Standard Life

Press release

Standard Life plc
Half year results 2014
5 August 2014

Continuing delivery of growth and performance

- Strong operational performance with fee business revenue up 12%[1] to £758m
- Assets under administration up 4% to £254.1bn, driven by strong net inflows of £4.6bn
- Business unit underlying performance* up 7% to £367m
- Operating profit[2] before tax up 12% to £339m
- Acquisition of Ignis Asset Management enhances strategic positioning, and accelerates growth and returns for shareholders
- Strong balance sheet and cash[3] generation up 8% to £250m
- Interim dividend up 7.3% per share to 5.60p

David Nish, Chief Executive, commented:

"Standard Life has continued to perform well in the first half of 2014, driven by our focus on delivering value for money for all of our customers. We have increased revenues, profits and cash, and now have assets under administration of £254bn.

"We have the products, experience and proven investment performance to help our customers in all of our markets to save and invest, so that they can look forward to their financial futures with confidence.

"We have an excellent track record of succeeding in evolving markets and we are well placed to deal with the far-reaching reforms to the savings and retirement income rules, announced earlier this year by the UK Government.

"We remain committed to providing simple, flexible investment solutions for all of our customers which make saving for the long-term even more attractive, while creating new opportunities for our businesses."

* Business unit underlying performance is Group operating profit before tax after excluding the impact of spread/risk operating actuarial assumption changes, specific management actions, group centre costs and group centre capital management in the reporting period. A full reconciliation to profit for the year attributable to equity holders of Standard Life plc is presented on page 3 of the half year results 2014.

Financial Highlights

Group profitability	H1 2014 £m	H1 2013 £m
Fee based revenue	758	694
Spread/risk margin	182	206
Total income	940	900
Acquisition expenses	(149)	(155)
Maintenance expenses	(453)	(430)
Capital management	9	9
Share of joint ventures' and associates' profit before tax	20	18
Business unit underlying performance	**367**	342
Group centre costs/ capital management	(28)	(29)
Group underlying performance	**339**	313
Operating assumption and one-off reserving changes (spread/risk margin)	-	(9)
Specific management actions	-	-
Other operating income	-	(9)
Group operating profit before tax	**339**	304
Tax on operating profit	(73)	(66)
Share of joint ventures' and associates' tax expense	(1)	(4)
Operating profit after tax	**265**	234
Non-operating items	13	(129)
Tax on non-operating items	(3)	24
Profit for the year attributable to equity holders of Standard Life plc	**275**	129

Business unit underlying performance	H1 2014 £m	H1 2013 £m
UK and Europe	188	180[4]
Standard Life Investments	104	95[4]
Canada	69	68
Asia and Emerging Markets	6	(1)
Business unit underlying performance	**367**	342

Other performance indicators	H1 2014	H1 2013
Group operating profit before tax (£m)	339	304
EEV operating profit after tax (£m)	341	353
EEV operating capital and cash generation (£m)	250	231
Assets under administration (£bn)	254.1	244.2[5]
Net inflows (£bn)	4.6	6.5

Other financial highlights	H1 2014	H1 2013
IGD surplus (£bn)	3.7	3.8[5]
Embedded value (£bn)	8.4	8.4[5]
Diluted operating EPS (p)	11.1	9.9
Diluted EPS (p)	11.5	5.5
Interim dividend per share (p)	5.60	5.22

Group performance

Standard Life continues to improve performance by meeting the needs of its customers.

Group assets under administration (AUA) increased by 4% to £254.1bn (FY 2013: £244.2bn) while Standard Life Investments third party assets under management (AUM) increased by 5% to £108.0bn (FY 2013: £102.4bn). The increase in Standard Life Investments third party AUM was driven by third party net inflows of £4.2bn (H1 2013: £7.4bn[4]). AUA across the rest of the Group benefited from a 61% increase in net flows of corporate pensions in the UK and stable net inflows into our retail propositions. Market movements were mainly positive but were partly offset by the negative impact of foreign exchange as Sterling strengthened against other currencies, including the Canadian Dollar and Indian Rupee.

Group operating profit was up 12% to £339m (H1 2013: £304m), despite the adverse effect of foreign exchange movements impacting operating profit from our Canada business by £11m. The growth in operating profit was driven by strong performance from the business units with a 12%[1] increase in fee revenue to £758m. In the UK, demand for our auto enrolment solutions for SMEs – "Good to Go" and "Good to Go Express" – helped us to secure 1,018 new corporate schemes and 180,000 joiners. Our UK business now looks after 1.5m workplace customers. In Canada, revenue from our fee based business increased by 21%[1] to £99m and now accounts for half of Canada's total income. Standard Life Investments delivered another set of strong results driven by a 20% increase in revenue to £303m (H1 2013: £252m), which included a 26% increase in revenue from third party assets to £239m (H1 2013: £190m).

IFRS profit after tax attributable to equity holders increased to £275m (H1 2013: £129m) and reflected increased Group operating profit before tax and the benefit of a fall in yields on debt securities in Canada.

EEV operating profit after tax of £341m (H1 2013: £353m) reflected the impact of lower sales of annuities and institutional pensions in the UK. Group EEV operating capital and cash generation increased by 8% to £250m (H1 2013: £231m). Group embedded value of £8.4bn (FY 2013: £8.4bn) included a decrease of £160m from the impact of UK regulations that restrict future charges on qualifying workplace pension schemes. While the £160m EEV provision reflects the impact on future profit from an expected reduction in income, we anticipate the related ban on commission and other changes in market practice to have an offsetting benefit resulting in no significant net impact on our cash generation in the next few years.

The Board has proposed an interim dividend of 5.60p per share (H1 2013: 5.22p), an increase of 7.3%. The Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group's financial performance.

Outlook

Our UK business is capitalising on being shaped and positioned to benefit from regulatory, market and demographic changes. This, combined with our investment expertise and focus on providing value for our customers, is driving demand for our propositions across the retail, workplace, institutional and wholesale channels. Our auto enrolment propositions continue to prove popular and we expect to add over 300,000 new corporate customers in 2014, establishing new valued and lasting relationships.

Standard Life Investments remains focused on delivering excellent investment performance, expanding its investment capabilities and increasing its distribution channels and geographic reach. This is reflected in a robust pipeline of institutional business and continued demand for our wholesale propositions. For guidance, we expect two large very low revenue margin mandates, totalling c£2.3bn of AUM, to disinvest in Q3 2014 with a negligible impact on both revenue and profit.

The integration of Ignis has started well and although it is at an early stage we see good momentum in the business. The acquisition enhances the strategic position of Standard Life Investments and will be earnings accretive in its first full year.

Canada continues to build momentum in its fee based propositions. Its reported profitability will continue to be impacted by the weakness in the Canadian Dollar. Should the Canadian Dollar exchange rate seen in the first half of the year persist for the duration of the year we expect a negative impact of c£25m on previous guidance of £180m annual operating profit in Canada.

Our Asia and Emerging Markets business is well positioned for future growth in the attractive international markets in which it operates. We continue to monitor developments in respect of foreign direct investment rules in India.

We look forward to the future with confidence as we continue to capitalise on the strong distribution capabilities of our long-term savings businesses and our global investment expertise. We are innovating and driving efficiency to deliver the right propositions and value for our customers. These strengths, combined with our strong balance sheet, mean we can continue to deliver value for customers and grow returns for our shareholders.

Business highlights

Our goal is to create shareholder value through being a leading customer-driven business focused on long-term savings and investment propositions in our chosen markets. This is underpinned by a simple business model: increasing assets, maximising revenue and lowering unit costs while optimising the balance sheet.

We continue to make good progress in each of our businesses:

Continuing growth from the UK business

- The UK business continues to benefit from structural market changes and careful strategic positioning, as well as its attractive propositions and investment solutions despite recent headwinds to annuity sales
- Underlying business performance up 4% to £165m with fee business contribution up 6% to £178m
- Margin from annuity new business sales was 59% lower reflecting the impact of the UK Budget however the total spread/risk margin of £75m (H1 2013: £78m) benefited from increased profit from ongoing asset and liability management
- We have secured over 1,000 new corporate schemes helped by the success of our recently launched “Good to Go” proposition for SMEs, adding 180,000 new customers (H1 2013: 135,000) including 173,000 (H1 2013: 98,000) through auto enrolment
- Our Wrap platform continued to attract advisers and assets with AUA up 12% to almost £19bn and is fully compliant with regulatory changes, including removal of fund rebates, ahead of the 2016 deadline
- Around 25% of Wrap platform AUA and all “Good to Go” default funds are managed by Standard Life Investments

Strong flows and investment performance driving Standard Life Investments profit

- Standard Life Investments continued to grow profit with strong net inflows driven by excellent investment performance, expanding geographic reach, and increasing diversification by channel and asset class
- Operating profit before tax increased 9% to £104m with a 26% increase in third party revenue to £239m
- EBITDA margin of 35.3% (H1 2013: 38.5%[4]) mainly reflects the acquisition of the private client division of Newton Management Limited and strength of Sterling against many major currencies including the Indian Rupee
- Following the acquisition of Ignis we are targeting an EBITDA margin of 45% by 2017
- Third party net inflows of £4.2bn represents an annualised 8% of opening AUM
- £2.4bn or 57% of third party net inflows from outside the UK, and 62% of third party net inflows from the wholesale channel
- Excellent investment performance with third party AUM above benchmark: one year 87%; three years 89%; and five years 91%
- The acquisition of Ignis, completed on 1 July 2014, enhances Standard Life Investments’ strategic positioning through deepening investment capabilities and broadening the third party client base

Growing our fee based business in Canada

- Canada is progressing well in shifting its business towards fee based products with improvements in efficiency and strong growth in fee revenue
- Continuing to work closely with Standard Life Investments to develop new investment solutions for the Canadian market launching two new mutual funds and 8 corporate pension funds
- Underlying business performance increased 18%[1] to £69m with fee revenue up 21%[1]
- Weakness in the Canadian Dollar impacted underlying performance by £11m
- Canada fee based AUA increased by 10%[1] in the first half of the year to £18.3bn and has grown by almost 50%[1] since 2011
- Higher sales and use of scalable technology delivering lower unit costs with acquisition expenses down 45bps to 218bps (FY 2013: 263bps) and maintenance expenses improving to 84bps (FY 2013: 88bps)

Continued progress in Asia and Emerging Markets

- Operating profit before tax up to £6m (H1 2013: loss of £1m) driven by reduction in losses in wholly owned operations and increase in profit from joint venture businesses to £9m (H1 2013: £5m)
- Wholly owned business benefited from growth in new business and continued diversification of revenue
- HDFC Life continues to lead the private market by net flows and has made a strong start to this year ranking number one by gross sales in the private market

Business segment performance

UK and Europe

Strategy

We continue to strengthen the business by building on our innovative propositions and investment solutions. We remain focused on meeting the needs of our customers in an evolving regulatory and economic environment. Our market-leading solutions make effective use of technology to offer individual customers, advisers, employee benefits consultants and employers the choices and support necessary to meet their long-term savings objectives. This multi-channel approach and ability to leverage the close relationship with Standard Life Investments continues to benefit not only customers but also our business and Standard Life Group as a whole.

Operating profit

	H1 2014 £m	H1 2013[4] £m
Fee based revenue	358	341
Spread/risk margin	75	78
Total income	**433**	419
Acquisition expenses	(88)	(86)
Maintenance expenses	(85)	(84)
Investment management fees to Standard Life Investments	(96)	(87)
Capital management	1	(3)
UK business unit underlying performance	**165**	159
Other operating income	-	-
UK operating profit before tax	**165**	159

- UK operating profit up 4% to £165m (H1 2013: £159m[4]) driven by 6% increase in profit contribution from fee business to £178m
- Europe operating profit up 10% to £23m (H1 2013: £21m)
- 5% increase in UK fee based revenue reflecting growth in fee based AUA to £99.1bn
- Margin from UK annuity new business sales was 59% lower however, total spread/risk margin of £75m (H1 2013: £78m) benefited from increased profit from ongoing asset and liability management
- Small increase in UK acquisition unit costs to 110bps (FY 2013: 106bps[4]) largely reflecting lower Standard Life Investments institutional pension sales
- UK maintenance unit costs continued to improve to 24bps (FY 2013: 25bps[4])

AUA and flows

- UK AUA up 3% to £149.3bn (FY 2013: £145.0bn)
- Europe AUA up 7% to £17.7bn including net inflows of £0.7bn (H1 2013: £0.5bn)
- UK fee retail new net inflows remained stable at £1.5bn with gross inflows up 7% to £3.1bn
- UK corporate net inflows increased by 61% to £860m reflecting our success in securing new schemes and the positive impact of auto enrolment which drove a 15% increase in regular contributions
- Continuing to grow assets managed by Standard Life Investments with MyFolio AUM up 20% to £4.8bn (FY 2013: £4.0bn)

Operational highlights

- Secured discounts from 14 leading fund management groups on almost 300 leading mutual funds
- Number of adviser firms using our platform increased by 4% to 1,286 firms (FY 2013: 1,236) and number of adviser firms with assets on Wrap of greater than £20m up 7% to 245 firms (FY 2013: 228)
- Auto enrolment is progressing well with 1,237 (H1 2013: 51) implementations during the period and 173,000 (H1 2013: 98,000) new employees
- In total, 180,000 (H1 2013: 135,000) employees joined our corporate pension schemes with corporate pension members up to 1.5 million (H1 2013: 1.2 million)
- Secured 1,018 new schemes reflecting the success of our new “Good to Go” propositions for SMEs which attracted 892 new schemes

Standard Life Investments

Strategy

We remain very well positioned to deliver profitable growth. We are increasing our domestic and global presence and expertise across a range of asset classes while delivering consistently strong investment performance and strengthening relationships with our distribution partners. We also continue to leverage our investment expertise to maximise opportunities and revenues for the wider Group.

	H1 2014 £m	H1 2013[4] £m
Fee based revenue	**303**	252
Maintenance expenses	**(210)**	(170)
Share of joint ventures' and associates' profit before tax	**11**	13
Operating profit before tax	**104**	95
Interest, depreciation, amortisation and exchange rate movements[6]	**3**	2
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**107**	97

Operating profit

- Operating profit up 9% and EBITDA up 10% driven by a 20% increase in fee based revenue
- EBITDA margin of 35.3% (FY 2013: 38.5%[4]) mainly reflects the acquisition of the private client division of Newton Management Limited and strength of Sterling against many major currencies including the Indian Rupee
- Average fee revenue yield from third party business increased to 47bps (FY 2013: 45bps[4]) benefiting from a continuing shift in mix towards higher margin products
- Maintenance expenses expressed as a proportion of average AUM of 21bps (FY 2013: 20bps[4]), reflecting ongoing development of our investment management capability, expanding distribution and geographic reach and acquisition of the private client division of Newton Management Limited
- Our associate, HDFC AMC, remains the largest mutual fund company in India with AUM of £13.0bn (FY 2013: £10.2bn) contributing £11m (H1 2013: £13m) to operating profit

AUA and flows

- Total AUM increased by 3% to £195.1bn (FY 2013: £189.1bn[4]) in largely subdued investment markets
- Third party AUM increased by £5.6bn or 5% to £108.0bn (FY 2013: £102.4bn[4])
- Third party net inflows of £4.2bn representing an annualised 8% of opening third party AUM
- Increased institutional client base in UK and Europe by 8% to 946 clients
- Expanding geographic reach and diversifying distribution channels with £2.4bn or 57% of net inflows from outside the UK and 62% of net inflows from the wholesale channel
- Assets managed by our Boston office now exceed US$22bn in equities, fixed income and real estate

Operational highlights

- Excellent investment performance with third party AUM above benchmark: one year 87%; three years 89%; and five years 91%
- AUM across our market-leading range of MyFolio risk-based funds of £4.8bn
- Continued investment to expand our geographical footprint with expansion in Boston and Hong Kong
- Strong pipeline of new investment initiatives and further diversification of product offering, including the launch of a Short Duration Credit Fund to meet demand for funds with less vulnerability to a rise in interest rates
- AUM on our Global Equity Unconstrained Fund broke through the £100m mark. The fund has produced top decile performance in its sector over six months, one and five years, and sits in the twelfth percentile over three years.
- Completed the acquisition of Ignis Asset Management on 1 July 2014 for a purchase consideration of £390m, subject to finalisation of the completion process

Business segment performance *(continued)*

Canada

Strategy

We are growing our fee business by capitalising on opportunities created by current market changes and demographic trends. We continue to position ourselves with innovative retirement and investment solutions as well as exceptional levels of customer service. We continue to focus on maximising the value of our back book of spread business, improving its profitability, capital efficiency and risk exposure.

Operating profit

	H1 2014 £m	H1 2013 £m
Fee based revenue	**99**	95
Spread/risk margin	**103**	123
Total income	**202**	218
Acquisition expenses	**(33)**	(37)
Maintenance expenses	**(97)**	(114)
Investment management fees to Standard Life Investments	**(11)**	(11)
Capital management	**8**	12
Business unit underlying performance	**69**	68
Other operating income	**-**	(9)
Operating profit before tax	**69**	59

- Canada underlying performance up 18% in constant currency to £69m, benefiting from growth in fee based business
- Fee revenue increased by 21% in constant currency to £99m reflecting growth in our corporate and retail fee propositions
- Spread/risk margin of £103m was stable on a constant currency basis

AUA and flows

- Total AUA up 7%[1] to £28.3bn driven by net inflows into fee based propositions of £0.4bn and positive market movements
- Fee based assets up 10%[1] to £18.3bn since the start of the year
- Strong position in corporate pensions with fee based net inflows broadly in line with H1 2013
- Market-leading retail segregated funds offering with net inflows up 70%[1]
- Improving sales of mutual funds with positive net flows in Q2 2014
- Leveraging Standard Life Investments expertise in global and multi-asset funds including expanding our mutual fund offering with the launch of Emerging Markets Dividend and Emerging Markets Debt funds

Operational highlights

- Member Financial Services Centre, which helps our customers transition to retirement, is showing good traction with over £110m of net inflows
- Pension in a Box, our corporate pension proposition for SMEs, contributed approximately 7% to our corporate pension sales
- Well placed for the first phase of the Voluntary Retirement Savings Plans (VRSPs) that will include mandatory auto enrolment for Quebec-based businesses with more than five employees
- Expanded the range of funds on our corporate Quality and Choice platform by adding 17 new funds, giving our customers wider choice of fixed income funds
- Made GARS available for registered retail accounts further helping our customers to diversify their retirement investments
- The number of retail advisers offering their customers Standard Life products increased by 503 or 9% to 6,053

Asia and Emerging Markets

Strategy

Our Asia and Emerging Markets business consists of wholly owned operations in Hong Kong, Singapore and Dubai, and life joint ventures in India and China. Our wholly owned businesses focus on meeting the needs of a wide range of customers, developing new propositions and promoting transparency to create a more sustainable and growing business. We continue to work with our joint venture partners on developing our businesses in India and China.

Operating profit/(loss)

	H1 2014 £m	H1 2013 £m
Fee based revenue	**29**	27
Acquisition expenses	**(7)**	(10)
Maintenance expenses	**(25)**	(23)
Total wholly owned	**(3)**	(6)
India and China JV businesses	**9**	5
Operating profit/(loss) before tax	**6**	(1)

- Operating profit from India and China JV businesses increased to £9m (H1 2013: £5m) benefiting from growth in India and financial year end seasonality
- Operating loss before tax from wholly owned operations reduced to £3m (H1 2013: loss £6m) benefiting from growth in new business and continuing diversification of revenue

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* Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

Newswires and online publications

We will hold a conference call for newswires and online publications on 5 August at 07:30 (UK time). Participants should dial +44 (0)20 3059 8125 and quote Standard Life Half year results 2014. A replay facility will be available for seven days after the event. To access the replay please dial +44 (0)121 260 4861 and use pass code 3535396#.

Investors and Analysts

A presentation for investors and analysts will take place on 5 August at 09.00am (UK time) at 200 Aldersgate, St. Paul's, London EC1A 4HD. There will also be a live webcast and teleconference at 09.00am (UK Time), both of which will have the facility to ask questions at the end of the formal presentation. Participants should dial +44 (0)20 3059 8125 and quote Standard Life Half year results 2014. A replay facility will be available for seven days after the event. Participants should dial +44 121 260 4861 followed by 7409369#.

Notes to Editors:

1. In constant currency.
2. Operating profit is IFRS profit before tax adjusted to remove the impact of market driven short-term fluctuations in investment return and economic assumptions, restructuring costs, impairments of intangible assets, amortisation of intangible assets acquired in business combinations, profit or loss on the disposal of a subsidiary, joint venture or associate, changes in Canada insurance contract liabilities due to resolution of prior year tax matters and other significant one-off items outside the control of management.
3. Cash generation is EEV operating capital and cash generation, a measure of the underlying shareholder capital and cash flow of the Group.
4. Restated to reflect Standard Life Wealth's move to be reported as part of Standard Life Investments.
5. As at 31 December 2013.
6. Excludes amortisation of intangibles acquired in business combinations which is excluded from operating profit before tax.
7. For more detailed information on the statutory results of the Group refer to the half year results 2014.