

Standard Life plc Preliminary Results 2009 10 March 2010

Strong platform for profitable growth

Positive net flows across the Group

- Net flows across the Group up 51% to £6.5bn (2008: £4.3bn)^{1,2}
- Group assets under administration up 15% to £170bn (31 December 2008: £148bn)^{2,3}

Cash flow robust

- EEV core capital and cash generation after tax up 16% to £350m (2008: £303m)^{4,5}
- Full year dividend up 4.0% to 12.24p (2008: 11.77p)

Profits resilient in difficult markets

- EEV operating profit before tax of £919m (2008: £933m)⁴
- IFRS profit after tax attributable to equity holders of £213m (2008: £100m)

Strong platform for profitable growth

- Significant step up in investment to develop our leading corporate and retail propositions to accelerate profitable growth
- A further £100m of efficiency savings targeted by 2012

Chief Executive David Nish said:

“2009 was a successful year for Standard Life in which we delivered against our strategic objectives and built a strong platform for future profitable growth.

“Today’s announcement highlights good profits and healthy cash flow for the year, and the ongoing delivery of efficiency savings in our business despite the difficult and uncertain year for financial markets. We continued to grow customer assets, generated further value from back book management, and maintained a robust capital position through our disciplined approach to risk management.

“Standard Life starts 2010 in a good position. We will continue to drive shareholder value through being a customer-centric business, focused on long-term savings and investments propositions. We are stepping up our investment in our leading corporate and retail propositions during 2010 and are excited by the many opportunities across our markets. We have also announced an increase to our efficiency targets which will improve margins. These actions will enable Standard Life to grow profits more strongly.”

Unless otherwise stated, all comparisons are in Sterling and are for the 12 months ended 31 December 2008.

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EEV operating profit	2009	2008
	£m	£m
Covered business by region		
UK	506	658
Canada	192	215
Europe	23	68
Asia ⁴	6	(35)
HWPF TVOG	143	11
Covered business operating profit	870	917
Covered business by source		
New business contribution	213	264
Contribution from in-force business:		
Expected return on existing business	375	431
Experience variances	277	64
Operating assumption changes	68	195
Other covered	(63)	(37)
Covered business operating profit	870	917
Non-covered business		
Global investment management	42	48
UK	57	5
Group corporate centre costs	(50)	(50)
Other	-	13
Non-covered business operating profit	49	16
Operating profit before tax	919	933
Tax on operating profit	(279)	(284)
Operating profit after tax	640	649
Profit/(loss) after tax	305	(134)
Diluted EEV operating EPS	29.1p	29.8p

IFRS underlying profit	2009	2008
	£m	£m
UK	259	238
Canada	(7)	(102)
Europe	45	48
Asia	(27)	(35)
Global investment management	66	42
Other	(45)	(37)
Underlying profit before tax	291	154
Tax on underlying profit	(26)	100
Underlying profit after tax	265	254
Profit attributable to equity holders after tax	213	100
Diluted IFRS underlying EPS	12.0p	11.7p

For more information please refer to Section 1.9 - Basis of preparation and Section 3 - IFRS pro forma reconciliation of Group underlying profit to IFRS profit for the year of the *Preliminary Results 2009*.

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Our focus in 2009

Market conditions remained challenging as we entered 2009. Consequently our strategic priority was to strengthen and stabilise our business model by focusing on key objectives within our control, namely balance sheet strength, the sustainability of our cash flow, our continued drive for operational efficiency, the mitigation of unrewarded risk and our desire to do the right thing for our customers. Our success in achieving these aims has created a strong platform for our future investment programme as we look to accelerate our strategy for profitable growth.

Strong growth in assets under administration

At the end of December 2009 total assets under administration (AUA) had increased 13% to £177.6bn (31 December 2008: £156.8bn, 30 June 2009: £156.5bn). Excluding our discontinued banking operations total AUA increased 15% to £170.1bn (31 December 2008: £147.9bn).

Positive net flows of £4.5bn (2008: £2.7bn) across the Group included life and pensions net inflows of £2.7bn (2008: £2.7bn)¹ and third party investment management net inflows of £5.7bn (2008: £3.4bn). Consolidation adjustments⁶ reduced net flows by £1.9bn (2008: £1.8bn). Prior to the sale of our banking operations to Barclays Bank PLC on 1 January 2010 we continued to manage our mortgage exposure in light of the difficult credit market conditions. This has been reflected in a net outflow of £2.0bn (2008: £1.6bn). Excluding the outflows in respect of these discontinued operations, consolidated net inflows across the Group amounted to £6.5bn (2008: £4.3bn), equating to 4% (2008: 3%) of opening assets under administration.

Market and other movements increased AUA by £16.3bn (2008: decrease £14.9bn).

EEV operating cash flow robust with strong coverage of new business strain

Core capital and cash generation after tax was 16% higher at £350m (2008: £303m)⁴, driven by reduced new business strain following our decision to pay only customer funded commission on UK onshore bonds. Capital and cash generated from existing business of £546m (2008: £546m)⁴ comfortably covered new business strain of £188m (2008: £224m)⁴ by 2.9 times (2008: 2.4 times).

Efficiency items reduced capital and cash by £7m (2008: increase £7m)⁴. Capital and cash generated from back book management amounted to £71m (2008: £113m)⁴ largely arising from a release of reserves in respect of deferred annuities. The 2008 comparative reflected the reinsurance of UK immediate annuity liabilities and an earlier UK deferred annuity reserve release.

Overall, operating capital and cash generation amounted to £414m (2008: £423m)⁴.

EEV operating profits resilient in difficult markets

EEV operating profit before tax was £919m (2008: £933m)⁴, delivering a return on embedded value (RoEV) of 10.6% (2008: 10.9%)⁴.

We report our RoEV under three components: core, efficiency and back book management.

	Breakdown of RoEV ⁴		Breakdown of EEV operating profit ⁴	
	2009 %	2008 %	2009 £m	2008 £m
Core	6.7	8.0	584	685
Efficiency	(0.1)	0.8	(14)	64
Back book management	4.0	2.1	349	184
Total	10.6	10.9	919	933

Core return influenced by market levels

Core return comprises new business contribution, expected return, development costs for covered business⁵ and IFRS normalised underlying profit for non-covered businesses⁷.

As a long-term savings and investments business our core return will inevitably be influenced by the overall level of financial markets, with average equity markets in 2009 15%⁸ lower than 2008. Core return was 15% lower at £584m (2008: £685m)⁴ delivering a core RoEV of 6.7% (2008: 8.0%)⁴. New business contribution was 19% lower at £213m (2008: £264m)⁴, due to reduced sales volumes as a result of challenging markets. Core return was also impacted by a market driven reduction in the value of the in-force book at the end of 2008, which resulted in a lower expected return on existing business.

We continue to invest in our market leading propositions across our life and pensions businesses. This has been reflected in a slight increase in core development expenses to £41m (2008: £36m)⁴.

Our new business metrics of internal rate of return (IRR) and discounted payback period were 14% (2008: 16%)⁴ and 9 years (2008: 8 years)⁴ respectively, the decrease in IRR and lengthening of payback period having been driven by lower asset values and lower sales volumes, which have reduced the value of reported sales across our UK and international operations.

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Efficiency

Efficiency comprises covered business maintenance expense variances and assumption changes. In 2009 expense variances reduced RoEV by 0.1% (2008: increase 0.8%)⁴. The negative expense assumption reflects mainly the reclassification of expenses as maintenance.

We announced in March 2009 a target of achieving a further £75m of annual efficiency savings by the end of 2010.

In 2009 we have achieved £47m of annual efficiency savings towards this target. We have achieved this through a number of initiatives including:

- Alignment of our UK distribution and marketing operating models with our strategic objectives. This has led to a headcount reduction of around 200 and a reduction in associated overheads.
- Restructure of our Europe and Canada customer service operations.
- Continued improvement and automation of customer service processes, which has allowed us to maintain our award-winning levels of customer service with lower headcount.
- Outsourcing elements of IT development.

Substantial value generated through back book management

We remain committed to driving increased value from the management of our back book. This category includes all non-expense related operating variances and assumption changes for covered business plus those development costs directly related to back book management initiatives and, for non-covered business, specific costs attributed to back book management. During the year, back book management generated an operating profit before tax of £349m (2008: £184m)⁴, delivering a back book management RoEV of 4.0% (2008: 2.1%)⁴.

Positive factors within the back book management result include a £143m benefit from changes to asset allocations and hedging arrangements, which have reduced the time value of options and guarantees (TVOG) associated with the Heritage With Profits Fund (HWPF). In addition, the result includes a £111m benefit arising from actions taken to reduce the market risk to the tax treatment of future shareholder transfers from the HWPF, as well as a £63m (2008: £98m) release of reserves following a review of our deferred annuity data. In February 2008 we reinsured £6.7bn of our UK immediate annuity liabilities to Canada Life International Re. This generated a benefit to EEV operating profit before tax of £119m which was reflected in the 2008 result. 2008 also included a charge of £108m in relation to the Pension Sterling Fund.

IFRS results impacted by average market levels

IFRS normalised underlying profit excluding the impact of market movements on surplus assets and reserves in Canada was £298m (2008: £349m). Excluding our discontinued banking operations, this figure was £238m (2008: £323m). The decrease was due to lower management charge income (£66m) resulting from lower average market levels, partially offset by a reduction in operating costs of £18m from our ongoing efficiency programme. The profit is after expensing £86m of proposition and system development spend.

Marked to market value adjustments in respect of surplus assets, coupled with reserve movements, have reduced profit in Canada by £70m (2008: £143m). Under EEV the impact of these adjustments is treated as a non-operating item. Including the impact of these adjustments, normalised underlying profit was 11% higher at £228m (2008: £206m).

IFRS underlying profit before tax was 89% higher at £291m (2008: £154m) and includes a number of items which are not included in the normalised underlying profit figure. In 2009 this figure included a benefit of £63m (2008: £98m) relating to the release of reserves following a review of our deferred annuity data. In 2008 this figure was similarly affected by significant items including a £105m benefit arising from the reinsurance of UK immediate annuity liabilities, and respective charges of £102m and £124m in relation to the Pension Sterling Fund and a sub-fund of Standard Life Investments (Global Liquidity Funds) plc.

Increased 2009 dividend

The Board have proposed a final dividend of 8.09p per share (2008: 7.70p) making a total of 12.24p for 2009 (2008: 11.77p), an increase of 4.0% (2008: 2.3%). The Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group's financial performance.

Stable balance sheet

Group embedded value of £6,435m (31 December 2008: £6,245m)⁴, represents an embedded value per share of 288p (31 December 2008: 286p)⁴. IFRS equity excluding intangible assets and non-controlling interests was £3,351m (31 December 2008: £3,295m), representing 150p per share (31 December 2008: 151p). The increase in Group embedded value and IFRS equity during the year primarily reflects the profit for the year offset by an increase in the liabilities of the Group's defined benefit pension schemes and dividend payments made in 2009.

The Financial Groups Directive (FGD) surplus as at 31 December 2009 of £3.6bn has been relatively insensitive to market movements and remains largely unchanged from the previous year end position (31 December 2008: £3.5bn), with a year end solvency cover of 230% (31 December 2008: 219%)⁹.

At 31 December 2009 the Group was classified as a 'financial conglomerate' as defined by the Financial Groups Directive (FGD). Following the sale of Standard Life Bank plc on 1 January 2010 the Group is now classified as an 'insurance group' and from this date the Group capital surplus will be calculated in accordance with the Insurance Groups Directive (IGD). The Group's capital surplus on an IGD basis is not expected to be materially different from the surplus on an FGD basis.

Strong platform for profitable growth

We will continue to drive shareholder value through being a leading, customer-centric business, focused on long-term savings and investment propositions. This means finding, acquiring and retaining valuable customers for mutual and sustained financial benefit.

We see excellent prospects to drive greater value from all our businesses. In each of our markets, we believe we can leverage our positions to develop new growth opportunities and influence market development. Our ongoing investment to more fully understand the needs of our

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customers will drive the propositions we will develop for our customers. In doing this, we also help fulfil a growing need for providing long-term retirement and savings solutions.

Our strategic focus is to:

- **Build on our strength in our pension savings and corporate benefits markets** across all our businesses, delivering corporate benefits solutions to employers, and providing broader savings propositions to employees. We are excited about the opportunities in our core corporate markets, with total pensionable assets of £1.4 trillion and £0.6 trillion in the UK and Canada respectively.
- **Focus on the savings and investment needs of customers in our chosen segments**, which include £2.3 trillion of assets in the UK and £1.3 trillion of assets in Canada. We will achieve this by delivering propositions through a digitally enabled distribution strategy, with increased brand preference.
- **Expand the global reach of our investment management business** to become a high value-add investment manager, delivering superior performance over a wide range of products, asset classes and markets.
- **Maximise the value from our Joint Venture relationships in Asia** to further grow shareholder value, through building a strong strategic partnership in China and the opportunity to increase our stake in our Indian Joint Venture.

We will continue to invest in our trusted brand to generate valuable customer loyalty and a predisposition to buy from us. Advanced use of new technology will help us drive rapid innovation in our propositions and enable a market-leading, cost-efficient operation, fully supporting the regulatory changes that will be introduced under the UK Retail Distribution Review. Our recognised capabilities in accessing and communicating with customers, on both sales and service, and our outstanding relationships with intermediaries, will be core to our ongoing success.

Achieving all of this requires a nimble business that is quick to spot and seize growth opportunities, creates and refines attractive propositions that it gets to market quickly, and does all of this in a highly efficient and effective manner. To create that 'fit-for-future' business, we have initiated an internal transformation programme, which will drive performance improvement through putting our customers at the heart of our strategy, investing in our talent, and using technology to support the relationships with customers and distributors and deliver efficiency. We will also continue to manage risk actively to ensure that risk is fully rewarded and appropriate to our strategy.

In 2010 we are doubling the level of growth investment in our business and will spend more than £200m to further develop and market our leading corporate and retail propositions. This development programme, based on rigorously applied returns criteria, will include the launch of our Employee Wealth and Benefit Platform later in the year, and significant enhancements to our adviser propositions. We believe these will lead to a considerable increase in assets under administration and profits over the next 3 years.

In addition, we are announcing today that we will target a further £100m of efficiency savings by 2012. These savings, which will improve new business margins, will be achieved through transforming our operations to become lower cost and scalable, while maintaining the quality of customer service.

Standard Life is strongly positioned for profitable growth in the segments of the markets on which we focus.

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Newswires and online publications

A conference call will take place for newswires and online publications from 8.00-9.00am. Participants should dial +44 (0)1452 555566 and quote Standard Life Preliminary Results 2009. The conference ID number is 59435427. A replay facility will be available for 7 days. Investors and analysts should dial +44 (0)1452 550000. The pass code is 59435427#.

Investors and Analysts

A presentation to investors and analysts will take place at 9:30am at UBS Ground Floor Conference Centre, 1 Finsbury Avenue, London. A live webcast of the presentation and the presentation slides will be available on the Group's website. In addition a replay will be available on this website later today.

There will also be a live listen only teleconference to the investor and analyst presentation at 9:30am. Investors and analysts should dial +44 (0)20 3059 5754. Callers should quote Standard Life Preliminary Results. A replay facility will be available for 14 days. Investors and analysts should dial +44 (0)121 2604861. The pass code is 1943675#.

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Notes to Editors:

- 1 Worldwide life and pensions net flows include net flows in respect of our Asia joint ventures and our Hong Kong subsidiary for the first time. Prior year figures have been restated accordingly.
- 2 Assets under administration (AUA) and net flows have been adjusted to exclude discontinued banking operations for both 2009 and 2008.
- 3 AUA are gross assets that the Group administers for customers, including both those managed by the Group and those placed with third party managers.
- 4 The Asia life and pensions operations have been included on an EEV basis for the first time. Comparative figures for 2008 have not been restated.
- 5 Core elements comprise new business contribution (NBC), expected return on in-force business, non-covered business profits and development costs for covered business other than those directly related to back book. Core EEV capital and cash generation reflects the after tax net worth impact of the core EEV result attributable to shareholders.
- 6 Certain items are included in both life and pensions and investment flows. Therefore, at Group level, an elimination adjustment is required to remove any duplication.
- 7 The only difference between IFRS normalised underlying profit and IFRS underlying profit for non-covered business arises within global investment management. Net negative fair value movements in respect of the liability remaining following the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc and the 'Contract for Differences' written in September 2008 which limited this liability for Standard Life Investments and fair value movements of the corresponding assets which were brought directly on to the statement of financial position, are included within IFRS underlying profit, but are excluded from IFRS normalised underlying profit.
- 8 The daily average level of the FTSE All share index was 15% lower over the twelve months to 31 December 2009 when compared to the same period in 2008. On the same basis the UK IPD All Property Index was 22% lower and the Sterling 5-10 Yr Corporate Securities Index was down 6%.
- 9 FGD surplus based on draft regulatory returns
- 10 The *Preliminary Results 2009* are available on the Financial Results page of the Standard Life website at **www.standardlife.com**