Standard Life

2014 Full Year Results

Friday, 20 February 2015

David Nish – Group Chief Executive

Good morning everyone. I am delighted to welcome you to our 2014 year end results presentation. As well as the people in the room, I would also like to welcome everyone joining today by our web conference call. We will go through the housekeeping points. So everyone will read that very quickly.

Just before I begin, I just wanted to say that this morning's presentation is going to be slightly longer than normal. But what we thought we would do is actually take the opportunity to give you maybe a lot more detail of how to think about the new in some ways the baseline of the Group, recognising quite a lot went on last year. So if you forgive us we are probably going to do about an extra ten minutes or so of in a sense giving you more information about how to think about the Group.

So 2014 has been a busy year for Standard Life and we certainly believe another year of strong delivery. We have continued our transformation, to a long-term investment savings business. We obviously had the acquisition of Ignis Asset Management which is included in the second half of our results from last year and the sale of Canada which was concluded at the end of January. And as Canada is a discontinued business, it does not feature this morning in terms of the slides that you are actually going to see.

As we continue to transform the Group, the core of what we do remains. Meeting the needs of institutional and wholesale clients and workplace and retail customers is very much at our heart. We operate on an increasingly global basis lead by Standard Life Investments and supported by a number of strategic partnerships. Our leading UK distribution franchise has positioned itself very well to capture value in our home market. And in delivering our strategy, generating sustainable cash flow to support our progressive dividend policy remains a key performance driver.

One of the things we hope you recognise coming through clear this morning is continuity. Continuity and clarity in the strategy we have been pursuing for a number of years and continuity in our track record for performance delivery. This continuity of course comes at a time when markets are rapidly evolving. Ongoing uncertainties and a changing regulatory environment impact what our customers want of us and how we need to respond. And I believe that Standard Life is very well positioned to respond to these changing customer demands and to drive greater value.

So at this point I would like to hand over to Luke to take you through the financial results for 2014 and then I will come back and say more about where our areas of strategic focus for going ahead.

Luke Savage
Chief Financial Officer

Thank you David and good morning ladies and gentlemen. Now the impact of the changes that David touched on around accelerating the Group's transformation to a investment saving business I think will come through very clearly in the numbers here this morning. And as David said, the numbers do just cover ongoing operations. So excludes the sale of Canada and also the closure of the Dubai branch which we announced in the 4th quarter last year.

Against that backdrop of transformation we are also changing a couple of the metrics that we use. One is how we report unit costs and the other is our cash generation metric. And I will come back to that later in the Presentation.

Now since I joined Standard Life six months ago, one of the things that has helped me get up the learning curve is the fact that we operate through a very simple business model that is very much in line to the way we manage and report performance. So we aim to grow assets off the back of that to grow fee income, to manage our costs and capital and hence drive shareholder value.

And over the course of 2014 we made good progress against each of those dimensions of our business model. So you can see there has been significant growth in our assets under administration, up to £296 billion. The growth in our assets has helped drive fee revenues to over £1.4 billion. Whilst our continued focus on cost efficiency has seen unit costs come down a further four basis points. And off the back of that we have seen underlying performance of £561 million. A 21% increase. And operating profit of £604 million a 19% increase. Underlying cash generation, our new metric was £408 million increasing in line with the growth in profits. And that has enabled us to continue with our progressive dividend policy where we are proposing an 11.43 pence dividend an 8% increase.

At the same time we have managed our balance sheet efficiently. As well as £0.3 billion of subordinated debt, as a consequence of the sale of our Canadian business, we are also proposing an equity return of £1.75 billion and that is equivalent to 73 pence per share. We intend to complete that return of capital by way of a B/C share scheme by the beginning of April and indeed the circular to shareholders is being posted out today.

As I said Group operating profit was £604 million with increase driven by strong growth in fee revenue, up 14% to £1.4 billion along with the increases in spread risk margin. Now you will see there has also been improved performances from our capital management and the profits from Associates and Joint Ventures each of which have improved by some £12 million. And together that has resulted in an increase in underlying performance from £462 million to £561 million, a 21% increase.

Now underlying performance, the impact of actuarial assumption changes and other one-offs and at £43 million that was broadly similar to last year's figure.

So let's now drill into the individual components of our business model, starting with our assets. We have increased assets under administration to just under £300 billion, up 38% in the year. Now as you can see in the first part of the waterfall, around £60 billion of that was the result of the acquisition of Ignis which we completed on 1 July, with the remaining £21.4 billion increase coming from underlying growth. Over the year the proportion of the total assets that are managed by SLI has grown from 79% up to 83%.

The headline net inflows of £1 billion are down on last year, but let me take you through why it is that I am very comfortable with the underlying momentum behind that figure. You can see the £2.3 billion relate to outflows from two very low margin mandates which we previously announced, but within the net inflows figure, they will obviously been replaced by inflows coming in at much higher margins. You will also be aware the net outflows from the Ignis Absolute Return Government Bond Fund, the ARGBF which totalled £2.6 billion. So far this year, ARGBF flows have been stable and performance has been good.

Moving across, the acquisition of Ignis brought with it around £45 billion of assets from the Phoenix Life Book which as a closed fund actually saw net outflows. Now whilst we would expect these to continue in the future, they nonetheless distort the comparison to 2013 in respect to our new fee business propositions. We have also seen £1.7 billion of outflows relating primarily to Conventional With Profits and annuities, neither of which are fee driven. So that gets us to an unadjusted net flows for our new fee business of £9.2 billion. And as you can see this is much more on a par with the strong flows in 2013. And as you can see from the chart here, we have seen positive inflows across all of our four key channels. So wholesale, institutional, workplace and retail. And if we start at the top and work down the columns, the largest inflows in both years come from wholesale where you have seen good sales of MyFolio, equities, real estate and multi-asset. Our institutional flows remain strong and continue to attract considerable interest increasingly from outside of the UK. We have increased net flows in both UK workplace and retail new, helped by our success in the auto enrolment market and our new style propositions such as SIPP and Wrap.

Europe and Asian emerging markets have also shown an increase over the year, whereas Wealth has seen a reduction, largely as initial consequence of the acquisition of the private client division of Newton.

If we move down below the line to the parts of the business that have outflows, our UK retail old proposition saw 15% reduction in net outflows of £2.2 billion, in part from increasing retirement deferrals post the budget announcements in March. Other Ignis business had outflows of £1.7 billion, mainly movements from more volatile liquidity funds where such movements are to be expected as clients manage their liquidity positions around the year end period.

And we are not just seeing good diversity with flow of channel. If we look at the underlying third party net flows by geography in Standard Life Investments, we can see the increasingly the international nature of our client base. We had a significant presence in Europe, in North America and in Asia. And these businesses are growing quickly, reducing the proportion of clients in the UK down to 31%. So 31% from 52% last year.

So let's turn now to the second part of our model of revenues. As I said our fee based revenues are up to over £1.4 billion or 14% over the course of the year. The acquisition of Newton and Ignis impact the all year comparisons. So that is why we are showing them separately here. We acquired the private client division of Newton in September 2013 so the £15 million represents the annualisation of incomes in 2014. And then moving across Ignis which was acquired in July this year has figures for the six months and that figure of £73 million includes the £14 million in performance fees, demonstrating that investment performance remains strong throughout the change in ownership.

Alongside the acquisitions, we increased revenue by £89 million from underlying growth and this was supported by our strong net flows, our strong investment performance and changes in the business mix. The growth in our fee based revenue, alongside the sale of the Canadian business means that now 89% of total Group revenue is derived from fees and that compares with just 75% back in 2010.

Following the sale of our Canadian business, our only remaining wholly owned spread risk revenues derive from our UK and Europe business, mainly through the management of our UK annuity book. As you can see from the blue stacks at either side, there are three important components, our existing business, our new business and our ALM activities. You can see that existing business is stable year on year while the contribution of new business to revenues decreased by £37 million to just £22 million. Now there is a lot of uncertainty around what will happen after April, but we would expect to see further sales of annuities in 2015 compared to 2014 so you could see a further £10 to 15 million reduction in that figure.

Moving across, improving returns in our existing annuity book through asset liability management is an ongoing activity with our UK business, that contributed £70 million in 2014 compared to £15 million in 2013. So an increase of £55 million. Now the benefits from this can fluctuate from year to year depending on what opportunities arise in the market. I think given the very low yield environment we find ourselves in, looking ahead to the opportunities that we currently see, I would not expect to see the same profit again in 2015 from these activities. Instead we currently envisage the 2015 outcome to be somewhere in the region of half the 2014 profits, at around £35 million. But of course that is very much dependent on market conditions and in the opportunities that we identify .

Turning to costs. Our scalable business model allows us to drive down unit costs as we grow the business. So whilst you see our total costs going up in absolute amounts, our unit costs have continued their downward trend. It is down 4bps or 8% in the year, but down 22% cumulatively in the three year period since 2011. In terms of total costs, £52 million of the increase comes from acquisitions whilst the other £55 million is divided by the increased scale of our business and the continued investment to support further growth. And there is also a £17 million one off adjustment we would not expect to recur in respect to payments received in the early years of the Heritage With-Profits fund.

Now as I said in my opening remarks, we are changing the way we report our costs and we are now reporting on total expenses rather than just maintenance expenses which I believe is a simpler and more appropriate measure in the context of how we manage the Group. Now there are of course different dynamics at play that underlie those figures. So for example in Standard Life Investments, we are investing to support our growth versus the UK where we are more focused on the efficiency and scalability and expect to deliver further improvements in our productivity in the future.

Putting together the growth in revenues and scalability of our business, I have already covered the items individually so I won't go into them in detail, this just brings it together on one slide for the various moving parts. But it is of course the middle two bars that are the main drivers of our business model. And in a year of significant change and significant investment, it is satisfying to see that 40 pence in the pound of new revenue is dropping through to profit. So £561 overall profit up from £462 demonstrates strong revenue growth driving profit margins.

So now let's dig a little deeper into the performance of our individual business units. You can see here how that total profit figure breaks down and you can see that most of the increase is coming through from Standard Life Investments. So let's start to unpack that one first. You can see an operating profit of £257 million, that is an increase of £60 million or 30% year on year. As I said, this includes a full year contribution from Newton and six months from Ignis. I will talk you through the Ignis numbers separately on the next slide. But Ignis contributed £36 million to operating profit in 2014 for that six month period.

Focusing on the three boxes across the bottom of the slide, you can see that third party assets excluding strategic parties business, increased to £117.5 billion up 31%. This reflects the strong net flows from institutional and wholesale that I discussed earlier together with the acquisition of Ignis.

With those flows the mix of business has also improved. Third party revenue bps we have seen increase from 50 to 53 basis points, benefiting from that ongoing shift to higher margin products and the EBITDA margin at 39% remains stable and we continue to target a 45% EBITDA by 2017.

Looking at Ignis. As I said it contributed £36 million in operating profit for the year including £14 million of performance fees. Now as a result of the outflows in the ARGBF fund, we have impaired intangible assets which arises on accounting for the acquisition by £43 million. Now that is a non cash item. And I see that as being a conservative stance given the positive prospects we see for ARGBF going forwards. Now these outflows will of course also have an impact on fee revenue over the course of 2015. But importantly the integration of Ignis is progressing well. We have incurred £50 million of acquisition and restructuring costs to date and we are on track to secure the £50 million per annum of synergy benefits we outlined at the time of the acquisition. Recognising that it will be 2017 before we see a full first year of that £50 million saving coming through. But anecdotally in terms of how that is progressing, as of next Monday here in London the Ignis staff will be relocating to work alongside their colleagues at Standard Life Investments within the Gherkin. So overall we are delighted with the acquisition and confident of achieving that EBITDA margin target.

Turning now to the performance of our UK business, we see that assets under administration have grown to over £128 billion driven by strong workplace and retail new net flows that represented 8% and 9% of the opening stock respectively and I will touch a little bit more on the growth of assets in the next slide. Our fee based revenues rose 3% to £619 million. This being the net effect of higher assets under administration, offset by lower average revenue margin. And that revenue margin itself is a function of changes in business mix. And as a consequence of that we saw fee revenue bps compressed from 66 to 62 basis points. But against that efficiencies and scalability of the platform saw operating expenses also down from 43 to 40bps. So overall we are well positioned for further improvements to profits in the UK along with the ability of the flows through the UK being able to earn additional margin within Standard Life Investments.

Let's look at the UK's assets under administration. Our fee business assets in the UK grew by £6 billion breaking through the £100 billion mark, as you can see from the total across the three sets of bars. And the left hand set workplace now has reached assets of £32 billion, benefiting from net flows of 10% up from last year. And this growth in net flows include a 16% increase in regular contributions, reflecting our success in attracting new flows through auto enrolment. In addition the workplace business continues to provide flows and revenues to the retail business when an individual leaves their corporate scheme.

Our retail new business in the middle, grew assets by £3 billion to £37 billion with net flows increasing by 4% to £2.9 billion. And this reflects our continued focus on meeting the needs of advisers with things like ongoing platform improvements to give access to leading investment solutions has allowed us to achieve the highest net sales in the advised platform market in the UK. And then finally on the right hand set of bars, the retail old business remains stable with a 15% reduction in net outflows.

In Europe, our fee business assets under administration grew by 15% to over £17 billion, helped by sustained net flows of £1.1 billion. Revenues were broadly flat in constant currency but were lower when including the impact of stronger sterling. You can see the underlying performance has been stable from 2013 across 2014 and overall we would expect that to continue over the medium term.

Our Asia and emerging markets business has generated an operating profit of £19 million, up from a breakeven position last year. Our wholly owned business moved into profit mainly due to low commission payments in Hong Kong as a consequence of changes in the regulatory environment. And in Dubai as I said in the announcement at the 4th Quarter, the closure of the operations where changes in the regulatory environment there had impacted our business. Now the results for Dubai are included within our discontinued operations and within there, there is a £17 million charge relating to restructuring and close of the business.

We are pleased to see improved performance from our Chinese joint venture which made a profit for the year and our joint venture in India is well positioned to continue growth. It is ranked number two in the private insurance market for overall premium sales and with net flows that are well ahead of our peers. And David will come back in a minute to discuss the opportunities that we see in India and the significant value that we think is in our India business that is not yet apparent from the current reported profits.

So let’s see how those profits translate into driving returns for shareholders. I said earlier that the transition of the Group has meant we are changing two of our key metrics, but what I should have also said is that after this year we are also going to stop reporting on an EEV basis. So here it is for one last time. We have grown our embedded value strongly since the IPO and at the end of the year the EEV was at £9.2 billion. However with the sale of our Canadian business and the purchase of Ignis, our revenue now is overwhelmingly fee based and the type of business where EEV reporting is helpful such as spread risk activity is only £0.4 billion or 5% of that total EEV figure. So hence the reason we no longer see it appropriate to continue to use as a KPI.

So with that in mind, as I mentioned earlier, we have changed the underlying base of our cash generation from EEV to IFRS. We manage the business, through a focus on IFRS profits and that is therefore a natural place to start if we want to make sure that our messaging around cash generation can be clearly in line with our performance reporting. So we now start with the £561 million underlying performance figure that you will recognise and then we make a number of simple adjustments for non cash items. Removing accounting movements in terms of things such as deferred acquisition costs and deferred income receivable and replaced them with the equivalent cash movements as well as allowing for tax on a cash basis. Now that takes us to £447 million but as we have more limited ability to access profits from our Asia joint ventures and Associates, we have been conservative when we are moving that contribution and we recognise that is an approach that we will keep under review as our business, through those JVs, develops over time.

So we end with a Group underlying cash generation of £408 million and whilst we show a good result here, within the Annual Report and Accounts you can see it is split by business. The figure £408 million up by £72 million is very much in line with increasing Group underlying performance. The adjustments, the biggest change has been increase in current tax, reflecting both increase in pre-tax profits as well as low benefits in 2014 from items such prior year tax adjustments.

Now to give you a historic perspective of that cash generation measure, here is what it looks like in terms of the numbers going back to 2010. You can see the underlying cash generation has increased to approximately 2 ½ times since then with a 2014 cash generation of £408 million being equivalent to 20.8 pence per share following the upcoming share consolidation. Now as well as the chart helping demonstrate a very strong correlation between underlying performance and cash generation, it will also give you trends in the adjustments you may want to be considering for your models. Now remember of course that all of these figures here are for cash generation excluding Canada and that is important if you want to compare these amounts to historic dividend payments which would of course have been supported by the profits and cash coming out of Canada.

So off the back of that strong cash generation, together with the strength of our balance sheet, we are able to continue our progressive dividend policy and this year we are proposing a final dividend of 11.43 pence, giving a full year dividend of 17.03 pence or an increase of 7.8% year on year. Now as you can see we have maintained our progressive per share dividend policy since our listing and we remain very focused on being able to do so going forwards.

So our cash generation supports investment in our business as well as providing strong returns to our shareholders. And since 2010, including return of capital from Canada, we will have returned over £3.7 billion through both our progressive dividend policy and capital returns. In addition we have continued to invest in our business both organically and through acquisitions such as the Newton private client business and Ignis. And this has allowed us to grow the value of Standard Life and deliver further returns to shareholders whilst maintaining a strong balance sheet. We have a strong IGD surplus of £2.9 billion which does not move significantly in the sale of Canada or the subsequent return of value.

So to finish I just want to pull together a couple of key messages from the points I made in earlier slides and overall we have delivered a substantial growth in assets and revenues which along with low unit costs has driven a 19% increase in operating profit. Our strong balance sheet and improving cash generation has led to increased returns for shareholders which will include as I said a £1.75 billion return from the sale of Canada and we have seen an 8% increase in our final dividend.

That concludes my remarks on what I believe is a strong year for Standard Life. I will hand you back to David.

David Nish
Thanks Luke. Okay. So as Luke has said, he has set out the strong performance and continued delivery of the Group in 2014. What I would now like to do is spend a few minutes looking ahead to the future opportunities that we see to continue to grow the Group and create further value for shareholders.

As I said earlier by pursuing a consistent strategy and through the investments we have been making, we have built a strong platform to support both the growth we have already seen and the additional opportunities that we see in future. At the heart of what we do are the long-term investment savings needs of our institutional and wholesale clients and workplace and retail customers. The solutions we offer are tailored to meet those needs are built on a strong brand with a reputation for innovation, service and performance delivery. Both directly and with our strategic partners we are operating on an increasingly global basis and I will say more on this in a minute. And getting our investment solutions to the end customer or client is critical. And our strategy is to broaden and deepen the ways that customers can access us. And again I will expand more on this later.

Our simple fee based business model remains core to how we will continue to manage and maximise long-term shareholder value.

So you are all very familiar with this model and Luke has used this, this morning as regards going through the results and you will see us continue to use it going forwards. We will increase assets and maximise revenue through delivering innovative and premium solutions on an ever more global basis. Our scalable operating platform allows us to increase our assets and revenues faster than our costs, opening the jaws to increase the profit and performance. We have built a strong balance sheet which is both supported and been enhanced by the transactions over the last year. The acquisition of Ignis was funded internally and the sale of Canada will allow us to deliver a significant return of value to shareholders. In doing these we retain a strong financial position and increase the efficiency of our balance sheet.

So looking ahead, we see tremendous opportunities to further grow our business and drive additional value for the shareholders. The opportunity starts with our clients and customers. We are building on strong and growing presences across all four channels. Institutional business operates on a global basis and Standard Life Investments has a strong and growing position in that market. Wholesale which is providing investment solutions to distributors is a rapidly growing business for us, including the highly successful agreement with John Hancock in the US. Workplace savings and investments, sometimes referred to as Corporate or Group business has been at the core of what Standard Life has been doing in the UK for many years and we have a leading position in that market. And lastly, we meet the needs of individual retail customers both through advisers and directly.

Our investments business is focused on the global institutional and wholesale channels whereas our distribution business is in UK, Europe and Asia, focused more on workplace and retail. And while these can be reviewed as discreet channels, in practice and in our strategy the overlaps and flows that they provide give greater opportunity for future value.

Across the four channels, our customers and clients typically have simple asset needs. They want help from us with growth to invest their savings and see them grow in line with their expectations whether it is yield, the ability to generate ongoing income from investments, preservation. For many customers we supply solutions that give them greater certainty and comfort or decumulation, drawing down on the assets to provide income, often in retirement and linking to future inheritance.

We also have the investment solutions tailored to meet these needs, including active management, the longstanding core of our investment offering. Our market leading absolute return propositions. MyFolio which provides solutions matched with customer risk appetites and we are developing liability aware propositions for the life insurance sector. And we are able to offer these solutions by taking advantage of our excellent track record of investment performance across a wide range of asset classes.

And then finally, we need to give our customers and clients access to our solutions. We do this through our own distribution businesses where in the UK for example we are the market leader. And we also have a range of strategic distribution partners. On the back of the sale of our Canadian business we have an agreement with

Manulife in Canada and Asia that builds on our great work to date with John Hancock in the US. We have a longstanding partnership with Sumitomo Mitsui in Japan. Our joint venture partnerships with HDFC in India and TEDA in China give us access to two huge markets. Along with the acquisition of Ignis we have the strategic partnership with Phoenix Group. In the UK we provide platform investment solutions through our relationships with Barclays and RBS. And our intermediary advisory partners in the UK, Ireland, Germany and Hong Kong are a very important part of our business. And we are also establishing our own UK wide advice business and again I will say more on this later.

Standard Life's Investments core focus is the global institutional market and we are the largest active fund manager in the UK. We have been actively growing and diversifying our business. Today we have clients in some 41 countries. To support this growth we are building our international presence from the Head Office in Edinburgh and regional hubs in Boston and Hong Kong, we will shortly have offices in 21 cities worldwide. From Tokyo and Sydney in the East through Zurich and Paris to New York and Los Angeles in the West, as well as our own distribution we will also leverage our existing strategic relationships with partners in the US, Canada, India, China, Japan and of course Standard Life in the UK. We currently have around about 2 ½ % of the UK institutional market while we have grown our global market share at around half a percent. We see a lot of potential opportunity. And that potential will be realised by ongoing delivery of strong investment performance which continues to see the vast majority of our funds meet their benchmarks. We will continue to invest to maintain that performance, to further raise our profile and to upgrade our infrastructure to support our growth ambitions.

For several years we have also been leveraging Standard Life's investment performance to provide solutions to the wholesale market. We are growing our UK wholesale position rapidly and are now one of the top five investment managers in that sector. We are also increasingly targeting mainland Europe through our SICAV fund range. Our presence in the North American market is also expanding. In addition to the great relationship we have with John Hancock in the US, we expect our new collaboration agreement with Manulife in Canada, the US and Asia to more than treble assets distributed by the Manulife Group to around $20 billion over the next three years.

We will also be increasing our attention on the Asian wholesale market with strong net inflows in 2014, we now have around £7.5 billion assets under management in the region. To further build on our existing presence we recently expanded our Hong Kong hub to target additional local opportunities.

Before looking at the workplace and retail channels, I wanted to say a bit more about our UK strategy. As I said earlier, it is the linkages across the channels which provide the opportunity to leverage additional value. And our UK customer strategy is a great example of this in practice. We recognise that our UK customers have different needs and wants. Of the total of 3.8 million customers we have today, some only want minimal involvement. These customers have simple work based investment solutions now often as a result of auto-enrolment. However the majority of our customers look for much more engagement, support and help from us. We see around 3.2 million of our customers wanting to manage their own affairs increasingly online. At the top of the pyramid there are more than a million customers who want specialist advice. These people have more complex needs or want more help in managing their affairs. Demand for this will increase with the new pension flexibility from April. While IFAs have met most of these needs to date, in many cases post RDR, customers are now looking for additional ways of getting advice.

For customers with simpler needs our workplace solutions will be most important. Including through auto-enrolment, we provide the tools they need at their place of work to manage their long-term investment needs. We are already the largest workplace DC pension provider so we are very well placed to do this. Workplace also provides a lower cost way of bringing new customers into our UK business and bringing assets into Standard Life Investments. For the more engaged customers we are enhancing our presence with easier multi-device access and intuitive tools and guidance to help them self manage. For those customers seeking advice as well as continuing to support and invest in our leading adviser franchise, we are also building our own advice business to help meet our customers advisory needs. And an important aspect of this strategy is that customers and their assets can move between propositions over time. Someone who starts off with a simple workplace pension, might grow their wealth and want to do more online themselves, until they get to the point where they want the peace of mind that expert advice will bring. By successfully meeting all of these needs, acquiring and retaining customers with assets for the longer-term, we increase the customer liftime value for us for both our distribution and investment businesses.

As I mentioned, we are the largest provider in the UK DC pension space. From a longstanding leadership position we invested in our propositions and operations to be ready for the growth that we believed auto-enrolment would bring us. We have now auto-enrolled more than 3,000 workplace schemes and have secured 1,300 new schemes. These have brought us over 560,000 new customers over the last 18-24 months and the potential for further increasing regular premiums which grew by 16% in 2014.

However we see workplace as being more than a profit stream in its own right. We create potential additional value for the Group by engaging more fully with these customers to offer them a greater choice of solutions and to give them guidance and advice. In doing so we help increase flows and revenues for example to Standard Life Investments. As an example the default fund for our new Good to Go offering is Active Plus, managed by Standard Life Investments and that contributed to 1,200 new pension scheme wins during the last 12 months. Although the market has been slower than anticipated, the potential growth from consolidation of existing pension assets remains high. And we have the scale and capability to continue to grow our workplace business.

For those customers who want greater online engagement with us, we are launching an enhanced online presence in the second quarter of this year. This is aimed initially at existing retail direct and workplace customers, but will be offered to new customers in due course. So with an easy access, simple to use web presence we will be able to help our customers more, whether they are starting to save, want to consolidate other arrangements or are thinking about retirement income where we are the market leader in drawdown.

We have also been investing in raising the profile of Standard Life with UK customers. This will provide the single entry point for all of these customers and meeting all of these needs over their lifetime. By encouraging customers to come and stay with Standard Life and to choose Standard Life Investment Funds, we create the opportunity to maximise assets and revenues. We are doing more things to help customers through the upcoming pension changes, including a wide variety of communications and support centred on the Ready When You Are campaign.

As I mentioned earlier, many of our customers, particularly the wealthier want specialist financial advice. On 6 February we announced our intention to create a UK wide financial advice business. The growth of this will be accelerated through the acquisition of progressive adviser firms such as Pearson Jones. The significant changes, particularly in the pensions market and post RDR mean that our customers have more choice than ever. Customers are increasingly saying they expect us to offer them relevant tools, guidance and specialist advice when appropriate. We will meet the needs for customers without an adviser through our own UK advice service, building on our existing advice capability, this will be delivered in the most convenient and cost effective way for customers. Through digital services, over the phone or face to face. It will integrate with workplace and retail by providing a natural next step for customers with needs that can no longer be met entirely through self service or guidance. We expect to recruit or acquire around 200 advisers over the medium term reflecting our customers needs and preferences. As a leading provider to the IFA market we will continue to support advice firms through the further development of our platform technology, products and support services. We expect this essential part of the market to continue to grow strongly for precisely the same reasons as we are building our own advice business.

Now looking beyond the UK. We see greater opportunities to build more value in China. Our existing presence in the retail market is served through our joint venture Heng An Standard Life which reported a profit for the first time last year and has good prospects for 2015 and beyond. Building on this we are strengthening our relationships with other Chinese partners, including a number of leading banks. Beyond retail the workplace market is beginning to evolve in China and we are encouraged by the long-term opportunities that this could bring in pensions and asset management and how we might use the experiences we have gained in our other markets. In the Greater China region, we have refined our business model in Hong Kong to respond to regulatory changes. Hong Kong will remain an important regional hub for the Group and we have recently expanded our investment operation there to more actively target local institutional and wholesale opportunities.

Our two joint venture businesses in India have already created significant value and are well positioned to increase this. Both joint ventures are dividend paying already. Our insurance JV, HDFC Standard Life is the leading private insurer in the market with 15 million workplace and retail customers. As we have said before, we are considering increasing our stake in the business should regulations permit, as well as the potential for the IPO of this business at some point in the future. You may have seen that HDFC has recently reported the sale of a small percentage of its own holding at a price of around about 105 rupees per share. This would value our existing 26% stake in each HDFC life at around £550 million. Our investment JV HDFC Asset Management is the largest investment manager in India with a strongly diversified distribution model, some 5 million institutional and retail customers and £15 billion of assets under management. We expect it to continue to deliver growth in the Indian market. In addition we are discussing opportunities to broaden the manufacturing and distribution capability of the JV.

So to summarise, Standard Life remains focused on markets and channels which show strong potential for additional growth. We have invested in creating a platform to support this growth and this is already making positive contribution to our success. We remain disciplined in our approach to reinvestment in our business to secure additional growth, driving higher cash generation and delivery of our progressive dividend policy. All of this means that we believe we are well positioned to deliver further growth and value.

Thank you. We are very happy to take your questions.

Question and Answer Session

Question 1 : Oliver Steel, Deutsche Bank

Oliver Steel, Deutsche Bank. First of all I must congratulate Luke on the much clearer presentation than we have had for a few years! However I wonder if you could just give a bit of extra clarity around how you have allocated the Ignis funds under management between the third party money and the strategic partner money? How you allocated the original £60 billion and how the remaining Ignis money is allocated at the moment?

Secondly on Ignis, you look as if you have already captured about £13 million of cost savings within the 2014 number, is that correct?

And then thirdly on Ignis, performance fees £14 million in the second half, in which part of SLI did that come through? Did it come through in the strategic bit or the third party bit and what sort of guidance can you give us for a range around that next year, sorry the current year?

Answer: Keith Skeoch

Right, in terms of the allocation of third party on an ongoing basis it is actually quite simple. There is about £14 ½ billion of what we would call Ignis investment mandates that are in our third party. The life books will be treated as strategic life companies and they will go in the "excluding" bit. If you want a breakdown of how the flows look like last year, I would actually say of that 9.2 that Luke talked about, about 8.3 was Standard Life Investments. Take off the 2.3 of funds choice, that gets you to 6. That 6 is what you would have seen as the old third party net flows. Minus 4.3 billion of outflows from Ignis, of which 2.6 was ARGBF connects you back with the 1.7. So hopefully that will allow you to correlate back up.

As far as the performance fee is concerned, that is by and large mainly from the Life books. It is incredibly important to understand that those performance fees are struck on two-thirds 3 year performance, one-third, one year performance. If you want the Ignis numbers that compare with the numbers that David gave you, they are about 58% ahead of benchmark, funds ahead of benchmark at one year and about 88% of funds ahead at three years. So their short run performance is not as good as their long run performance. So I would guess of that £14 million, we would expect it to drift down a little bit, but I would say £14 million is a very small proportion out of £686 million of revenue.

As far as the Ignis integration is concerned and the costs associated, we are bang on plan. We spent an awful lot of time thinking about the planning, we are executing well and we are through the vast majority of the migration of assets and people. We are now into the hard yards of integrating individual funds. So far we have integrated one block of funds in 2015 and that has gone pretty well. So we are right on track with where we expected to be.

Question 2 : Jon Hocking, Morgan Stanley

Good morning it is Jon Hocking from Morgan Stanley. I have got three questions please. Firstly on capital. You rather eloquently didn't say anything about capital. I just wondered where you sit now given the Solvency II implementation, given that Canada has gone, you seem to be carrying a lot of capital at least on an IGD basis so I just wondered if you could give a view on how you are going sit post Solvency II?

Second point on the dividend, the year-on-year growth rate of the dividend seems to be creeping up every period, I just wondered whether you could give us something to anchor future dividend expectations around? Some of your peers have given IFRS cover target, cash flow cover target. Can you just talk to us about how that dividend growth should be put in context?

And finally on the Group business, you talk about the regular premium contributions of I think £2.7 billion. The net flow number is slightly lower than that. I just wonder if you could give some colour as to what the churn is in the auto-enrolment book in terms of individual members leaving and joining? Thank you.

David Nish
Do you want to take the first couple?

Answer: Luke Savage
Yes we reported there a capital surplus on IGD basis of £2.9 billion and as I said, that has not changed much once Canada has gone down to slightly to £2.7 billion. We have not yet published any figures on Solvency II basis. Although I think we certainly believe we are one of the most advanced in our preparations for Solvency II. But there are still areas of uncertainty and some of those areas of uncertainty are in the industry as a whole and some of them are in nuances in the calibration of our model which we are still working through which is part of our IMAP submission. So we will publish Solvency II numbers when we have got Solvency II numbers we are comfortable with. But for now we are sticking to an IGD basis.

Dividend growth. We have had a progressive dividend policy since the IPO. We are focused on maintaining that but we have not historically published any kind of payout ratios and we don't intend to change that practice at this point.

David Nish
Paul do you want to talk about regular premiums and what is happening in the pensions world?

Answer: Paul Matthews
Yes so regular premiums £2.6 billion up 16%. We have got through I suppose the largest schemes to date. I think 2015 we are looking at something 46,000 schemes will be auto enrolled and in the marketplace we are looking to pick up a reasonable share of those new flows. But I think if you are trying to look at numbers going forward, the largest schemes where we are probably most dominant have already automatically enrolled. So 3,000 existing schemes as David said, won 1,300 schemes. Opt-out rates so far that is 7.6% of employees that have come in. So again we will have higher contributions probably than the average company in the market at the moment for the purpose of the larger companies and I am guessing, the figures I have seen for the market is probably expect to see larger than 7.6 opt-outs of most companies. So I would expect a top range of retaining employees that are joining.

David Nish
Each year I think we have somewhere around a billion to a billion and a half of people who are cashing in. So you are always starting remember in the pension business that in some ways you are always starting the year with the balance between how much you have got in the regular bucket versus how much you will have in terms of maturing pensions. So we tend to have about a billion to a billion and a half I think that tends to come out. I think the fascinating thing about regular premiums particularly when you think about auto-enrolment world, people who are at

the minimum level in a lot of schemes, which are somewhere between maybe 2-4%, by 2017 it is an 8% minimum contribution. So this is again one of the reasons why we see workplace as really being quite fundamental, it is quite a lot of embedded growth within it. And I think when you look at the in a sense the scale of our business, the 1.5 or 1.6 million customers, £32 billion of assets. The quality of our book relative to some of the other providers who might have a million customers, but they only have £10 billion of assets. Our book actually does lend itself to much more higher ongoing contribution rate. I think the fascinating thing is this development of the market into the SMEs, back to Paul's comment about the 45,000 companies auto enrolling next year, we have got the technology that allows people to effectively sign up on a straight through processing and the capability to essentially process that as we talked about without increasing headcount, without reducing service levels, acually increasing the quality of service levels. And the default fund that goes to Keith.

Question 3 : Andy Sinclair, Bank of America Merrill Lynch

Thanks, good morning, it is Andy Sinclair, Bank of America Merrill Lynch. Three questions please. Firstly, how much do the outflows from the absolute return in Government Bond Fund are recaptured into GARS?

Secondly, we have nearly reached the implementation of the Budget reforms now, but we still haven't seen a huge amount of product innovation in the market, can you tell us a bit more about how you think you can pick up customers that have saved with your competitors?

And thirdly, on the rebroking consolidation of inforce Corporate Benefit schemes, we still haven't see a huge amount of rebroking yet. Is the trigger for this April 2016 and the switching off of commission or can we see more starting to pick up before then?

David Nish

Keith do you want to start with ARGBF and trends etc.

Answer: Keith Skeoch

In terms of ARGBF into GARS, two very different funds. ARGBF is much more pointed to liquid alternatives, GARS looking to deliver over a three year rolling period consistently LIBOR plus 5, and it does and it continues to do exactly that. ARGBFs is getting in much better shape and if you look at its performance here to date it is within about 1 ½ % now of its high water benchmark. We did see outflows in January, but we have seen some modest net inflows coming back in from clients who are with the fund. So I think the outlook is improving and I pay full credit to Chris Fellingham and Rob Harris and the team who have actually turned round that performance. The improvement in performance has actually come with a much lower rate of leverage. So we believe that this is a product that actually would help us tap into the liquid alternatives market going forward which is a very, very different market from the one that GARS typically operates in.

Further answer: Paul Matthews

If you look at the last couple of years of innovation, I think we have led the market pretty well on this so maybe start with the investment business. So MyFolio, we have been the fasting growing model portfolio business in the UK in the last two years. MyFolio assets again this year up 49% on last year. I think something like 25% of all assets that go through on WRAP now are going through MyFolio so I think it has been a fantastic innovation for both customers and for advisers. If you take the drawdown market, we have been a market leader here, we take something like 30% of the whole market in drawdown. Drawdown will be the fastest growing product line in the next 5 years in the UK. We are taking 30% of that and you will see launched in

April, we are prototyping it now with great feedback, a digital online service for customers titled Ready When You Are, where the customers can go in and plan for their retirement. And you will also see some new funds coming from Standard Life Investments which will enable the customer to choose from a selection of model portfolios again, similar to MyFolio, which are more suited to the drawdown marketplace.

If you take auto enrolment, again we have just as David said, we are the only online no manual processing system in the UK, six minutes it takes an employer to set up. And the employer goes in, again no manual intervention from us whatsoever, the customer automatically enrols, chooses their funds, they can review their funds at any time, whenever they like. So again evidence of very early innovation.

Lastly the sunset clauses I think you are referring to in 2016, we were the first company in the UK to completely unbundle all our pricing last year in 2014. Most have yet to unbundle. So the pricing of all companies, including some very well known platforms have to show a net pricing to their customers. We would expect that that would then lead to some reviewing of existing portfolios of so called good pricing in the bundled space. And because we were net, we have the Wrap, we have MyFolio. I think we are in an extremely good place post 2016 when the sunset clause comes in.

Further question
[Too difficult to hear]

Answer: Paul Matthews
So the corporate space, although it is probably too early to tell, a lot of companies have been getting through the auto enrolment. There is a view, some recent research now that has said something like 50% of companies that have auto enrolled their service providers let them down and they would at some stage look at that. So we will have to wait and see whether that is true. Some companies have auto enrolled with the company they were at. If you are referring to the DBs to DC and unbundled to bundled, that has been pretty quite in 2014. Again recent reviews have said something like 60% of tenders in the UK marketplace were down last year. So you have seen some pretty high profile names, including ourselves look at the DB moves and John Lewis, HSBC, we could go on. There are a number of companies now that have come out in the last 6 to 9 months saying they are going to move away from DB to DC, so there is a huge amount to come through in the next couple of years. So does that answer the bits you are after.

David Nish
We have some web questions coming through and because it is on the UK, this is from Greig, KBW. This is a question for you Paul.

<u>Question 4 : Greig Paterson, KBW -Web Q – read out by David Nish</u>
Will your new tied distribution advice channel not cause channel conflict with existing IFA distribution?

Answer : Paul Matthews
I think we have had a few questions about this since we announced. We actually did a huge amount of research so we have been reviewing the whole advice scene for some twelve months now and we did quite a lot of research in the marketplace both prior to our announcement and post announcement. I would say the overwhelming majority in the 90% centile would be supportive of what Standard Life is doing.

To give you some background behind that, Standard Life itself has got over 450,000 customers in the ages of 50 plus. The Government has given statistics out of 400,000 customers will be retiring every single year from now on. We just don't have enough advisers in the UK. I think if you look at the States, there is an adviser for every 1,400 people and in the UK there is one adviser for every 10,000 people. So if you look at those sorts of statistics, we are something like 12,000 advisers short in the UK. Post RDR and coming up to RDR with the removal of commission you have seen a lot of advisers disappear and I would expect there to be a continual decline in many ways in adviser numbers. So our customers, all the research we do say they want us to provide advice and most quality independent financial advisers are up to their ears looking after existing customers. So I actually think it is quite complementary to a lot of IFA businesses out there.

David Nish
A second question from Greig which I am going to ask myself which is slightly amusing!

The Aviva Friends Life Group merger will have a market share near yours now, do you see them as a threat or an opportunity?

Answer : David Nish
We very much view the next 18 to 24 months given disruptions in the marketplace either caused by corporate activity or caused by regulatory change or because Government policy or market uncertainty, as opportunity. Because very much we have built our business round about having strong platforms that can effectively deal with the world that is developing. And I think in many ways, if you take the examples round about workplace, we have got essentially the capacity for all the change that could potentially go on that is why fund structures like Absolute Return or MyFolio become really important.

I think what you have seen from some of the slides I was talking about, we see very much this development, we've used the phrase before multi-channel. Much more integrated type of distribution business that is really quite fundamental in the UK, particularly as clients and customers are going to go through a period of great uncertainty. They want to work with brands that will help look after them. So the more churn and change that is going on in others, I am quite relaxed and I'm very comfortable we have got the market leading platforms in advice space in workplace and we are developing our direct and digital capability.

Question 5 : Gordon Aitken, RBC
Thanks. Gordon Aitken, RBC. I was just wondering first of all, three quick questions. First of all where do you stand on the higher rate tax relief debate, this 33% buy two get one free?

Second question is this push into advice, will you actually make any money out of the advice or is it simply a way to get more people to use your platforms and SLI managing more of their money?

And just finally, obviously the Canada deal is now completed, giving back £1.75 billion, but also holding back quite a sizeable amount of money. I was just wondering, can you tell us a bit more about what you will use that money for?

Answer : David Nish
Why don't I take one and three and Paul kick off with advice?

Answer: Paul Matthews
We have been asked the question a number of times now. Why come into advice now? I think the fundamentals of the market have changed. So historically companies providers paid an adviser to go and find them customers and sell them a product. And that has fundamentally changed now. The customer is now paying us for advice. And we have more customers wanting advice than we can deal with currently. All the research says and if you go around the world to America, Australia and New Zealand is that people will pay for advice and they'll pay for investment management. They will also pay for good quality technology and platforms. But the technology becomes in many ways for most people as matter of fact, you have to provide the technology. So the key areas that we didn't have on our proposition was this advice capability. So I would expect to make money on advice. I think we will see more demand for advice in the UK. And if you look at how much money a customer can save and make by taking advice, particularly with all the complications of lifetime allowances now of the ability whether you take your cash in a drawdown and which tax year you do that. I think we are going to see a huge percentage of people come forward and pay for advice. So the short answer, long answer to the question is we will make money out of advice.

Answer: David Nish
And your question about high rate tax Gordon, generally the sense the political landscape round about long-term policy. I suppose if I was asking anything of any of the political parties at this point in time, it is really for two things. One is real clarity and certainty around about the policies they are going to propose once we start reading the manifestos that are there because back to, we could say, the broader economic and world backdrop at the moment, I think what, not just businesses, but the population at large is looking for is strong leadership. So real clarity and certainty. Particularly when you look at the savings space, I think there has to be a strong focus on long-term savings and there has to be a picking up of the word long-term. We are dealing with trying to get individuals to take greater responsibility for their financial futures. And having policies that just change shall I say at a political whim, just fundamentally undermines.

So getting round to higher rate tax I do believe there probably does need to be a change, but it needs to be one I think that focuses on the objective of trying to ensure we get the vast majority of people saving in the UK. So therefore if there is shall I say a stronger focus around about in a sense those who need it most who are the lower to middle earners then I think that probably would be positive for the broader savings market. But the big thing is actually getting a long-term savings policy and I would encourage anyone who gets involved in any form of discussion round about that to keep pushing that.

Further: Paul Matthews
Even if higher tax was to go at some stage it is still a very attractive vehicle taking basic rate tax into a pension. So I know a lot of people have been wondering would it slow people down, there will be tax relief going forward of some sort and I think any tax relief will encourage people to do that. If you have the freedoms you have now post 55 age where you can take a drawdown.

Answer: David Nish
As regards cash inorganic etc. So very much there is no change to how we think about Life, which is very much back to our simple business model which is how do we end up increasing ultimately the revenue line of the company and trying to do that by growing assets. When we look at any inorganic opportunity, we fundamentally want to understand what the revenue line is. So we are not somebody who looks

upon as acquiring and bashing business together is really the drive behind what is there. Ignis gives us the opportunity to scale up but it also gives us the opportunity to enter new market segments, particularly round about Life Cos. Because now we effectively service 15 Life Cos and as we talked before, it is quite an interesting area globally in terms of the quality of asset management services to the Life Co industry. Also notwithstanding the disruption around ARGBF, we have sourced different talent, different ways of looking at generating return which we believe will create future revenue that is there.

So very much we drive it off that view of about where does that revenue come from. Now we will, we have demonstrated that, whether it was Focus, whether it was Newton, Ignis, there has to be a view of where you can actually use inorganic to accelerate. Because particularly against a world that has got quite a lot of disruption and change going on, you have then I think got the potential to use your inorganic steps to actually accelerate quite quickly through. And very much when we look at what we did last year, we started the year where we were sitting there with a plan that said we have completed Ignis and Canada and all the other things, it might have been a wish list round about it, but we do view that we accelerated our strategy last year.

So what would we look for? Very similar to where we have been. We would look at areas where we don't have a capability. We would look for areas where it might strengthen our ability to access customers. Or it is something that allows us to take our infrastructure and how we use or look at essentially the costing of the infrastructure to fundamentally step change the business.

Further question
So the comment you made today about acquiring progressive advice firms, that is the only one that stands out there. So when you sold Canada, did you know that you were going to push into the advice space?

Answer: David Nish
Yes Canada and advice space are not connected from the point of view of either sources of capital etc. As I said earlier Ignis was fully funded, we've a cash generative business that is there. I think when I look at the Canadian return, we generated a value of £2.2 billion which was way in excess of expectations. So the Board took a balanced view and in many ways these views there is lots of mechanical sums we do and coverage ratios and all that stuff, but it comes down to a balanced view of what is the right number to effectively remit to shareholders. And we took a view. But as Paul said, we have been thinking about things like advice space, but the thinking is much more about how do you access customers? And if you think about in many ways how we think about our business. In Keith's business we have got a world-class investment management business that is very innovative round about investment solutions that are geared towards large trenches of different channels of customers. We work essentially using the innovation out of Keith's business with best in class distributors. Paul's business is the number one business in the UK, HDFC is the number one in India. Manulife is number one in Canada, Hancock is one of the number ones in the US. Sumitomo is the number one Trust Bank in Japan. And it is all about how do we begin to really ensure we can target a broader customer base. But we are not going to do it the traditional way. We are not going to build big distribution business in the country, that is ten years ago stuff. We do it in as capital light way as we can.

<u>Question 6 : Andrew Crean, Autonomous Research</u>

Good morning, it's Andrew Crean, Autonomous. Three questions. Firstly just over half of your profit growth last year came from the increase in the ALM on your risk businesses from £15 million to £70 million. Can you give us a bit more explanation as to what that was and what the likely £35 million is for this year you have forecast and whether that is a sustainable level which we should think about?

Secondly, with all the changes coming in workplace pensions, you know, more but smaller companies auto enrolling and the move from 2% to 8% contributions and the consolidation of both the company at an individual level, can you give us some sense as to where you think your assets will land up at the end of this process in 2018?

And finally, with the imminent demise of embedded value, one of the I suppose good things about embedded value is it gave you a sense of future cash flows in terms of the profile and how the cash flows would run off over time, could you give us a sense as to whether you are going to continue with that so we can get some sense of forward looking cash flows on the book?

David Nish
Luke do you want to do one and three and Paul number two?

Answer : Luke Savage
Okay an example on the ALM, and I think this was a great example of team work between UK business and Standard Life Investments. The UK business took on the investment risk of £600 million worth of assets out of the Heritage With Profits fund and so through teamwork between the two areas led to reinvestment of those assets at a high yield meeting the liabilities within the Heritage With Profits fund, but then locking in a gain for the shareholder. And so that was a big driver of the 2014 figure. There was a second part to your question which I didn't catch.

David Nish
The run rate of £35m and what is going to be in it and if its guidance or run rate.

Luke Savage
I think the opportunities to crystallise gains in that way are very much a function of market conditions. And I think given the very, very low yield environments we see ourselves in together with the fact there are lots of other people out there chasing the same kind of opportunities, it is uncertain as to what we would be able to crystallise this year and that is what we have given this guidance of down £30-40 million.

David Nish
We are comfortable in terms of that guidance .So we have got plans in place, just last year there was more work if I can put it like that Andrew.

Further answer: Luke Savage
I am in a business where 90% of our income comes from fixed fees and effectively we are a global asset management solutions provider with some great distribution channels, but I am not convinced the EEV does provide a good forecast for future cash flows and that is why we have moved away from it. And I expect going forwards we will develop our reporting, but far more along the lines of a traditional asset manager.

David Nish
Paul do you want to talk about workplace?

Further answer:

It is probably worth looking at some figures because it is not, auto enrolment is not going to be the huge growth area of assets going through for the next two years. So your 46,000 employers this year, 510,000 employers next year are going to auto enrol. It is better to look at how much money is in circulation. I think £1.4 trillion of assets in pensions at the moment. There's £130 billion in bundled and that is expected to double by 2019. You have then got workplace savings which everyone is saying is going to treble in the next ten years. So between unbundled money which is investment managed and administrated third parties. The consolidation of that will happen over the next 5-10 years. We have been talking about this for some time, but you are actually seeing some tenders starting to happen now because the pricing will bring them together is more attractive.

The DB to DC as I said earlier, you are starting to see a number of companies now with market levels as it is is actually ceasing the DB to existing members. And I think it is about 6 or 7 companies just in the last 6 months. Because of our position at the moment of how many companies we look after in the FTSE 100 and the FTSE 350, so we will have relationships with just over a third if it is the 350, either through Standard Life Investments or Standard Life, we would expect in that five years to pick up a pretty good share of what is there. The issue everyone asks me is is it next year or the year after and it is very difficult to predict. Our own scheme alone is 20 months virtually of consultancy with our staff before you actually have an end date, HSBC was about 14 months in consultation before it started. So if I could give you some sort of lead I would, but all I can lead you to is how much money is in unbundled, how much money is in DB. The auto enrolment schemes they are going to review existing schemes and if 50% of companies who have auto enrolled are unhappy because the administration is dreadful where they are, they are going to review not only auto enrolment, they are also going to look at their existing schemes with those companies. So I think there is a huge volume over the next 5-10 years which is why we are where we are as an early mover. I just can't tell you what is going to land in 2015 and 2016 much as I would love to.

<u>Question 7: Lance Burbidge, Autonomous</u>

Thanks, it is Lance Burbidge from Autonomous. A couple of questions. On the UK business, I want to just focus on the revenue margin which obviously came down, how much further do you think that might slip?

And then on the maintenance expenses, if we take out £17 million of one-offs you get to £176 million, how much of that £176 roughly to get a sense would be sort of development costs and projects that were developing almost online capability stuff that you talked about?

And then just to go back on cash and your point about fees. I understand that, but I would point out that the vast majority of your business is in regulated businesses and so you know how are you in future going to take account of the fact that the regulator, the PRA has some control over what you can take out of those businesses?

Answer: Paul Matthews

So revenue margins, we have not reduced our pricing at all in 2014. So revenue pricing is really being driven by the growth of our larger employers and also the growth in WRAP. So for example if you took our top 100 schemes, they are typically going to be under 50bps and a lot of those companies are growing at quite a fast rate. There will be a number of companies in this room here whose firms are taking on a lot more people. So the bigger firms have been growing far quicker than some of the medium sized companies where we are charging 75bps plus, although that is coming down to 75 bps. So that is part of the reason.

The second reason is that with our WRAP firms and we have seen quite a growth in our WRAP this year, the more money you put on a WRAP as an adviser, you benefit all your customers through large fund discounts. So in many ways the success of our new businesses, as IFAs grow their WRAP their bps are coming down which helps with retention but also the customers also benefit from that rate, versus the old book which is pretty static, which is higher prices historically. So what you can expect I suspect is we would expect those new areas to keep growing, but I would expect my volumes to grow higher and my costs to continue to come down.

The other one was costs.

David Nish
In terms of developing costs?

Answer: Paul Matthews
So we have a lot of maintenance costs and I think we are probably spending about £30-40 million on developing costs in 2014 across all of our products, ensuring that we are ready for 2016 with all the unbundling. As I say we have unbundled all our pricing. We put in much more automation for our Chrysalis project which is our drawdown project. So from April the automated system that has been paid for in 2014.

Answer: David Nish
I think we look upon it what is the reinvestment way of business because it is a business that will be continued to grow and develop.

Luke do you want to have another go at cash and capital requirements and PRA?

Answer : Luke Savage
Yes, the amount of capital we need to hold against our business is very modest. There was a table in the annual report and accounts that shows it somewhere. The reality is that most of our business is fee based businesses now where we take fees and it is cash that is available for distribution. So we do have the Heritage With Profits book where there is the old style business but that is very much ring-fenced with its own liabilities and its own resources. So if you look at the chart which shows the cash generation, if you look at that over the past five years, we have generated cash that is available for distribution way in excess of 70% of the profit each year and we would expect that to continue to be the case. We are very focused on managing this business for profit growth that turns into cash that then turns into potential to reinvestment into new business or return value to shareholders.

Answer: David Nish
I think your question around PRA, in many ways the work we do for the PRA is how do you bridge let's call it the Solvency II actuarial reserves world into the operating decisions of the company. So we do tend to find given this is the way we present and demonstrate our plan, it is very much focused on what you have seen today. So we don't have that intermediary stepping off point with regards embedded value in the middle as a different variant. So it is very much how do we really line up what will be the regulatory economic decisions. The whole desire is how do you get to an economic capital number that is reflective of both shall I say, how the companies think and how the regulator thinks when we can find a way of bridging those two things.

<u>Question 8 : Alan Devlin, Barclays</u>

Thanks Alan Devlin at Barclays. A couple of questions on the drawdown market. You said you had a 30% market share. How competitive do you think that market will get both in terms of new players entering the market but also on the fees, like Hargreaves reduced our fees in draw down recently?

And secondly on SLI margins, you put the cost through at your 2017 margin targets. Given the increase in fee bps are you being conservative or realistic way to think about the margins that they will stay stable or can they increase? Thanks

Answer : David Nish
We will give Keith a few minutes to reflect on that challenge.

Answer: Paul Matthews
Drawdown markets, there are a number of issues. I think everybody that is in annuity market will obviously try and find a draw down proposition. One of the challenges I think people are going to have is, we are looking after tens of thousands of customers already in drawdown, 11 ½ billion. The issue is actually the flexibility of the systems. One of the toughest things I think is to replicate is a system that can pay a customer every single day of the year if they want that in a draw down. So our systems are already in place and running quite efficiently, I think it is going to be quite a challenge, there are already a number of providers saying it is still quite a challenge to meet customers demand of when they do want their money.

The second thing is capacity and capability of your phone staff. So we have a very highly skilled level of experienced advisers who can take you through the journey. Because this is going to be an advice, a highly regulated area and wrong advice to that customer, the wrong word said could cause a lot of problems. So I think it will be a differentiator on the ability of the journey.

The third thing is technology. So we have been demoing our technology with a number of the leading employers in the UK today and I think it will be quite, not as easy for some people to put the technology together which gives you a journey sort of ten years or five years out and then when you get into drawdown you can do things yourself. So I think everybody is going to try and do it. I think the price is not so relevant here at the moment. I think for people it is going to be, can you pay the money to me when I want the money? Can you tell me what I should do? Because again different tax years when people are pulling their money out, tax free cash coming out, quite a complicated area.

Third thing, being able to do that and give the customer a 24/7 service so they can actually see what they are doing online and play around with actually what they do. So everyone will try that, but I think ability to recruit staff, develop technology and already have investment solutions in place to give you also a balance of your, can I have security of cash today if the market tumbles to have my drawdown, to can you give me some safe and secure funds like a GARS fund going forward so I can take my money out without having to worry, should I have taken a fixed annuity? So its a very complex area. I think we have a lot of great differentiators. Will it be competitive? Well let's see how everybody else does.

Further answer: Keith Skeoch
Margin numbers. I think it is important to understand the main drivers here for the 50 and the 53. So the drivers come really from three areas. One as Luke said, it is the benefit of the increased wholesale channel. The second thing that is going on is obviously there is a mix issue, so the fact that funds choice came out is quite helpful, at 4 bps. It is also quite helpful that if you look at the historic numbers, Canada which

sold on 15-16 bps came off and lifted the average margin. And then you got the benefit from our ongoing innovation and the release of the new products which we are growing I think at a better margin. So I think that 53 is reflective of actually where we have always thought that the delta and our revenue growth is coming from and it is bang in line with the guidance we gave to an EBIT of 45. So the thought that I could control my EBIT margin in any six or twelve month period I always find as a magical thought actually. It is an intermediate target that you drive quite hard to remain focused on delivering that 45%.

Question 9 : Anasuya Iyer, Jefferies

My question is on the multi-asset funds and particularly absolute return funds. As more of these return funds come into the market for example, Aviva, do you see with these funds being higher margin funds in asset life? Do you see margin pressure on the downwards direction coming in for these funds?

And my second question is on Asia. If FDI does come in would you expect to go up to the maximum allowable investments or will you go somewhere in the middle?

And for Asia again, do you see any other challenges with that business like low persistency? Thanks

Answer: Keith Skeoch

The answer is no. We have always and consistently said we would deliver a premium product for a premium price. The suite of GARS funds end the of year, with £38 billion under management it is sold around the world and it continues to deliver its performance that was up to last night, 3.2% ahead of benchmark. Looking to deliver 5% ahead of the year. Across the year it does what it says on the tin. And we will continue to make sure that we charge the price that we believe is appropriate and we have been doing it for 9 years and there is no discounting available on our suite of multi-asset products.

Answer: David Nish

With regards India, as I said in the Presentation, we are very positive towards the opportunity. As regards the answer, somewhere between zero and 23. A lot will depend on how obviously when the legislation comes in, the time space towards potentially if there is an IPO for business that is there. I would say it is unlikely to be a higher number, towards the higher end of the range, but we need to wait and see.

And the second part of your question. Actually it is quite interesting. There is quite a lot of local analyst research. HDFC life across a whole range of metrics is the best performing business. Its persistency is high, Luke mentioned net flows. Its net flows are greater than the next six competitors added together. It is greater than the positives added together and it is an incredibly strong business. And a lot of the work that Anatab and the team have done over the last three or four years to put in things like early warning indicators of for example, mis-selling, which is a risk within the market. It is really incredible the amount of work we do to ensure they take on quality business. And removing cash as well has been a significant step forward. So we actually see the book cleaner and cleaner each year as well as the positive pool of the distribution coming from it, it is an incredibly strong business.

Question 10 : Ben Bathurst, Nomura

Hi, Ben Bathurst from Nomura. I have got two questions on the UK please. Firstly on the UK workplace. I think the report and accounts disclosures have changed so we can no longer see the profit contribution by business line. I was hoping you might be able to give me the figure for workplace for the full year equivalent of the half year, £37 million please?

Answer: David Nish
Actually one of the things we are doing, back to the Presentation, we actually think of Paul's business more and more as one business. And back to this whole thing about customers flow. So the breaking down of that business, we are probably not going to continue with in any great detail. Because all we end up explaining is 10,000 customers move from one bucket into this bucket and over to that bucket. So very much it is a business that manages £100 billion of assets and you can see the flows coming in, you can see the cost structures and you can see the revenue.

Further question
And also looking at the retail old assets, they have been resilient again this year at £34 billion. I wonder if you could just give us a reminder of what is in those assets as a breakdown of what is hitting that and maybe some guidance as to how you think that is going to mature over time and should we be expecting that to stay resilient?

Answer : David Nish
Okay there are two things. So there is the asset tables which give a detail of it. So no real change in terms of essentially let's call it the traditional heritage products. So one of the things you obviously are seeing is there is an actual run-off. Now the level of run-off is slightly lower this year because we have just come through one of the peaks of the duration of the policies. Over the next I think couple of years, something like 75,000 policies etc maturing. So there is another batch coming through. But obviously one of the things that is offset is market value growth. So the run-off profile of the book is really quite long. We have given some guidance in the past and some diagrams that Jakub and the team could give you as regards maturity profile that lasts in excess of ten years.

Further answer: Paul Matthews
If you look at the historic heritage books, what one would assume is that over here, section 2 products, they are all going to morph into drawdown products. So this is the other complication I think is we are closing down certain products, i.e., the customer then transfers across to be able to drawdown and I think with the numbers coming in, I think it you take 500,000 odd customers in two years, if you take a number of those older contracts, some of those are going to convert into a SIPP, they might go into a SIPP drawdown. And the problem, I think we are going to try and see how we can try and help people is, you are then closing down certain contracts and opening up different contracts which can confuse quite a bit.

David Nish
There is a lot of basic data around about the asset flows that the team can help you find.

<u>Question 11 : Ashik Musaddi, JP Morgan</u>
Ashik Musaddi from JP Morgan. Just two or three questions. First of all on your cash. You have at the moment holding company cash of around 650 and you add up around 450 from Canada so that is £1.1 billion. Now I agree discussion has been asked about what do you do with that sum, I am not asking what do you do with that, but I am trying to understand where is the biggest risk in your business lie so you can get a cash call from any of your existing business? Is it SLAL or what sort of cash call can you get? Is it just free cash or you need a big buffer at the holding company? That is the first thing.

Secondly in terms of workplace pension book. I can see that the market is growing so you are growing as well, but over a 5 year view, do you expect to grab market share as well or is it just like you see yourself growing with the market?

And thirdly, is there any thoughts on Newton as your Standard Life Wealth proposition, because that was really kind of zero at the moment. So any thoughts on that?

Answer : Luke Savage
So in terms of the cash we hold at Plc yes that is free cash, one of the attributes of the way Standard Life is structured is that each major business units are capitalised entities in their own right. And indeed that is one of the reasons why it is easy to separate Canada off, that disposal. So yes it is largely free cash, SLAL the UK business and SLI have their own capital, including surplus within those businesses. You asked the question where could a call most likely come from? In reality we are pretty insensitive to most things so in terms of equity movements, interest rate movements and so on, there is nothing, no one individual thing that would give rise to any big drain on that.

Further answer: Paul Matthews
Yes is the answer. Regular saving into corporate is going to double, treble over ten years, DB to DC is going to double over three years and auto enrolment of the numbers you are seeing of people actually starting to go from 2 to 8% we would expect to grow market share and the market is going to grow.

And the second thing, probably on top of that also is we would expect then to pick up on our retail business because of the 530,000 customers that have come to us since the last two years, the vast majority of those are unadvised and so with digital online, I would expect to pick up retail market share as well.

Further answer: Keith Skeoch
Yes as far as Newton is concerned, it pretty much was in terms of net flows flat on the year and it was a year of two halves. The first half of the year was as we really got integration on board. We saw outflows on really the international business operating out of Germany. There was the loss of a couple of charities, but the core business, the UK business and in particular the absolute return business, remained reasonably sound and robust and we saw in the second half of the year, inflows that helped offset the outflows in the first half of the year. What we have been doing is working really hard. Richard Charnock and his team, to making sure that Standard Life Wealth has the kind of operating platform that you would expect from an asset manager like Standard Life and Investments. A lot of that hard work in investments will get put in, in 2015 and we would expect over the course of the next 3-5 years that Wealth would start to make a more significant contribution to both flows and profit. But this is something we are looking on a 3-5 year strategic horizon because there is a lot of uncertainty in that Wealth market and I think our proposition is in a very very good place.

Question 12 : Ravi Tanna, Goldman Sachs
Ravi Tanna, Goldman Sachs. Two questions please. The first one is on your provision of financial advice and the launch into that space. Could you give us a sense of the timing and scale of growth into that market that you intend to pursue and specifically on your comments on channel conflict and the fact that 90% of advisors are supportive? How should we see the growth in the advice space? Is it likely that growth will come from those existing relationships or is it going to go over and above that?

Second question, which is around your reference to liability aware products, I am just trying to understand better about the extent of your capabilities there and what form those products might take?

Answer : Paul Matthews
Again quite difficult to give you timings on actually how quickly we want to grow. Very much demand led. So what we are building is an academy internally that will work with our new business, Pearson Jones. We have a lot of demand at the moment. We already have some 20 private client managers in-house, we have got 20 other trained advisers in-house. So you should expect us to grow that number. We are not actually going to put any numbers on that, but I think the difference between one of the things we will be doing against what others have done is we are building the technology, the phone and the face to face to be complementary. What I think historically what companies have done is they have had a face to face over here, put the one left side and then they have had their existing customers over at the right hand side. What we will be doing is offering customers technology, what we say is, you can do it yourself, we can do it with you, so you can do on the phone, online or we can do it for you. So our face to face is more around do it for you. The do it with you is more around technology and the phone. And the do it yourself will be pure technology. And our advice business has access to all three of those. Their client base will be off of that. And our client base, i.e., the Standard Life existing, we have over a million customers already, as I say, huge amounts coming into the retirement space, they will be offered that choice as well.

So will it compete? I don't think it will, we have literally spoken to probably 500 odd plus adviser firms that we are closest to and they are all very happy. Actually some of them are saying, well actually this looks like a very good business model, could we perhaps have access to some of the technology you are building so that maybe some of our customers who perhaps don't want the face to face could have the technology. So I think the benefits of what we are doing with this new business is, a lot of independent financial advisers we work with are going to say to us, can we have that, can we work closely with you? So I see it as far more complementary than competitive.

Answer: David Nish
I think it started from, we believe it will actually help grow the market and how do we actually bring advice and guidance to a lot more people. Particularly when you think of that range of guidance up to restricted and then getting onto full. So that is why we do think it is actually win/win for all advisers in this space. Keith.

Further answer: Keith Skeoch
Yeah liability aware is really about two components. It is the probable shift which will accelerate at some point that Paul talked about from DB to DC. Obviously against a background and where interest rates are incredibly low, that has been pushed out into the future. But it is also about us taking our capabilities, our alpha sources and making those alpha sources available to large insurance companies around the world. It is about creating solutions and funds that have specialised benchmarks that help offset some of the risks and the liability profile. And we are already in conversation with a number of organisations both here, in China and on the United States about understanding about how we can take that and manufacture for that. In essence I would see the provision of the infrastructure solution that we provided for Paul and Luke and his team, as a very good example of a liability aware driven type fund. So we think over the next 5-10 years that is going to be a very, very significant chunk of our business.

David Nish
So I think that is all. I would just like to thank everyone for spending the time with us this morning. I did in a sense promise we would be a wee bit longer in the Presentation, but I think the Q&A as well has been really good. So thank you all and look forward to catching up.

End of Presentation