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Half year results 2014

Tuesday 5th August 2014

David Nish – Group Chief Executive

Welcome to our Half Year results. First of all there is the usual disclaimer, and can I remind everyone to turn off your mobile devices.

I suppose, before beginning, which I hope to be my last presentation as the CFO, I would like to introduce Luke Savage our new CFO who is joining us on 18 August from Lloyds of London. So I am looking upon this as I am just setting things up for Luke for the second half.

Our results today I believe show that Standard Life continues to deliver good growth in assets, revenue and returns. The strategic positioning of our UK business and development of propositions to meet changing customer needs has resulted in increased customer numbers, assets, revenues and profits.

The significant transformation underway in our Canadian business is being demonstrated by the increased fee business assets and revenues and I will touch more on that later.

Standard Life Investments continues to expand its distribution and geographic reach, enhance its capabilities, develop innovative investment solutions, and deliver consistently strong investment performance. The strategic positioning of Standard Life Investments will be further enhanced by the recently completed acquisition of Ignis.

Across the group, we continue to demonstrate that we can successfully grow assets and benefit from the operational effectiveness across all of our businesses.

We continue to have a strong balance sheet and we are growing capital and cash generation to support our progressive dividend policy.

Our simple business model is unchanged. It's about growing our customers' assets, maximising revenues through leading propositions and investment solutions, and improving efficiency and operating leverage to drive down unit costs. We continue to demonstrate good progress in all of these areas.

During the first six months of the year we have increased Group assets by 4% to £254 billion. This in turn has helped to increase fee based revenue by 12% to £758 million in constant currency.

We have also continued to reduce acquisition and maintenance costs across the Group unit costs.

And our increasing profits have driven growing cash generation which supports the progressive dividend.

This is a slide you will now be becoming familiar with captures the breadth and depth of our assets and our distribution capability.

Following the acquisition of Ignis we now manage over £300 billion of assets across the world. We have also added a new strategic partner in the Phoenix Group.

The slide has two key strands running through it. Firstly, growing the third party book of business of Standard Life Investments through an expanded client offering, increasing its global reach and strategic relationships with partners with significant distribution capability, and then secondly how we leverage the distribution capabilities of our long-term savings businesses which have market leading positions in strongly growing markets.

So let's step back and take a look at the financial highlights. During the first six months of 2014 we have increased Group assets under administration as I said, by 4% to £254 billion in largely subdued investment markets. Standard Life Investments third party assets increased by more than £5 billion to £108 billion. This increase in assets was driven by Group net inflows which remained strong at £4.6 billion, and compares well to the £9.6 billion that we achieved in the whole of 2013.

The asset figures on these slides obviously do not yet include Ignis Asset Management which was acquired on 1 July and which had assets under management of £59 billion at the last reported date of the end of 2013.

The continued progress in growing assets and attracting new inflows has seen fee revenue increase by 12% in constant currency to £758 million. This has driven growth in Group underlying profit performance by 8% to £339 million. This is after both absorbing £19 million reduction in UK profits from lower annuity sales and an £11 million impact on Canadian profits from the fall in the value of the Canadian dollar.

Our half-year results have no one-off items, and as a result Group operating profit was the same as the Group underlying performance.

Underlying cash generation has also absorbed these regulatory and foreign exchange impacts and shows growth of 5%, or 10% in constant currency, to £250 million.

This underlying growth supports our progressive dividend policy, and is reflected in the announcement of an interim dividend of 5.6 pence per share, a 7.3% increase from last year's interim.

As at the previous year-end, we now break down the components of our Group operating profit of £339 million. With no one-offs this period, this is also the Group underlying performance, an increase of 8%.

We repeat the guidance that we gave in March that one-off management actions for the full-year 2014, which is obviously subject to market conditions, could be around half the amount at £45 million we achieved last year, and would relate to the whole of the group not just Canada.

Our head office costs continued to be closely controlled and our group centre capital management results remained broadly flat. So this then gives an underlying performance for business units of £367 million, an increase of 7%.

So let’s walk through the drivers for that increase in our Group underlying performance. In March we highlighted that the fall in the value of the Canadian dollar would act as a headwind to this year’s results from Canada. In the first six months this headwind amounted to about £11 million. We show this separately in this waterfall and present the remaining items on a constant currency basis.

So turning to revenue, our fee based revenue has grown by 12% or £80 million on a constant currency basis whilst our expenses have increased by just under half of that amount, demonstrating clearly the operating leverage that is built around to our business model. So we continue to see around 50 pence in the pound fall through to the bottom line.

The movement in the spread/risk margin was a net reduction of £8 million on a constant currency basis. This included the reduction in UK new business profits of £19 million or 59% as a result of the reduction in annuity sales following the changes announced in the March budget, offset by higher profits from ongoing asset and liability management across the Group.

In summary, the results demonstrate a continuation of our strong revenue growth and operating leverage, which has enabled our business units to absorb both regulatory and currency headwinds and still deliver an 8% growth in underlying performance.

Acquisition costs across the group were broadly stable in constant currency. And as a proportion of Group sales, we saw a reduction of 6 basis points from last year.

In the UK, acquisition costs were largely flat in absolute terms. But the trend in unit costs over the six months was however impacted by the very high sales of institutional pensions that occurred in the last year’s first 6 months.

Whilst maintenance costs in absolute terms have risen to support the growth of our business, particularly in Standard Life Investments, in unit cost terms they continue to fall both across the Group as a whole and for our UK business.

Our focus on increasing assets, whilst continuing to improve productivity to reduce unit costs, positions us well to deliver further improvement in profitability.

Now we will turn to the underlying performance and the opportunities for the UK, Standard Life Investments and Canadian businesses in more detail.

As we can see here, the underlying performance of the business units has increased by 7% to £367 million, with all business units demonstrating improvements in performance.

This includes a 4% increase in the UK, a 9% increase in Standard Life Investments, and an 18% increase in Canada in constant currency.

Our European and Asian businesses have also delivered improved returns. The £7 million increase in Asia & Emerging Markets includes a £3 million increase from our wholly-owned businesses reflecting higher fee revenue, and our Joint Ventures in India and China also produced a £4 million increase in profit, although we would not expect to see that level of growth continue in the second half of the year due to the seasonality of their businesses.

So first of all looking at the UK business in some more detail, the underlying UK performance increased by 4% to £165 million, a result that reflects the inherent strength of our retail and corporate businesses and their resilience to regulatory change. The UK now administers £149 billion of assets. Within this, fee business assets have grown to over £99 billion, reflecting an increase of over 60% in net inflows to £1.3 billion and favourable market movements. Growth in assets has offset the expected reduction in revenue yield caused by changes in business mix, resulting in a 5% increase in revenue from the UK fee based business.

The spread / risk margin was broadly stable, with the expected reduction in margin from lower annuity sales following the March budget, offset by increased profits from ongoing asset and liability management.

The growth in fee based revenue, tight control of costs and a resilient spread / risk margin resulted in a £6 million increase in underlying performance. The UK result also demonstrates the benefit of our presence across the value chain with an £9 million increase in the amount of fees paid to Standard Life Investments which now reach about £96 million.

The first half saw the introduction of a pension price cap. Although the restriction on charges on qualifying workplace schemes will reduce future income, we anticipate offsetting benefits for example from lower commission. As a result we do not expect to see a significant reduction in our overall cash generation in our UK business in the next few years as a result of this change.

If we now turn to the drivers of the UK result in more detail. Our growth is a result of our success in providing propositions and investment solutions that our customers want. We have adapted our corporate offerings to meet the needs of auto-enrolment for both large employers and SMEs. We have created tools that allow employers to implement auto enrolment quickly and completely online. The strength of our proposition has been recognised through numerous distribution arrangements with leading IFAs and the recently announced strategic arrangement with Barclays. As a result we have secured over 1,000 new schemes and added 180,000 new workplace customers in the first half, while keeping our absolute costs largely flat. We expect to acquire over 300,000 new workplace customers during 2014.

We now provide workplace pensions for 1.5 million customers in the UK who are not only contributing to the success of our workplace business but, as we will see over the next couple of slides, are also feeding our retail business as we increasingly build long-term relationships with them.

In Retail, our leading platforms and investment solutions continue to attract assets with £21 billion of assets on our platforms. We continue to develop functionality and promote transparency. Our Wrap was the first advised Wrap platform to be ready for the regulatory changes due in 2016 as we introduced clean share classes and clean transparent pricing. This included discounted fund prices from 14 leading fund management groups across almost 300 leading funds. This allows our nearly 1,300 adviser firms that use our platforms to have access to some of the best fund discounts in the market, and to focus on advising their customers rather than dealing with ongoing regulatory change.

A key element of our retail offering is our MyFolio offering, which has grown by 20% since the start of the year to £4.8 billion. The success of investment solutions such as MyFolio shows how the whole Group benefits from the close collaboration between Paul's and Keith's businesses.

As I said, our UK business now manages fee business assets of £99 billion, an increase of 3%. Our corporate fee business assets have now reached £30 billion driven largely by net inflows which are up 61% to £0.9 billion. These have benefited from a 15% increase in regular contribution inflows which reflect our success in the auto-enrolment market. It is also worth highlighting that up to £1 billion of assets every year are expected to transfer to our retail business as former workplace customers become direct customers of Standard Life.

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.

Our Retail new assets have increased by 7% to £36 billion, helped by net inflows of £1.5 billion which were in-line with the good start that we made in 2013. Our older-style retail business had lower net outflows, helped by retention activity. These older style propositions should also provide a significant source of onward business for our "Retail-new" propositions, particularly SIPP and drawdown, especially following the budget changes.

An interesting dynamic as we move forward, is the inter-connectivity of the business with assets moving between channels as the customers circumstances and products change. It is important to us to make these transitions seamless for our customers as we build stronger relationships with them.

So with fee business assets of some £99 billion, this has resulted in a profit contribution of £178 million, an increase of £10 million in the first half. As shown on the previous slide, we have a balanced business across corporate and retail with regular internal movement of assets between the channels. We are therefore increasingly looking at the revenue and contribution that these channels generate as a whole, particularly as over time we expect the corporate channel to be a major driver of growth in both the retail and direct consumer markets. And on top of this we have the opportunity to secure additional margin within funds that are now managed by Standard Life Investments.

The underlying performance in Canada grew to £69 million. Whilst you see a £1 million increase in floating currency, there has been an additional £11 million improvement in performance that is hidden by exchange rate movements. So there has been an increase in underlying performance of £12 million or 18% in constant currency.

Our Canadian business now manages assets of over 50 billion Canadian dollars. Within this our fee business assets have increased by 10% to over 33 billion dollars. Alongside a 2 basis points increase in fee revenue yield, our fee based revenue rose by 21% in constant currency to £99 million itself. This follows on from a 13% increase that we saw in 2013, and shows the dramatic growth in fee based revenue in Canada as we reposition the business.

The transformation and scalability is also visible on the cost side. Expenses were broadly flat in constant currency, as cost savings initiatives offset increased investment to support growth.

While movements in exchange rates complicate the picture we have added over 30 million dollars of fee based revenue in the first half of this year, which, given our broadly flat costs on a constant currency basis, resulted in the vast majority of additional revenue falling to the bottom line. The lower result in both spread/risk margin and capital management reflect the foreign exchange impacts, as well as lower asset and liability management actions in 2014.

In the past we have provided guidance that our on-going run-rate for operating profit in Canada of around £180 million would be appropriate. We would repeat that guidance, but would note that performance in 2014 will obviously been impacted by the continued weakness in the Canadian dollar. Average exchange rates were 14% lower in 2014 compared to 2013, and so our guidance of £180 million should translate and be reduced by around £25 million if exchange rates continue to be seen in the second half as existed in the first half. 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 through reserves not income.

So the transformation of the business in Canada towards fee business is clearly coming through when we look at the mix of assets and revenue. Although spread / risk revenue can be volatile, fee business revenue is now around 50% of total revenue, and growing.

Our fee revenue grew by 32 million dollars in just six months. When set against a 3 million increase in total expenses, you can see that this fee revenue growth is going straight through to increased profits. Our market-leading segregated funds recorded a 70% increase in net flows in constant currency.

And working closely with Standard Life Investments, we are launching new propositions in the corporate and retail markets. We are already seeing improving sales and are well positioned to grow our share of the one trillion dollar mutual fund market and maintain our strong position in corporate pension funds.

Turning to Standard Life Investments. Operating profit at Standard Life Investments for the first six months has broken through the £100 million mark, with a 9% increase to £104 million. Of course the results today exclude a contribution from Ignis and these will be included in our year-end presentation.

Fee revenue grew by 20% to £303 million. And within this, fee revenue from third party business grew by 26% to £239 million. This was achieved by increasing both assets under management and revenue yield.

Third party assets grew to £108 billion, driven by strong third party net inflows of £4.2 billion of which over 50% or £2.4 billion once again came from outside the UK.

The continuing shift to higher margin products such as UK mutual funds and multi-asset investment solutions saw third party fee business revenue yield increase from 45 basis points to 47 basis points in the six months.

The increase in expenses reflects the investment in growing the business and diversifying our sources of revenue both geographically, by product category and by distribution channel. The expenses also reflect the increased scale of our Wealth business following the Newton Private Client acquisition in the second half of 2013.

Our EBITDA increased by £10 million to £107 million. However as a percentage of the growing fee revenue the EBITDA margin was 3% lower at 35%. This reduction was largely due to a change in the earnings mix following the acquisition of the Newton Private Client business, and the impact of the strength of sterling particularly against the Indian Rupee. Following the acquisition of Ignis, Standard Life Investments is targeting an enhanced EBITDA margin target of 45% by 2017.

The sustained momentum within Standard Life Investments has been made possible by its excellent and consistent investment performance. Our "Focus on Change" investment philosophy has proved to be robust and repeatable in both good and challenging market conditions, and across all asset classes. This has resulted in 87% of third party funds being ahead of benchmark after one year, with those percentages increasing over longer periods. And for those GARS watchers in the audience performance over all periods remains ahead of target.

Standard Life Investments continues to capitalise on opportunities from a position of real strength. But as I have said in the past, we are not standing still. We continue to invest in enhancing our broad product offering, expanding our global reach and leveraging distribution capability.

Over £108 billion of third party assets are well balanced between multi-asset, fixed income, and equity and other asset classes, enabling us to give our customers well-established and successful solutions whatever their investment strategy.

Whilst two-thirds of our third-party assets are in the UK, reflecting the historical UK-origins, 57% of our third party net flows came from outside of the UK. This demonstrates our expanding global reach, which includes the successful distribution arrangements with our strategic partners. For example, net inflows from the US of £0.9 billion now account for over 20% of total net flows, whilst our Asian businesses contributed over 10% of total net flows.

Looking at distribution channels, our higher-margin wholesale business continues to grow with net inflows of £2.6 billion. Our institutional business generated net inflows of £1.5 billion and continues to attract increasing interest from outside of the UK. As noted in today's published results, two large mandates will divest in Quarter 3. Due to the very low revenue margins on these mandates we expect a negligible impact on our profitability. Standard Life Investments also continues to benefit from the strength of the distribution of the long-term savings businesses within the UK.

We have a strong balance sheet and are well placed for the implementation of Solvency 2. We have also increased our cash generation by 5% despite the headwinds of foreign exchange and UK regulatory changes.

During the first six months our business units have paid £546 million in dividends to the Group so far in 2014. This will be more than sufficient to meet the £386 million cost of last year's final dividend and this year's interim dividend. As a result we have continued to grow our dividends and have declared an interim dividend of 5.6 pence per share, an increase of 7.3% on last years' interim dividend. We have maintained our progressive dividend policy since listing and we remain focused on delivering against that policy.

Before we move to Q&As, I wanted to share a few thoughts on what is happening in the market and the opportunities that they continue to give Standard Life. Whilst we have many markets and segments in which we do business, there is always one overall objective and these are shown in the yellow boxes: to grow assets; to grow revenues and to drive further cost efficiencies. And this will all result in further value creation for customers and growing cash profits for shareholders.

This slide shows many of the opportunities that we are taking advantage of particularly over the next six to twelve months. In the next slides we will consider two specific examples.

Firstly, the significant changes in the UK retirement market announced in the Budget in March. As we have highlighted frequently in the past, securing high volumes of annuity new business is not a core part of our business. In 2013 we retained less than 30% of our retiring customer funds, and we do not compete for new annuity business in the open market. The changes to the retirement market announced in March give customers increased flexibility around how they access their pension savings on and after their retirement. This has already reduced the demand for annuities. We expect that this will increase demand for flexible investment solutions that support customers' needs and their changing attitudes to risk as they pass through the various stages in their life-cycle.

We welcome strongly these changes in the pensions market. They are good for our customers, providing them with greater choice and flexibility. And the changes play directly to our strengths, providing us with significant retention opportunities, challenging for other companies' assets, as well as making additional pension savings more attractive for our customers.

For example, we believe that the drawdown market will become a significantly more accessible solution. We are the leader in the SIPP and drawdown markets with SIPP assets under administration of £25 billion including assets in drawdown of over £10 billion.

As I have said the acquisition of Ignis strengthens our strategic positioning. The transaction completed on 1 July and Keith and the team are already making very good progress with the integration. The acquisition deepens our capabilities, particularly in government bonds and the management of liability overlays.

The Ignis Absolute Return Government Bond Fund complements our existing absolute-return offerings, and continues to grow strongly assets under management which now £3.7 billion.

Ignis will also broaden our third party asset base. It will increase Standard Life Investments' third party assets under management by around £60 billion, which will represent around two thirds of total assets. And, it will strengthen our offering in the fast growing liability aware market with assets under management under long-term contracts of around £130 billion, giving us the opportunity to leverage our growing distribution capability across UK, Europe, US and Asia.

We also have a strategic partnership with Phoenix which may bring benefits as they grow their business.

So finally, returning to the main themes driving our business and in these results today. Standard Life has delivered another good set of results with underlying performance up 8% to £339m.

During the second half of the year we will capitalise on a range of opportunities in our UK business and in Standard Life Investments. We are demonstrating the transformation of our business in Canada as we focus on the shift to fee business.
We have a great business in India and we are monitoring the proposed changes to direct investment rules there.

The Group is driving down unit costs and benefits from the investment expertise and global distribution of Standard Life Investments.

Our balance sheet remains strong. We are generating significant cash flows and have once again increased our dividend. And we are very well positioned for ongoing improvement in both our operating and financial performance.

Thank you, and Keith, Paul and I will be very happy to take your questions.

Question and Answer Session

Question 1: Jon Hocking, Morgan Stanley
Morning, Jon Hocking, Morgan Stanley. I have got three questions please. Firstly on Canada: the maintenance expenses, you are 84 bps in Canada I think and 24 bps for the UK. Can you talk through a little bit what the barriers there are to closing that gap and how much of it is a relative scale of business and how much is focus on what the real opportunities there are in Canada or maintenance expenses. That was my first question.

Second question, the transfer of customers from corporate to retail: I just wondered how that happens. It seems they go to retail-old rather than retail-new and I wondered how many of those customers are actually active when they go across. Is it actually when they leave the corporate scheme you move them across? Is there any active engagement on those customers, the second question.

And finally, I just wondered how many schemes you are losing? You told us how many you are winning; I just wondered if there is any going in the other direction? Thank you.

Answer: David Nish
I think you are right to highlight the gap in maintenance costs between the UK and Canada. In many ways if we look at how we have focused with channels round about transforming Canada. The most important thing has been first of all to re-establish a stronger focus around fee-based revenue and broadening out the sources of revenue growth. We allowed last year, and probably the last eighteen months, you may remember we talked last year about investing in some of the infrastructure within the business. So we have still been doing that, round about ensuring that we can build a platform to then begin to drive stronger operating efficiency. In some way it was something useful in the UK 4 or 5 years ago that we had that slight bulge in costs before being able to get it down. But it is very much driven on the basis of how we stimulate more flow of business coming through. And I think if you look

over the last three quarters you began to see this continuing momentum building within the Canadian business in all of its product lines. There is another press release which came out today in Canada where they talk about the local results and how that relates to the marketplace etc. So the next phase that Charles will be going into is then how does he then leverage that scale and we would hope to begin to see some material reductions coming through in these basis points.

Answer: Paul Matthews
It is worth just pointing out the transfer of customers is for us in many ways a catch-up so we have been holding on our systems a lot of employees as they have left, they have just been kept in the workplace business. So because virtually every single customer becomes active now because of the drawdown potential for customers, what we have done is to relook and see where all those customers are and we have repositioned them. So you shouldn't expect as much of that sort of size lumps going forward.

I think the customers then sit with whichever product they have got. So I think it is about 6 million are with the longer older type contracts and 2 million in the newer contracts. So that is profitability going forward. All of those customers, if they are small pots, then we would expect them as they come to retirement to probably take cash and if they have got a larger sum, we would expect them to try and engage with them to take drawdown.

As far as the question on schemes going, I think we have seen quite a drop off now since commission has not been available and I can't think of a single large scheme we have seen move away from us in 2014, as opposed to previous years where we were seeing some activity with commission and companies moving.

Further question
Anybody who is a deferred member of a corporate scheme becomes a retail customer, is that correct?

Answer: Paul Matthews
Yes.

Question 2: Gordon Aitken, RBC
Gordon Aitken from RBC. Three questions please. First on annuities, profits are down 59% you said in the first half. Just could you tell us what the impact was in Q2 discreet, given the budget happened just a week before the quarter end?

And the second on corporate pensions, net inflows. We seem to have some momentum that built up towards the fourth quarter of last year; we had flows of in excess of a billion. And that momentum seems to have been lost; I just wondered what happens from here?

And finally on this debate with ISAs versus pensions, what is your view and how would you fair if ISAs become more prominent?

David Nish
Paul, do you want to take the first two?

Answer: Paul Matthews

Okay. So I think in Q2 the profits, so we take £13 million of profit on sales, I think Q2 will probably be around £4-5 million. So we went back to contact as many customers as we could do in the cooling off period as soon as the budget was announced in April. But I think the split of the £13 million around £4-5 million profit in Q2.

So in Q4 last year we had two of our FTSE 50 companies consolidate some of their assets. We haven't seen that this year. To give you a view, we look after 50 of the FTSE 100, a third of the FTSE 350. We would expect a number of those companies to be consolidating assets schemes at some stage in the future, but it is lumpy business. A number of those employers have just got through auto-enrolment. There is a bit of a pension blight. So we can't predict every quarter, every half when that is going to come. But DB is closing to DC and schemes will be consolidated. So that is our big focus, auto enrolment in to many of these companies. It is the assets we are after for the long-term.

Answer: David Nish

I think I might pick up the final one with regards the direction of policy travel here. I think it is really, really good and it is good for our business because in many ways if you actually look at our sort of strategic positioning, and where this enables us to broaden out, the Government's move round about ISA is now beginning to position ISA both as a short-term investment vehicle and a long-term investment vehicle. And historically although we have had an ISA proposition, it has not really been the strongest part of our focus. If you now go onto our website, you have now got things like the 4 click ISA that you can effectively now transact in a couple of minutes. We have obviously got the business that we have developed with RBS coming through. We are always looking you know with corporate customers as regards how do you combine functionality of pensions and ISAs. And I think one of the things that we should look at over the longer-term is how the Government begins to rationalise the policy between both, you know that are there. And do you find there is a way ultimately to connect the savings vehicles?

So I think we are actually ideally placed. And I am actually quite pleased that we are coming from a position that we have historically not been a major ISA provider, this gives us a larger amount of opportunity just as the comments round about the drawdown market. You know, I think the wonderful thing that comes out of that is we can now instead of automatically losing all our high value accounts on annuitisation, we now have got in a sense the market leading proposition to put in front of them, as well as the books of every one of the other providers in the marketplace that we have never ever competed for. Oliver.

<u>Question 3: Oliver Steele, Deutsche Bank</u>

Oliver Steele, Deutsche Bank. Three questions. The first is following on from Jon's question. But actually more specifically about the UK unit costs, which actually continue to come down. You said in the past that the cost base in the UK is scalable, but I was just wondering in the light of the budget announcements, whether it is still scalable or whether you actually have to spend a bit of money?

Secondly, any guidance so far on what success you have had in retaining any of that £1.3 billion per annum that is otherwise going to external annuities?

And thirdly, I think there are about £49 million in the first half of asset liability actions helping the UK and Canadian spread result. This is quite a sort of lumpy figure for us to analyse, it is 49 against 35. Are you able to give us some sort of guidance going forward as to what sort of range of numbers we should be building in?

David Nish
Do you want to take the first two?

Answer: Paul Matthews
Yes, unit costs. Yes I think I have said in the last three years consistently, we will continue to take our unit costs down. And that is still the case. We have built and invested over a number of years now in our technology and customer services. To give you some idea, our direct business now, 70% of customers come online. This time last year it would have been 30%. If you go to our 'Good to Go' where we have taken something like 900 new schemes through an auto-enrolment process, that is completely digitalised, you don't have to go through that manually. If you take the numbers we have been talking about, we have done 180,000 employees, we are looking at over 300,000 this year. And the majority of those will not touch our customer service operation. We will continue to digitalise, we are growing the numbers of email addresses we have with our customers. We now have access to virtually all of the employees, which we didn't have before, through email because as they join a scheme, we get their email details. So yes, you should expect to see our unit costs continue to come down, and we are a very scaled business.

On the annuity side, it is still too early to say, Oliver. We have had a number of, the customers that have larger pots, don't have access to that until April next year, so we are fundamentally dealing with customers with less than £10,000, between £10,000 and £30,000. Around 59% of those customers will take the cash. The telling point will be post April, how many customers then decide to defer from then onwards.

Answer: David Nish
As regards spread risk management actions in terms of asset liability rebalancing, it will always be lumpy because you know the team are effectively doing it when they do valuation work etc, and identifying gaps that are there. So over the whole year, I am certainly not expecting it to be materially greater than the, in a sense, the difference you are seeing at the moment, an extra £10-£15 million that has been done in the first half. There isn't going to be that difference in the second half. I would have thought it would have slightly more averaged out for the part that is there. We haven't seen major things in Canada in the first half. There might well be. Now a lot of that depends on the timing of things like provincial bonds being available to invest in as the book effectively changes. And as you know they also do work round about mortgage origination, they are working on various schemes round about mortgage origination which they use to hedge off the back end of the book. So again if they are able to do that, you can easily see a lump of 5 to 10 million dollars can come in off one transaction that is there. So there isn't anything that I would particularly highlight that is out of kilter from normal practice.

Question 4: Andy Sinclair, Bank of America Merrill Lynch
Three questions again if that is okay. Firstly the one-offs guidance for the full year, just to double check, that is on top of the ALM actions?

Answer: David Nish
That would be somewhere round about £20 million.

Further question
And secondly, after Newton and Ignis, what sizes of future bolt-ons would you consider and what sorts of businesses could you be looking at?

And thirdly, a number of competitors have looked at back books, hiving off back books into specific business units. Is that something you would be interested in and what benefits do you think could be available?

Answer: David Nish
So regards the sort of one-off management, actions as opposed to regularly balancing, it is probably round about £20 million that we would be targeting in the second half of the year.

As regards to the scale of bolt-ons, we don't tend to have in a sense prescriptive definitions round about that. It really all depends what is coming round at the time. If you look at our range of acquisitions, we have gone from ones that are single digit millions up to Ignis is the biggest thing we have done just below £400 million. The key for us is very much round about what does it end up bringing? Does it bring new skills, new distribution? Does it accelerate our strategies? So very much when we think about Ignis, it is all about how do we accelerate certain things. And it also does bring in some additional new skills to the organisation. So we don't tend to define in a sense bolt-on in a sort of monetary sense, we do it much more round about how it plugs into the business. And given that we have only really dealt with transactions up to £400 million, that gives you a range of what bolt-on appears to have meant so far.

In terms of back books, we continue as we go through all our operational activities to then obviously reflect on what does it mean for both the physical operations of the business, but also the capital structures. I talked back in the Prelims about the close book in Canada. And it would be something that we could move to realise because it is becoming shall I say much more separate from the business, particularly as the fee based business grows within Canada. We are obviously not using the same technology, the same people etc to administer what is a closed book now and one that is closer into run-off that is there. So it is something we do reflect on as we go through each one of our operating plans, both from an operating efficiency viewpoint, but also a capital viewpoint. Because as I said before, it does provide a drag in terms of the ROE in the Canadian business.

Question 5: Alan Devlin, Barclays
Hello, Alan Devlin from Barclays. A couple of questions. First, I wonder if you have any view on the potential implications of the MIFID rules both on Standard Life Investments, but also are there any implications for your platform business and advisory led platform business?

And then secondly, you seem to be building a direct business by stealth with £1 billion of assets moving over. Do you think it will go more aggressive at some point direct, given all the changes in the rules post budget? Thanks.

Answer: David Nish
I will let the guys do the technical stuff. I suppose one of the things I think we have actually been very clear over the last couple of years that ultimately we do see ourselves as a broader multi-channel business coming through. And direct will become much more important. I think the important thing that we have ended up doing is very much strengthen our position as an advisory support business and that applied across all aspects of our business. Secondly, strengthening our position as a corporate new supplier, particularly in pensions. And for us that direct to consumer space has been one that will develop over time. Because I think if any of us had tried to anticipate what would be in the budget six months ago, you might have had quite different views of life coming through. Whereas now what we actually are now beginning to see as I mentioned in the presentation, the interconnectivity between the channels. And I think that is one of the things that we have got as a real strength; we have actually got the potential ability to effectively link the three channels together, particularly if you are thinking about the vast majority in a UK context that people will have if they have a pension scheme and an ISA. Because remember the £15,000 limit means that everyone in the UK, near enough everyone, well over 90% in terms of ability to save. That means everyone has got a tax protected savings limit that covers their whole annual free disposable income. It is really quite fascinating if you then link that through to the other lines of business that we operate. So maybe less by stealth in the future.

Answer: Paul Matthew
I think generally most of the regulation that has come our way has been very advantageous to us. So I think there is very little impact for the UK side. We have already gone through all the commission over transparency etc. I think there are some issues with Europe, what is going to happen in Europe, but again we are sitting as a small business in Europe and actually anything that puts pressure on some of the major players, of more transparency and openness, would be very, very welcome for us, to give us a pretty good opportunity. So I think we are pretty positive in any movement on the MIFID side.

Further answer: Keith Skeoch
I guess it is partly related to MIFID. The big thing in our area is what is going to happen to this thorny issue of commissions and payment for research associated with what is going on with ESMA. We believe we operate a 'best in class' CSA that already separates out payment for research from dealing commission. We are working intimately with the IMA to ensure an appropriate business model is in place for an industry that is both transparent for clients and does not disadvantage a very successful UK and European asset management industry. My own view is it is going to take a long time for a consensus to settle around a new business model and it would be very premature to assume that you should simply look at asset management firms taking all research costs into the P&L from client accounts. There are many, many ways of doing this and I think it will take a few years before we land in an appropriate place.

Question 6: Barry Cornes, Panmure Gordon

Barry Cornes, Panmure Gordon, a couple of questions if I may. First of all, are you working on any new products or partnership agreements as a result of the budget?

Second one, distribution with agreement with RBS; can you give us a bit of colour on how that is going please?

Answer: Paul Matthews

We are working on extending the retirement options for customers post April. So whilst we have the 30% market share of the drawdown market, some of the things that Standard Life Investments can do for helping customers into retirement, we believe we could offer a couple more new solutions that were more appropriate.

Secondly, RBS is going well. This is now our largest Wrap business, over £250 million of assets which Standard Life Investments manage and that continues to do well as we develop further opportunities with that strategic partner.

Question 7: Lance Burbidge, Autonomous

Three questions. The first is on negative operational gearing on the corporate pensions business. Is it entirely explained by, I think, the £8 million of revenue that switched to retail?

Secondly, and this may be connected, on the new business margin fee business in the UK seems to have dropped in the first half, I wondered why that is?

And finally on segregated funds in Canada, what guarantees do you offer?

Answer: David Nish

So in terms of the switch between retail and corporate, it is principally due to the revenue shift. Although within that eight, probably only about four or five of it is ongoing revenue, there is just some adjustments between.

New business is principally driven by annuities year on year in terms of the overall. Sorry fee business. Fee business it depends on the shift between the sterling reserves year on year on the corporate pension schemes which, remember I said as the business builds you will go through this period where there is a bit of unsettling round about it.

And then finally, segregated funds, Michael are you able to speak to Lance afterwards about the range of things we have got, or Stephen? There is a wide range of products and propositions that are in the book and different types of guarantees and underpins.

Answer: Paul Matthews

It is probably worth adding on the core business. Remember a lot of these customers are coming on in the workplace element, contributed around 2-4%. That is going to go to 8% for these customers. So there is that early piece where they are putting in less than they will be putting in.

David Nish
Before passing to Andy I am going to do something that is new for me, have you got a question on the web?

Operator
We have a question on the webcast from the name of Greig Paterson.

Question 8: Greig Paterson, KBW [read by webcast operator]
Group pensions down year on year, so has auto-enrolment peaked or has increased competition in GARS hurt here?

Answer: David Nish
Goodness me is that how Greig speaks! Group pensions down year on year. I think it was the flows question, similar to Gordon's one.

Answer: Paul Matthews
It was movement from corporate to retail; so is the question around?

Operator
He asks if increased competition on GARS has impacted on corporate flows.

Answer: Keith Skeoch
Well in terms of increased competition on GARS, first half of the year in line with guidance. We have seen inflows in the GARS of about £410 million a month. Before the big increase in the first half of last year of a billion, we were seeing about £400 million a month. So we have seen absolutely no change in terms of the underlying flow into GARS, it remains exactly where we would expect it to be.

Further answer: Paul Matthews
I think Greig your question on the corporate flows is I am guessing it is linked to the Q4 last year which I think Gordon picked up on; we had around £1 billion of single premiums come in from two schemes. We haven't had the repeat of the lump sums coming in in the first half of the year. So I am guessing that is probably what the question was around. And I suppose the answer again is as I said to Gordon, it is a lumpy business, we would expect employers to consolidate and also more DB to DC to come through, it is just a question of which quarter and which half they come in.

Question 9: Andy Hughes, Exane BNP Paribas
Hi, it's Andy Hughes from Exane BNP Paribas. Or otherwise known as Andy 2. Sorry to hear that Andy Murray has been relegated to Andy 3 though, he is not going to be very happy!!

So a couple of questions. First one about SLI, obviously the revenues look quite strongly, but so are the costs. And as you point out, the costs relate to diversifying the business, IT spend, the Wealth business. So could we get some clarity about the cost increase in SLI as to whether this is the kind of run rate, it stays at this level so the fee income continues to grow and the costs, whether they keep the same pace? How much is IT?

Also in the Wealth Business, I would imagine the Wealth business is largely acquisition costs. Although you don't report them as such, you report them as maintenance costs. That seems to understate the earnings of SLI potential or at least the growth in SLI earnings. So I am just wondering if there is an idea of what the Wealth split would be between acquisition and renewal.

And then a quick question on the UK. Paul you haven't mentioned a couple of things I quite like in the UK in terms of the corporate business. Obviously 2016 is the end of contracting out for DB schemes. So they are going to have a massive increase in costs presumably if you have a DB scheme member who is active. Is this going to drive curtailment, i.e., people stopping existing members into DB schemes and moving into DC?

And the second thing is obviously DB to DC transfers are now continuing forever and they look to be a big driver of asset flows for the industry. I think they said they expected to be between 10-20% of DB assets which is still an awful lot of money. So could you comment on that as well please? Thank you.

Answer: Keith Skeoch
In terms of the expenses, I think one of the things that is important to note is we have got a strange timing effect because we are comparing the movement of Standard Life Wealth across to our book of business first half of last year. And then you have got the transfer in of the Newton book of business in the second half of last year. So the full affect coming through in the first half of 2014. So to be absolutely clear in terms of the impact on our overall margin, the drop of about 3% is by and large 2% of Wealth plus the Newton acquisition. You have also got the impact of the Rupee, which accounts for 1% from India. So in our central business, our main business, actually you have got margins pretty much flat. Revenue growth in that core business is running at about 16%. Expenses were running again just over 16%. The tick-up in expenses was largely associated with expansion of overseas offices, data and infrastructure and people. If you add in the additional costs associated with take on of Wealth that accounts for well over 50% of the £40 million increase in expenses between the two halves of the year. The challenge for us I think is going to be making sure that we get the potential benefits of scale and financial transformation in the Wealth business which at the moment is by and large just about washing its face. So you have got to mix impact. Obviously we believe that once we have got Newton well integrated and settled in, there is a very, very significant opportunity there to see things improve over the medium term.

Answer: David Nish
I will take your question away Andy about the maintenance and acquisition. I am not aware of anything that would materially end up but we will have a look as regards whether we have in a sense, because of the costs structures are slightly different between SLI main business and SLW as a wealth business, is there anything that does appear in any, in a sense, line that is different.

Further question

I thought the kind of wealth management businesses had a lot on the balance sheet relating to the acquisition of customers amortised quite a long time so they had much higher profits potentially. And I guess the question was, do you incur a lot of costs in growing SLW which aren't repeated in subsequent years from client acquisition?

Answer: David Nish
So we will take something away to look at that.

Further answer: Paul Matthews
Contracting out. So if it is one of your favourite areas, I mean the clearly employers have now got a massive amount on for them. So we look after 50 of the FTSE 100 so the majority of those companies it probably balances 50-50, 50% of the employees are in DB and 50% in DC. I think the numbers that have been quoted by a couple of companies in the market is it was £400 billion I think in DC in 2011 and a trillion in DB. For 2020 DC is expected to go from £400 billion to £1.2 trillion and DB flat and by 2030 DC goes to £3.3 trillion, DB flat. It is just a question of timing for a lot of these large employers, when they do stuff. A lot of them have had pension blight with getting through auto-enrolment. They have then got the political decision of when they decide to finally close the DB and what they are going to do about the costs of national insurance contributions etc of contracting out.

This is one of the main reasons why we are in this auto-enrolment business is getting much, much closer to these employers. Historically you had a lot of unbundled business where they have the administration investment done separately. The costs to employers now of bundling are much cheaper. And we are in regular dialogue with these employers now looking after employees, not just for pensions as David hinted, on savings. The question everyone wants to know is when are we going to start to see these hundreds of billions of pounds move and I don't know. But everyone is saying it will move, it is just a question of when.

<u>Question 10: Ashik Musaddi, JP Morgan Cazenove</u>
Hi, Ashik Musaddi from JP Morgan. Just a couple of questions. One, you touched upon investing into India or looking as a direct investment to changes there. So first of all, what is the attraction there because the profitability hasn't been amazing?

And secondly, if there is an attraction, what sort of price tag are we talking about or investment we are talking about here?

Secondly in terms of GARS, is there any tic-up of expenses because of your expansion in Asia? And if there is, when should we start seeing some good flows from Asia, something similar to how your John Hancock thing worked especially in GARS? So can we expect something similar depending on products etc in Asia? Thank you.

Answer: David Nish
Okay, why don't I talk a wee bit about India? As we have said in the past, we like India as a country to invest in, particularly when you look at the, in many ways the changes in that marketplace and the scale of that marketplace. But also very particularly our partnership

with HDFC, they are the premier financial services brand in India and probably on one of the premier brands in India. So from that viewpoint we have got a very good partner and a very good relationship with them.

You should remember we have got two businesses in India. We talk a lot about our reference to Life company, but we also have HDFC Asset Management. I might take a different view from you as regards their profitability and value Ashik, I actually think they are incredibly good businesses. The asset management business in which we own 40% has been generating consistent profits now over the last ten years. And contributes well to Keith's business and has paid dividends. The Life co, paid its first dividend in December last year, we haven't put capital into that business now for three years. It has now wiped out its deficit in accumulated losses, that has taken place. It is number one in the private insurance market. And there is actually a stunning statistic which the HDFC Life do publish in that its net premium flows are greater than the six next private companies in India. It is really incredible the amount of flow coming into that business now and the quality of that business that is there.

So we are very pleased with India as an investment opportunity. Now what we have ended up obviously seeing over the last 3 or 4 weeks there is a new Indian Government in place, there is a lot of enthusiasm about what that Government can do. It is apparently a stated policy that they will allow the increase in the Life co asset ownership from 26 to 49%. We are waiting to see how that legislation is going to be framed around about that. So as far as I am aware, unless something happened this morning that no one has told me about, that the legislation is not passed. So the first thing has to be legislation has to pass. We do have an opportunity to increase our stake as I have said; I think it is a great market to be invested in. If we do increase our stake, how much it will cost to increase our stake? These are all things way down the track. The first thing is to ensure we have got a good business today and I think we have got a great business today in the Life co. And I think we have got a great business in the asset management side as well. It is a country with great opportunity and I think we are well positioned if we do want to increase our stake that is there. But the first thing is the legislation has to pass and legislation has not passed, unless it happened this morning.

Further question
Just the question on GARS?

David Nish
Yes sorry, Keith, GARS.

Answer: Keith Skeoch
Yes thanks Ashik. We are starting to see flows into GARS from the distribution relationship with Sumitomo Mitsui where GARS is actually available as a NISA, in this case a Japanese Nippon ISA, and actually plugs into their pension offering. We have also seen flow coming out of Australia as well in terms of Asia. I think the other thing I should emphasise is it isn't just GARS that we are beginning to see progress in; it is other stuff in the multi-asset mix. So global focus solution and absolute return Government bonds, our version of that is actually

beginning to see a little bit of flow and around the world that was worth about an additional £40 million a month in the first half of the year. So we are beginning to see that offering broadening out and we are quite hopeful that we will see more flow over the next couple of years coming through from Asia to complement what is going on in Europe and the United States.

David Nish
The question was round about costs as well; there is no change to the cost structure?

Answer: Keith Skeoch
There is no change to the cost structure. Investment plans are bang in line with what we said we would do.

Question 11: Laurence Armfield, RBS
Laurie from RBS. Just a little bit about Europe actually. You have said a lot about UK and Canada but what is the European strategy?

Answer: Paul Matthews
So we are reasonably narrow in Europe so I think it is worth saying that. So we have Ireland, Austria and Germany. Ireland is having a good year I think on the back of some of the challenges that the Ireland marketplace has had and our Irish business is up pretty well. Germany again we have introduced unit link. Germany is very commission dominated type of country as a business. So the market is really, you have 100 German insurers there, you have got commission, you have got with-profits, and we are focused very much on the unit-linked market. I think over 25% of our business is now unit-linked which is pretty good for us and growing. And we are working with Standard Life Investments again to introduce more of our UK model portfolio type business, MyFolio type contracts to the German market. So we are making good progress although it is fair to say, it is much slower because it is quite heavily intermediated in Germany and commission continues to play quite a big part. And clearly as a company we have tried to work away from commission and focus more on customer driven products. But good progress and I think at the end of the year you will see good, steady progress from Germany, Austria and Ireland.

David Nish
Keith do you want to talk about European business?

Answer: Keith Skeoch
We continue to see reasonably good flows. Actually we have got about 30.5billion of the third party assets that are associated with European flows. GARS is a component of that but a big component of that is actually corporate bonds and high yield bonds. And a little bit of evidence that equity sales are picking up within Europe particularly European and global equities.

Question 12: Andy Hughes, Exane BNP Paribas
Hi, sorry to ask you this Keith. It is obviously early days post Ignis completion, but I was just wondering how are things going in terms of distribution side of things? Obviously Ignis is

now distributed through Standard Life, so have you had any sort of discussions with John Hancock about distributing the Ignis fund or how you might combine the ARGB fund with the existing GARS fund?

And can I have some views on where you think things might go in the near term? Thanks.

Answer: Keith Skeoch
We are about 5 weeks in and about 7 weeks from change of control. And I think all is pretty much as we would expect it to be. We are on plan, planning and due diligence I think was quite detailed. We are on time as well, 5 weeks in. So I think it is going very well. I think what is encouraging is that where we have had a conversation with prospective institutional clients for the Ignis ARGB's fund; those conversations have gone very well. As they look at the combination of the performance and I think the added security for the client of our operational platform and service platform. So to be honest it is going as well as can be expected.

Answer: David Nish
Are there any further questions in the room? No further mechanical voices? Good. Okay. Well thank you for your time this morning. I am sure the team will be working with you over the next few days and good luck for the rest of the reporting season. Okay, thank you.

End of Presentation