*Please note: This transcript is an unedited record of what was said at the results presentation on 27th February 2014. It may be imprecise or capable of different interpretations, or may contain errors. As such, any information or opinion expressed in the transcript should be cross-referenced to other published, verified material before relying on it.*

# 2013 Full Year Results

## Thursday, 27 February 2014

## David Nish – Group Chief Executive

So morning everyone and welcome to our 2013 Results Presentation. First of all we will have our usual disclaimer and can everyone turn off their mobiles because we have got a live webcast today and sometimes the feedback does go through.

We delivered a strong set of results in 2013. Our business model, client propositions, distribution capability makes us very well placed to deliver further improvements in value for both our customers and our shareholders. We have attracted 340,000 new customers in the UK this year by being a winner both from RDR and Pensions Reform.

Standard Life Investments continues to expand its geographical reach, creating value across the Group by developing innovative propositions and delivering excellent investment performance. We have demonstrated we can successfully grow assets and lower unit costs and locking the operational leverage potential of the business. And our strong positions in growing markets are a result of our anticipation of regulatory change. As well as our continued focus on meeting the changing needs of retail, corporate and institutional customers and clients. Our improving cashflow and strong balance sheet supports our progressive dividend policy.

This is a slide you will be familiar with by now; it captures the breadth and depth of our distribution capability as we manage £244 billion of assets across the world. There are three key drivers of our strategy: firstly, excelling in investment management, secondly the strength and distribution on a multi-channel basis, and thirdly, improving efficiency by controlling costs while increasing volumes. Our long-term savings businesses have strong positions in the retail and corporate markets across the UK and Canada, and we have a growing presence in Asia.

Standard Life Investments, excellent performance history and innovative product offerings have created growing demand in both wholesale and institutional sectors across a wide range of international markets. And overall the Group benefits from the strength of the relationships between Standard Life Investments and our long-term savings businesses.

Our business model remains simple. First of all looking at the yellow boxes on the slide, it is about growing our customers' assets, maximising revenue through medium propositions and investment solutions and focusing on efficiency to drive down unit costs. The combination of our broad distribution and investment capabilities has resulted in a range of significant successes in 2013.

Picking out some examples from the blue boxes. Our leading position in the UK pensions market has enabled us to implement auto enrolment for almost 300 schemes last year, a major driver in attracting 340,000 new customers in the UK. For many of these customers the pension represents their first experience of long-term savings and we look forward to building long-lasting relationships with them.

Standard Life Investments has continued to innovate and broaden its international reach with 53% of its total net flows of £10.1 billion from outside the UK. Its leading position in the UK wholesale market in 2013 has also helped diversify distribution. With over half of net flows coming from the higher margin wholesale channel.

Looking at the financial highlights, in 2013 we have increased group assets under administration by 12% to £244 billion. This included a rise in third party assets under management of more than £14 billion to over £97 billion. Group net flows of £9.6 billion, were almost double those achieved in 2012, driven by the very strong performance of Standard Life Investments. This strong growth in assets has resulted in a 15% increase in fee revenue to £1.5 billion. This in turn has driven a 19% improvement in Group underlying performance of £638 million. This reflects strong performances in UK, Standard Life Investments and Canada.

As expected, Group operating profit was 13% lower at £751 million, reflecting the lower benefit of other operating income, essentially fewer one-offs. The growth in the underlying performance of the business has delivered a 9% increase in underlying cash generation after tax to £497 million and supports our progressive dividend policy. We are therefore proposing a final dividend of 10.58 pence per share, making a total of 15.8 pence for the year an increase of 7.5% from last year in total, with 8% growth in the final dividend.

To show more clearly the underlying performance of the business, we have broken down our Group operating profit of £751 million into a number of components. Now

starting from the bottom of the slide, as highlighted last year, our 2012 results benefited significantly from one-off items both in the UK and Canada. First, the 2012 result including a £96 million benefit from an insurance claim which clearly was not going to be repeated. Secondly, last year we had £84 million of an operating gain from changes in actuarial assumptions in our spread/risk business. This year we had a gain of £68 million. We were again advised that material gains from this source should not be expected in the future, but we do try to manage our reserves prudently.

And finally, whilst there always will be actions to improve the performance of our back book, there were certain exceptional opportunities that arise only occasionally. In 2012 these contributed £153 million to our result in Canada. We expected around half that amount in 2013, in the event these contributed £45 million from the renegotiation of a reinsurance contract and the sale of developed properties. As these opportunities will arise from time to time, we cannot be specific as to what to expect in 2014. But it might be reasonable to expect around half of the 2013 actual benefits to occur in this year across the Group, but this will very much depend on market conditions during the year.

So after allowing for these one-off items we had Group underlying performance of £638 million, an increase of 19%. Our head office costs remain largely flat while the lower capital management result reflected the higher interest cost, following the debt raised towards 2012. For our business units therefore, the underlying performance was £704 million, an increase of 25% on 2012.

In order to highlight the underlying performance of the business the remaining presentation slides have been prepared, excluding the impact of those one-off items.

Our focus in growing our fee business continues to deliver results with a 15% increase in our fee revenue. This was driven by both higher average asset values and the demand for our fee based propositions, with net flows into our fee propositions of £10.3 billion. Expenses across the Group remain tightly controlled despite the additional expenses in Standard Life Investments reflecting the growth in that business, maintenance costs for the rest of the Group fell, mainly due to cost savings in our UK businesses. Expressed in basis points, both acquisition and maintenance cost ratios are significantly lower than 2012. We have highlighted previously that around 50% of the increase in fee income flows to the bottom line after costs. And our results for this year continue to demonstrate our operational leverage. The spread/risk margin increased by £63 million reflecting asset liability actions in managing the back book and better experienced variance and returns in Canada. The main driver for the lower capital management result was the lower returns on our Canadian surplus assets following the property sales in 2012.

So in summary, the results demonstrate strong revenue growth, driving profit margins, but still investing in growing our business.

These now familiar charts continue to demonstrate the scalability of our business model with increased assets and tightly controlled expenses resulting in ongoing efficiency improvements. At Group level unit acquisition costs improved to 145bps driven by 27 basis point reduction in the UK. While maintenance costs in absolute terms have risen as you would expect to support our growing service orientated business, in unit cost terms they continue to fall, and we now have recorded continuous unit cost reductions since 2008. The overall Group ratio fell to 41bps which included a 5bps reduction in the UK. Our focus on increasing assets whilst continuing to improve productivity to reduce unit costs, positions us well to deliver further improvements in margins.

So now turning to the underlying performance and the opportunities for UK, SLI and Canada. As I mentioned earlier, the underlying performance of the business units has grown by 25% to £704 million, an increase of 25%. This includes a 13% increase in the UK, a 32% increase in Standard Life Investments and a 67% increase in Canada. Our Europe business was slightly down, whilst we continue to invest to expand our presence in our Asian operations, where we expect a small improvement in performance in 2014.

The underlying UK performance, increased by 13% to £295 million, a strong result that reflects the profitable growth of our retail and corporate businesses. Fee business assets under administration have grown by 19% and now exceed £101 billion. Due to the positive net inflows of £2.5 billion and favourable market movements, this growth in assets has contributed to a 9% increase from UK fee based business. Our approach to business delivers value for money offerings for our customers and allows our businesses to adapt to market and regulatory changes. By adding scale to our business alongside cost efficiencies, we can offer improved returns to both customers and shareholders. The overall increase in revenue from higher assets combined with our controlling costs, positions us well for further improvements to profits in the UK as well as providing for the additional margin within Standard Life Investments.

I will now turn to the drivers of the UK result in some more detail. Underpinning the UK result is a sustained performance from the older style retail propositions and the spread/risk business. Higher net flows and assets under administration resulted in the contribution from our retail old business improving by £9 billion. As well as providing a stable contribution to profit, these older style propositions provide a significant source of onward business for our retail new propositions and for annuities. The UK spread/risk margin business contribution which excludes assumption changes was broadly unchanged at £102 million. As expected the margin from new business was

down, reflecting the particularly high sales of annuities in 2012 ahead of the introduction of the gender directive.

Turning now to corporate. We have implemented 290 auto-enrolment schemes which have contributed to 292,000 new customers into our corporate pensions business, representing 21% of our total corporate customers. As well as securing increasing contributions from these employees in the future, they also provide a source for securing additional revenues as we build long-term relationships with them. We are continuing to see strong growth in assets under administration in our corporate business which grew by 19% to £29 billion. This was helped by £0.8 billion increase in net flows, reflecting the successful positioning of propositions to take advantage of regulatory market changes. During this year of rapid change, we continue to see improved profit contribution for corporate in its own right and this is in addition to the extra revenue that is passed on to our retail business as employees transfer, and secondly the additional margins earned by Standard Life Investments.

As the leader in the UK DC markets we are capitalising on the customer regulatory changes that are both transforming and expanding the workplace market. We have grown our DC market share to over 17%. This is a market which is predicted to grow hugely. Independent forecasts show this market growing to over £3 trillion by 2030. Also the shifts from DB to DC, to bundled and to trust based offerings will continue, and these play to Standard Life's strengths. The auto enrolment focus in 2014 shifts from larger employers to SMEs. This is a market we have not competed in for several years due to the competition focusing on winning by paying commission. We have already launched a simple to implement proposition, "Good to Go", and put in place substantial distribution, including arrangements with 22 leading adviser groups. To give you an example of the fully automated SME process we now have, an employer can get a quote from us online within six minutes. And in the three months since we launched "Good to Go", we have quoted on more than 2,500 pension schemes. Capacity in the auto-enrolment market will be an issue for the industry going ahead. Standard Life has invested and built the capacity to grow.

Similarly in retail, our continued aim to deliver value for money and transparency for our customers makes us very well positioned to benefit from the regulatory and customer changes that are transforming that market. The strong position of our business in the new model adviser market, combined with support we have given to IFAs, has ensured that we have made an excellent transition to operating under RDR. Our assets are up to £39 billion, with platform assets under administration up by one third to £19.4 billion. And growth in funds such as MyFolio with assets under administration now £4 billion, shows the way that the Group benefits from the collaboration with Standard Life Investments. Our efficient and scalable business has

delivered £26 million increase in profit contribution, continuing the growth we have demonstrated over the past four years.

We have already achieved strong growth in the retail market, but there are many, many more opportunities for us to grow further. We now have £17 billion of advised assets on our platforms with a market share of around 7.5% more than doubling since 2008. The strength of our technology, distribution channels and propositions, give us great opportunities to grow our share of this rapidly expanding market and scale will also reduce unit costs. There should also be consolidation in the platform market as too many subscale providers exist. However our retail business is much more than just platforms. We already have around one million direct customers, around 25% of our UK customer base. There is a largely untapped potential in the direct space and we are increasingly benefiting from the transfer of customers, originally secured through workplace. This is another reason why our additional 292,000 corporate customers are important as our widely competitive retail offerings give a potential source of additional revenues in the future.

The underlying performance in Canada grew by £73 million to £182 million. This reflects our focus in increasing fee revenue and continuing to maximise the value of our back book of spread business, improving its profitability and capital efficiency. Spread/risk and capital management together increased their underlying performance by £42 million, of this the ongoing asset liability actions that we undertake to improve the returns on the back book resulted in £21 million of higher profits. We should always remember however, that due to the long-term nature of the Canada insurance business, the results from these operations can be volatile. It is very good to see that the combination of higher fee revenue and lower expenses generated an additional £31 million which represents over 40% of the increase in Canada's performance. We provided guidance that the ongoing run rate for operating profit of around £180 million would be appropriate. We would reiterate that guidance but would note the performance in 2014 could be impacted by the continued weakness in the Canadian dollar which is currently over 10% lower than its opening 2013 value. As far as the balance sheet is concerned, we hedge a portion of the value of our Canadian business, but the value of that hedge is credited to reserves directly.

The growth in fee business under administration in Canada demonstrates the progress being made to transform this business though still at a relatively early stage. Growing our fee business is a strategic priority and during 2013 our fee revenues are up 13%. While the shift from DB to DC and the introduction of pooled registered pension plans is still at a very early stage, we are very well placed to capitalise on these developments over the next few years.

In retail we have developed our market leading segregated fund proposition and saw a 65% increase in the net flows in the year. And by leveraging the global reputation of Standard Life Investments, we now have access to five out of the top six banks platforms, a major distribution channel.

Turning to Standard Life Investments. The strength of Standard Life Investments' diverse product offering and expanding global distribution, led to third party net inflows of £10.1 billion. Along with positive market growth this led to £14.4 billion increase in third party assets under management to over £97 billion. Driven by these strong net flows, Standard Life Investments continues to demonstrate strong profit growth, increasing operating profit by 32% to £192 million. Fee revenue from third party clients increased by over a third to £392 million, and total revenue increased by 28% to £521 million. This reflects both the continued shift to higher margin products such as UK mutual funds and multi asset investment solutions, as well as increased market levels. This mix effect saw third party fee business revenue basis points increase from 40 to 44. The increase in expenses reflects the investment in growing the business and diversifying our sources of revenue geographically by product category and by distribution channel. The highlight for the year is Standard Life Investments excellent and robust investment performance. This demonstrates the success of our team based approach and our 'Focus on change' investment philosophy. This has proved to be robust and repeatable in both good and challenging conditions, and across all asset classes.

Inflows during 2013 reflected the diverse nature of our product offering, our expanding global distribution capability and the increasingly international nature of our client base. Our diverse offerings and excellent investment performance mean that we are well placed to capture changes in client preferences across the broad range of asset classes. We have seen an improvement for example in equity flows which included a strong return to equity inflows in the higher margin wholesale channel moving from an outflow of £0.3 billion in 2012, to £0.7 billion of positive inflows in 2013 and this helped us to achieve the highest net sales across the UK wholesale industry in 2013.

If we look at third party net flows by geography, we see the increasing diversity out of the UK. Over 50% of third party net flows came from outside the UK. Assets under management from our US operations broke through the $7 billion barrier, with assets managed for John Hancock now exceeding $5 billion. Net flows from the US of £2.1 billion, now account for over 20% of total net flows. Also assets under management in our Asian Pacific region were up 45% to £1.8 billion, helped by our expanding distribution and our strategic partners in Japan.

Looking at channel, our net inflows in 2013 were split evenly between wholesale and institutional channels as our distribution continues to develop and diversify. In the UK,

whether you are looking at the long-term savings market or mutual funds, Standard Life has rapidly increased its presence.

The growth in Standard Life Investments is powered by excellent investment performance, our global distribution capability and through the development and innovation of our product offering. Client needs have changed significantly since the credit crisis. Clients are much more aware of the outcomes that they need. They want to manage volatility, they are increasingly liability aware and they seek to increase diversification. We are focused on developing the investment skills and product offerings to meet these evolving needs and will continue to do so. We have adapted our proven investment expertise to a range of outcome orientated solutions such as MyFolio and have developed innovative asset class offerings such as in property and in corporate bonds. The successful developments can then be further adapted to meet client demands across our global markets, such as the development of absolute return strategies into products offered now in the US, Canada and Japan. And Keith can talk through several examples of this in practice.

It is the combination of the investment in people, proven investment performance, the global distribution reach and the innovative product offering that makes Standard Life Investment such a fast growing business.

Turning to how this Group performance has resulted in improved returns for our shareholders. As discussed earlier, we have seen an increase in the underlying performance of the Group during 2013 from £534 million in 2012 to £638 million in 2013. We can see this improving trend for the last four years with the underlying performance rising during that time from £337 million to £638 million, an increase of 89%. On an after tax basis, we see a £30 million increase in 2013 to £517 million. With the underlying tax rate now growing to 19%, which is close to the overall statutory rate.

Our profits and cashflow are closely aligned with relatively small non cash adjustments. You can see that the underlying cash generation has more than doubled over that period with coverage of the dividend growing from 0.75 times to 1.33 times which is now on a full cash basis.

We have a strong balance sheet and we are well placed for the implementation of Solvency II. The outcome of this balance sheet strength and our increase in underlying profits and cash is our continued growth in dividends. This year we are proposing a final dividend of 10.58 pence giving a full year dividend of 15.8 pence, an increase of 7.5% on last year. We have maintained our progressive dividend policy since listing and we remain focused on delivering against this policy.

Before I wrap up, I want to just to share some thoughts on what is happening in the market because there is quite a lot of commentary going on, particularly over the last few months. There are a number of industry debates taking place which are changing the customer landscape, particularly in the UK annuities and pensions. And when you look at our record of working with customers, we are very well placed in these debates and confident in our position. We have long put our customers at the heart of everything that we do, and our approach is driven by two principles, transparency and value for money. On transparency we were the first UK insurer to stop offering commission payments in new business. We have passed fund rebates to customers and we are the first platform in the UK to deliver full price transparency for customers. Giving our customers value for money is absolutely key to what we do, it is important to remember that value is more than about price. And our results today demonstrate that we are developing innovative propositions which meet our customers' individual needs.

On pension capping, we reduced the costs of almost all our pension business back in 2001, to an annual charge of 85 basis points or less, so our fees now range from 40 basis points to 85 basis points. Turning to annuities, we begin contact with our customers ten years before they retire and aim to ensure every customer has had a conversation with us, or their adviser, so they know about the various products available on retirement and the open market option as early as possible. 70% of our retiring customers choose a retirement option other than Standard Life annuity which shows they are clearly informed about the options available to them. We will continue to focus on the education process in the future and are supportive of the objectives of the regulator to improve the at retirement outcome for customers. In all of our chosen markets we are successful only because we are addressing the needs of our customers with the right propositions delivering value.

Areas where we continue to see future growth include, further increases in customers from our corporate channel, where in 2014 we will see further gains as the SME auto enrolment market opens alongside our strong position with FTSE 350 companies. Our WRAP platform continues to attract new funds given the strength of our technologies, client solutions and extensive distribution, helped by our industry leading move to transparent pricing. Further product and global expansion in Standard Life Investments will be driven by product innovation, increasing global presence and consistent and good investment performance. And all of these initiatives are underpinned by our focus in serving the customer.

So overall Standard Life has had a really good 2013, and we are confident that the momentum that is clearly demonstrated, especially in the results of the UK and Standard Life Investments businesses, can be maintained. Whilst we have many markets and segments in which we do do business, there is only one overall objective

and again these are shown in the yellow boxes. To grow assets and revenue, to drive down further costs which will result in further value for both our customers and growing profits.

And finally returning to the main themes driving our business in these results today. Standard Life has had another strong year with business unit underlying performance up 25% to £704 million. We continue to invest to meet the large scale challenges to our markets and higher growth has been delivered. Our balance sheet remains strong. We are generating significant cashflows and have once again increased our dividend.

So thank you and I look forward to your questions.

## Question and Answer Session

### Question 1: Gordon Aitken, RBC

Gordon Aitken from RBC. So three questions on the DC market please. As employers auto enrol, the prize as you talked about is not just the new auto enrolees, but it is as employers clean up their very messy pension arrangements, so there is a bigger prize there. In a sense this hasn't really happened yet so when does it happen?

And secondly, you talked about unbundled to bundled there, is it still a £100 million/billion prize and when does that happen?

And your market share you said is 17% in DC, presumably given what you have spent and especially as we move into SMEs auto enrolling, do you expect that market share to increase, what do you think it increases to?

**Answer: David Nish**

Before just passing to Paul, I think really for me the important thing out of Gordon's question is really round about it is untapped, and the strength of the position that we have established is just the beginning of the journey.

**Answer: Paul Matthews**

Yes, so we have got relationships now with about a third of the FTSE 350. So if you take the bigger schemes to start with Gordon, a number of them have closed the DB., in fact virtually all of them have closed to DB, so the focus in 2013 for these schemes was to get their auto enrolment set up. So the majority of these companies have not started to transfer their legacy assets or their DB schemes. However, in Q4 what you did see was two companies start to clean up some of those schemes. So you saw over a billion pounds of assets just from two companies come across in Q4 2013. We would expect

virtually every company over the next five years or so to be looking at closing DB schemes to future accrual for existing members in that DB scheme. So there is a huge amount of assets there that will come across.

We have always said it is a first-mover advantage. One of the reasons we have been so keen to get our technology, with things like LifeLens etc, established is because we believe the auto enrolment, the companies that we place auto enrolment with, will be the companies that will benefit. So David has gone through the results, we are probably the best positioned with the FTSE 350 at the moment because we have a third of those companies.

If you then move into the SME market, we have already had 2,500 employers register in the first ten weeks with us. Now I can't predict how many more are going to continue coming, but we would expect to write over 3,000 new auto enrol schemes this year. And typically all of these companies historically have been dealing in the commission markets with commission players. And so again, not going to give you the figures on that, but it is quite an attractive market for us. A lot of these are companies are professional companies and even if you took the worst case scenario of the very small companies, who don't really want to do too much, they will start with a minimum of 2% contribution and they will have to put in a minimum of 8% by 2018. So again you can see the potential size of that prize. So in summary, the DB money will start to come through I think over the next 2-3 years as the companies have got through their auto enrolment and the consolidation I think you would expect to start to come through at the same time over the next 2-3 years.

**Further answer: David Nish**

I think allied to, we have talked about the distribution relationships we have put in place etc., the comment I made round about capacity, I think could be quite an interesting angle over the next couple of years. We have built our capacity, whether it is to process 60,000 auto enrolees a day, or the volume of payments we can process through. Because ultimately this is the biggest change in a market place we might ever experience, 8-10 million people coming into savings for the first time, and it is really, really important to establish that on a firm footing because there isn't a second chance. That is why it will be quite interesting to see whether we end up getting multiple waves of this. Particularly, you know if there is price caps or pressure, schemes will have to potentially come out and be retendered, particularly those that are high priced. So again our whole drive and we have always talked about you know, we expected price to come down in this marketplace, it is actually how we drive the jaws of the business, and you can see it in every one of our business models. It is the jaws that are more fundamental to us than the component of gross price and essentially net cost. It is the relationship between the two and therefore during this year, yes we have seen bps

come down in revenue, we have seen costs come down further as we drive both the efficiency and scale of the business.

### Further answer: Paul Matthews

The 2,500, just to finalise, we have not produced a single quote ourselves, that is all automated self-serve and the companies, these 2,500 to 3,000 companies we expect to sign up this year with us, they will do it solely themselves. The employer will go on, the employee will go on. We will provide no manual support on those at all.

### Question 2: Greig Paterson, KBW

Greig Paterson, KBW. I tell you what I have a major concern. And these are your numbers. Your core capital generation is £300 million, when you deduct your change in required capital; your core free surplus generation is £226 million, that is well below your dividend cost of £375 million. And it is actually down on a like for like basis by £100 million this year. I mean the bottom line is your true underlying capital generation is well below your dividend and dropping. I mean, to me whenever I have seen this before in the past we end up with a dividend cut. So I am just saying, what am I missing here? Are you using your cash at the centre as a buffer or what is the plan?

### Answer: David Nish

Fascinating question Greig. There is a little simple analysis, remember we published the whole of our accounts today, so apologies you have got 300 pages to pile through. If you look at page 15 of the accounts, there is a little table that shows essentially the Group cash. And remember one of the things we ended up doing was effectively we pushed down debt etc, into the businesses. So the businesses have their own balance sheets, their own cash, their own capital position etc. All the Group is is a repository for effectively: dividends in, dividends out. At the beginning of the year we started with a billion pounds of PLC cash. We have paid out £656 million in dividends including last year's special. We invested in subsidiaries of £100 million, including the acquisitions, so there is £750 million going out of the Group. PLC cash at the end of the year is £907 million, because £600 million of dividends have come out from the subsidiaries.

### Further question:

You have a big management action item in there?

### Answer: David Nish

Look at the underlying profits of the business. We will do it in round numbers. UK is £300 million, Keith's business is £200 million, Canada is £180 million in terms of gross. Take off 20%, our dividend is £375 million this year. What we have done consistently over the last four years is both invest in this business at the same time as growing its performance, increasing its dividend, strengthening its capital position, strengthening its cash position all round. We are comfortable we have a progressive dividend policy, we manage it carefully and consistently, we don't do anything terribly exotic around about the growth of our dividend, we just march it forward bit by bit reflecting the balance. If I look at what we did last year, last year probably gives you a good view of how we think about running our Group. Last year we invested organically

in our business. We invested inorganically, we did Newton, we increased our dividends at higher rate. We returned a special dividend of £300 million.  That is what we end up, that is how we think in terms of moving it forward. So I don't see the scenario you paint.

<u>Question 3: Andy Hughes, Exane BNP Paribas</u>
I was going to argue the opposite on the dividend actually, giving the earnings outlooks, so there you go! Can I ask a couple of questions on the numbers? I guess one of the surprises for me was on slide 33 when I looked at the corporate earnings number. So I can see the costs in the UK have gone down for a renewal basis by 10%, and then when I look at the corporate earnings they have gone from £88 million to £90 million. Is there substantial drag in terms of what is going on from auto enrolment and is that going to take itself out of the numbers and the number is going to shoot up quite rapidly?

Answer: David Nish
There are a couple of things going on. One is it was talked about before; remember you have always got essentially a net happening in corporate because when people effectively leave a scheme, we transfer them across to retail. So you have got that dampener going on. Also at the start of auto enrolment, you would expect there to be a dampening effect particularly back to, as Paul has mentioned, the lower contribution rates that are there as a bit of additional sterling reserves[1] that need to go in, because of the way the actuarial reserving works. You are always looking in some ways the worst case scenario and not the long-term view of the profitability of the scheme. So as I said earlier and Paul has emphasised as well, it is very much about how we capture that scale over the first initial phases and then essentially begin to build out. That is where, if we were talking about in the old world. And I do believe some of our competitors still do manual quoting. If we had to write 2,500 manual quotes, I can't really imagine the army that effectively would be there to do that.  So we should expect to see it pick up in the first couple of years of auto enrolment, you do have this dampening effect from a combination of factors.

Further question
Any idea how big that might be?

Answer: David Nish
We would end up I think doing quite a lot of assumptioning which in some ways from what you have actually seen today, we are trying to effectively strip back so as the impact of assumptions can be shown quite clearly.  But during the year there is about, there can be anything between 25,000 to 35,000 people who become deferred. Now "deferreds", you would assume are not new starts into pensions, so they have probably got a slightly higher contribution rate and some accumulation of assets, so there is that compounding effect over a number of years that will be there. But as I say we are comfortable I think we have taken the right actions over the last three years as regards to investing in our business, building our platforms, it is now about effectively capturing the customers.

**Answer: Paul Matthews**

The other thing worth picking up Andy is predominantly a number of these companies now putting more and more into Standard Life investments, so that will appear on Keith's balance sheet. So we will take 300,000 employees in 2013, you should expect us to take on at least 400,000 in 2014, and all of the SMEs that we will do these, 400,000 or so in 2014, will automatically default into Standard Life Investment active funds. So that is coming through as well.

**Further question**

So that passes the book onto Keith, so my question about SLI now, I see the costs in, the first sort of numbers type question. You talk about net flows into equities of £700 million for the higher margin stuff, but of course you had £800 million of equities outflows across 2013. So what does that do for the margin within the equity business? Is there a vast difference between the outflows and inflows? And I guess the main part of the question was the outlook for earnings form SLI because I think consensus for SLI is £240 million of earnings next year and looking at the pattern of third party AUM here during the year it seems as if you should comfortably beat that. So maybe you could give us some guidance on what you are thinking in terms of investment costs, what was it last year and what will it be next year? So we can get an idea about where we might be looking in terms of growth in earnings. Thanks.

**Answer: Keith Skeoch**

Thanks for that Andy. On the equity flows there is a difference. I think it is well known that there is a bias with institutional pension funds to move away from domestic equity exposure. So the money that is coming off is largely segregated UK equity funds, on I would guess an average of about 30-35 basis points. The money that is coming in is largely through the wholesale platform. So it tends to be mutual funds. So there is a net uplift there because I think the margin is ahead of 60 basis points. So actually that benefits the revenue mix and it is quite interesting if you look at the shape of our gross flows in the final quarter of last year, we had equity inflows accounting for about 14% of gross flows and that was coming through those wholesale platforms. So that was quite helpful.

In terms of guidance, we stated I think last year that having achieved our long-run on our medium term target of 35% EBIT margin, we would be looking to make progress towards 40% as the next target, as our business internationalised. And that that would bring benefit in terms of diversity and security of revenue flows. But as you quite rightly point out, that does bring with it, as you take on volume and you expand geographically, an additional cost. I would point out that if you look at direct costs in terms of bps as a percentage of £182 billion of assets under management, we are running at 17 bps, so we are relatively low cost. I would expect over the next 4 or 5 years to make pretty steady, stable progress towards that 40% EBIT margin target.

**Answer: David Nish**

I think it is in some ways, back to what I was saying earlier and to pick up Keith's last words there. We very much look at building all of our businesses to achieve that

steady, essentially investment in the infrastructure, investment in the propositions. It would be very easy to effectively drive for short term profit growth. But if you look at the potential that Standard Life Investments in particular has, essentially it is the whole world. When you think about, if you drew where Standard Life Investments was five years ago, in extent of distribution out with the UK, 50% of flows are now non-UK. $5 billion on the John Hancock platform which then goes through into US distribution, Japanese flows beginning to pick up, Australia, Korea, Hong Kong. You know beginning to build that platform out. So I think the thing with Standard Life Investments is actually to maintain that steady balance, as effectively not to get carried away.

Further answer: Keith Skeoch

If you look at, just to, if you look at our long-run revenue CAGR over the last 5-6 years it has tended to, depending on the year, be somewhere between 10% and 15% and I think that is pretty much where we would continue to aim.

Further answer: David Nish

And then the new asset pools or the bigger asset pools that you can now access are really quite amazing. Back to that slide with the liability aware and the different client needs and stuff like that. New asset classes or areas are opening up all the time.

Further question

And a quick question on platforms. I note Platforum said that 75% of adviser business is now going through platforms. Is that something you are seeing and I notice the platform only grew by 33% even though the market was up quite a lot, so are you expecting acceleration in the platform during the course of 2014?

Further answer: Paul Matthews

I think so, I think there are about 33 platforms out there today and the regulator has had a number of agendas and one of the agendas is about making sure that some of these companies are very well capitalised so there is far greater transparency. With the unbundling of share classes from 2014 in April and then you have got complete unbundling in 2016, all of these investment retrocessions going into these platforms will have to cease. As you know in WRAP any retrocessions we get from any investment companies, we completely hand back to the customer and when some of these companies can't keep retrocessions then their capital positions are going to come under jeopardy. So it is not just our figures, it is the industry are saying the market is going to consolidate and whether it is 8 platforms or 5 platforms, the fundamental fact is that unless you have got capital behind you, unless you are linked into the major advisers who have been fee charging for some time., unless you have good access to customers, which we do, then I think you are going to struggle. So I think the consolidation is going to be quite large. And I think we are one of the best. I think we are the only platform today out of any WRAP platform in the UK that is ready for 2016, we are completely unbundled. And next month when we announce all our new share classes, with all the fund managers, there will be no other platform in the UK that is offering completely unbundled for 2016.

Question 4: Andrew Crean, Autonomous

It's Andrew Crean, Autonomous, three questions if I can. Firstly the lack of a Finance Director is extending to nearly a year. Could you tell us a bit about why it is so extended? And also are you looking for an external candidate or in the end will you raise up somebody internally?

Secondly I wanted to find out, both in the corporate pensions business and in the platform businesses, what proportion of the gross flows are going into Keith's business?

And then thirdly, I wanted to come back to Greig's question actually because if you look at the free capital generation rather than purely the cash, and you do have to finance solvency requirements, things are a little tight. And when I look on Slide 42, you are investing £123 million at a 7% IRR in Canada, indeed a 5% IRR in the fee business which you are focusing on, I am not sure how much you are investing, but probably £35 million, 11% IRR in Europe. And then £69 million has been invested in Asia, and a 10% IRR on your Hong Kong business, I mean why are you pushing so much money, and you have been doing it for years, into these businesses at uneconomic IRRs?

Answer: David Nish

Okay, I'll take the first one. We have obviously got a CFO process running and once that process concludes we will talk more about the end of the CFO process. I think one of the things, if you look at essentially how the finance teams have performed this year, we are not only reporting one week earlier, we have actually issued a full report and accounts five weeks earlier today. So there is a lot of strength and depth in the finance function within Standard Life and that allows us to be very considered about what we want to do. So there is a process running, the process will complete and when it is complete we will announce who the new CFO is.

Answer: Paul Matthews

I don't think we give it on the corporate side because it is quite difficult with all the blended funds. It is something we are trying to sort out at the moment. Because we are fronting in many ways some of the other companies and taking bps off them historically in the assured funds, but the retail funds, I am pretty sure it is just over 24% that is going into Standard Life. If you talk about our top 200 WRAP advisers, you are probably talking about 30% going to Standard Life Investments. If you look at Standard Life Wealth, pre Newton, you are probably talking just over 30% and if you are talking about all the schemes we will take on, 3,000 or so this year in auto enrolment it will be 100%.

Further answer: David Nish

I will answer your broad capital question and returns on the other businesses. So take it from businesses and then back to the role of capital. Are we happy about the returns in those areas you have pinpointed? No. Are we taking action and have we consistently looked at taking action? If you take Canada, obviously one of the reasons why we have

got a new leadership team in there and shifting the focus towards more capital light products. There is obviously historic drag in Canada because of the weight of the closed business as it now is in Life. We would certainly not rule out doing anything to effectively restructure the capital in Canada more dramatically. But as I have said before, you need to look at the value of that business. So from the point of view of does Canada effectively return cash of significance, it is behind some of the actions we have done round about rationalising asset liability, removing surplus assets we believe are not compatible with the risk adjusted return etc. We will continue to do that.

In terms of the smaller operations, in many ways we are really trying to focus on how we provide linkages back through to Keith's business. We have to view them, do they have the distribution potential to effectively increase the penetration of our asset management in these areas. And as I have touched on, an area of focus over the next couple of years will be Asia. We had established operations that are there, it is how we end up leveraging and using them. During 2013 we fully regionalised those operations to remove effectively layers of Head Office overseeing them. They are now shall I say, stand alone in terms of they have got the local resources to do it. It is now all about can they pull in the right type of growth. Now the right type of growth is ultimately shifting the product set. And if you look at what we are doing in Hong Kong round about increasing the transparency, round about the propositions, we are adjusting distribution arrangements, removing old style broker arrangements so as we can focus on getting the strain down, and looking at returns. No business has finite life as regards to not being a satisfactory return, but to do work, you have to take time to be able to do it because it is changing products, distribution and our cost structures and that is what we are focused on.

**Further question:**
I think that is the issue, the finite life, we have been looking at these very low IRRs for years. I just wonder when the team actually says enough is enough?

**Answer: David Nish**
I think we have actually been taking actions round about it. But you don't just remove yourself from countries, particularly if you have got strategies to put yourself back into these countries. Standard Life Investments has just opened up new offices in Hong Kong. If I turned around and closed Hong Kong Standard Life down the street, it doesn't really look a very clever thing to do when you are trying to build relationships with customers for the long term. So you don't just come in and out of markets. We also in Canada we have been there 180 years. I think one of the key features of the results today is the £31 million increase in the contribution from fee based revenue and reduction of costs. So Charles has been there just over 21/22 months and things are beginning to change in terms of our growth in propositions, expanding our distribution, Keith has launched a heck of a lot of new global funds within Canada, how do we

effectively get that through? Charles and the team don't have undemanding targets., but we need to give them a chance to effectively drive through.

**Question 5: Ashik Musaddi, JP Morgan**
Thank you, Ashik Musaddi from JP Morgan. A couple of questions, first on your capital, your cash balance is around £900 million at the moment. Can you give us some colour where do you want to be on that number over the medium term and what is your target range?

Linked to that is how much capital do you need for the business you are writing right now in the UK, the pension businesses in my view it should be very capital light, so can you give us some thoughts on capital requirement for those businesses?

And the second one would be maintenance expense. Now it declined 5% roughly if I strip off the SLI because that is a growth one. For UK, Canada, Europe, your maintenance cost actually declined on an absolute basis, so what is driving that and can we expect it to continue going forward as well? Thank you.

**Answer: David Nish**
Why don't I start with the first question and then I will pass to Paul. As regards the capital on auto enrolment, as I was indicating, at the front end as you begin to grow larger scale there is some reserving strains due to actuarial sterling reserves that comes in. Because the way that the actuarial reserving works is that you focus on effectively in some ways the year one net loss. And most pension schemes will have a net loss on an individual policy basis. And you cannot anticipate the step-up in contributions and to programme through. So what there will be is at the front end, probably in the first couple of years, there will be and I am talking somewhere between £20-30 million. Now remember this is capital that is in the business. So it is not essentially taking capital from somewhere else. It is within essentially the excess capital that lies within the business. And then once the scale of the business and the stepping up of the contributions each year goes through, then you begin to effectively release that back over time.

In terms of your question around about the cash target, we don't effectively have a published cash target. We talked about gearing ranges before in the low to mid-30s, we tended to operate in the last couple of years round about that 33-34 and at the end of the year it was 31. So we are still within broadly the range and the thing that we do and tend to focus on as I said earlier, and 2012 or 2013, has a lot of those examples, it is the balance between organic/inorganic investment and the delivery through to the bottom line and the pacing of the dividend that is there. And we do look upon if we can identify surplus opportunities that are there we have taken action. Last year we identified £300 million, we paid back the £300 million. But these are things as the word says, they are special as opposed to effectively recurring.

**Further question:**

That one basically, what I am still struggling with is basically if I look at your capital position in Canada on a local basis, in my view it is very strong, roughly north of 250% which is way ahead of what the industry has. So you have strong capital there. You have strong capital at the holding company. The business you are writing in the UK is well capitalised I believe so which is also well guarded with your SLAL business. So how should I think about this cash balance of the holding, going forward as well, if I look at the dividend that you can receive this year in 2014, it can again be a £600 million number?

**Answer: David Nish**

And if you look at, to answer specifically your Canada question because its MCSR was over 260% at the year end. That is really a sort of timing thing. We tend to take our dividends in March and September, so we are probably expecting a dividend of somewhere between 300-350 million Canadian dollars to be remitted out which should probably take the MCSR down to a level of about 230%, something like that.

Now we do run our businesses with buffers put in place because I think one of the virtues of Standard Life all the way through the crisis was round about that focus and attention to having the robust balance sheet and consistent delivery of dividend.

As regards, back to your question round about the Head Office capital. I think one of the things that we are obviously now looking at demonstrating is we have gone through a period where we have been investing to build. We are now into that phase of trying to deliver that growth through that's there, I think we are demonstrating that. This might be helpful to Greig, round about understanding the sustainability. Particularly if you look at that, one of the reasons why we pulled out the underlying profit, so roughly it is £640 million and we have got a full tax rate near enough this year so let's take 20% off that and that takes you down to about £510 million, our cash dividend is £375 million. I think we are in a good position to progress forward.

**Further question**

And the maintenance expense thing?

**Answer: Paul Matthews**

Yes I think I have said consistently for the last two years, we invested in industry leading technology both on our WRAP platform and our corporate business and year on year now, the UK business, we have been taking our cost base down. So apart from, as David said, there are some capital issues regarding the actual covering our auto enrolment with the low premiums, the UK business is set for scale. And what we are now doing is going in and getting those customers we have been talking about for a number of years, the regulation is bringing out. So I am expecting to take my maintenance in the same direction as the graphs have been showing in the last few years.

**Question 6: Oliver Steel, Deutsche Bank**

Oliver Steele, Deutsche Bank. Just following up on Ashik's question about the sort of 1.33x cover you have got on your cashflow numbers, the underlying number you declare. How do you feel about that level of cover? And if you generate exceptional going forward how should we be thinking about those exceptionals? Can we see that as going into special dividends? That is the first question.

The second question is more on UK annuities. The UK spread/risk profits was very high in the first half, quite a lot lower in the second half. I am just wondering how that was impacted by delayed annuity sales from late 2012 perhaps bolstering the first half and then obviously a weaker second half or whether there is something else going on? And what sort of guidance you can give for that revenue line in 2014?

**Answer: David Nish**

With regards to the first question Oliver, I suppose in some ways I would refer back to last year in terms of showing the balance of what we do and when we have got clear line of sight into surplus capital and if we evaluate it against investment opportunities, we see no better investment opportunities in terms of the give back to shareholders. We do that. So I think our track record shows we do take that approach that is there.

How we, in a sense, drive the business in terms of getting to the underlying in a sense profit and cashflow, that is very much round about our ongoing day to day what the guys are working 24/7 on. Now we are obviously really mindful about our backbooks and the quality that is in them and we will continue to drive them to effectively generate additional value from them. So we do try and work to generate from them, although I am saying, we don't expect essentially much, although there will be a bit of management actions that are coming through. I think the big advantage we do end up having then is flexibility, in terms of how we both build the business, because over the last couple of years we have had Solvency II programmes to invest in, so what we have done is protected the net result from a lot of these types of things that have been forced on the industry to spend a heck of a lot of money and time on that is there. But very much we are committed to ensure that if there is capital that is burning a hole in our pocket, it goes back to the right place. If we don't have opportunities once we identify them.

**Further answer: Paul Matthews**

On the annuity side, we had something like 22-23% less customers retire in 2013 than in 2012. Half of that is down to the gender initiative where people brought forward their retirement to take advantage of the rates. After that is the number of customers going into drawdown and the rest of those customers from all that we see is that they have just deferred their retirement. The reason we have such good information on this, as David spoke about in his piece, is that we speak to every single customer when they come to retirement. We know exactly who is doing what. So we have a very good handle on where we are. We have no idea what the numbers will be this year, but I would, it is

difficult to predict, but that is the pure reason. More into drawdown, which we are the market leader, a number deferring and a number that came forward because of the gender directive.

### Answer: David Nish

Really it is that balance, we are going to be the drawdown focus business, annuities to us are not a significant proportion of our overall business in terms of new business. We obviously have the backbook and will continue to manage that.

### Question 7: Andy Sinclair, Bank of America: Merrill Lynch

Thanks, it's Andy Sinclair from Bank of America Merrill. Firstly, I am just looking at Standard Life's annuity margins are somewhat higher than it seems are elsewhere available. I just wondered what your thoughts are on the recent FCA investigations. I realise you still have a large number still shopping around, but what you feel about those you do still keep?

Secondly, just for US equivalents, does that apply to the Canadian business as well? And what the thoughts are around Solvency II and how that would affect capital requirements for Canada?

And finally, I am just looking for a catch-up on the RBS tie-up. I think you previously mentioned writing hundreds of millions in 2013 and a substantial amount more in 2014. And I just wondered if we could get an update on that and if that still holds?

### Answer: David Nish

Let's start with Canada first and start working back to Paul. In terms of the equivalence and how it is going ahead, it certainly looks as if that is where the direction of travel is. Generally the approach that is taken is that Europe is essentially not forcing its regulation particularly on shall I call them first grade countries as regards financial regulation. Now OSFI has always had a sort of blended economic capital type of approach. So we certainly don't see any material change as regards to our capital situation in Canada in regards to Solvency II.

In terms of the thematic review, we said on the day we are very supportive of the direction of travel here because the most important thing you know is to have transparency and good value for money because we are quite conscious particularly with the low interest rate environment that has been, that has obviously driven. Because in some ways annuities are mechanical calculations as regards to the assets that effectively are there to back them up. We are very conscious of the impact that can have on individuals. So we are very supportive of the review. One of the things it certainly has made us look very closely at is, you know, essentially the components of profitability. And I think it is one of the comments you see coming out of the ABI because annuities are quite unusual products in a way. You are recognising the life time value in terms of the profitability up front. You are then on the hook for the next 10 years, 15 years, 20 years as conditions change. And you are essentially working out the

matched cashflow. So I must admit when you look upon it as a risk adjusted type of return, and this is part of maybe the debate why the FCAs now taking an extended period of time to really understand the profitability of the industry. Because in a risk adjusted return basis you know these margins do turn into something quite different.

**Answer: Paul Matthews**

And it is worth also saying, I mean if you look at our annuity book. So every single customer will go through a process, 10 years out and then we will speak to every single customer, which is unusual. Most companies just send something out in the post which is one of the regulators big issues with an application form for annuity. 7 out of 10 of our customers who save with us will, after speaking with us or their adviser, seek an annuity in the open market.  So our 70% compares with the industry average from the recent regulatory review against 40%. I think this is the regulators big issue. Why are 60% of customers staying with their parent company? So of the 30% that do stay with us, the interesting factor there is 60% of those customers after speaking will take additional functionality on their annuity, they don't seek necessarily the highest annuity, 60% will take a guarantee period of either 5 or 10 years or RPI. Again we reiterate how important the security is for these customers. A number of these customers still remember the equivocal life etc. of high rates etc etc. and have had that in the background. So I think all the thing the regulators do is absolutely right and what I would say is I think we would look very well, all of our calls are taped and stored and I think we are very proud of the fact that we have probably got, if not the highest, one of the highest customer satisfaction scores of our annuitants.

On the RBS relationship, we had a good 2013, I think it was publicised towards the end of the year, they took all of their sales force off the road for additional training. I think it was well publicised that two weeks ago they are now back out on the road.  Last year they would have been bringing in probably around a million pound a day of new assets. We would expect that to increase in 2013 now they have been trained. They are now also working very closely and more assets of what they are doing will also go into Standard Life Wealth, as a result of that some of those assets will go into Standard Life Investments. So they are already tied in fact with MyFolio, 100% normally goes to MyFolio but for some of their high net worth clients will now also take Standard Life Wealth Fund Management.

**Question 8: Abid Hussain, Societe Generale**

Abid Hussain from Soc.Gen. Just two follow-up questions really. Firstly I think you said your dividend cover of 1.3 times is adequate. I just want to confirm, is that the sort of level that you are aiming for going forward?

And the second question is on economic capital.  Are you able to now share how much excess you have on an economic basis or give us some sort of idea of? I know you said you do have excess on that basis, but can you give us more colour on that, especially given the Solvency II is, well we know where Solvency II is more likely to land? Thanks.

**Answer: David Nish**

On the first one, I don't think I did say 1.33 is adequate. Quite happy to go back and double check, I don't think I really said anything about Oliver's question that he didn't come back and tell me that I hadn't answered his question. I am always happier with things that improve and strengthen. We don't have a dividend cover target. What we look at is when we do our plans, starting a set of 5 year plans and bringing back to 2 year budgets, we look at the whole business in the round. It is very much that balance point. So therefore we don't allow ourselves to be driven essentially by constraints. What we are really trying to do is ensure we are investing in the business for future growth, we are paying out a fair return, we have a progressive dividend policy and I have always said means it is higher and we have consistently done that.

As regards economic capital, there is nothing else we are going to say. We believe we are very well capitalised. We are very well placed for Solvency II. There is still 2 years to go before Solvency II is there. The regulators are still trying to work out the detailed regulations. In ICA+ we are the pilot firm, we are well advanced with a PRA in terms of those discussions, we believe it is a good place to be. And I am very comfortable with all the work all the teams have done around the Group about getting us to that position. But when there is more we can talk about, we will talk about it.

**Question 9: Farooq Hanif, Citi**

Thanks very much. I want actually to go back to the question that Greig asked and the question that Andy, asked if you don't mind? So, on the margin I can see the logic of those jaws continuing, great scale, reducing the investments you have made. But if you look at the absolute margins you are making in products, so retail new for example and corporate, I think in corporate you are making 35bps now after cost and in retail new at 25bps. When you look at what you are charging customers, you know is there really a lot more room to go in that margin? So from an absolute basis, how do we reconcile the jaws actually continuing at the same pace? That is question one.

Question two, going back to Greig, one of the things that is a bit confusing, well not really confusing but that sort of confuses the debate on your cashflow is you talk about this backbook management, the largest component of your cashflow or one of the largest, so how much of that is operating and how much of that is one-off? How long does that continue?

**Answer: David Nish**

Well taking your second question, that is why that slide which was slide 5, 6 whatever it was, you know we have taken out the assumption changes, we have taken out property sales, and we have taken out insurance one-offs. So what we are really trying to get to is a view of how we see underlying, sustainable, growing business? In terms of Canada, you will always have actions that are going on day to day, you know the book changes shape, the guys are changing, the asset liability mix, they are doing a little pick up of yield here, a bit there. That is what you do running a spread/risk business, it is different from a fee based business. So what we are trying to get to is essentially a view of that underlying progression of the business that we believe is, we use the word sustainable in terms of how it builds and grows, coming through.

The question round about the jaws, remember, again it goes back to the four yellow arrows. What we are trying to do is increase scale and control costs. So we have always worked to an assumption, now an assumption for the longer term, that price reduces. So therefore, back to the two things we can do to leverage the jaws more directly: one is, or three things, one is to enhance what we sell to customers in terms of, there is value attached to it more than just the ordinary proposition. Second thing is can we reduce absolute costs and we have shown a track record of doing that. And the third thing is pulling in large scale volume that is there.

So for us we do believe there is capability to maintain and potentially enhance the margins. Now again when you look upon it as being total Standard Life, one of the things that is really fascinating, if you take the auto enrolment stuff that Paul has talked about, our simple "Good to Go" proposition has the equivalent of MyFolio 3 as the default fund offering, it is a requirement to take MyFolio 3. We think about our business in many ways, much more as distribution companies tied back to the asset manager. So again we do look for profitability in each one of the activities we do. But in more ways we are actually looking upon the whole value we can create by effectively capturing assets, getting them into the right wrappers and then how do we, using Keith's business, effectively extend that.

**Question 10: Alan Devlin, Barclays**

Hello, Alan Devlin at Barclays. A couple of quick questions. First of all on Canada. How do you see the spread/risk margin evolving if the Canadian interest rates move up? And if Canadian interest rates go higher, would you consider a more substantial restructuring of the backbook, would it make it more attractive?

And then secondly on the drawdown opportunity, could you talk a bit more about the size of that opportunity and how much of your current investing book goes to drawdown with Standard Life and where it would go to?

**Answer: David Nish**

So your first point, you are right in terms of the backbook. In theory one of the things that it is sensitive to is the underlying interest rate and how people view their capability to enhance the yield or otherwise that is there. So returning to a more normal environment, people if they are interested in backbooks will be able to evaluate it more cleanly. Over the last 2 to 3 years with where interest rates uncertainty has been, I am sure it has been quite difficult for people to actually understand what to do with a book of 4 billion dollars with cashflows extending out 30-40 years. So you are right.

In terms of the underlying spread/risk in Canada. What we will probably end up seeing is within the guidance I gave earlier, you will see the proportions change much more towards fee, capital-light coming through. A lot more of the costs are dedicated towards that, so the cost efficiency increases that. As we said, we have taken out some of the surplus assets within the business which reduces the yield coming through. Again the performance in Canada, if you actually look upon it at that sort of detailed

level, it has actually achieved against the backdrop of, let's call it yield coming off surplus assets, it is probably down 20 million quid. Again the underlying performance in the group is down quite a bit because we raised the debt in the prior year. So again that underlying growth number is actually really strong when you begin to look at it in that way. So we are comfortable with the guidance, subject to the point I made about the Forex. Canada's exchange rate is off a bit by about 10% but as I said we do hedge a significant amount of the NAV but it goes through reserves so it is not there as a profit offset.

**Answer: Paul Matthews**
I don't have exact numbers but what I can tell you is I think we have got about 50,000 customers to date in drawdown. I think we will take on another million customers over a 3 to 4 year period just auto enrolled customers coming in. A number of the FTSE 350 we have relationships with a third, many of those high earners are in groups SIPPs or Group FRPs we call them, Group Flexible Retirement Plans. So all of those companies that have chosen that plan have effectively a deferred SIPP and it is the SIPP vehicle that everyone goes into for drawdown. The figures we have shown on one of our slides already is that we anticipate, I think it was £230 billion of retail money and a lot of that retail money will be individual pensions, moving to £600 million on platforms by 2018. So you have got to assume that quite a chunk of that stuff are high earners in SIPPs. And the actual DC money, again people in company pension schemes, £400 billion in 2011 going to £1.2 trillion in 2020. So you are talking about anybody with a reasonable size pension plan coming to retirement and finding annuity rates today are not going to go into annuity. They will go into a SIPP and the SIPP drawdown. We write about a third of the SIPP market and about a third of the drawdown market. So I can't give you exact numbers. All I can say is DB is going one way closure. People are capped and the only way people can move into it is to go into SIPP. So for me the next 5,10,15,20 years, drawdown is a massive, massive growth market.

**Question 11: Greig Paterson, KBW**
Could we have a GARS update? Particularly, how has performance been in the New Year? Question one.

Second one, just on that question on spread in Canada. I wonder if you can tell us what the asset and liability duration is currently so we know how your position for the yield curve changes in Canada?

And the third thing. I want to see if I can get a value this time. What percent. You retain 30% of your annuity, 70% go. What percentage points of that 70 is going to Partnership and what is the revenue you gain from that?

**Answer: David Nish**
I will take the middle one first before passing to Keith, actually we'll do it the other way round, do the 30% and partnership one. In terms of yield the guides can point you, because the information's out today, the sensitivities are fully there. There is also essentially the profile of assets, because all the assets, no disclosures there. There

isn't a dramatic change in terms of the asset liability and actually I think if you look at the sensitivity year on year Greig, I think we are less sensitive this year to interest rates than we were last year. So the sensitivity has gone down because we continue to do a lot of work round about the matching of asset liability. Partnership question, can you answer that?

**Answer: Paul Matthews**
I think we referred, about £2 million, it is not a huge amount of money to third party. But what I would say is that from 2013/14 we are now doing impaired or enhanced ourself annuities. So whilst we will offer the customers the option to go to a third party if they have potential, less than 100% health, we will also take them ourselves and offer an enhanced rate.

**Further question**
£2 million of commission or £2 million of premiums?

**Answer: Paul Matthews**
£2 million of commission.

**Further question**
The premium percentage is divided by 0.3? 3% commission?

**Answer: Paul Matthews**
I will check, 4% I think.

**Answer: David Nish**
Have a quick word with Mark at the end. Keith the GARS?

**Answer: Keith Skeoch**
Yes, GARs delivered 7.7 last year, did what it said on the tin, year to date until last night. The one we look at closely has pretty much done 1% so you can annualise it up, it is doing what it said on the tin. Since Ewan left we have had £2 billion of net inflows which is about £400 million a month and that is pretty much what it is running at at the moment. So yes we are pleased.

**Question 12: Andy Hughes, Exane BNP Paribas**
Thanks guys. So the first question was following on I guess from Alan's question about Canada. So interest if rates go up in Canada, would you consider selling the spread business? Presumably it is not a core part of focus of the Group. And would that trigger a release of capital to shareholders if you were to do that? And what criteria would you consider it?

The second one was on the spread business, we talked about that today. Obviously there are some rumours about you increasing the infrastructure investments behind that. What impact would that have on the earnings?

And I guess the third bit is a request because if you look at the spread, annuity assets of the Group, we see them going down year after year. But of course that is not the true picture because a lot of that is coming from the reinsured business that you don't make any money on. So could you split the annuity assets to the 100% shareholder, the longevity element only and the makeup component please? Thank you.

**Answer: David Nish**
I won't try and answer the last question, I will leave it to the team in the front row to go away and think about how we do that to come through.

As regards to your question about the Canada backbook. I wouldn't exclude selling the business. It is obviously the biggest driver behind capital in Canada. So if that business was sold, I would say it is roughly $4 billion of liabilities that are there, there would be a significant restructuring of the Canadian balance sheet. I am sure it would probably turn the business that looks like it is earning somewhere between sort of 7-8% RoE, into one that was probably earning quite significantly more than that. And particularly allied to the changes that we have done round about the fee based business, selling more of SLI product, getting more distribution in Canada, that I said we had done, then you are beginning to see, you get the pooled registered pension scheme, so you are beginning to see a business that will begin to look more like the UK.

**Further question**
How much capital backs that 4 billion?

**Answer: David Nish**
I will double check what you can find from the OSFI returns coming through. We have never published a breakdown of the, Greig is telling me you wouldn't find it in the OSFI returns. We will do an extra bit of looking. Is this what you read at night Greig, when most people are reading the newest Dan Brown. We will have a look at what is available round about the allocation of capital. There are splits we might be able to end up doing round about that Andy, okay. And a third question?

**Further question**
Infrastructure assets?

**Answer: David Nish**
We do invest but we are not a big player.

**Further answer: Keith Skeoch**
We are not and it is something we continually look at and it is part of the parcel of the underlying fundamentals. I am also aware it is pretty crowded space at the moment with a lot of people chasing those assets. So the one thing I can assure you is we will have our eyes very, very focused on the long-term return that is available and the underlying security of the capital structure that provides some kind of protection for the

risk that is associated. This is long-term stuff. We will be very, very thoughtful about the way in which we manufacture.

<u>Question 13: Ravi Tanna, Goldman Sachs</u>

Ravi Turner from Goldman Sachs, just one question really on the corporate pensions business. Clearly as auto enrolment progresses, the minimum contribution rates are due to step up over the next few years. I am just curious to know, some of your peers over the nine month stage talked about disappointment with contribution rates to date on their books. Curious to know what your experience has been in that regard and also whether or not there has been any impact on non auto enrolment schemes in terms of those variables?

**Answer: Paul Matthews**

We have been very pleased and I think it is probably indicative of the companies that we work with. So I think some companies have been into the large workforces with much higher turnover and lower paid employees. And we are typically dealing with more professional firms with quite high contributions. So a lot of the companies we have worked with you know have been good double digits contribution rates. So we will have a complete mix, it will vary across the spectrum, but we have been very pleased. And what I would also say is the opt-out rates are around 9%. So again good contribution.

<u>Question 14: Steven Haywood, HSBC</u>

Just a couple of clarifications please. On the 45-85 basis points pension charge, is that for new business or on your whole backbook? And in platform consolidation, would you be considering to take part in any consolidation in the industry?

And then finally on, if Scottish devolution occurs, where would you reside?

**Answer: David Nish**

Goodness me. I am going to take that question first. All we have said today is very much how we think about it from a customer's perspective. Everything we are doing and everything we have talked about today and there is a very clear statement in our reports and accounts, is really around acting responsibly as a business that has got 4 million customers in the UK who are involved in long-term savings. So we are driven wholly by that and we will continue to be driven wholly by that. I think the statement is very clear, it has all the information in it and I don't think there is much more to add to it.

**Answer: Paul Matthews**

On the pension question, we repriced in 2001 every scheme that we had for both backbook contributions and ongoing contributions between 0.4 and 0.825 depending on the size. We have a few schemes subsequent to 2001 where we are charging more than 0.825 and where the employer has chosen certain functionality and certain investment management funds. But that is a tiny amount. And as for acquiring backbooks, we are doing a pretty good job at the moment of picking up all the schemes

that were written at a higher price with commission offices so far and I think we are going to see quite a few more of those coming through. We wouldn't rule out, we have got a big factory in as much as the technology invested means we can shift something like I think 60,000 transactions a day now. We can put a scheme of about 1,000 lives on in about 30 minutes. So we wouldn't rule out if we saw an attractive backbook to take because we could do it pretty efficiently.

**David Nish**
And in terms of, I think the question was platforms or pensions?

**Further question:**
Platforms?

**Answer: Paul Matthews**
Platforms, a slightly trickier, but we don't rule anything out. At the moment the issue is, can you just consolidate them onto our platform. If you take another platform over you then end up running two or three platforms. But again, wouldn't rule it out, it is not something we are actively seeking but if something came up that was attractive we would look at it.

**David Nish**
Well thank you everyone. I know you are having a terribly busy day, actually it is quite an interesting day, there is a lot happening from lots of different angles. So thank you for your time.

**End of Presentation**

**Notes:**
1. These additional sterling reserves impact operating capital & cash generation, but to date they have not impacted the IFRS result.