

**Old Mutual US Life Presentation – 7<sup>th</sup> July 2004**  
**Question and Answers**

Panel includes:

Key Speaker:           Guy Barker, CEO Old Mutual US Life  
                          Michel Perreault, Chief Actuary  
                          Bruce Parker, Chief Marketing Officer, OMFN  
                          John Fenn, Accountant

MR ROHM: Joseph Rohm from Insight. Just a question in terms of how the business is evolving and where we could see new distribution deals?

MR BARKER: We fine-tune our distribution channels. We have extra channels where we choose to tune them down or tune them up to fit our main channels. We have for example tuned down the corporate in the last quarter because there was no need for it and everything else was healthy. Lifestyle, we are running fairly slowly, looking for new agents so we feel we have more than enough channels now to be able to target our sales approach. The core channel will always be the retail annuity channel through MGAs. That is the one that was fundamentally what F&G was all about, before our acquisition, and we have had to manage the transition very carefully between the Founding President of F&G, and Bruce Parker. Bruce, do you want to add anything about your channel strategy and the balances you are finding there?

MR PARKER: I think I would add to that that as we continue to look at the evolving market, some of the product lines that are gaining momentum now, we have a close eye on, in particular variable annuity product line, although we are one of the major players in the index annuity product line which is also a product that is used to sell out in the market place and the equity markets. The variable annuity market place is one that we have a close eye on so there could be additional distribution in the coming years as that starts to develop. Our distribution system currently is designed around an independent distribution network so we do not have any tied agents to our organization, we are a very nimble organisation. We do put our focus on the managing general agents, those are the individuals that bring distribution to us and then we work with them to help design and then distribute the product. I am very comfortable right now with our distribution mix which mainly has MGA distribution on the annuity and the life distribution, the life is gaining very good momentum for us from an APE standpoint, as well as having some alternative distribution with OMNIA, our variable annuity offshore, also our pay-out solution channel and also our bank channel, which we have scaled down because you cannot get the profits in that product line right now but we have a very nice broad distribution force that allows us to be nimble in the market place and to drive our values. Emerging products, I see the product line of variable annuity but other than that, we are minding our own shop and our distribution that we have today.

MR BARKER: If I put it into product terms, we are in the savings market predominantly, interest related products and that has been big for us in the past, where you are selling interest rates. You advertise the fact that you can beat corporate yield and the customer cannot because you are a big investor and you take your turn and pass it on. That is not so attractive for us at the moment because other companies are chasing it. At the other end there is the full-blown variable annuity business, we do not do that; it is a separate licensing structure and it is also unnecessary for us. Why is it unnecessary? Because the customer lost retail confidence in the 2001 debacle and is regaining it. While he is regaining it, there is a very strong market out there for people who want to hedge their bets, as it were, and they go for the equity index product, where we are giving them a formula function of equity market upside but they are not going to lose more than 10 per cent of their capital. Variable annuity, as Bruce mentions, is something we do not do. We do it offshore so we are learning about it, we have the tool kit and most of us have come from companies that did it, so we are ready to do it. Anything we do before that will be part of the US asset management, much more a retail thing because it takes advantage of the expertise of the funds that Scott Powers has and our own competence. It is possible we do not need it this year because there is more than enough market at the moment.

MR PEARCE: James Pearce from Cazenove. Can you please tell us your spread and IRR on the fixed annuity business and how it has changed since the New Year. Please also talk about demand in the market for fixed products.

MR BARKER: There are so many varieties of spread products around, some give bonus at the front end and then take a fix spread thereafter. Michel, the spread?

MR PERREAUULT: As you imagine, there is quite a variety of product designs and acquisition costs that are quite different depending on what markets we are targeting. But if we can try to simplify it, on average, we are probably making gross spreads of two and a quarter, that is 225 basis points. From that, our acquisition cost, upfront, largely commissions to our independent agents require roughly 1 per cent so 100 basis points comes out of that. Then we have our own ongoing expenses and the straight cost associated with the policies, roughly 40 basis points or so is needed for that, which then leaves a net spread, of roughly 85 basis points or so. So that becomes our taxable profit, taxes would be 25 basis points or so to get to in that spread of 60 basis points average, and it depends on the emergence over time of the profits, will give us 12 to 13 per cent returns on equity for the business. That is for the capital that is supporting it.

MR BARKER: The other way to look at it is to say 250 per cent risk base capital amounts to about 5 per cent of the premium you put up, as capital. We want 12 per cent of it after tax, 12 per cent of 5 per cent is 60 basis points. That squares the loop, I think.

MR PEARCE: Can you say how that has changed so far this year and what the demand is like?

MR BARKER: I think particularly the rising interest change is giving us good profits but good in cycle terms. Michel?

MR PERREAUULT: We have had a good start in new business. Part of it has come from the shift of our business to equity index annuities. Equity index annuities are fixed annuity products so they behave somewhat similarly as far as the spread numbers that I just mentioned. But what we see in the market is that the consumer is not as aggressive in seeking the highest return within the product design. So we have been able to grow that market with very healthy spreads in it and as interest rates have increased recently, been able to deploy the funds at higher rates than had been assumed in the pricing of the products without having to adjust the liability side of the equation.

MR BARKER: Does that answer? Good, thank you. Question please?

MR ZIAI: Youssef Ziai, Williams de Broe. What is the tax advantage on DAs; and also do you have any issue with annuitant mortality like we have in the UK?

MR BARKER: Annuity mortality, I will return to you, Michel. Tax advantage of deferred annuities, all our annuities are tax advantaged. The build up of funds get taxed from profit and a tax account is not dissimilar to a statutory account. The customer does not get charged on the account until he cashes in the product. So essentially the tax advantage is tax free build up and then tax payable.

MR PERREAUULT: Income tax.

MR BARKER: Deferred income tax on it. Immediate annuities are taxed in the same way as they are in the UK; there is a capital element and there is an interest element in every payment. John Fenn, anything you want to add on that?

MR FENN: I think you have it fairly accurate, Guy. There are quite a variety of products, all, as you have indicated, tax advantaged in some way, shape or form, even to have certain products that we sell to customers that are tax free dependent upon the type of product that is sold ultimately.

MR BARKER: Michel, do you want to pick up the annuity mortality.

MR PERREAUULT: Yes, I guess first off to put it in context, there is a big difference between the US and the market in the UK. While all of our deferred annuities allow for amortisations, it is not a required election and in fact the utilisation rate on our deferred annuity book is actually quite low, less than 5 per cent. It is not something that the customers are looking for. So the exposure when you look at the book of business is certainly not as significant and then once somebody annuitises, the typical settlement chosen is a period certain for five to ten years, it is not life dependent. Now, having said that, we do have a book of business

that we have written over the course of the years, historically the company has been in the structured market which is another sort of tax advantage type market, so we have a credible book of business that we look at mortality results on and the overall results are slightly favorable; in this case meaning that people are dying a little bit faster than the pricing of the product had assumed. So we are not seeing any particular exposure with the book of business as we look forward and make sure we want to continue that trend in the future, we are closely looking at the pricing of our new products to ensure that we are building enough mortality improvement into our assumptions so that we can keep track with the trends that we are seeing.

MR BARKER: How much of the immediate annuity business is underwritten, Michel?

MR PERREAULT: It certainly has evolved in the US where the underwritten business is becoming a more significant portion of what we are seeing. As a percentage, probably 3 per cent now of incoming business is actually underwritten -- of the immediate annuity. The reason it is underwritten is that the policy holder is expecting to get potentially a better rate because of some ill condition they have or a disease or what have you and we can look at the medical records and make our own assessment as to the life expectancy more precisely in that business. You may wonder why somebody in ill health is looking for an immediate annuity but that is also a tax answer, as state planning needs often allow the use of that product to be quite efficient.

MR BARKER: They take the capital out of their estate, put it into annuity and they are more likely to get federal access to funds for their medical condition as to other things.

MS HUDSON: Jessica Hudson from Schroders. Two questions. One is: are you only using one counterparty on the equity index annuities and what is their credit rating? The second one is just a question on distribution, 100 basis points for distribution is quite a lot. Is there any potential in any way of recapturing that margin?

MR BARKER: Michel, will you take counter parties; Bruce, will you talk about commission trends in our particular niches in the US market and where that may be going, because the question was essentially do we have room to take less commission and make more money out of the product given the spread. Michel, you first please on Analytic and other counterparties.

MR PERREAULT: Yes, for our equity index annuity block, we use Analytic Investors which is one of the firms in the US Asset Management side of the business, to manage our derivative programme. What we do is dynamically hedge the exposure so that every day, we look at the delta of the liabilities and compare that to the sensitivity of the assets, the market movement. What happens is that at times Analytic will be buying options straight from other dealers, the counterparties, and there is a group of roughly eight of them that are A rated or better that we have option exposure to. But that represents roughly 50 per cent of our equity exposure. The other 50 per cent is actually futures that are purchased on the S&P 500 in the open market. That, as many of you know, is a very deep market with a lot of liquidity to it. To put it in context, when we looked at the counter parties, the options backing up our products are renewable every year so that the value of the options that we will be crediting to our policy holders, as at the latest statement, is roughly around \$50 million. So that 50 million is really split between at least eight different counterparties and the actual credit exposure in that context is actually quite small and all these contracts will expire within an average of six months or so. So the credit exposure is really a very small issue for us in this book of business.

MR PARKER: When you take a look at the commissions for our group, it is important to understand that we use 100 per cent independent distribution. We are paying our MGAs to recruit the agents for us, train the agents and then the agents go out and sell. So we have parceled out all of our distribution costs with that 100 basis points. In the equity index annuity market place, we have the number two market share in the US, we only trail Allianz and we are the fastest growing among that group also. The dynamics of those products is they have varying surrender rates charge periods, from probably five years being the shortest of the surrender periods, and we have one of those type products, up to the top end of around 15 years. The commissions that you need to pay to the agent will be smaller at the smaller surrender rates and higher when you get up to the 14-year type of surrender products, which become products that are a little bit more complicated, have potential for larger returns. So I think we played a very efficient market place for our commissions and the fact that our MGAs really perform the whole function for us, I do not think there is any movement to squeeze the interest, the commission rates. Now, the dynamic we are starting to see is in the index annuity market place, which is a relatively new market place in the US, ie, less than ten years old for the most part, we see the longer terms surrender charge periods going down and we are seeing the

emergence of products in the five, seven, nine year period and not the larger ones going forward. So I hope that answers that question.

MR BARKER: I draw the analogy with the MYGA, the multi-year guarantee product, which is the interest product. When that was medium range, medium term, medium interest, commissions were about twice as high as they ended up at. As that market was more and more attractive, agents would pile in and the commission would be forced lower by competitive pressures on agents. Agent A would trump Agent B and say "I have a better product" and be taking less commission for it. That is a very, very, very slow trend on the equity index annuity. The trend is down, the commission may be 90 per cent of what it was a year ago and may be 10 per cent less next year, not a particularly great movement but it will happen over time.

MR VASUDEVAN: Anand Vasudevan, DKW. I have two questions, first just on the outsourcing arrangement from CSC. Are the cost savings that you expect already reflected in your EV assumptions and margins? Second question is on the US reserving, what Triple X regulation on your statutory reserve?

MR BARKER: 12 years ago, I was on the Triple X working party. Take Triple X in a moment or two, Michel? On embedded value and CSC, when we bought the company, we identified the extent to which CSC contract was onerous. Now TAG will make us better than vanilla levels in the market place. We set up an onerous contract reserve, which is reflected in the embedded value. I think the mechanics are slightly different but we are now seeing vanilla market expenses emerging in due course. We expect to do better than that in the embedded value process as TAG goes through. We do not want to capitalise on that effect in order to have proof of the pudding and I think that follows reasonably good practice on that. If you want to correct anything that I have oversimplified, Michel, please do so and could you take the Triple X point and our reinsurance work.

MR PERREAULT: Yes. Triple X is an issue that the entire life industry will be facing, obviously it has begun facing it because the regulation has been placed for a number of years. What we are talking about is the humpback in redundant reserves that will be created once you are eight to twelve years maybe into most of the term products that are being sold today. So you get a big increase in these redundant reserves. Most companies like ours have reinsured a lot of the mortality risk out because the reinsurers have been quite aggressive and as part of that, the reinsurers provide us the reserve relief for those reserves. So we have coverage for our existing book of business with the big named reinsurers, Swiss Re, ING Re being some of our reinsurance partners. When we look at the market as it evolves, we are seeing that reinsurance prices are hardening, that the reinsurers are building more cushion for themselves for the capital issues that they will be faced with. What has emerged in the market over last year is alternative solutions to the pure reinsurers, which is the investment markets coming in and raising the capital through special purpose vehicles that, because of the nature of the structure, allow the CD companies to take the reserve credit. Those transactions, a couple have happened, a General Electric Company did one last year and we expect another couple of players to go to the markets also. We are exploring that as we speak, our own task force is looking at those opportunities, so it looks like we will be able to affordably price into the products the cost of either the reinsurance quotes that we are seeing or the costs of going to the capital markets to raise these reserves, based on what we see the fees are easily priced into the products.

MR BARKER: So essentially we find reinsurance partners and they have capital market access and that affects the price. Michel, a reminder for me particularly but a large percentage of our basic insurance is reinsured anyway so we have always off-loaded in some way.

MR PERREAULT: Yes, we have reinsured the base mortality. The products that we sell are more than just term insurance, they are a package of insurance cover which include many different writers. The writers tend to be more profitable so we keep all the writer profits for ourselves and then we insure the base mortality risk to the reinsurers and they help bring the capital to help us write the business. So that has been the programme for the past several years.

MR HILL: Roger Hill, UBS. Can you go through the credit ratings, whether A M Best is likely to review your credit rating and what are the drivers of the changes in credit rating and what your options are if A M Best alters its own view?

MR BARKER: Yes, I will deal with that. A M Best does anybody here know what I can say?

JAMES POOLE, OLD MUTUAL: I can tell you, Guy. There is a press release coming about A M Best and there is no specific mention for F&G. So if you talk to the F&G point, then we have to wait until tomorrow for what they say about Old Mutual.

MR BARKER: Okay, what I know is that they have not been talking to us about any movement in the US so I would be surprised at, but I could not rule out, any re-rating. Now let us go beyond that. Our market thrives on an A rating, does quite well on an A minus rating, if Best downgraded us one notch (and their bands of rating are much wider than Moody's, S&P's and the others), I would be a bit irritated, I would have business nibble away at us quite strongly, I would expect some volume diminution and I would expect to pull into line one of the channels that we are sort of running low level. I would not get too fussed about it. If Best went another notch which would be extraordinary at some stage, then I would have to work quite hard to do things. But I mention a competitor of ours, which went public, I think, during the course of 2003. They are a B double plus company and their ambition is to sell exactly in our market 3.5 billion of sales. So all in all, I hope that the ratings stay up quite nicely. If anything happens to Best, I have to think about it quite carefully, I am not expecting it but it is weatherable. As regards the other ratings, the S&P rating was fairly important to us in the institutional market. Well, the institutional market is not very lively anyway so it does not affect us very much at the moment. Bruce, when PLC and Moody's and Fitch came to us, we did not tell the market, I think and we did not have any questions.

MR PARKER: That is true. I think the overall factor is that if we can continue to keep our ratings above A, then our business model continues to move very, very nicely, when it dips into the B market ratings, like Guy said, mainly the A M Best is really the one that we watch in our market place. That is going to be when we will have to change our focus a little bit.

MR BARKER: May even have to increase commission but it is a balance there. We play for mid-rate, mid-commission. others play for lower rating, higher commission, or will play for very safe, low commission, so you really dial your position in.

MR PEARCE: James Pearce from Cazenove. Can I ask you, has there been any spill over from PBA? Putting it the other way, is there any scope for synergies with PBA?

MR BARKER: It is a complete non-issue for us in the States. Analysts are much more worried, I think, here and in South Africa. In the USA, it is taken as part of the fabric of life, and it is happening in a sister company. They know it is Old Mutual, it is just not a bother with them. If you would like an analogy with the UK, there have been so many mis-selling and other people issues in UK, with pension funds and other things that to a life insurance saver, this is part of the fabric, you are a financial services company. The same applies to the US. Certainly the same applies to our market.

MR PARKER: Guy, I would just say one other thing, is that the F&G brand has been strengthened by the Old Mutual relationship regardless of the ratings. The agents in the US market place are much more comfortable with this company with the strength of Old Mutual behind it than it was without Old Mutual behind the company. So I think that is a reason why we have not seen really, with any of the ratings decreases over the last year, any movement in our products, any movement in our sales volumes at all.

MR BARKER: You might even find that it has strengthened us because it shows we do weather things and stick around. Synergies was the other question. We have lots of asset management synergies, they run our investment portfolio so any investment management profit is actually going to Old Mutual Group and we see that in Barrow-Hanley and in Dwight and in Analytic. We also see it in our securities lending portfolio. Retail synergies would be a stage beyond that. The retail framework that has been built up by asset management is using our equity index product. It is a nice product, it pays for the safe player within their market, the planning for the individual, we will do it and we have a good in-house portfolio. That is not material at this stage but as asset management builds up its retail presence, our products become part of that. If at any stage there is a variable annuity to be contemplated in the US, then they have got retail structure, we have expertise, they have clientele and it would be natural to do that across both businesses. That is not in our core plan, in the numbers that we have in there but it is a capability we possess. Bruce has headed variable organisations and so have people on Scott's Asset Management side so there is a possibility there, but it is not my strategy to decide whether to do that. It is my strategy to work with it and it is perfectly reasonable should it occur.