2012 Q3 Interim Management Statement

Wednesday, 31st October 2012

Jackie Hunt, Chief Financial Officer

Good morning everyone. Thank you for joining us to discuss our Q3 interim management statement. I'm joined today as usual by Paul Matthews, Chief Executive of our UK and Europe business. I'll briefly take you through the highlights of today's announcement. And after that we'll be happy to take your questions.

Standard Life has performed well in the first nine months of this year. A strong third quarter with inflows across our long-term savings business and positive market movements has increased Group assets under administration to record levels.

Standard Life Investments has had a notably strong quarter, achieving record levels of third party assets under management. It continues to build a well diversified book of third party business by both asset class and geography, with an increasing proportion of flows coming from overseas.

In the UK we are ready for the significant regulatory changes underway. The phased implementation of auto-enrolment has begun, and we are already offering RDR compliance advisor charging almost three months early.

Earlier this month we announced a platform distribution deal with RBS, delivering a range of RDR ready financial solutions to customers. This is an example of our ability to combine the unique expertise of focused solutions for Standard Life Wrap and Standard Life Investments.

Internationally during the year we've continued to expand our fee based offering in Canada, and we've opened for business in Singapore.

Uncertainty around the future of the eurozone and difficult economic conditions may continue to impact consumer sentiments. However we're confident that the efficiency and scalability of our business, combined with our simple model of increasing assets, maximising revenue and lowering unit costs will continue to drive improved returns for our shareholders.

So if I turn to assets, flows and sales. Group assets under administration at the end of September reached over £211 billion; long-term savings net flows were £2.5 billion; while new business sales were over £14 billion. Standard Life Investments had a notably strong nine months with third party net inflows of £3.2 billion. In the UK fee business assets grew by 8% to over £180 billion. We continue to see strong demand for investment solutions driving flows and higher margin propositions and helping to deliver total UK fee based growth inflows of over £10 billion so far this year.

Our UK Retail business has performed well in the first nine months. Assets on our platform grew 30% to almost £14 billion; whilst SIPP assets grew by 19% to over £19 billion. And this was against a backdrop of subdued consumer sentiment, ongoing economic uncertainty and increased commission based competition ahead of the RDR. Although these are factors we expect to persist into the fourth quarter, we continue to focus on meeting the needs of our new model advisors, who are best placed to prosper in the new market environment. We remain in the unique position to be able to deliver end-to-end solutions for our customers in all channels.

Momentum continues to build in our UK Corporate business, having won 93 schemes during the period. 83,500 employees joined our schemes in the first nine months of the year; and we expect auto enrolment to increase levels of employee engagement in our existing schemes, resulting in a potential 400,000 additional savers. We are receiving high numbers of enquiries from corporates and have a growing pipeline of new business, which will drive further growth in 2013. Our European business was bought under the leadership of Paul Matthews in June, as UK and Europe CEO. In the first nine months Germany and Ireland continued to attract net inflows and to grow assets, despite poor consumer sentiment and ongoing economic uncertainty. Our MyFolio of fund range is now available in Ireland, following its popularity in the UK. And in Germany we continue to expand our unit linked proposition.

Standard Life Investments has delivered another strong performance, with third party assets reaching a record level. Total third party net flows in the first nine months were £3.2 billion, despite an expected outflow of £1.8 billion from a single low revenue yield mandate in the second quarter. In the third quarter alone third party net flows were £2.6 billion.

We continue to make good progress in increasing our international presence, doubling European segregated inflows, and delivering net flows in our US business of over £1 billion. Total third party net flows from outside the UK increased 52% to £2.4 billion; long-term investment performance remains robust, the pipeline for institutional business remains strong, and demand for our mutual funds in the UK as well as SICAV funds in Europe remains positive.

Our Canadian businesses has performed well in the first nine months, growing assets in our fee business by 9% to over £15.5 billion, with the net flows up 56% to £612 million. This has been driven by an increase in group savings and retirement net flows and by growth in our retail segregated funds business, which is now number one in the market on a net flows basis. The new management team in Canada remains focused on improving performance, leveraging our experience and opportunities, long-term savings and investments, for both our corporate and retail customers.

In June we created our Asian and emerging markets business to focus on accelerating growth within our Asia and offshore markets. In the nine months of this year we've continued to grow assets across our retail savings and investments business, and our joint ventures, while generating opportunities for future growth by increasing our distribution capability in China, gaining further market share in India, and of course the extension of our franchise to Singapore.

Finally, before we take questions, a quick word on the outlook. In the UK we are entering a period of significant change and potential for growth. Over the past few years we've built a scalable business that is capitalising on the opportunities that exist in our chosen markets. Given its leading market positions we expect the UK business to continue to do well, and to see the benefits of regulatory change come through during the course of 2013. Standard Life Investments has opportunities to continue to expand its capabilities and reach, both in the

UK and internationally. The outlook in Canada remains steady, despite the short to medium-term challenges of the low interest rate environment. And as our new management team we expect continued growth in new business. Internationally we're now much better aligned to execute our strategy, following the creation of an Asian and emerging markets business; and we'll continue to maximise the opportunities that exist in this region.

So overall we're confident that our business model, our leading market positions and our strong balance sheet will allow us to continue to deliver ongoing improvements and value for both customers and shareholders.

Now, before I hand back to the operator for Paul and I to take your questions I'll just add that we have a facility to take questions that are submitted via the webcast today. We'll either pick these up on the call or we'll respond directly to you afterwards. With that I'll hand back to Lyndon.

Question and Answer session

Question 1

Andy Hughes – Exane BNP Paribas

Good morning everyone. Just a couple of questions if I could do. The first one is on net flows during the quarter. St James' Place also reported this morning, and they said that net flows had picked up, particularly in September, and were extremely strong in September. So, could you kind of give a background as to how things have progressed during Q3, and maybe a view on how things have gone in October?

Also I guess, because you cut off the policy services arrangement with SJP, I'm just wondering if you're seeing a large number of outflows, and that's what's driving the inflows to be particularly strong, because when you've cut off the IFA commission to ex-IFAs who work for SJP whether there has been a re-registering effect and whether that has held back your net flows during the course of this quarter and maybe early next quarter.

The second question was about annuity sales, which are obviously up quite a lot on Q2, but up 28% on Q3 last year. Could you talk a bit more about how that's going and whether you think that's a kind of increasing trend in annuity sales we should expect going forward? Thank you.

Answer: Jackie Hunt

Morning Andy. I'm going to pass over to Paul who does all the UK specific questions.

Answer: Paul Matthews, Chief Executive UK & Europe

Morning Andy. So, net flows in October: what I would say is that we've had a very strong book of business coming through on the corporate side. We've been flagging for some time now that corporate enquiries have been deferred into 2013 auto-enrolment; and I think what we have seen is a very strong level of enquiries coming through now in the October time and going through to November. The retail space I think is predominantly business as usual. Currently our focus is predominately helping those advisors get themselves ready for RDR. You've seen the securing of the RBS deal; again, a lot of work is going into getting them ready for 2013 as well.

The question regarding the St James' Place model: I think it's worth reiterating that that is not our business model of buying IFAs and then the work they're doing on their back books. We haven't seen any increase in business flows to that company, if anything we've seen a reduction since our activity.

And the third question was annuities: no, the annuity business has got better and better on the basis of since we launched our brand we've done much more customer engagement so we've got far more dedicated people on the phone working with the customer as they come to retirement. And secondly we've had the gender change activity, so we've seen more people executing an annuity with the male and female rates being equalised.

Further Question

Sorry, just coming back, Paul, on the flows during the quarter. Are you saying was it any different in September to July and August, or is that…?

Answer: Paul Matthews

Yes, what I would say is we're now starting to see the companies dealing with us now ready for 2013. So the half year the enquiry numbers were lower than we anticipated, and what I would say is the enquiries now are higher than anticipated, as people get themselves ready for 2013.

Answer: Jackie Hunt

Andy, just to be clear, obviously on corporate pensions there is a long lead time it can take anywhere up to six months. So when Paul talks about a very strong pipeline, and I think we've seen significant strengthening of that pipeline, you won't see that coming through in the Q4 numbers, in large part it's going to be early next year.

Question 2

Ashik Musaddi – JP Morgan

Just a couple of questions. Can you give us some colour on the expectation from your new branch in Singapore: how should we expect it to evolve and what kind of sales should we expect going forward?

Second, in terms of bps revenue increase in asset management, what proportion of the new money is going into GARS; if you can give some more colour on that? And also some more colour on the John Hancock inflows? Thank you.

Answer: Jackie Hunt

I'll talk through each of those. In terms of Singapore and the opening of the new office there, we have talked in the past about the success of some of our off-shoring model, so we've currently being selling offshore type products to expat populations through Standard Life in our offshore business in Ireland. That's had considerable success over the last few years. Equally a lot of the growth that's been coming through our Hong Kong business, about 50% of that business is going to domestic Hong Kong residents; about 50% has been going to offshore residents. So we've always been clear that there is an opportunity around these very globally mobile populations of individuals. And we've talked certainly in the past about our intention to grow that part of our business.

Singapore is for us a hub, in addition to the existing Hong Kong hub, that will allow us to access the Asian markets. And by that we're talking non-resident Indians who might be working in that region; mainland Chinese who may be mobile; and sort of Vietnamese populations, Japanese – but those sorts of individuals who are working around the region but not necessarily staying their home offices.

In terms of the outlook, we see this as an interesting opportunity; it's a high growth opportunity, albeit from a small base. So we are focused on a lot of the restructure that we announced: bringing the more mature domestic Irish business and the German business under Paul, and really focusing Nathan Parnaby in terms of this Asia and emerging markets is to get to the level of interest and drive that we think it justifies in terms of the outlook.

So a long way of saying really interesting opportunity; we can see potential for significant growth. But it's from a small base, so you'll see that build over up time.

In terms of the bps revenue you're quite right, if you look at the bps yield on Standard Life Investments that went up from I think about 37 basis points at the end of last year to about 39 basis points as of today. If I recall it at June it was around 39 basis points as well, and this is very much as a result of the fact that our new flows are coming into higher margin propositions. I don't think we've split out the components of those flows; but it's fair to say a large percentage of the flows that you saw in Q3 would have gone into the GARS fund in particular. So we've talked in the past about if you look at our outflows they tend to come out at pretty low margin – if you look at the 1.8 billion mandate that we lost in the second quarter these are single digit sort of revenue yielding mandates. The new yield inflows are coming in around 68 basis points. So you're seeing this sort of upwards trajectory on the overall inflows versus outflows. And we expect that to continue, I should say.

In terms of the John Hancock deal, we talked today about the fact that we've broken through the £1 billion mark. Clearly this has been a very successful deal for us it's only about nine months in the making now and it's broadening out from pure GARS into other asset classes as well. So we're pleased with the progress on that deal. What I would highlight as much is that we are getting much broader traction in the US. So we talked in the past about broadening our US distribution, upping the level of sales sort of resource out of our Boston office and raising our profile in the US more generally; and we're seeing that start to bear through across a number of areas. So, for example, we talked about the Illinois teachers' pension fund which we run recently; CalPERS I think has made some statements about sending some mandates our way. We're in conversations with a number of other large US schemes as well. So I would see Hancock as a successful deal in itself, good uptick quickly, but actually part of a broadening out of the geographic business into the US.

It's probably worth saying that we focus very much on the US phenomenon that we're seeing in the flows at the moment. As we go forward you'll be well aware that we signed a strategic deal with Sumitomo Mitsui, and we see that as having similar opportunities associated with it. Equally as we look at the Asian region more generally we see some opportunities for similar types of strategic deals there as well.

Question 3

Jon Hocking – Morgan Stanley

Morning everybody. I've just got two quick questions. I just wondered if you could comment on what your intentions would be in India if and when the regs change. And secondly I just wondered why you'd issued the Canadian subordinated debt locally rather than at Group. Thank you.

Answer: Jackie Hunt

I'll take both of those. In terms of the Indian regulations, as I'm sure you're all well aware, we're currently capped at our ownership of the savings and investments business at 26% by the FDI rules. Recently there has been an indication at one level of the Indian parliament they will approve an increase in that level to 49%. It does require tabling at other parts of the government structure so it's certainly not a done deal. I have to say I've been in this industry on and off for probably about 15 years now and we've probably had four or five false storms around whether this limit will be raised or not. Now, clearly there is a view around government circles in India that they need to open out some of the corporate opportunities; I think that is one of their stated objectives to get their economy moving. Equally we know that this bill has failed to pass for a very extended period of time. So I am a little of the mind frankly that this is just sort of speculation. Until we actually know whether FDI rules are going to change speculating on what it may or may not do is probably without great justification.

In terms of the Canadian sub debt, if we maybe put it a little bit in context. When we bought back the low tier two, I think it must have been around this time last year, we bought back 770 million of euro denominated debt, we always said that we were doing that with the intention that that would bring our leverage down to about 25% I think it was; that in the fullness of time when the pricing conditions were right we would look to re-leverage the balance sheet, really to keep it efficient and to make sure that we had the right amount of leverage in it. We had looked at the market conditions for a while since the pricing wasn't attractive, and more importantly, you'd be well aware, the windows for actually issuing subordinated debt in Europe have been very short, a matter of days; and we had no appetite because we don't need the capital – this is purely about balance sheet efficiency – we had no appetite to launch a process that was then disrupted by eurozone uncertainty.

In terms of what the Canadian sub debt issuance does: we issued CAD400 million a couple of months ago now in Canada. A few reasons for doing it there. The first was that you'll be well aware that when I last spoke to you I said we were holding additional capital against our Canadian business, and that was as a result of falls in the yield curve back end of last year; well this is in part to enable us over time to repay some internal debt and to get that capital back up the corporate structure. We have a policy of holding capital as high up the structure as possible. The coupon we got on it, 3.9%, was very good; it's the lowest ever coupon for an insurance company, heavily oversubscribed: I think there was about 2.3 billion of demand. And it reduces some tax leakage that happens on this inter-company arrangement. So it made sense at the time, it kind of was a very tactical move, firstly to start re-leveraging the balance sheet. We're still only at about 27% so over time I've said we've got a low target below 30 is just about where I would want to land it, but to do it in a cost effective way.

<u>Question 4</u>

Greig Paterson – KBW

Just three questions. One is in terms of individual pensions, I wonder if you can just talk around the extent to which the slow down year-on-year is a function of consumer confidence weakness or contrast that with IFAs internally focused pre-RDR in changing their pricing model, that's question one.

The second is versus the expectations I thought that were out there India's sales and their client cash flow seem to be weakish. I was wondering if there's something going on there with product or consumer demand etc that you could talk about.

And the third thing on annuities, and just in terms of a timeline sort of quarter to quarter, I wondered if you could talk about the baby boomer bubble, when is that going to peak and when is the gender neutral pricing impact going to peak in your opinion as opposed to, obviously, your thriving strategy to get increased penetration. But those two other big themes, I was wondering how they progress from quarter to quarter to help with our quarterly forecast.

Answer: Jackie Hunt

Hi Greig. I think I'm going to ask Paul to talk about one and three and then I'll pick up the Indian point.

Answer: Paul Matthews

Morning Greig. So individual pensions. So there's a couple of things I would say on individual pensions. So there has been some consumer confidence to actually how much more money they put into individual pensions. We've had a lot of IFAs in the last quarter studying for exams and getting themselves ready for RDR. And typically what we see is a lot of people don't tend to move their individual pension business until they come up to retirement, and then they'll look at a SIPP to move into. So I just think we've seen a summer holiday period of time, we've seen getting ready for RDR, and there has been a bit of consumers asking 'do I want to put money in now to my individual personal pension'. So for that reason I would say we have been slower.

The third question on annuities, I think the baby boomer arena, or area, will go on for a long time here so what we tend to see, Greig, is people reaching 60 are now looking if they've got sufficient money in their pot just to look at drawdown and you've seen us announce our latest new flexible drawdown product. So I think we're going to see in the next ten years customers that come up to retirement, if they've got enough money, if interest rates remain low they will continue to try and keep that money invested and pull on other parts of cash that they've got, and if necessary go into drawdown and take small bits until annuity rates improve, or they'll just run their fund down slightly more. The customers that are mostly taking annuities, typically those are customers with very tiny pots, so they just need to access it. So I think we have a lot of small pots that will continue just to roll over to us. What I think you'll see over the next five, ten years potentially is the amalgamation of annuity pots into SIPP and I think our drawdown position, I think we write about a third of the drawdown market, I can see that getting much bigger for us because I think more people will move into SIPP than historically have done; they've just literally gone into an annuity from an individual pension, so I'm quite excited the next five to ten years of bigger pots in SIPP and drawdown.

Further question

And the gender? I mean should we expect a... And sort of fourth quarter versus the first quarter versus the second quarter next year how do you see the gender...?

Answer: Paul Matthews

There has been a slightly bigger bubble this quarter with gender. Having said that, if you look at our rollover rate, we've been 30% half one, we're about 32% now, so I think there is a slight gender bubble, I wouldn't say it's a huge gender bubble for us. We're not a major player in the annuity market, so I think some of the other companies who are the bigger rate payers will probably have a bigger peak in the gender bubble. I think we got a slight peak but I wouldn't predict it to be too big a peak.

Answer: Jackie Hunt

And Greig, maybe if I talk a little bit about the Indian business, I'm not quite sure which numbers you're looking at. In terms of the overall outlook I'd say the Indian JV I think continues to do really well. We're number three in the private market, we've got a market share of about 13%. We're second in the individual channel with a 17% share. I think over a period of time we had seen the Indian market contract in parts, but clearly our business, I think, has reacted particularly well and has been gaining market share against that contraction.

A couple of quick observations, the one is there is a degree of seasonality in some of these numbers. The other is there's quite a strong impact of currency, so actually if you look at PVNBP and the numbers I've got are nine months and nine months, the change you would see at the face of it is about 2% but on a constant currency basis it's about 17%. So I would, if you haven't already, encourage you to look at the underlying trends in that.

We do have, and this is my little plug for the morning, we do have the session on 19th November where the CEO of our Indian Life and Pensions business will be in to see investors and analysts at a round table, so I'd definitely encourage you to come along to that. We'll also have one of our strategy people talking about the Indian asset management business more generally and Nathan Parnaby will be there, the CEO of Asia and Emerging Markets. So we can follow up on any of your more detailed questions either after this or at that session as well.

Further question

My colleague also from KBW will be there.

Answer: Jackie Hunt

Excellent; we always like that.

<u>Question 5</u>

Blair Stewart – Bank of America Merrill Lynch

Thanks very much, good morning everyone. A couple of questions. Firstly can you talk a little bit about the influence of GARS on the institutional pensions business that you're bringing in? Clearly that the part of the UK book that's growing very well. And in particular have there been any, or would you expect any, impact from the exits of a few of the GARS team? That's the first question.

And then the second question again on the UK insurance business, if you exclude the institutional pensions you've been at around zero net flows. Would you expect that number to move into positive territory moving forwards, again excluding institutional pensions business? And could you talk a little bit in the UK insurance business about the margins on the ins versus outs at the moment. Thank you.

Answer: Jackie Hunt

Morning Blair. I'll talk a little bit about your questions on GARS and then I might just hand over to Paul for the questions on the institutional pensions and on margins.

In terms of the institutional pensions business I think you can take it that a large proportion of that has been going into GARS itself. The GARS fund has now broken the £19 billion mark, I think is what we announced today. Obviously a very strong series of inflows into that, part of that, through that institutional pension line. If you look at the impacts of the departures, while we never like to see people we value leaving the organisation, these were three individuals out of a team of 22. We replaced them internally at the point the announcement was made. We have significant debts, actually, in our front office staff and we've done that really very smoothly. So we went through the normal sort of process, I think a lot of the sort of institutional mandates looked at whether they thought it would have an impact, it clearly hasn't slowed down any of our flows, there's no concern being expressed by any of the businesses that send flows our way. And equally the performance of the fund remains strong. I think it's about 7% up year-on-year, well, over the nine months effectively. And it continues to meet all of its benchmarks, so it's delivering good strong performance, but as importantly well within the volatility limits that it establishes.

Paul, I don't know if you want to pick up.

Answer: Paul Matthews

Yes, a couple of things Blair. So I'll just touch on our corporate flows as well, just as Jackie's been talking about the GARS. We've had a very good level of interest in our Standard Life Investments total investment solution. So we launched the sort of equivalent of corporate MyFolio about three to four months ago. What I would say is on the enquiries we've had in over the last month, which have been a reasonably substantial size of enquiries, around 50% of those enquiries are looking at going Standard Life Investments solutions. So that's a mixture between GARS and the corporate MyFolio, which we call our Active Plus and our Passive Plus. So I think as far as flows are concerned and trends in the UK, we've got a good level of pipeline business into 2013. It's been a slower 2012 than we anticipated but it's been a much stronger third quarter for us, and the fourth quarter's shaping up the same way in that a lot of the employers we thought might have started in 2012 are now starting in 2013. So we know exactly how many schemes we'll have come in the first half of the year and we'll get a better idea as each month goes by for the second half, and I think we've got a good level of confidence that it'll be a good year for that.

And the second thing is the retail flows. The retail flow has been tougher for us this year. It's always been for us about getting ourselves ready for 2013, we've continually said this. We don't pay commission on corporate business or retail business and the rest of the market does, so in tighter times people will be maximising the opportunity to get commission products sold this year, and to do that they're not going to come to Standard Life. So we've focused really on getting our deals ready, you'll have seen the RBS deal which will start in January of 2013. We've worked very hard on getting auto-enrolment ready; we start our first scheme live, a major top ten plc, in a week's time. And we've worked very hard on getting investment solutions embedded into most of our IFAs doing it on the Wrap platform. So all things being equal of what we've had to deliver in 2012 to get it ready for 2013 I think we're in pretty good shape at the moment.

Further question

Okay, very good, and a comment on the margins of the stuff coming in.

Answer: Paul Matthews

We've got a lot of old with-profit business that will roll off, which doesn't contribute at all to the plc funds, and we're picking up...I think to date our figures show £1.9 billion of money has gone into MyFolio now, 1.6 billion to Standard Life Wealth and 19 billion to GARS. These are premium priced funds. So these are high margin investment funds, so I think you could expect with the success we're having on the Standard Life Investments connection that we're in a pretty good position compared with most of our competitors to have our own investment solutions, most companies don't have that. So I would think the margins should be quite reasonable.

Further question

I know there's no investment related margin from the with-profits funds but there is a kind of admin fee that gets paid across which presumably gets more as the fund gets smaller.

Answer: Jackie Hunt

No, so Blair, just to be clear, the outflows that you'll see, and that you're seeing largely in these numbers, are conventional with-profits. On conventional with-profits there's not really even much of an admin charge, I mean it's close to zero. The rest of the with-profits funds, yes, I mean there's a contribution, there's a charges minus expenses, but on that part of the book it's long tails, it's 20 plus years, we don't expect outflows from that and we're not seeing anything beyond our expectations. So I think Paul is absolutely right in saying on the outflows from with-profits it doesn't contribute, the CWP does not contribute to the profit of the business as a whole. So it's not a gap that we need to fill in some sort of way.

Question 6

Andrew Crean – Autonomous Research

Good morning all. I just wanted to ask a question on the 13.8 billion on the platform. Firstly just to clarify, is that all new retail business or does it include some other business. And then I just wanted to get a sense of what proportion of your AUAs, both in new retail and in corporate, have higher margin add-ons, things like MyFolio, the managed portfolio service, and Standard Life Wealth attached to them as opposed to just the basic sort of standard platform type charge?

Answer: Paul Matthews

Andrew, I'll have a go at those, two of those. So the 13.8 billion on our platforms, that's new world business, so we have Wrap and we have Fundzone, so both of those platforms are taking on our new world type business, so it's a new model business rather than our old style business. And we've also got, I suppose, the SIPP platform, which is the third platform you should add into that because again that's other new world business. We don't actually split percentage-wise what comes into what funds. All I could say, though, is if you look at the assets going into MyFolio quarter-on-quarter, and into Standard Life Wealth, these are both the fastest-growing model portfolio businesses in the UK, and so you're competing against companies that are hundreds of years old here in this market. 1.6 and 1.9, both of these businesses and propositions weren't in existence two and half years ago, so they're coming in pretty good levels of income, and for the UK we're selling GARS as well as Standard Life Investments. And the fourth one I would add is that the corporate investment proposition, Active Plus and Passive Plus, I think I said in the previous call, around 50% of the enquiries we've had recently into our corporate business are going into Standard Life Investments solutions, which would be not just GARS, it would be the new corporate investment proposition. So we expect that to go on a similar basis as the MyFolio on the retail side. So I think we are bucking the trend in that we are bringing more and more of our investment monies in-house whereas I think virtually all of our competitors don't have that investment in-house capability.

Further question

All I was really trying to get to was given your current new retail AUAs of 27.4 billion and your corporate assets under management, which I think are round about 23, what proportion of each of those has the additional sort of MyFolio and all those sort of...?

Answer: Paul Matthews

I'll try to...if we can find those. I don't have them to hand, Andrew. I'll try to see if we have got some sort of metric, but I don't have those to hand.

Further question

But they're presumably largely in new retail as opposed to corporate?

Answer: Paul Matthews

Yes, about...it's all new retail. So very little of our back book is going into this, it's virtually all of our new retail. And we are selling in our corporate investment solutions into back book, but that's still too early yet, so there won't be any of that yet. But we would hope to be able to sell into a lot of our companies that we have – 35,000 companies – the back book, we'll be focusing very heavily in 2013 and 2014 on corporate investment proposition.

<u>Question 7</u>

Gordon Aitken – RBC

Morning. A couple of questions please. Firstly, you announced a major spend programme back in March 2010 developing best in class propositions in a way that your competitors had not announced a similar programme. I'd just love to hear a tangible example of, say you went to a beauty parade and a client said we're going with Standard Life and it's because of, you know, this aspect of the spend.

And the second question would be on Canada, the management team there, the new management team appears to have started strongly. Now the Canadian business, with its sort of selling off SEG fund business with guarantees is quite different to your ((0:37:14?)) focus in the UK. It seems the business is being transitioned now towards fee-based, you've a good net inflow there, and away from spread. I'm just wondering how much of this is a conscious move by you, is it demand-driven, what are the big three pushing in Canada and how far you think this move can go. Thanks.

Answer: Jackie Hunt

Thanks, Gordon, and morning. I'll give a couple of comments about the investment programme and then maybe Paul can flesh out a little bit. Clearly we set out, we said, we gave some guidance around the quantum, I've got nothing really to update what I said at the half year, we remain on track with what we expect they will deliver out of that programme. The key point to make is we'd always said we were looking to deliver an IRR of over 15% and a payback of under five years. And effectively we're well ahead of that. The portfolio as a whole I think is ahead of our hurdle in quite a substantial way. There were two that sprang to mind, there are lots of examples we can give, but maybe if you want to talk a little bit about MyFolio, the better known. But also maybe trust-based pensions and the master trust agreement, because I think this is one of the areas where I think there's only one other company so far who even offers it. Paul?

Answer: Paul Matthews

Morning, Gordon. So I can give you a number, actually, so from the corporate space, let's look at Lifelens, so we're winning now your major plcs and dealing with the front to back end on this one. So we've got a number of schemes recently we've picked up, which we haven't announced yet, which will be using our flex and going right through to using some of our investment solutions.

On the RBS deal the acquisition of Focus and again the investment in our MyFolio, RBS will be making available to us up to a million clients, and we could see up to a billion pounds of assets potentially a year. That again is front to back end, completely built by us. We didn't have this proposition a few years ago. So we'll do all the point of sale for the advisors. The advisors can also refer the customer to a D to C proposition so the customer can deal direct themselves or through the advisor, all on a Standard Life platform. And they go through to our platform and then they get our investment solutions at the end. MyFolio is the fastest growing model portfolio proposition in the UK still today, that's two years running. We have secured a number, which you'll see probably in the March statement, a number of large trust-based schemes and we've gone from not having a trust based proposition to being the number one company I suspect in the UK today, delivering a trust based proposition and more of the larger companies going auto-enrolment are now looking to go trust based and we're in a pretty unique position on that.

So when we go to pitch, whether it's corporate or retail we have a proposition that no competitor has across the whole board. We can go from point of sale to investment solutions all in-house and we can offer trust based, group SIPP, group FRP, group money purchase plan, again all on the same technology for an employer which again no other company does. So I think you'll see more of this in 2013 than you've seen in 2012 but we've definitely shown a number of examples in 2012 but 2013 was always the year we were getting ourselves ready for.

Answer: Jackie Hunt

And in terms of Canada I would agree with your comments I think the new management team has made a good start, certainly if you look at the sales and flows numbers they are up strongly from what frankly was not a great performance over the past couple of years so I think some really good indications there and I've talked about the pace at which our Seg funds business is growing, it's now number one in the market. This is all a conscious decision so if you look at the CEO he comes from a savings background, his mandate very clearly going into this was to grow the parts of the business that are very strategically aligned with the rest of the Standard Life Group and that's the fee based business and that's both from a pensions perspective and then in terms of retail propositions that are fee based in nature. So I think some good traction there, obviously there's always more to do around these businesses but good early signs on it.

Question 8

James Pearce – UBS

I appreciate it's a long way off but I was just wondering if you had any early thoughts on what it would mean if Salmond won the referendum on independence in two years' time?

Answer: Jackie Hunt

Yeah I'll take that one James, so clearly we believe that independence is a matter for politicians and for the voters, it's not really a matter for Standard Life to express any views on. I think we've also been very public in some of our statements and our comments about from our perspective what's important is that we look after customer interests through this debate, and to do that we need to have clarity on a number of elements. So we need to have certainty and clarity on things like who's going to regulate if independence does happen, who's going to regulate the financial services industry, is it the Bank of England or is it some other bank of last resort that's effectively going to back the economic environment? What is tax policy going to be both from a business perspective and from an individual perspective? What's going to happen in terms of things like the Financial Services Compensation Levy? So these are questions that we're putting to all of the political parties involved in this debate to say that we can't just continue blindly along a path without understanding the answers to these particular questions. David, our CEO appeared, I think it was last week, in front of the House of Lords Commission and you would have heard very similar messages around that.

<u>Question 9</u>

Andy Hughes – Exane BNP Paribas

A couple of follow up questions if I could, the first one is on the Greig and my questions on the impact of G Day. I'm just looking at the net flow outflows from individual pensions and individual SIPP and they haven't really changed very much from the same quarter last year. So is what you're saying is that you've had a larger number of annuities this quarter but less surrenders effectively or less transfers, so one's offset the other, or is the impact of G Day in Q3 actually quite small and maybe it's more likely to happen in Q4 and we should expect bigger outflows in Q4?

And the second question is one for Jackie on the re-leveraging of the balance sheet. So obviously if the proceeds from Canada are to re-lever the balance sheet does that mean you're signalling you're going to do something with the proceeds because obviously if you've just raised private debt and got the cash it's not really re-levering the balance sheet at all it's only re-leveraging if the money is sort of returned to shareholders or invested in something or other? Thank you.

Answer: Paul Matthews

I'll answer the first question Andy, I mean I don't think you can read too much into our annuity figures from a gender side, I think obviously in the wider annuity market it probably might be different, but our average pots of 18,000 or whatever they are I don't think... I think I said in the previous call we're seeing some slight improvement. I don't think we're in the major side. Whether people will shop around more in Q4 from the gender side, possible, at the moment it's not big enough for us to call. We're getting more calls put through to our line purely because the work we're doing on actually intercepting the customer's request and then dealing with them in a far more thorough way than we would have before, rather than just paid out the annuity or the transfer value. So I can't give you a clue either way because I'm not expecting a massive bubble for us, so I'm not expecting a massive downside for us.

Answer: Jackie Hunt

And on your balance sheet questions, Andy, and our leverage ratio did go from I think it was 25 to 27%, so I think arguably whether we did anything on the other side, whether we hold some cash or not we have re-leveraged in parts, albeit that we're not up to where my internal view around where this should sit. I wouldn't read too much into signalling of that nature. We do look at how much debt do we want to hold, what makes sense in terms of things like the tiering rules in terms of things like rating agency headroom, and clearly we have significant headroom, and so we look at debt to one side and it's certainly not an indication of direction of travel in any other way.

<u>Question 10</u>

Marcus Barnard – Oriel Securities

Morning all. Just on the RBS deal could you give us some idea of what sort of size of sales you're going to make, how quickly you expect those to ramp up and any comment you can make on margins would probably be quite useful? I realise it's probably difficult to give an exact number and I heard you mention there's £1 billion available; but would it be reasonable to assume one to two hundred in the first year rising to three to four hundred in the second year, something along those lines or would that be too aggressive? Thanks.

Answer: Jackie Hunt

Hi Marcus. I'll give a couple of comments and then maybe pass over to Paul. I mean I think it's important to say obviously some of these things are commercially sensitive we never really talk about deals with counter parties in that sort of way. I have talked earlier in this call about IRR of sort of 15% and five year payback. I mean it's worth saying the RBS deal if it delivers the level of sales we're expecting, it delivers substantially in excess of those two criteria. In terms of other metrics maybe if Paul runs through a couple of things around outlook that I think we shouldn't really go into the commercials in greater part.

Answer: Paul Matthews

Okay, Marcus, so RBS have got about 300 advisors they'll be using our proposition but they're also putting this out to all their direct customers, so many customers at RBS ultimately will have an opportunity to access Standard Life's investment and tax offers. We have a five year deal with them so this is a deal that's not a short term deal and I would expect hundreds of millions of pounds to flow in 2013. We have built in, as Jackie indicated, a number of scenarios but this is a substantial bank with a large customer base and I expect to be writing hundreds of millions of pounds in 2013, and a substantial amount more in 2014. We're currently starting to train those advisors at the moment, over 300 of them, and they will start to promote the D2C proposition to customers later on in the year. So I think we'll be able to give you a much better update in March as to how we've started but I think this is something you can start to see building through 2013 and then I think really starting to motor in 2014 and 2015.

Further question

Also are you going to give us figures separately for what you're selling there or will you just incorporate them within the other product lines in your new business statement?

Answer: Paul Matthews

I guess it's probably all together because actually one of the unique things about this deal is we're not making special deals here this is a standard product, so they'll be getting access to our standard products so I'm guessing, I don't know, we would just report this as normal business because it's not a different product, this is our standard product we're offering.

Answer: Jackie Hunt

I mean one of the things I would add is the RBS deal we're very happy with it, it's a great degree of access to customers, as Paul said it's the best indication of the way in which we can get all of the value chain working together. We do think it's a product that has broader use in the simplified advice arena but it should be seen as one of a number of things we're doing on broadening distribution. In the UK business there will be other similar types of arrangements we're looking to deliver. You've seen us starting to do that in the US around Hancock and some of these other things. Equally our Asian business is very focused on how it builds these strategic relationships. So I don't think, even commercial sensitivities aside, I don't think we would ever highlight this particular deal on its own because all it is, is it's a good win for us, I mean we're very pleased with it. It's early days and obviously has to deliver in 2013, but much more importantly, is the fact that we have a number of these ways in which we are accessing new distribution in addition to our underlying sales growth which you've seen over the last five years.

Question 11

Greig Paterson – KBW

Hello I couldn't resist, I mean I've been trying to understand, it occurs to me that post RDR client distribution seems to have some advantages around how you can incentivise people etc. etc. and there seems to be a lot of activity around these deals with Legals picking up three and you picking up one etc. I was just wondering if you could give us a feel, I know you don't want to give us the details of what the pricing is but can you give us a feel how these deals across the market, the pricing has changed over the last one or two years? It's obviously got a lot more keener and I was just wondering to what extent it has got more keener?

Answer: Paul Matthews

Greig I think it's just worth putting this into context; so what we've been doing for some time now is broadening our distribution. So we now have a deal with a major retail bank we also have deals with the private banks, so we did Barclays and HSBC SIPP so we've got a higher margin product in some areas and then we're looking for volume through a retail bank. But we've also got our direct business, the IFA business, we're in the corporate market, the employer market and we'll be offering a restricted offering in 2013. What we're not going to break down is the actual individual pricing for all these deals. What I would say though is, as we've said earlier in a couple of other calls, we're getting more through into investment solutions which gives us higher margins and the point of sale technology we now have with the banks, through this RBS deal, through direct and through the Flex with CBCs and employers it is meaning we're able to influence, far more than ever before because we've got our tools in place, the investment solution selection.

So I don't think people should read that we're going for deals that are looking for lower margins or that we're trying to compete in a price war in a corporate; we have built a premier proposition in both retail and corporate and what we're now doing is taking it out right across the board from direct to banks and to employers. I think we're in a pretty unique position to hold our price far more than any other company in the UK today.

So I think the margins, we've said for some time we may see margins drop down a little bit but actually the volume potential for us, and therefore the potential for increasing profit I think it's as strong as we could have hoped for this time of the year going into what we're about to go through in 2013/14 which is probably the most exciting time the market has seen.

Further Question

I'm sorry to be persistent, my question was specific in terms of in aggregate across the industry are we seeing people bidding up these…I'm just saying how keener is the pricing? I mean you said that margins would drop a bit I mean I'm just trying to understand what the sort of grab is to get this type of distribution that has the advantages that you and I have discussed before and RDR?

Answer: Paul Matthews

Well two things, in the corporate space we've walked away from schemes where people have been looking for low prices so I think it's been well documented in the number of the large schemes this year we've walked away from and didn't tend to follow in the corporate space. In the retail space we're not in the price game so we're not paying commission and we're not in the price game. The deals we have been winning, and if you look at the advisors we deal with we're a premium proposition and we're looking for a premium price and that's right across the board from our investment solutions to our tax wrappers. So I think and I can tell you that there are people in the market out there that are much lower but I think we've held our position on this one.

Answer: Jackie Hunt

Okay I'm just looking at the list, there's a queue, I think there's three of you so far who want to ask questions so maybe if we move on to those. We are running a little bit short of time. I've got Gordon, Alan and Barry is what's being notified to me. I don't know operator if you could put one of those three on and we'll try and deal with those three questions and then I think anything else is probably best going to IR if that's all right after that.

<u>Question 12</u>

Gordon Aitken – RBC

Just a quick one on RDR what proportion of your corporate pensions outflows do you lose to the commission payers, one of your peers said it was roughly 80% for them?

Answer: Paul Matthews

We have a very low, I mean our fall off this year Gordon has been really low on the corporate space. We've lost very little core business to anyone on commission. We've lost a few smaller schemes and I can check back to you on this one but our outflows have been pretty low this year to be honest and in fact it surprised me how little we've had move this year. There is one or two commission companies that have picked up a couple of schemes but I would say generally we're a net winner this year on winning schemes.

<u>Question 13</u>

Alan Devlin – Barclays Capital

I've two quick questions first on GARS obviously doing very well, is there any capacity constraints we should be aware of?

Then just a second question I think in the past you've said you've a direct relationship with a third of your clients does that lead to any conflicts with your IFAs in attracting IFAs to your platform if they see you as a potential competitor? Thanks.

Answer: Jackie Hunt

Thanks Alan I'll talk to the first point and then maybe hand the second over to Paul. In terms of GARS itself it is a global strategy so we don't see in terms of investment teams that there are any practical constraints. We have always run the fund on the basis that we need to immunise the position very quickly and we need to be able to change out positions if it was ever required for liquidity purposes over a short period of time. And against that backdrop I think Euan has sometimes talked about £40 billion as being his sort of indicative number much more because of the ability to immunise and to liquidate. I think we've always said that in terms of capacity we see that there is significant additional capacity from where we are today but clearly this is a fast growing fund. With that I'll hand over to Paul for the second.

Answer: Paul Matthews

Alan yeah we've got a million direct customers out of our four million. I would say we're getting more requests from advisors to work with them, to deal with their customers that they no longer want to deal with. So what we have built for RBS also is a B to B to C, so it’s a business to business platform but it allows us to go business to business to direct. We've had a number of enquiries now off a number of major IFA firms saying, “Look can we now adopt your platform and then use your facility to get clients to deal direct with us?”

So I think what you’re seeing because of the pricing position with everything being transparent for 2013, we’ll work very closely with advisors, those that will be able to get a fee out of a customer we’ll deal with them and for those customers that won't pay a fee they’ll be very keen to just pass them over to us to help keep the customer in the product but the customer won't be able to pay advice. So I don't think it’s in conflict I think we're actually working hand in hand.

Question 14

Barry Cornes - Panuel Gordon

It’s really just a point of clarification and possibly a question perhaps directed to Paul. I think Paul you were quoted in the Scottish press a few weeks ago saying that you thought that maybe in the next two to three years customer numbers could increase from four million to six million, I wonder if you could just clarify that? Was that an aspirational comment or do you actually expect it and if it is an expectation what the capital implications might be please?

Answer: Paul Matthews

Yeah I mean it’s very much an aspirational view for us in that we're very focused on broadening our customer base. I think the deal you saw us do with RBS, the deal we're doing in a number of large corporates, the fact that the 400,000 or so through auto-enrolment and the fact that RDR will really open up the market completely to us with companies that historically we've not been able to do business with because of commission. So I am very ambitious and very optimistic that over the next few years there's a big open market there for us. And I think you've got a population in the UK, I think there's a lot of people to go out and a lot of people will need help and support and I think we, by having a bank distribution, a direct distribution, a number one player in the IFA space, large player in the corporate space, and with restrictive potentially coming on board next year for us as well I think we're in a pretty exciting space and so some of the numbers being quoted - I think it’s a big world out there.

Answer: Jackie Hunt

But I think to keep that in context clearly aspirational, it’s not what effectively we need those sort of customer numbers to drive the performance we expect from the business. We’d be delighted but not necessary.

I think those are the last series of questions and again I apologise for cutting the Q & As off, obviously the IR team is available and I'm available, for any follow on if need be.

Concluding comments: Jackie Hunt

So thank you all once again for joining us today and just to recap Standard Life has performed well in the first nine months of this year continued to grow assets in an uncertain economic environment. The outlook for our business is positive and as I've said we remain confident that we can drive an ongoing improvement in value for customers and shareholders.

Thank you all for your time and I look forward to speaking to you soon.