees itself as an investment company that brings together the best in asset management, distribution platforms and pensions and savings propositions. Our goal is to build a world-class, well diversified investment company with one vision and one culture driving value for clients, customers and shareholders.

For the moment and to provide context for the results, it is sufficient to note that I and my team have the benefit of building on some strong foundations. Our business has been simplified and mainly consists of three components. In no particular order, our mature books of pensions and insurance businesses provide a stable contribution to revenue and profit and are a source of financial strength as is evidenced by the resilience of our Solvency II balance sheet. Our strategic associate and joint venture businesses in China and India are sources of future potential growth as well as diversification. And most importantly our growth channels which are broadly diversified across the Institutional and Wholesale channels as Standard Life Investments and the new style Workplace and Retail propositions in the UK. It is the changing investment needs of customers and clients across these channels that puts investment at our heart and marks us out as an investment company.

There are also opportunities for greater co-operation and collaboration across these businesses which will help maximise assets and revenue. And I will say a little bit more about that later.

Furthermore these channels are sources of strong, sustainable growth as well as being sources of diversification by geography, asset class, product, client and customer. All of which help improve the sustainability of growth. Because these growth channels are the key drivers of success for a simple and well diversified investment company, we have looked to improve our disclosures. And in particular disclosures around the growth channels contributions to assets, revenues and profits throughout the presentation. I trust you will find that useful. We will also host an Investor Day in the second quarter to facilitate a deeper dive into all three components of the business.

Again to add context between 2010 and 2015, these growth channels saw assets double to £198bn, they now represent two thirds of the money we manage or administer. More importantly the associated revenue to delivered a CAGR of 16% over the last five years lifting it to more than £1bn. So total fee based revenue now accounts for 94% of Standard Life’s total revenue. Furthermore the growth channels account for 93% of the increase in total fee based revenue between 2010 and 2015.

Even more importantly over 50% of the increase in fee based revenue drops straight through to the bottom line. Profit in our fee based business measured by underlying performance increased nearly five-fold between 2010 and 2015. Offsetting the decline in spread-risk margin and consequently now accounts for 84% of our total profits on this measure. So it is clear that the growth channels have driven the close to 20% per annum growth in underlying performance over the last five years. I will come back and talk further about our strategy, the strong strategic positions that have both helped drive this growth and also talk about the foundations that we have in place to build a world-class investment company. But first of all I will hand over to Luke who will lead us through our detailed 2015 results. Luke.

Luke Savage – Chief Financial Officer

Thank you Keith and good morning ladies and gentlemen. So as Keith said, I am going to take you through the financials and I am going to start with a few highlights against our simple business model. So as you can see, assets under administration in the left hand bar, have broken through the £300bn mark, up some 4% year on year to £307bn. Moving across you can see fee based revenue has shown growth of 10% whilst our expense bps have continued to fall down a further 13% year on year to 40 basis points. And in combination these have driven a 12% increase in Group underlying performance, a 24% increase if you just look at the contribution from our fee based business. And a diluted operating EPS of some 26.1 pence. A combination of strong profits and cash generation together with a strong Solvency II position underpins a final dividend up some 8% year on year, so an increase for the whole year of 7.8% per share and that is on top of the £1.75bn of capital that we returned to shareholders through the B/C share scheme following the sale of Canada.

You can see those numbers coming through here in our usual tabular format. I am not going to dwell on it other than to pick up on the 10% increase in fee based business that you can see coming through in the top line there.

Now back at the half year we introduced greater transparency into the reporting of our non- operating items. We have rolled that forward to the year end here. Principle changes since the half year have been annualisation of things like the pension restructuring costs, other restructuring costs, annualisation of intangibles and the other big movement is volatility in short-term fluctuations. So working down, first and foremost the gain on the sale of Canada, in excess of £1.1bn which underpins the capital return that I just mentioned. In the first half of the year we also announced the closure of our Singapore business. And following regulatory changes in Hong Kong, that impacted the whole market, we also saw an acceleration of DAC amortisation in Hong Kong. You can see there is a modest impairment of intangibles in respect of Ignis off the back of outflows from ARGBF, which we have previously commented on. And finally in terms of one-offs, we announced the closure of our DB Pension Scheme with effect from April 2016.

But moving down short-term fluctuations are just that and they can go either way. Within 2015 you can see the overall impact was close to zero. Restructuring expenses were down significantly year on year, significant contributors to that figure was the ongoing integration of Ignis, further restructuring within our UK pensions and savings business and the residual tail-end costs of our preparations for Solvency II. Lastly the pick-up in amortisation of intangibles is a function of annualising the impact of the Ignis acquisition.

Now looking forward to 2016, we obviously can't predict the impact of short-term fluctuations but the impact of pension scheme restructuring costs will start to fall away, we would expect other restructuring costs to continue downwards although we are not giving specific guidance on that point.

So now let's start to unwrap each of the elements of our business model starting with our assets. Keith referenced the way we are thinking the business now, divided between growth channels and mature markets. And you can see here the strong flows of £14.9bn into both our Wholesale and Institutional and our Workplace and Retail growth channels. And I will come back to this in more detail on the next slide.

By contrast our mature markets saw outflows at just over half that rate, some £7.9bn. And about 70% of those outflows relate to low-margin life books, including a one-off outflow from the Phoenix Group of £1.4bn. And picking up on Keith's point about disclosures, if you look in the Appendices of today's Presentation you will find we have provided new disclosures around margins by those distribution channels.

Moving across, you can see that in volatile markets we saw a modest impact from market appreciation of some £4.5bn.

So let's drill down into the growth channels. You can see the very strong performance in Institutional and Wholesale with net inflows doubling over the period, some 13% of opening AUM. That was helped in particular by a strong contribution from Wholesale where in the UK we are now ranked number 3 by market share. On the right hand side the flows across Workplace and Retail increased by 8% of opening net assets. Now workplace flows can naturally be lumpy as a function of acquisition of individual schemes. But we also saw the impact of pent-up demand from pension freedoms causing a tick-up in outflows there and hence the slight decline.

But our retail flows continue to power ahead off the back of our market leading Wrap platform where we capture almost 20% of total advised platform market net flows. And across the board that gives us inflows at an impressive 11% of opening AUM through our principal growth channels.

If we look at where our Institutional and Wholesale flows are coming from you can see that we continue to succeed in diversifying our global client base. So if you look at the doughnut on the right hand side you can see about one-third of our stock is sourced from outside the UK. But we expect that proportion to grow given as you can see from the bar chart on the left hand side about two-thirds of flows are coming from international mandates. And although the lumpiness of institutional mandates can shift the dial from period to period, the dominance of international flows is now a well established pattern.

Turning to our Workplace and Retail growth channels. On the left the contribution from regular premiums continued to grow steadily reaching nearly £3bn per annum. That is helped by ongoing success in the auto enrolment market where to date we have signed up over 820,000 new customers and those are with pension pots which will grow not just as a function of the passage of time, but with the increase in contribution rates, from 2% today increasing to 8% by 2019.

Looking to the right hand side of the chart, we have seen flows on our Wrap platform increase 27% year on year and this growth is a reflection of our ability to attract more advisers to our platform. We now have almost 1,500 advisers using it an increase of over 120 during 2015.

So enough on flows. You can see here how that growth in assets translates into fee income. You can see in the pale blue bars the impact of a number of previously disclosed items. Firstly we saw a fall in the interest on cash balances in our UK pensions and savings business as a function of a multi-year banking arrangement coming to an end at the end of 2014. And then secondly you can see the impact of the strength of sterling notably on our European revenues. But you can see in the yellow bar that our underlying fee income in constant currency grew an impressive 12%.

So whilst fee income was strong, our spread/risk margin was down in line with the guidance that we first provided this time last year. You can see that our existing book of business continued to perform well, but with the ending of compulsory annuities we have seen a fall in new business. At the same time, the persistent low yield environment, meant that the asset liability management contribution was down by £40m in line with the guidance that we gave at the 2014 Prelims. And assuming that markets stay as they are we would expect that contribution from asset liability management to halve again in 2016 as per the last bullet on the slide.

Let's turn now to our cost base. Again you can see we have adjusted for the impact of the strong Pound against the Euro which on the expense side is obviously a positive for us. And then you can see underlying expenses up some £83m. Now this increase is a function of a number of things. It is the annualisation of Ignis costs which are on track to achieve the annualised savings of £50m in synergies as well as on track to deliver the business benefits that we articulated at the time of the acquisition. It is also a function of investing in our growth in Standard Life Investments as we continue to diversify our global footprint and capability. And it is also a function of strong cost control in our UK business as the impact of investment in technology drives efficiency and enables us to bring costs down whilst assets under management continue to grow.

So overall our scalable platform has enabled us to bring costs down another six basis points year on year with that reduction boosted by the acquisition of Ignis and the impact that has on assets under management and by the closure of our DB Pension Scheme. So all other things being equal without those impacts going into 2016 we would expect to see a less marked reduction.

If we now pull all of those movements together in income and expenses, you can see to the left and to the right, we have stripped out the impact of our spread/risk business so that you can see that in the middle our fee business is up that 24% that Keith referenced. And again, as Keith mentioned, you can see that over 50 pence in the Pound is falling through to the bottom line, the £150m in the yellow bar, less the £70m of expenses.

Let's now drill into each of our major business lines in a little more detail. In the first couple of rows you can see the contribution from Standard Life Investments and from our UK Pensions and Savings business, both of which I will come back to in more detail on subsequent slides. But if we move down, you can see that our European Pensions and Savings profit was lower and that was a function of us stopping writing with profits guarantee business in Germany during the first half of 2015. That was a decision we took in light of the very low interest rate environment in the Eurozone which made new business unprofitable for us to write. And our decision in deciding to stop has protected the benefits of existing with profits customers, but at the same time has allowed us to focus on our unit-linked business. And in our unit-linked business we have seen volumes double over the course of 2015 but as that unit-linked business continues to establish itself, we would expect a similar level of operating performance over the next couple of years.

Moving down you can see India and China continuing to show healthy growth and we expect to confirm the completion of our stake increase in our Indian life joint venture in the near future once the remaining regulatory approvals come through.

Let's turn now to Standard Life Investments. Standard Life Investments now manages over £250bn of assets, helped by strong third-party inflows, particularly in Wholesale as I mentioned earlier and the ongoing strong performance that has seen 95% of assets beating benchmark over that all important three year period. It is this strong growth in assets, particularly from third party clients that underpins the 33% increase in underlying performance. If you look to the right hand side of the chart you can see that revenue yield is materially unchanged at 52 basis points, down just one basis point year on year. And that move is due to the inclusion of Ignis for a full year with its lower margin mandates.

You can also see in the bottom right hand corner that our EBITDA margin has improved from 39% last year to 42% this year and we remain on track to achieve a 45% margin by 2017 and maintain it around that level going forwards.

If we turn to our UK Pensions and Savings business you can see that again we have excluded spread/risk margin from the left and right hand side and that excluding spread/risk margin the profit from the fee based business continues to grow, despite the headwinds associated with the decrease in revenues on cash balances that I mentioned, underlying performance increased by £17m or 10% to £191m. Underlying revenue increased by £23m as shown by the yellow bar here and despite managing more assets in an environment that sees the cost of regulation and compliance ever increasing, UK costs, excluding the investment management fees paid to Standard Life Investments, have actually come down year on year.

You can see on the right hand side that fee revenue bps have reduced from 62 to 59 basis points. And there are a couple of drivers behind this. Firstly, it is not pricing pressure, but it is a shift in mix in the business. And secondly it does include the impact of the £11m of cash balances that I mentioned coming through into that revenue line. If you want more colour around how margin varies between our growth and mature channels, as I said, there is now additional disclosure in the appendices.

Before we leave our UK Pensions and Savings business, it is worth touching on what we have seen happening since the introduction of Pension Freedoms in April 2015. Immediately post April 6th, we saw unprecedented call volumes coming into Standard Life, I think about three or four times the normal volume. As the pent-up demand came in from those looking to act on their pension. But that said, to date something like 90% of all customers have not actioned their pension pots and it is the 10% that have come in that we have been working with. You can see on the bar charts on the left how the aggregate outflows to annuities and encashment have varied over time. So you saw the 2013 high level of outflows to third parties fall away as everyone waited for pension freedoms during 2014. And whilst that has picked up since April, we have seen substantially less leaving us in 2015 compared to 2013. And it seems that what people are typically doing is taking, for small pots, they encash their pots, for more substantial pots they are taking the tax free allowance and then putting the rest into drawdown. And off the back of that we have seen £400m move into our new non advised drawdown proposition. And our total assets under administration in drawdown have increased by over £2bn year on year.

That is what I am going to say on what we believe are a strong set of results. As Keith mentioned we are running a much more in-depth Solvency II and Capital Insights session once we have finished the Q&A around the Prelims, so I would encourage you all to stay around for that.

So for now I am going to keep my comments on Solvency II to a fairly high level. At a Group Level we have a capital surplus of some £2.1bn driving a Solvency ratio of

162%. But what that does not recognise is that there is a further £1.2bn of capital within our principle insurance entity, Standard Life Assurance Limited, that we don't recognise at Group level, and that is represented here by the dotted white bar on top of the £5.5bn on the left here. And if you take that into account, given that it sits within our insurance entity and that is where most of our Solvency II like risk arises, the effective ratio across the Group as a whole is not 162% but some 197%. Now given the fee based nature of our business we believe that is a very robust figure and as I will come to cover in the following slides, does not place any constraints on our business model, its ability to generate cash or our ability to maintain our all important progressive dividend policy.

For now the message I want to get across is not only is it a strong surplus, but it is largely insensitive to our key risks. So you can see here at the Group level in the dark blue, our surplus is all but unchanged over a wide range of stress scenarios, such as a 20% movement in equities towards the left hand side of the bars or a 5% movement in mortality rates to the right hand side. Instead it is that extra £1.2bn of capital that sits within our insurance entity, the light blue bars on the chart that actually acts as a buffer to absorb that volatility. But even there if you look at the total height of the chart, you can see that against these stress scenarios, even the overall position is largely insensitive to the stresses.

But the reality is that much of that Solvency II capital that meets the requirement and contributes to that strong surplus does not come from tangible shareholder funds. A lot of it instead comes from the value in force, the capital that is generated by writing fee based business and indeed from transitionals and again we will go into a lot more detail on this in the follow-up session. But it means the way that we think about capital has not changed. Regulatory capital is neither a constraint on the business but neither is it a source of tangible distributable capital. Instead we continue to focus on our book equity and even in that our focus is on the component represented by ready realisable assets. As I said, I will go that in more detail, suffice to say for now we still manage capital based on the generation of cash within both Standard Life Investments and Standard Life Assurance Limited. And you can see here how off the back of our fee based business, that cash generation continues to grow. You can see that it is almost three times now what it was five years ago and don't forget that within these numbers we currently take no credit for the profits and cash that has been generated within our joint venture businesses, HDFC Life in India and indeed HASL in China. Those are profitable, those are generating cash, but that cash tends to get reinvested directly in the business so we have excluded any assumptions about it contributing towards the Group. But of course keep that under review as the businesses develops.

So it is that cash generation that underpins our ability to dividend surpluses from subsidiaries up to Plc. Those subsidiaries are capitalised in their own right, and you can see on the right here that the amount of that real tangible shareholder equity that we are holding at Plc is over £1bn in liquid resources. Now that £1bn does a number of things. It gives us the ability to do things like complete on the purchase of our increased stake in India. Very importantly it provides a strong buffer that underpins our commitment to our all important progressive dividend policy, but in these current volatile times it gives us financial strength that we take great comfort from as well as optionality to act upon opportunities to grow the business be that organically or indeed if opportunities arise inorganically.

As I have said, it is our confidence in our ability to generate cash with our strong capital position that in turn underpins our confidence in that all important progressive dividend policy. We have today announced a final dividend of 12.34 pence per share, that is up 8% year on year. It gives a total of 18.36 pence for the full year and that is a growth rate of 7.8%. So a continuation of our longstanding track record of a progressive dividend.

And on that positive note, I will hand back to Keith.

Keith Skeoch – Chief Executive

Thanks Luke. Over the course of the next ten to fifteen minutes I want to talk to you about our strategy, my vision for the business and why we are well placed to take advantage of the opportunities created by the shifting savings and investment landscape.

On strategy there should be no doubt that our simple business model continues to serve us well. Improved business performance in 2015, was strongly correlated with our growth channels and the investment needs of our clients and customers. 2015 also saw significant progress towards building a simplified and well diversified world-class investment company. Our growth channels saw over £40bn of gross flows evidence of the scale of our strategic positions, they saw net flows of £14.9bn representing over 8% of starting assets with revenue up by 11%, evidence of our ability to generate good growth even in difficult conditions. So the growth channels accounted for 75% of the £150m increase in fee income and they were the main driver behind the improvement in underlying performance. Over 50% of the flows in the growth channels were sourced from outside the UK. And assets and revenues were broadly spread as you can see in the additional disclosures across the individual channels. While multi-asset is a major strength for us, we also attracted £24bn of new business into a broad range of funds and propositions indicating that the investments we made over the last five years are bearing fruit and we are making significant progress in diversifying the business.

My role as the new CEO is to ensure that Standard Life continues to evolve, that it can both meet the challenges and take advantages of the opportunities that volatile markets, changing regulation, shifting savings and pension policy and changing clients and customer needs create. In my view the best way of doing that is to build a world-class, well diversified, investment company where one vision, one culture drives value for clients, customers and shareholders.

So why? It’s very simple, investments are at the heart of what we do because it is at the heart of what our customers and clients want. A good return on the investments they make with their savings, either to build wealth or to generate income or of course to deliver a combination of both. Our aim is to deliver good outcomes that provide good financial options when clients and customers face the decisions and choices that life puts in front of them. So while we retain a broad connection with our insurance heritage, our future is as an investment company that manages, administers and advises client assets. Where we differ from a traditional insurance model is that we do not deploy our balance sheet for new business. Instead we use it for our customers’ and our shareholders’ advantage. In this respect financial strength is important to our stakeholders and therefore remains a key component of our brand. We look to deliver investment funds and propositions that meet client and customer needs, build long-term relationships through the combination of investment performance, innovation and service.

Our aim is to be trusted to look after customer and client assets. In order to do this across all of our platforms and distribution channels, a common culture build on teamwork, respect, responsibility and a commitment to excellence in all that we do will lie at the heart of our brand. Values I believe that are also echoed in our sponsorship of the Lions, the Ryder Cup teams, Andy Murray. World Class names that given our aspiration to be seen as a World Class investment company we are proud to associate with.

The team and I also believe that this business model and strategy will not just endure but it is there to deliver sustainable growth over the medium term because as I intimated earlier it leaves us well positioned to take advantage of four major trends that are both shaping the savings and investment landscape and creating challenges and opportunities.

First, the democratisation of financial risk. Individuals are taking greater responsibility for their financial future and this is likely to be an increasing socioeconomic trend given the shift to DC pensions, the associated removal of fiscal advantage and the high levels of public debt and deficit around the world. Trust in financial institutions by customers, regulators or politicians is not strong, as individuals take on responsibility for their financial future, they will want to directly own their assets rather than look through to a provider’s balance sheet. They also increasingly want ease of access to their assets and their money.

Technology and digitalisation will increase and improve access to assets for customers but in doing so it will reduce the barriers, costs and therefore returns associated with the sales process and wrappers. The importance of relationships, advice and service to brands will increase. Technology and platforms are also the keys to the scalability of propositions which will ensure that the quality of relationship and service does not diminish with size.

Finally, low growth, low inflation, compressed return environment that we are all learning to live with, particularly in the early months of 2016 means that customers will not pay for guarantees that are extremely expensive to manufacture. Nor will they value funds or propositions whose performance over the medium term reflects the heightened volatility of financial markets. They do want and will pay for investment returns that meet their needs. This is a market that favours active management, where asset allocation is a key skill. However the returns and propositions that deliver also need to be simple, transparent and increasingly outcome orientated. That is why our simple and consistent business model has evolved to creating a simplified and diversified world-class investment company.

In order to ensure this becomes a reality, I have taken a number of actions since my appointment in August. First, I have created a new Executive Team that brings together expertise from across all of our business to help me lead Standard Life, the majority of whom are in the room today. There are 200 years of executive experience embedded in this team and this will help ensure that we maintain the momentum behind our growth businesses and continue to improve the efficiency of our valuable, mature books. Our Investor Day will be a day when you get a chance to meet the whole of the new team.

The increased co-operation and collaboration across businesses ain’t going to happen without action. That is why second, we have made changes to our organisational design. We have put our client and customer channels at the heart of what we do and with day to day management in place to drive flows, revenue and profitability.

Third, we have already started the programme of cultural change to deliver the co-operation and collaboration that is needed to maximise revenue and flows. MyFolio is a great example of where through co-operation and collaboration we have built a valuable strategic position, based on meeting customer needs and our ability to deliver innovation matched with excellent, active investment management performance. MyFolio has just passed its 5th birthday, it has over £8bn of assets under management, 85% came through our own retail distribution channels.

Let's now turn to the strategic positions embedded in our growth channels, the key drivers of both value and success. The Institutional market continues to be a massive opportunity for us, particularly as in the slow growth, low inflation, compressed return environment the industry continues to shift towards outcome orientated solutions.

As the democratisation of financial risk continues, many believe that Wholesale will be the fastest growing market segment around the world and that so called new active funds will drive around two-thirds of the potential increase in this area of $3 trillion.

Our track record of innovation and active management leaves us very well placed to take advantage of the continuing client needs in both the Institutional and Wholesale markets. Over the last five years we have significantly deepened our fund range, throughout the risk and return spectrum in pursuit of our diversification agenda. We have launched nearly 50 new funds and launched 13 in 2015 alone. The bulk of these launches can be characterised within that new active category and are an important part of developing a broad range of multi-asset and outcome orientated solutions. These funds have attracted £28bn over this period and account now for 25% of Institutional and Wholesale assets under management, a clear sign that our investment in diversification is bearing fruit. A good example of even more recent development is the launch of our integrated liability plus solution, ILPS. We have also launched an emerging market bond fund on the Nationwide platform in the United States, broadening our Wholesale relationships in North America. At the same time we have put our global REIT fund on the John Hancock platform, deepening further this important relationship. The combination of innovation and investment performance is helping us attract strong strategic partners around the world, which in turn allows us to expand globally in a cost compliance and capital efficient manner.

Closer to home, our strengths in the Workplace market are very well understood. What is perhaps less well understood is this market is also a source of growth for our Retail channels with £6bn of assets transferring across the retail since 2012, as customers move from accumulation to drawdown or aggregate their pension pots as they move jobs. The Retail marketplace as we know is largely driven by the consolidation of existing pensions and savings assets and is forecast to grow strongly as individuals take more control and responsibility over their financial futures.

We have built and maintained these strong strategic positions by continually adapting our platforms and propositions to change. Whether that change was to deal with RDR, auto enrolment or the continual shifts in the pension market. As well as our ability to innovate we have long recognised that the most valuable asset we have is the relationship we enjoy with clients, customers and their advisers. As we deal with the inevitability of further change, possibly in this year's budget, we also recognise there is much more we can do to engage with almost 4 million of our Workplace and Retail customers. Increased personal responsibility for their financial future, alongside an increasingly complex marketplace gives us a real chance for engagement and the opportunity not just to grow assets but to improve their stickiness. We have a number of initiatives underway as we seek to capitalise on the growing demand for guidance and advice, from the launch of our advisory business

1825, to the greater use of digitalisation, technology and innovation through our award winning non-advised drawdown solution.
Add to this our two valuable and fast growing Indian businesses in both Life and Asset Management and I hope the connection between our strong strategic positions and ability to deliver and sustain growth over the medium term becomes clear.

It is however also important that this growth is profitable growth, so that it creates both opportunities for our people and value for our shareholders. Our record is strong. The growth channels have delivered 15% compound growth in assets which vitally has translated into a similar pace of revenue growth. And of course the growth channels are becoming an increasingly larger component of the total increasing my confidence about the future prospects of the Group.

Our two main businesses are eminently scalable, they have good track records of generating growth whilst controlling costs, as can be seen from the significant improvement in their cost/income ratios over the last 4 years. I and my senior team remain focused on ensuring that our businesses remain scalable and growth delivers reductions in unit costs. Let there be no doubt, where scalability is less clear cut we will seek out cost efficiencies, and if necessary dispose of or close underperforming business lines as we have over much of the last decade.

As Luke pointed out, at the end of his Presentation, we are well capitalised and it is our financial strength that underpins our resilience in difficult market conditions, reinforces our brand and even more importantly, allows us to focus on the opportunities that lie ahead. This will ensure that assets, revenues, cash flows and profit continue to support our progressive dividend policy and shareholders feel the full benefit of our drive to build a world-class investment company.

Thank you, Luke and I as well as Colin and Paul will now take your questions, but please note we would like to deal with detailed Solvency II questions as part of the Insight Session that follows. So we will now open up to a Q&A. Andy has already got his hand up.

<u>Question and Answer Session</u>

<u>Question 1 : Andy Hughes, Macquarie</u>
Thanks very much. A quick question about the LTIP which is obviously very untechnical, but if I look at the LTIP on page 77 of the Annual Report, you boosted the lower end of the range by 27% this year and I have been trying to do some simple maths from the £630m operating earnings this year and it looks like to get to the LTIP lower end of the threshold you need at least 8% annual growth in IFRS earnings and the top end of the threshold I haven't even tried to get there. So in the context of this, this obviously isn't a profit prediction, but was the scope to grow the dividend further in the context of what you think the earnings are going to do in future? I would be quite interested to know how you have set the LTIP range or where, obviously Gerry is here, so might be interesting to know.

Answer: Keith Skeoch
To be honest the LTIP and the way they are set is really a question for the Remuneration committee. What I can tell you is they are based on what we believe is our ability to grow assets and the associated revenue that comes with that. And trying to make sure that it drops through to the bottom line. As you would expect in the modern world, they are challenging, but we clearly believe that they will reflect in the future the growth we have delivered in the past.

Further question: Andy Hughes
With the LTIP growth was the scope to grow the dividend further and are you holding back on dividend growth?

Answer: Keith Skeoch
We will remain our progressive dividend policy.

Andy Hughes
Thank you.

Question 2 : Jon Hocking, Morgan Stanley
Good morning, it is John Hocking from Morgan Stanley. I have got three balance sheet questions please. I noticed that your capital requirement around a third of it is coming from spread business, you've obviously only got about 10% of the revenue coming from spread business. Could you split that between the with-profit book and annuity book? I just wondered whether there are more corporate actions you could do to true that up? That's the first question.

Second question, the £1.2bn you have got that's non-fungible in the Solvency II calculation, I wondered what the run-off profile of that is?

And finally in your cash number that you have got, to what extent is that augmented by capital requirement run-off over the next few years from the back book? Thank you.

Answer: Luke Savage
I can answer those at a high level now, the follow-up session is meant to be going into exactly those kind of points. The spread capital is about a third, it is disproportionate to the overall balance sheet proportion that it represents. We have an interesting dynamic that says our predominantly fee based business is self-generating of capital, it creates VIF. And as I will come onto in the detailed session, it creates a lot of excess VIF which actually helps to fund the annuity business. But in terms of the amount of genuine shareholder equity that gets tied up by that, it is very modest.

In terms of the actions we can take in that space, we are always looking for opportunities to make shareholder capital work harder. Be it things like the asset liability management activity that we undertook particularly at the end of 2014, less so in 2015 because of market conditions, where we moved risk out of the heritage with profits fund into the proprietary business fund, generated yield pick-up to the benefit of shareholders and used some of that VIF to cover that.

The last part of the question?

Further question: Jon Hocking

The last bit was around the £1.2bn not meeting the fungibility requirements, does that run-off? And when you talk about the cash flow being dominated by the IFRS, which I understand given the fee based skew of the business, but presumably there is some top up there from the run-off of the capital requirement?

Answer: Luke Savage

So the £1.2bn that we had within Standard Life Assurance Limited, that includes transitionals. Because we are not writing a big spread/risk book of business any more, what we see is that over time as those transitional run down the requirement from our spread/risk business runs down. We would not actually expect it to have any significant impact on the surplus over time. That is why from our perspective the regulatory capital isn't a constraint. What we focus on is that all important generation of cash that enables us to pay dividends from both SLI and SLAL up to Plc and from there to investors. We don't see that changing at all in the Solvency II world.

Question 3 : Gordon Aitken, Royal Bank of Canada

Gordon Aitken from RBC. First I have a question on GARS, in the 4th quarter very strong inflows £2.1bn against a £1.6bn outflow for the rest of the Group. Just given the importance there, can you just update us on year to date GARS net inflows?

Second, at the 2010 results you said that the company was spending £200m that year and more subsequently followed and then there was a five year payback and a 15% minimum IRR. Given that was exactly five years ago can you just update us to what the actual IRR of that spend was and also what the actual payback was?

And just finally on pensions. Are you seeing higher pensions sales ahead of the 16 March budget? And if you can just give us an indication of what proportion of your either pensions customers or pensions revenue are higher rate and additional rate tax players please?

Answer: Keith Skeoch

We will take the flow numbers first so if we go out to wing on this side, Colin on GARS flows and come back to Paul on the pensions and Luke to come back on IRR.

Answer: Colin Clark

We don't give specific flow numbers week by week, month by month. What I can tell you is flows in general across the firm in the first couple of months is positive. And it is pretty well diversified across the product line. The diversification programme we have been working on for the last 3-5 years both in terms of geography and channel and product, seems to be coming to fruition. So it is not surprising I think that as we come into this year, we have seen quite a spread in activity across the piece. To give you some more richness around that, flows are positive across the organisation, flows are positive into GARS. We monitor very, very carefully our activity levels and by that I mean how many consultant meetings we are having, how many RFP requests we are having, how many final presentations we are having. And I can tell you that in this first couple of months, 75% of that activity is outside GARS. So there is clearly a very well established diversification programme in place. And to try and give you a flavour for the richness if you like of the investment offering as a whole, we think it is robust, we think it is broad across different asset classes, and you don't need to just take my word for it, the investment consultants who are a very important gate keeping community look at our range and kick the tyres, look at investment performance, look at portfolio construction and they have given us over 120 positive or hold ratings across the entire range, 23 of those positive ratings were actually given during the course of last year. So sure, GARS has been an important part of our flow in the last few years, not surprising because it is a very attractive product, it meets the client's needs in terms of volatility management and hitting target return. But I am very confident that as we move through this year that diversification programme around product will continue to provide balance to the business.

Answer: Paul Matthews
The question was I think around those higher rate tax payers caught by the £10,000 limit if you are over £100,000 was it?

Further question: Gordon Aitken
Also the rumoured changes on removal of higher rate tax relief, this has got to be an incentive for people to buy now?

Answer: Paul Matthews
So we have got about 3% of our customers, about 30,000 customers pension customers who we think will be impacted by the £10,000 cap. Second part of your question.

Further question: Gordon Aitken
If you are a high rate or additional rate taxpayer and you feel that higher rate or additional rate tax relief is going to be removed this is going to be an incentive and you might think that advisers are advising people to make additional contributions before 16 March Budget. Are you seeing any of that?

Answer: Paul Matthews
I haven't got all the detail on that on how it impacted. It depends what happens on that. But if you are talking about if we go to an ETT? Flat rate, I don't have it. What I would say though is if you take the composition of that book, we are going to have more net winners than net losers by the very fact that the previous question, around 30,000 customers are impacted by the higher rate tax of £10,000, we have because of the size of our workplace book, we have 1.8 million customers, we are going to have more net winners on flat rate than we would have on net losers on the higher rate tax.

Further answer: Luke Savage
I am afraid the £200 million in 2010 was long before my tenure and I confess I am not sure what was in that figure at that time you are referring to. What I can say is we still use the five year payback, we still use the 15% IRR. Each initiative that we kick off is required to meet those hurdle rates before we kick it off. And part of the job with the finance team is to hold those initiatives accountable to the board to make sure we are delivering. And I can give you a long list of things and successes in the past whether it is auto enrolment, whether it is Ignis and its integration, whether it is the entire re-platform with the core platforms in Standard Life Investments, whether it is ongoing investment in the UK to strip out significant technology costs, refresh of our data centres. There is a whole long list that almost becomes business as usual in the way we think about it. We continue to reinvest at a steady rate and we continue to be held account quite rightly by the Board to deliver against those rates of return.

Further question: Gordon Aitken
You are confirming that those targets were met?

Answer: Luke Savage
In terms, as I say in terms of the particular £200m you refer to in 2010, I don't know. We can take that off line and try and determine that for you. I look at it in terms of rolling programme of the initiatives we have got underway at the moment and those are all green in tracking to target.

Question 4 : Lance Burbidge, Autonomous
Morning, it's Lance Burbidge from Autonomous. I am afraid I have got a question on GARS as well. If you look at the multi-asset redemptions in Q4, they appear to be £2.6bn against an average from Q1 2013 for a quarter of about £1.5bn. So is there something concerning there?

And from a broader perspective on GARS you always say that as long as it does what it says on the tin, people will be tolerant of it. But it is not quite doing what it should at the moment, so I wonder what the tolerance is for clients?

And then on auto enrolment, I think Luke mentioned that the contribution rate will go from 2% to 8%. In terms of your own AE experience, what is the current contribution level that you are getting?

Answer: Keith Skeoch
I will deal with the initial GARS question, move to Colin on this issue about inflows and redemptions and then come back to Paul on auto enrolment.

So actually I do think GARS is doing exactly what it says on the tin. So what we say to clients is we expect GARS to return volatility characteristics of between 4-8%. And in really stressed conditions to deliver volatility which is a third to half of global equity markets. So if you look at the last seven weeks, which of course let's remember in terms of GARS has a three year performance period, that is 4% of the 156 weeks, global markets have fallen, equities down 10-15%, GARS 6% so it is delivering about a third of vol. If you look longer term you will find and I have the numbers to last night because I know you all want to be really up to date. So the three year return on GARS to last night was 12.37% that is a three year annualised return of 3.96%. The five year number was 28.07%, that is a five year annualised return of 5.07%. It is delivering a third of the volatility in equity markets. It is delivering an absolute return and it is there or thereabouts. Please do not forget it is the risk characteristics of GARS that we talk to clients about. And it is the position in their portfolios that is important. So actually it is well within its risk envelope. Its drawdown in the last 6-7 weeks or indeed since the top in the markets is half the drawdown received in 2008. So there is nothing unusual going on, it is doing what it says on the tin. If you want even more colour, Rod is going to be hanging around to kind of talk about that. And the balance of redemptions and inflows Colin?

Answer: Colin Clark
For me I think you are right, you are starting to see some redemption activity as the book matures and I think that is likely to continue over the future. A couple of reasons for that I think our intelligence from the client base suggests that a number of the earlier adopters and institutions, particularly in the UK that were in GARS using it as stabilising block in the portfolio, perhaps in the context of an underfunded DB plan, if they had been holders for 5,6,7,8 years that has perhaps done its job and it is time to

rotate out and restructure the DB plan or maybe derisk or something. Interestingly, we are having a conversation with a number of people around that and now introducing ILPS, the Integrated Liability Plus Solution or EDGF the Diversified Growth Fund which has got some volatility dampeners in it. I think that is the dialogue we are increasingly having with clients. I would also, clearly there is very strong demand in Asia and North America still, but I would also point you in the direction of not confusing GARS inflows and outflows with multi-asset generally. We have done that a lot in the last three or four years to broaden the multi-asset suite. And we now have, using similar portfolio construction methodology, we now have three or four different products that try to hit different targets with different degrees of volatility. Global Focused Strategies, GFS is selling very well, just gone through £0.5bn and Absolute Return Government Bonds Strategies ARGBS has just gone through £1bn. So the multi-asset suite is clearly doing what clients want, but there is now a broader spectrum to that suite of products.

Further answer: Keith Skeoch
If I could just add to that as it is quite important, and it is a great question. GARS is not like a sort of hot equity fund with a constrained pot of Alpha where you get inflows, you reach capacity and it tops out. Actually what we have got as Colin is saying, is a balance of long-term redemptions and some inflows coming in. So clients are rotating in and out and there is a change in the geographic mix. And we actually think that leads to the longevity of the offering. So it is not like this fixed pool of Alpha that is available. So Paul.

Further answer: Paul Matthews
So just looking through this. I think if you took the last three years on average of the pension contributions from companies that have set up auto enrol schemes we are looking at sort of like 6.7%. So if you took some of the smaller schemes coming in over last 12 months it will be smaller than that. We think it is about 2.6% because we had a lot of the bigger schemes come in and put whole generations in. So if you are trying to get a trend, it is around we think about 2.6% for small schemes over the last 12 months.

Further question: Lance Burbidge
So the £2.9 billion of annual premiums that you talk about is not about to quadruple?

Answer: Paul Matthews
No. The challenge we are going to have here is of schemes over the last two years of employers putting more in than they need to put in and the smaller schemes I think over the last twelve months the average has been around 2.6%. And that will probably be the level going for the next 12 months as well.

Further answer: Luke Savage
I think the other thing is the opt out rate. People are wondering whether there would be high opt-out rates. And I think out-opt out rate is just under 6% which is lower than I think we had expected.

<u>Question 5 : Andy Sinclair, Bank of America Merrill Lynch</u>
Thanks and good morning, Andy Sinclair from Merrill Lynch. Three questions please. Firstly on hold co cash, you might want to tackle this one in the second session, but I just wondered how much of a buffer do you require for the progressive dividend? Are you looking at one year cover or how do you think about that?

Secondly, the spread/risk margin from the inforce book, apologies if I missed that in the Presentation, it seemed a bit higher than last year, I just wondered what would be considered a fair run rate going forward there?

And thirdly just on the strategic partners, you mentioned a number of strategic partners. I just wondered if there was anywhere you are particularly looking to add further strategic partners?

Keith Skeoch
Luke, then Colin.

Answer: Luke Savage
So in terms of how much we want to hold for dividend buffer, we don't put out a specific figure. We will provide some more colour around that in the second session. I missed the second part of the question?

Further question: Luke Savage
The second one was on spread/risk margin, the inforce release seemed a bit higher than last year, just wondered what would be the run rate going forward for spread/risk in the UK?

Answer: Luke Savage
I don't think we saw it as materially different to this year. I am looking at the guys and I'm getting shaking heads. Again is you think there is a noise in there then we can pick that up off line. From what we are seeing we are not picking up on any significant trend.

Answer: Colin Clark
We like strategic partners, they are very helpful and a very constructive way to grow the business and I think we, the conversation we are having with our clients is increasingly actually about partnership. But I think there would be four organisations, major organisations around the world that we would consider to have strategic partnerships and I suspect in reverse they would consider us to be a strategic partner. They would be HDFC in India, where we have an equity shareholding obviously. Sumitomo Group in Japan where we have a distribution arrangement and an asset swap. John Hancock in the US which has distributed a lot of our product, we are now discussing a fourth product to go onto that platform. And then more recently as a result of the Canadian sale, Manulife. And I think the characteristics around those relationships are that we have a conversation, a dialogue which goes beyond a distribution or manufacturing relationship but is actually about co-creation. How can we in Japan understand the needs of your clients and how can we create product together which better meets the needs? And in Japan for example. Having similar conversations with the other three partners. Gaps, I would like to do more in Europe. We are actually getting quite close to two or three clients which may lead in that direction. And Asia more generally is a very broad opportunity. It would be great to do a little bit more in Asia and we are working very hard on that.

Question 6 : Abid Hussain, Société Générale
Hi, morning, Abid Hussain from Soc Gen. Two questions please. Firstly on pensions tax relief. I think you said about 3% of your customers might be affected from the restriction on the annual allowance to £10,000 from this April. I was just wondering what sort of proportion might be of revenue as opposed to customers? That is the first question.

The second one is on the mature business. Would it be possible to get access to that £1.2bn capital surplus buffer by selling the back book?

Keith Skeoch
Paul and then Luke

Answer: Paul Matthews
So the same as the answer to Gordon's question, so 3% of our customers we think will be impacted by the £10,000 was your question, which ones are near?

Further question: Abid Hussain
3% as a percentage of customers but is it larger as a percentage of revenue, just trying to get a sense of that?

Answer: Paul Matthews
Don't know. Come back to that one.

Answer: Luke Savage
So in terms of getting access to the surplus, I think what people need to realise that when you look at the total capital you have got, the £6.7bn. A large proportion of that capital only exists in the context of a Solvency II balance sheet. So all the value of the VIF and the transitionals aren't real money that you can kind of distribute up through the chain, up to Plc and therefore make available for funding growth or potentially return to shareholders. So the challenge in getting that £1.2bn out of Standard Life Assurance at the moment is that you are only allowed to distribute capital up to the extent of your distributable reserves. So it is the limit between your distributable reserves in Standard Life Assurance Limited versus the capital surplus. So it is not about selling the back book or anything like that. It is about that distributable reserves cap. And again that is the kind of thing we can explore in the follow-up session.

Keith Skeoch
Question 7 : Greig Paterson, Keefe, Bruyette & Woods
We have a question over the web, in fact two from Grieg both of which I think are for Luke. What is the potential stock of future spread based ALM Management actions and actual assumptions that can be used to boost earnings going forward?

And a supporting life/fee margin compression, the revenue margin drop by 7 basis points in two years, when does it trough?

Answer: Luke Savage
Okay so in terms of the stock of future spread based ALM management actions, there is still several billion pounds worth, I think about £3bn worth of asset exposure we have from in heritage profits fund which we can look to take action on. And indeed there is a chunk of longevity risk as well that we can look to do work with. The challenge that we have at the moment is that in these extremely low yield environments, taking action that we believe would actually add value to the shareholder is very difficult. And that is why back in 2014, you saw about £600m of credit risk moved over from heritage with profits to proprietary business fund. The amount that we have seen in 2015 was more subdued. So in that regard, some of the market volatility we are seeing at the moment and what that is doing to credit spreads may give us more opportunity in 2016.

In terms of life fee margin compression, revenue margin has dropped by 7 basis points in two years, when does that trough? I am not sure I understand where the 7 basis points is coming from and therefore I am not sure I can give an answer. I am being told that it has already slowed down, I am not sure we are giving guidance on where we think it will trough, we will get back to you on that one.

<u>Question 8 : Oliver Steel, Deutsche Bank</u>
Oliver Steele, Deutsche Bank. Just a couple of questions on expenses since we don't seem to have covered that area yet. The first is, you talked, Keith about areas of the business where you didn't have scalability, I was just wondering if you could give us a little bit more insight into that and what you are planning to do and what it might mean in terms of expenses?

And then secondly on the Ignis cost savings, so you are on target for the £50m by 2017 but how much have you actually delivered so far so we can calibrate our forecasts?

Answer: Keith Skeoch
Okay, in terms of assets that might not be scalable and where we are when we think about costs. There is an ongoing conversation about our strategic direction in Germany. There is a little bit of Germany given the dislocation there that really is I think a substantial opportunity for us potentially to play to our investment strengths but also to expand our unit-linked book. There is an awful lot of dislocation and change and it is something we need to think about. There is also I think change going on within China and in Hong Kong in particular which is a relatively small piece of business for us which again we are having a good kind of strategic thought about. It is also the case that we have to review the blocks of business where we launched stuff and did not necessarily get traction. So within our broad suite of funds, there may well be stuff that we want to stop doing and it is part of the business as usual.

As far as Ignis is concerned, we are nearly there. We really are right on track, we are in the final stages. The point though about the final stages is you always do the really complicated stuff last and we have given ourselves plenty of time. So the integration of Ignis both in terms of funds, systems and people is virtually complete and it will complete bang on schedule.

Question 9 : Ravi Tanna, Goldman Sachs

Morning, it's Ravi Tanna from Goldman Sachs. I have a couple of questions please. So the first one was on the FCA's review of the asset management space and their look into vertical integrations specifically. I was just wondering if that brings to bear any considerations around bolt-on M&As versus dividend distributions and that broader decision making process?

The second one was just around again a regulatory question I suppose. The Government is looking to changes on exit penalties. I was wondering what if any exposure you have to that issue?

And then the final one was a longer term question on your platform business and the market more generally. Do you foresee a critical scale to that platform given the weight of decumulation versus new business and where are you on that journey towards that critical mass?

Answer: Keith Skeoch

Let me talk about the FCA and pass out to Paul on the other two issues. It is going to be an interesting time, but the truth of the matter is it is a competition review. We are very, very early in the stages. The industry is submitting data. The FCA has said it would get back later in the year. And we will have to work out the implications of that once we know precisely what the issues are. I think it is dangerous to try and see round too many corners. Where I think we are in good shape is that because it is a competition review, one of the things they have said they will focus on is the charges associated with closet trackers, one of the things you can see from the series of charts that we put up, we have been launching very advisedly active funds and that is where our premium prices are associated with. If you look at where we are running something that is a little bit more old fashioned and just has tracking error above a benchmark, then our charges I think reflect that. So at this moment in time, we think we are in a good place, we are submitting data, we will have to wait and see. Paul, exit charges?

Answer: Paul Matthews

Exit charges, I think we are in good space, if I take you back to 2004, we exited the commission market most of the charges that are levied against the customers fund if they choose to exit early at 55, pensions freedom, will typically be the run-off of the Commission that was taken. I think we have something like less than 7% of contracts that will have a charge if the customer wishes, or an outstanding charge if the customer wishes to exit at 55 and typically the average charge on that fund would be probably just less than 1%. So I think we are in pretty good shape on that one.

The second question on the platforms, again we are seeing quite a bit of flight to quality. If you look at the Wrap growth of our platform for the last 2-3 years, it continues. So there are 30 platforms out there, I think there is probably a handful that will make it. So we would expect to see our platform continue to grow more assets on our platform going to MyFolio and business as usual. I don't know when those other platforms will cease to exist. But as we know there are quite a few out there that nobody seems to want. So that is good news for us I think.

Question 9 : Alan Devlin, Barclays Capital

Alan Devlin from Barclays. A couple of questions. Just on the Workplace flows, they seem to be slowing on a quarterly basis. I wonder if you could give us more colour on what is happening there?

And secondly on the strategic partnerships, does the relationship with John Hancock and Manulife preclude you from other North American relationships? I think Keith may have mentioned Nationwide in his remarks? Thanks.

Answer: Colin Clark

There is no exclusivity around it, I think those sorts of relationships, there is commercial interest on both sides and there is an understanding on what we are trying to achieve together so that is fine, but there is no exclusivity.

Question:

Do you have any specifics on what you are discussing with Nationwide?

Answer: Colin Clark

We are discussing 3 or 4 products with them, it could be an interesting one, they are not quite as large a distributer as John Hancock, but what is interesting is that John Hancock has been with the exception of the REIT, the Real Estate fund, largely around liquid alternatives and the relationship with Nationwide is rather more mainstream product.

Further Answer: Paul Matthews

Workplace was a slower year last year, I think we saw more active schemes come on the market. I mean interestingly enough, whilst workplace is down slightly, we saw our market share grow to 19% last year so we grew our market share last year. Activity is good. We saw a reasonable amount of customers who are in workplace schemes take the option of the pensions freedom, so we saw some flows go out of there. And I think we lost one scheme that we wrote 4,000 new schemes last year but lost a mature scheme. So I think we are in reasonable shape on workplace. We have grown market share and I think we will see a number of schemes being reviewed over the next 12 months depending on what happens with the Government's recommendations in the Budget I suspect.

Question 10 : Ashik Musaddi, JP Morgan Cazenove

Hi, first question is, you gave this 51 basis point within your margin for the workplace and retail business. Can you give a bit more colour about how should we think about it going forward because somewhat we had a sense that it is around 40 basis points, but now it looks like it is a bit higher so whereas we are now trending towards 75 basis points when we go into the smaller schemes. How should we think about this 51 basis points? Should it be more or less similar or move up or down? That is the first one.

The second one is platform market. Clearly there is more expected on the platform market but there is increasing scrutiny with respect to just like the charging, I mean the revenue margin. It is still under pressure at the moment. We have seen other companies reporting and still struggling. I mean there was news that one of the big major UK name is looking to sell their platform. So what is going on in the platform market? I clearly saw that you flagged the chart where the platform market is expected to grow quite a few fold. So what is the dynamics going on in the platform market? That would be nice, thank you.

Answer: Paul Matthews
On the scheme side, we charge more for the smaller schemes. So typically there is a price cap of 75 bps so a lot of the schemes we are bringing on would be around 75 bps. We also charge £100 a month set up fee for the smaller schemes. Clearly the smaller schemes and therefore the actual impact on the size of our book is virtually negligible. We actually probably increased some of the pricing on some of our larger schemes last year. But that would probably offset with some that were over 75bps and we had to reduce. So I would say we are pretty steady as we go on our pricing on our workplace business. If there were a number of tenders last year that came to market typically on passives which we don't typically go for. So on our active business I would say, pretty flat with some smaller schemes as they grow we will see some benefit from them, because we collect the £100 a month which I think will see quite a bit over the next 3-4 years.

The platform one?

Further question: Ashik Musaddi
What is going on in the Platform market, is it in terms of margins, is there any competition?

Answer: Paul Matthews
Margin pressure, no none at all. So we have seen no margin pressure at all. What happens on our Wrap platform typically is for the firms that have more assets, they benefit from the large fund discount basis. So the firms are incentivised in many ways to put as much assets as they can on and their clients then benefit from lower prices, but we have made no reductions whatsoever in our pricing, both on the platform basis and also the investment funds like MyFolio which is typically the preferred investment solution on our platform.

Further question: Ashik Musaddi
Thank you and just one more question on Manulife. If I remember correctly you had some target for flows from Manulife so where are we on that relationship in terms of getting flows out of the Manulife distribution?

Answer: Keith Skeoch
I think the target was 20 billion Dollars over the course of 5 years and I think Colin, we are pretty much on track, we are exactly where we expect to be.

Further answer: Colin Clark
Very happy with it. And remember it is a relationship that is Canadian but it is also encompassing some aspects of what John Hancock do and what Manulife do in Asia as well.

Further question: Ashik Musaddi
Sorry just one more follow-up. Is it just aimed to multi-asset or broad based?

Answer: Keith Skeoch
It is across the whole broad spectrum of funds.

<u>Question 11 : Trevor Moss, Berenberg</u>
Thank you Keith, Trevor Moss from Berenberg here. One could foresee that you have multiple opportunities to grow your asset base organically. I think there is probably multiple opportunities coming your way to grow it inorganically as well, I wondered whether you had a sort of priority list of direction or whether you were more inclined to be opportunistic in that regard and just see how the things evolve? First question.

Second question. I am going back to Lance's on GARS. It is an observation of some that the performance in the first part of this year has been pretty poor. You would describe it as not being poor within the bounds of reason. Well fair enough that you reference the longer-term track record. But is this an example of that fund or those GARS funds actually having got too big, something that was referred to a number of times as you were growing through this. Perhaps you got into some positions maybe in credit for example which you could not get out of because of the illiquidity of the credit market. Is this a sign that actually GARS has got too big?

Answer: Keith Skeoch
Let me deal with both of those and again perhaps if you could pick up with Rod. M&A. On the inorganic side, I think it is always going to be a combination of both so we know we have pretty high hurdles in terms of acquisition criteria. So if we do something we want it to be not just financial, but complementary and strategic. So Ignis has been very, very successful and it marked us out as a potential manager of insurance monies going forward and we are building out in part because of the liability aware stuff on that, ILPS. Obviously when you get a market with dislocation, opportunities may arise. But you need to be very, very focused on making sure you

keep your criteria kind of where they are. So it is going to be a combination, always of that longer term stuff and the opportunity associated with price. Incredibly important because I reference culture several times. If you are generating strong organic growth, the one thing you want to make sure is you don't disrupt it. So I am really, really proud of my people on Ignis on two counts. One, the integration has gone very well and we are on track. The second thing is if you look at those flows last year in our core business, in that the third party stuff, there is no disruption. Actually we did not get knocked off side. So we know we can do this providing we pick our targets well. Do I have a list at the moment? No, absolutely not.

Further question: Trevor Moss
So if I paraphrase that opportunistic rather than you having a particular direction?

Answer: Keith Skeoch
Only where opportunistic in a sense of where an opportunity arises that serves our strategy, we will get focused on that, but not opportunistic in the sense of this is a good financial deal and it will upset the strategic direction on what we do. So it is important to be I think really clear on that.

GARS, I don't want to be short term. But I know you are all keen. But you look at GARS performance in the last week. It is up 2.47%. It is not a question of size. Actually what is actually going on is if you look at the portfolio construction techniques we use we look to make sure that we can deal with periods of profound stress. When that stress is founded on the investment fundamentals, actually where the stress in the market is a product of sentiment as it is at the moment, and I think it is partly relating to geopolitics as it was in 2008, actually that is the periods when sometimes GARS kind of underperforms. The good news is if you look through history, these periods tend to be quite short-term. So again we monitor this on a daily basis in terms of the process, the risk characteristics, the risk envelope. Its long-term track record, it is doing what it says on the tin, it is not an issue of size. We deal in the market most days. We know exactly what our position is.

Question 12 : Andy Hughes, Macquarie
Hi guys, Andy Hughes from Macquarie again. A couple of questions. The first one is on the restructuring expenses. I think you said that the Ignis hard work was still to come during the next year. Does that mean the restructuring expenses we see of £83m is that, what is it going to be for this year that is coming?

Answer: Keith Skeoch
No, the hard work is in terms of the technical operational nitty gritty things of getting funds aligned onto our platforms and little bits of merger that needs to be done. So you shouldn't take that as necessarily a cost issue. We have done the majority of the heavy lifting. They are just some really, really important nitty gritty operational issues that are important because it creates efficiencies going forward and it is important in terms of the way in which we conserve both clients on the Ignis third party platform and what we deliver to Ignis also to Phoenix.

Further question: Andy Hughes
So the restructuring costs are they going to be much lower this year then than they were in past years?

Answer: Keith Skeoch
We are right on track.

Further question: Andy Hughes
Okay and then the other question was about I can't believe I am asking this again, but I last asked it in 2009, IFRS phase 2, you don't even need to answer this one really. But if it ever comes in, does that increase the distributable reserves and remove the £1.2bn problem?

Answer: Luke Savage
I don't believe it does. I am looking at my technical experts in the front row who are looking back at me as if to say they don't believe it does. We can take that one off line. I think the nature of our balance sheet is really doesn't affect us a great deal.

Further question: Andy Hughes
I just thought it might bring the accounting in line with Solvency II and therefore increase the distributable reserves. And the final point I guess is on annuities. Even though you have the £1.2bn that you can't use, you are still not keen on annuities. Presumably this puts you in a very different position to your peers that you could write lots of annuities with very little capital strain. You don't see that as an opportunity given the balance sheet structure that you have got. Could you use this money for M&A? Could the £1.2bn be used for Standard Life to buy something out in the market? Thank you.

Answer: Luke Savage
I think that is probably a question better taken at the Solvency II session where we look at the interaction between the drivers of our capital requirement, the sources of our capital and what that means in terms of cross subsidisation. I don't want to avoid the question, I just think it would be better to take it in the next session if I may.

Question 13 : Lance Burbidge, Autonomous
It's Lance from Autonomous again. Just a quick one for Paul. The financial advice market review I guess we are expecting something in the Budget as well. You talk about having 4 million customers. Are you anticipating you can do something quite substantial in terms of advising those customers?

Answer: Paul Matthews
I think there is no question that since pensions freedom has happened, there is a huge pent up demand for people trying to seek advice. And I think the introduction of more and more regulation and legislation again is driving people to more advice. We are building a business, an advice business, 1825, as we announced last year. I think

the future in many ways is really threefold really, we will grow our advice capability ourselves. We are building more online transactional guidance tools so that people can in many ways do things more themselves. And I think the third thing is that it will see potentially the Government try and do something so that the adviser market can recruit and have a more simplified model. So there are three areas for us. We are still the first choice in market share of IFAs and I think some of the things might come out of the review that might help improve them, so that is good for us. Two, I think there have been more self-serve people so we need more digital online capabilities and we have built a reasonable amount of that already and more coming online. The third thing is I think you will see more advisers under the Standard Life brand under 1825 coming through over the next year or two.

Further question: Lance Burbidge
Just to be clear, the cost of these developments including the £30m investment in platforms, that is not going through restructuring, that is going through the actual business line expenditure?

Answer: Luke Savage
Typically the cost of building a platform will go into operating. The cost of, or if that gives us the ability to take head count out then obviously the take of taking the head count goes out to restructuring, but the majority of the development costs goes into operating. Not all there, are quite strict criteria that applies to what goes where.

Answer: Paul Matthews
One of the good things about the technology in all of the areas is if you look at the amount of self-serve we have seen over the last two years it is quite considerable, so all of our auto enrolment Good to Go, so 4,000 schemes this year we have taken on, the majority of those have been self-serve by the employer and self-serve by the employee. If you take our Wrap platform technology, we are in many ways, we have transformed the administration from ourselves to the IFA office. So I think some of the investments we have made over the last 3,4,5, years in many ways, possibly the sort of thing Gordon was referring to, you are seeing the benefits coming through with self-serve and our ability to scale far more now.

Keith Skeoch
I am very keen that we also leave enough time for the deep dive into Solvency II which I know there are a number of additional questions on. So I would like to call it a day there. Thank you for coming along, thank you for your questions. I hope we have done our level best to make sure that we have answered them. And I look forward to seeing you in the Investor Day at some point in the second quarter when we will be through the Budget and we can have an even deeper dive into our three main business lines.

Thank you again.

End