Old Mutual US Life (OMUSL)

Presented by:

Guy Barker
Chief Executive Officer

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Guy Barker

Today we are with Old Mutual US Life. We've got Guy Barker here the CEO who will do the introductions anyway just to say that his co-presenter Rick Pretty sitting over there will be on stage in a moment who's the Vice President of product development strategy. Over to you Guy.

Well I'm glad it's my turn. You'll see what a superb marketing man Scott was before he became the Chief Executive. Because in his closing remarks he described my retail space beautifully which is the Old Mutual Financial Network Sales to the people of today's generation that want some safety behind participating in the investment markets. So we're well positioned for that market.

I am dividing this into an introduction about where Old Mutual Financial Network is now and drawing you a strong comparison between where it was when Old Mutual bought into F&G. I am developing that theme through the marketing section – explaining our retail space and how we operate in it and why in such a crowded and large market as the US insurance industry we can make a difference. I am turning briefly to our operation model, because that is a sustainable competitive factor in our success and then I will go into our finances and our investments because key to success in those areas is that we manage those finances cleanly with a view to the need to balance capital, profits and performance to everybody's benefit – not just to the benefit of our consumers or to one particular measure and for those I'll be using my team to speak so you'll see at least 4 talking heads. Some of which will be on video. Two of which will be here as we present and you will have one additional voice of Bruce Parker who heads our sales and marketing and who is participating by telephone from California. You can imagine the time difference and how early he's had to get up for that. And a summary, and then Q and A. In our style we like questions.

I would like to introduce, the next slide please, the senior talent. And if I can, go into Baltimore where I have three of them. I have going from left to right as we look at them - the other way I suppose from their point of view. Michel Perreault our Chief Actuary, John Varvaris, our Chief Financial Officer who before that headed the Life Insurance practice for Ernst and Young in Baltimore so he has a wide ranging experience and because this is America you cannot have a meeting like this without your general council and head lawyer there who is Mike McGrath and as in the case with Linda in the previous presentation he does a lot more than that.

In the picture I have drawn the rest of my senior management team that reports directly to myself. I will draw attention to the two vertical ones (Mike O'Brian) who is appearing above Vic Lumby. Mike has been our Chief Operation Officer through the transformation process and he is handing over to Vic Lumby who many of you may well know is the Chief Information Office of Old Mutual Group and particularly for Old Mutual South Africa in the early part of next year. Very much a purposeful transformation that Mike, Vic and I have designed as we go to the next phase of our operational development which we have centered around IT and information systems for pulling together our outsource model. With us is Rick Pretty who heads the marketing side of the company and product development. He also has a very key role. Our executive focuses on the strategy development of the organization and ensuring that we're heading in the right direction with crisp focus. We've set up a management team around us which is drawn from the best of the vice presidents at any one time and is chaired by Rick. That then focuses on the schedule of day-to-day activity together and it also gives us a very good testing board for what Mike calls a next generation of the company.

Now if I draw to the key a themes of this presentation. It will be basically where are we now compared to where we were? One grown up. We bought a fledgling organization very successful in certain targeted markets and with some areas for development we had factored into the price. We are now within that shooting range, what Mike called the critical mass where we are running at all systems go. We regard ourselves as "Grown Up" The second key point I want to emphasise across all the areas is we're balanced. We aren't a one trick pony. We feel that wherever you can touch our company – we're balanced. We're not at the other extreme a waterfront company but we have a significant number of growth opportunities plus risk spreading plays in place to give us the stable base which is what I regard as balanced.

Then the final theme is be the best or choose the best. It's a large enough market and it's a large enough operating space and we can say: "Can we make a difference on it?" "Can we do it ourselves and be the best in it?" If we can, we'll do it. If we can't, can we choose someone to do it for us with equal to or better than the best in the rest of the market. Hence our outsourcing philosophy. If the answer to both of those is no, then leave it to someone else. There is no point in corrupting the careful brands that Scott and myself are building up in such a large market where you can choose your plays by getting any facet that's mediocre. So be the best or choose the best is not our published vision but it's really the internal watch- word that we live and breathe by.

I'd like to go now to the summary of the changes that have taken place. Remember the basis that Old Mutual bought a very good marketing organization targeting a particular range of products at managing agents, into the market. It had an outsourcer and the outsourcing was respectable but it was expensive and we factored that into our price. It had an internal structure that was based on being a subsidiary of a property and casualty group which was far too simple. So we had transformation to do to broaden the sales base that wasn't dependant on one distribution line and one type of product to modernize the operation space so that became economic and showed good quality and to get the finances fully up to scratch for a major subsidiary of a Public Owned UK / South African company. Which in essence means that we're on compliance, monitoring on accounting systems. We have to be up to the best of both the standards of South African and USA. Take sales we maximized the market opportunity. We felt the strength of what Old Mutual would give to F&G. That was considerable because what mattered to the old F&G was the fact that nobody knew what its future was. By coming in and proving to the market, very quickly that a South African base behind us actually meant a lot of strength – we maximized the opportunity in that market and we grew the volume and profits substantially on the new business line. The battle still in the lines that we have been traditionally good in. So the next year 2003 was a matter of "take your breath" – repositioning ourselves, remaining strong where we were and building up some alternative distribution channels so that we can bring into play tactically to ensure that whether it is an interest led market or equity performance led market or a protection market what we have enough but not too many pieces to play to keep stability going to our volume and hence profit.

2004 is when it all began to work as substantially shown in the half year profit we published to date and will be the continuing theme for the recent quarter. So regard that now as pure consolidated transformed with a new team lead by Bruce Parker.

Operations much, much simpler. It wasn't a case of looking for where it is so we can be the leader-in it was a case of looking very closely at our then existing outsourcing agents, deciding whether working with the outsourcer to make them fit for our purposes. Deciding eventually, quite quickly in fact, that in fact their need for their infrastructure had too much cost behind it to be our back-up and move into another set of outsourcers and moving deliberately to a multiple outsource model. Decisions were actually designed at the time of due-diligence. Clearly when you have a conversion it takes time. We worked that one through in the 2003 to 2004 migration and I'll be supported later that we're finishing and finishing cleanly. So that is not pure consolidated transform until after the year end when the final blocks slide into place but I regard as a complete process from the beginning of next year onwards.

Finances – rather more complicated because the bench mark's been moving all the time. Sarbanes-Oxley considerations have come in from the US much strong corporate controls needs have come in on all investment matters and also from the UK and South Africa and we've been putting together the structure that deals with the 5 different accounting bases incrementally, gradually, we're actually changing the wheel from the car while it's moving is an analogy we normally use. That is now in its main part of its phase for transformation to a fatter but fitter financial organization without at any time along the route sacrificing its balance to date. So, we've gone very slow on that because one thing you can't afford to experiment is with finances. That will be finalized next year. That is remaining of the three legs we are adding in all the functionality we want for full controlled environment. John Varvaris will talk about that later.

Next slide. This is to give you a taster of how profits have progressed. You are all familiar with these figures from published results but a 64 (million) a year organization became a 124 (million) a year organization, became a 143 (million) a year organization and for the half year the first half has traditionally been the light part of the year for us a $73m. I may mention that Scott and I have a strong competition each year about which of us is to have the bigger profit. Last year was wonderful, Scott actually got technically the bigger profit but if you moved the Investment management fees that we have given him over to my books – then I had the bigger profit so we could say that either of us could claim to be the victor. This year is going to be interesting. Now John will talk about that but I want to emphasize the scale differences. I am showing on this slide what we are doing now. Sales for 2003 were the worst year since purchase which actually means that 2002 was bigger. But sales in 2003 were very nearly twice the sales in the biggest year before purchase was completed, and that year, 2001, was swollen by the fact that the Old Mutual halo effect "an owner who means business" had already hit the market. Sales in 2003 were in fact bigger than 2000 which was the last year Old Mutual had no influence on figures. And 2003 was the year when the run rate would significantly below both 2002 and 2004. Sales for 2004, 2.1 (billion). That's the half-year figure.

Capital employed is now 1.6 (billion) which is the combination of the money used to purchase the company, the cash capital put into maintain the agency ratios that are needed for writing factors in the US and retained earnings. So this is a 1.6 (billion) operation. I think Jim thought about it as being a doubling of the size of the company – little over the doubling of the size of the company. And so it should be as we are more than double every other figure. The number of MGAs that are interested in us, the agent groups that keep on our books have agents selling our business at 550. There's an 80/20 rule here except it's more like a 5/95 rule. The top 30 agents sell over 80% of our business and they're the larger agencies, too. The other ones are maybe small groups. They may be one city group or what have you. But we keep in touch with them. Because we are working through 550 agent groups who are spreading their marketing over a lot of companies and a lot of agents we can reach a lot of agents. It would be prohibitively expensive to reach 120,000 agents direct so we're in the MGA model because it makes economic sense as well as distribution sense. In fact the two are coupled together, agent license, 120,000 looks an awfully large proportion of the 750,000 total agents that sell insurance in the US market. It probably represents in fact something like 60% of the serious life and savings agents in the US universe which is the practical limit of what we want to reach. Of these one in four will sell a piece of business the other ones are parking, looking at us, chatting to us – want to help the competition together. That's the normal ratio in this business and 25,000 active agents through 550 agency groups and another, broadly speaking, 90,000 looking at us would be a normal mix for the MGA type organization. The difference between us and the others is with one exception we've got the largest "footprint" now in the US in our chosen market. Three quarters of a million contracts in force well within the capabilities of our outsource system manage as is the growth of 150 – 200,000 a year. And assets under management 15.3 (billion).

Now I was asked a question earlier about how the cash flows had come through from that and Michel our chief actuary gave the answer off-line. In 2001 our cash flows were 6 billion, in 2002. 3.8 billion, in 2003 2.6 billion and 2004 three quarter year. 2.2 billion which is a total of I think 14.6 of cash type assets invested. The balance of the 15.3 (billion) and some noise around that number is the DAC asset which is not an invested asset but is a book asset.

We are doing all this with 276 direct employees. We have employed in the enterprise including people in Cape Town, including the investment managers and including our outsourcers a further 750 people all on somebody else's risk profile as far as volumes and fluctuations are concerned which is the part that attracts me. So we're a 1000 man enterprise of which 250 people's risk in essence we're taking on our own books. And this fits, So that you can say that a quarter of what we are doing is being and three quarters of what we're doing is choosing. Even the (MGA) model is in its essence a "choose" model.

So what's our strategy? Our strategy has been to surpass critical mass. Take what I might call a nice little earner and turn it into something that's a critical, successful, stable part of Old Mutual.

That's meant broadening the distribution model which we've done by integrating the retail channels rather than having one or two scattered channels, one of which is normally large – two that are experimental. We have integrated retail channels for annuity, for life and for the offshore. Three main channels which pull together what's happening underneath. We put in the offshore model - because that allows us to use our product expertise and stable value - particularly US dollar products, and sell it into the offshore market.

The offshore market, what we're going for is a very high end of market unlike middle America for the rest. Very high end market takes a small proportion of net assets – a quarter of a million dollars at a time is the average, so these are wealthy people. It's a "I want an effective long term dollar investment and I'd like it managed well but fundamentally I want that money in the dollar" and so it's complimentary to the other markets – since the fact it has a different cycle which is one of the keys to having a good distributional spec. And we have also taken a step into complimentary broker ownership with Lifestar which will be kept very minor as we watch it and use it to pick up any orphan business that may be around. We're also embracing the outsourcing model strongly that takes the critical mass down and it takes the ability to fluctuate lines of business to a higher degree because we don't have to ensure that we're always the pipe so that our admin expertise in a particular line of products is fully maintained at full stretch rather than being waste money. That's a problem for the outsource manager.

That gives us low cost administration with the quality we need. Coupled with splitting up from an outsource who does everything and therefore isn't necessarily the best at everything to having a separate outsourcer for underwriting which has worked extremely well. It is a very professional group and the sister company is now responsible for a large section of the UK underwriting world too. We have full synergies with Old Mutual Group. We took the investment house that came with the (F&G) purchase and we moved it into Dwight. We use, 4 investment houses in the US and OMAM(UK) in the UK. So they're well spread in diverse terms and we use Old Mutual here in Cape Town for our IT and technical expertise including our agent site. So if we've got the best in the group – don't let's bother to repeat it. Go to the best in the group. We have also built up an active, but fairly low key corporate presence. I'm just doing a little bit of wholesale on the side so that I can swap into the wholesale channel if there is a drought of any sort or some profit or volume turns on the retail channel. It's a complimentary distribution and enables me to keep an infrastructure going through the lean periods, which may last for 4 months or 6 but tend not to last over longer cycles than that. And we use group re-insurance to start with that through our sister company in Ireland.

So that's the part I call the growing-up part of strategy reaching critical mass and broadening the base and taking risk concentration out of the equation.

An important key to our sustained competitive advantage: we are active traders in the portfolio – Not practically possible to do with your US owned company because the concentration on quarterly performance and the bringing in every movement of invested assets and their value above the line makes companies very cautious about trading and taking risks and realizing anything that has to be recognized. There are significant downside advantages because we had no problem in selling the dud ends of the corporate portfolio that we inherited. Our activity enables us to do that. And critically, when I'm talking to UK people with focus on controls I have somebody there who has got no career dependency on me or Jim or anyone else who will tap on the shoulder if they find anything that they think we ought to worry about. Which hasn't happened so far – I'm pleased to say.

We have in our structure an entirely independent internal audit that reports to the Group Non-Executive Board and one who's got considerable expertise in its chair insurance. So again, no favours. They will tell us what's going on. And that's centered around the chief actuary the evaluation team so that I talk to them directly – somebody that is checking the risk, the control, the short term concerns and the longer term concerns they'll always be managed together.

You can't do a presentation without a map so I had to put one in. I'll just show US on it's own. This shows the spread of what we're doing. We've set up the head quarter's function in Baltimore – that's where the finance and the marketing and the management concentration is. We've moved our sales to a 38 person shop in Atlanta, works very much better because we're getting a lot of (footprint) work from senior (MGAs) to come and visit us. They wouldn't come to Baltimore. It was too much of the end of three connecting planes to get there and it works a lot better for us in achieving our aim of having equal penetration in the Western parts of the country as the Eastern half. Our market share is big for our markets across the nation but we have noticed that it's significantly bigger, 78% more for Eastern time zone (which is) easy to reach Baltimore than (Western times), now by moving the sales base to Atlanta we can get people out more quickly. Bruce Parker can take any questions on that later. He himself has moved to Atlanta. We've kept the marketing and thinking expertise up in Baltimore. And we do our underwriting in the mid-West. If I draw an analogy here, as the next Johannesburg which Kim referred to. In any nation there are areas that are known for hard work, commercial push and sheer slog and get on with the job and far be it for me to draw any comparisons between Johannesburg and Cape Town, but be that as it may, the mid-West of America is the area where people work, slog, have a strong work ethic, so we moved our service/sales team over there and, it is the corollary industry to farming which most mid-West is the financial services support group not heavy industry. We get very much better cost rates out of them, we get very much better work output out of them than we would if we merely became industry number 27 on either of the two coasts. So it's part of our framework to have our administrative center there. That has worked well it's not surprising that many insurance companies have their head quarters there. We've chosen to center our admin out there and we draw our admin expertise nationwide. So the context has been going up, balancing ourselves for concentration risk avoidance and this principle of if you can't do it well – don't do it or at least find somebody else that can do it well. Except in our case it's the best we're aiming for.

Now all that is absolutely valueless unless we get our market right and I have asked Rick Pretty to come and talk to us about our market presence and what we're doing and how he keeps his team under him. Keeps the products profitable. Rick will you take over?

What I'd like to do is kind of walk through some key points related to our marketing product and distribution strategies.

Few comments on marketing strategy in particular for OMFN which comprises three different US companies under that marketing umbrella if you will. (F & G Life) which is our flagship company, (F & G) of New York which is a New York state only domiciled company and are targeting that state as it's market and Americom Life which is a company which is strategically we're going to be positioning a little bit differently in the future.

Touch on our product development strategy, our sales distribution successes and results. Couple of comments about sales profitability this year in particular. A few marketing initiatives particularly in 2004 and then some commentary conclusion. And again as Guy mentioned, feel free to ask questions along the way if anything comes to mind and then obviously the Q and A session at the end.

Our marketing strategy: First of all our target market and this is key to our success past and our key towards success in the future is the fact that we are focused on middle America. Now what that means in terms of income in the US. Middle America is about $40,000 to $100,000 household income – that's US (dollars) so I'll let you do the conversion in your own mind to the Rand. But that's our target. Why that's our target is because it's basically a target market that is underserved in the US. The majority of the insurance industry is really focus on the more affluent market place in the US because that's where they view the money and from a unit cost basis that's what many companies view as a more economical approach to their business. For some of the reasons that Guy has already mentioned and that he talked about even more in the operations section of the presentation, we have found a way to serve middle America in a cost effective way particularly to our third party administration strategy for operation. And secondly, our distribution system, the MGA distribution system gives us significant access to middle America. Focus on winning opportunities only. This kind of gets to the "Be the best or choose the best". We limit the scope of what we try to do in the US market place. We do not try to be everything to everybody. So we've limited the scope of what we try to do and then we commit to be the best at what we choose to do.

And so that gets to the pick the best and here's where we do not have core competencies necessarily or where it's not economical for us to try to do it ourselves. – Distribution, choosing high quality, in fact the top quality MGAs to establish relationships with. That's been very effective for us and you'll see in a couple of minutes the growth the expansion of those relationships that we've been able to achieve just since the Old Mutual acquisition.

Our service TAG and underwriting MAAS are the two third party administrators in Nebraska that we use for those services and then the investments – the best of class for us and obviously Scott spoke at length on those choices. We'll briefly cover product development strategy. First of all we're committed to being innovative and quick to the market and that's really where we've built our reputation within the US industry. We are committed to continue to build on that reputation, we work very closely with our distribution partnerships in generating product ideas. We go through a very detailed selection process in picking the ideas that we think that we can be most successful at and then with a very effective and efficient product development process bring those ideas to the market quickly. The other commitments within our product development strategy is to provide good customer value, not the best, but good customer value and competitive compensation so within the US market there are a number of companies that kind of run the spectrum which respects that balance between customer value and producer value if you will or compensation. And so we're a little bit heavier on the producer value part of the equation and that's a result of the distribution system, which we have chosen to use to access our customers.

In 2003 – just a couple of quick comments here. We actually had 63 different product initiatives. Now, those aren't full blown product introductions. There's actually about 14 of those with brand new full blown product introductions, the rest of them are enhancements or (tweaks) to existing portfolio and so of the 14 or so new product introductions in 2003, we can see a kind of a ("home run") – we had about 3 or 4 "home-runs". That doesn't mean to say that the rest of them were losers, but these are the ones that really hit the market place, were received very well and have been very strong in the market place and have allowed us to achieve the market share success that we've seen this year.

2004 so far year-to-date we've got about 38 product initiatives and again that's not all full-blown new product introductions. There's about 14 again full-blown brand new product introductions so far this year. That will include 4 products in one series and 3 products in another but about 8 of those 12 – 14 product introductions so far this year have been very strong successes in the market place.

Okay so what about our results this year. Sales results relative to some of those product introductions.

Our monthly sales results in the first half of the year and any comments I make relative to sales are really to June 2004. For the first half of the year 5 out of the 6 months are sales, where monthly sales exceeded the comparable monthly sales in the prior years. With May reflecting really a third highest monthly volume that we've experienced in the history of the company. Overall to June 2004 sales results were up about 21% over the prior year and our second quarter market share increases and this is very significant as a competitive US market place – we moved into the number position in our immediate annuity sales – the immediate annuities are the actual kind of income paying annuities as opposed to the accumulation annuities. No 1 in home mortgage term insurance. That's kind of a specialized niche if you will that we've chosen to play in. Within the last 18 months 2 very significant competitors in the US market place tried to come into this market and make their mark there – one of them came out of the market or backed out of the market I think it was about 6 months ago. And then the other company we just have learnt recently is in the process of backing out of that market. So there are two things that are key to success in that specialized market. One is product and two is distribution. We've already established the relationships with the distributions that make that specialty market a success for us and other companies have not been successful in breaking into that in a significant way yet.

Ranked No 2 – on equity index sales annuity behind Allianz. Allianz is kind of our giant competitor and we have moved into the number 2 slot right behind them. They have reacted around the end of the summer of this year with a product introduction that basically is a clone a very successful introduction that we brought into the market at the beginning of the year.

Alright, so what has lead up to the sale successes that we're experiencing this year and the market share successes that we're experiencing this year. If you go back to the Old Mutual acquisition back in way 2001 and look at what has happened with our distribution since then is, there's been a fairly significant, what I call transformation of our distribution and number 2, significant expansion of our distribution. The transformation is seen in the pie charts where in 2001 we basically were in the brokerage annuity and brokerage Life business and our sales channels were the annuity MGAs, banks for annuities and MGAs for life insurance. Since then we've transformed, basically diversified our distribution to include Life Star which is the company's first attempt at company owned distribution Life Star's an MGA and Guy mentioned a little bit about Life Star. Our corporate channel which is more of a wholesale channel as opposed to a retail channel and the international acquisition of OMNIA Bermuda, which was around April I believe of 2003, and OMNIA gives us the opportunity to diversify our sales and risks by primarily selling investment products to the non-US resident market place.

The expansion has come through basically our relationships with our MGAs as we've moved from about 214 relationships in 2001 to most recently 577 relationships with the most recent count and again as Guy mentioned, what that has allowed us to do is gain access to independent producers, independent sales agents and that number has gone from a little over 51,000 in 2001 to north of 120,000 last count. So again, a very successful expansion of our distribution. You'll see in this bar chart the different colours basically the diversification of our sales. Back in 2001 and even in 2002 the first year post Old Mutual acquisition, we were very heavily dependent on fixed annuity sales through our annuity MGAs. And the banks as well. But in 2003 – 2004 you begin to see the results of the transformation of our distribution as we see more significance in equity index annuity sales, the OMNIA Bermuda sales and so forth. So our strategy is to continue to manage the diversified distribution and we feel that we have a very strong portfolio products to effect that strategy at this time

I'll take a couple of minutes to drill down a little bit deeper into specific lines of business.

Our annuity distribution again is primarily sold through broker MGAs and banks. You can see in 2002 the first full year post Old Mutual acquisition we really hit a record sales year for the company basically more than doubling sales from the prior year. That was the year 2002 was kind of a year where the stars aligned with respect to fixed annuity sales. And we were very successful in selling guaranteed fixed annuities both through the brokerage MGAs as well as through banks and the product that really came into play in that year of 2002 is what we call the Myga a multi (year) guaranteed annuity. A Myga product is basically a guaranteed accumulation annuity where there is an interest rate guarantee for a period of years that the insurance company guarantees - a minimum guarantee there after and in 2002 in particular, the five year guaranteed annuity was the product that the market place really moved to. We happened to have the right product to meet the market in that year and it really came on strong.

2003, we saw a significant change in the interest rate environment in the US as fixed interest rates dropped. We began to see a rebound in the equity market place and what really came into play in 2003 were the equity index annuities. An equity index annuity, if you're not familiar with it, in the US is basically where the interest rate is linked to an equity index - the (S&P 500) is the most common index in the market place but there's a guarantee that you cannot lose money. So it provides complete downside protection and the insurance company provides that guarantee. The upside is that you get a portion of the equity index performance and I think what basically happened in 2003 was there were two groups of consumers that tend to migrate towards that product. One are equity oriented investors that want the downside protection – maybe they were burned in the market in the US in 2000 and 2001 – they don't want to give up their equity orientation but they want that downside protection. The other type of consumer that's attracted to that type of product is the traditional fixed annuity investors who because interest rates have come down want the opportunity to get something say a little bit better than what they can experience in the fixed interest market place and so those two things came together in 2003 and again we had some strong equity index products in 2003.

Our introduction at the beginning of this year of a new equity index series that was unique to the market place it was one of those market innovations really is what has catapulted us this year into that number 2 market share slot for equity index products in 2004.

Our institutional business has been on the decline for the last couple of years again as the fixed interest environment has changed.

Life distribution. We've experienced very strong growth in our life business since the Old Mutual acquisition again in the term sales there, the mortgage term product, the specialty markets that we play in probably represents what about half of those numbers - 40% - 50% of our (term) business is in that specialty market but we are growing the universal life part of our business very significantly and I believe that by mid year we were the number 3 brokerage life company in the US market place, now that just with respect to brokerage life business.

I'd also mention there the significant barrier to entry to other competitors is, these are complicated admin systems to set up so competitors who were running their own admin systems have gone and invested all their money in order to (place the bets) on the product. Working with our outsourcer we knew that we'd paid them to develop it. But they could make it available to their other customers none of who matter very much to us at this stage and it becomes an affordable entry. So we have the market in this sort of initiative to ourselves for quite a period while other people see whether it's real or not. And it's a working example of the outsource model and the flexibility it gives us. Question? Sorry.

Question:
Are you number 3 in the market in the US with $73 (million) for the half year in premium income on the life side?

Answer:
Number 3 in terms of companies that are selling through a brokerage as opposed to a captive insurance agency type of company – so number 3 in terms of brokerage company.

We are in the top 15 in annuities over the entire industry including variable annuities which is a space we don't work in at all at this stage and including all forms of distributions. We're number 25, I think you're right, Bruce off line will interrupt us if we're wrong in the life insurance, all sources of new business, all types of products including variable, equity linked and others. And, we're number 1, 2 and 3 in our chosen niches. So it's a good point.

Bruce

The only correction I would make, is that we will be a top 20 life insurer at the end of this quarter so we have picked up 5 spots during this year. Also in the brokerage market place with term insurance we are the third largest insurer on brokerage terms sold through MGAs. So our market share again continues to grow in those selected fields where we choose to play.

Thank you Bruce.

Question:

Just a quick question. Term mortgage insurance where does that reside in term or in universal life?

Answer:

We've certainly benefited in the last two or three years by America's low interest rates – because people have been refinancing their mortgages. That may have increased the mortgage market by about a third in volume. That figure's off the top of my head. Every time a new mortgage is out the lead goes to us and to our partners and they will canvass insurance on the back of it. So there's an exposure there – if we move out of that cycle of people refinancing but by and large three quarters of what I might call repeat volumes out there are sustainable year in year out in the mortgage universe. So, because of mobility. Remember that America is an enormous country so the people when they change jobs usually move from over there sort of (North East) down to the (South West) so an awful lot of mobility including your house financing in the US so I think the general stability to the pattern that we're seeing is that there's a good penetration by us rather than an enormous windfall because of the interest rates habit. Does that answer your question?

Question:

You said some of the players are moving out of this mortgage market. So I'm just checking is this a sort of a low margin risk type of business?

Answer:

Yes, when you think about companies moving in and out – it isn't really all that dramatic in this particular market place. Our organisation was one of the pioneers in developing this individual mortgage term product probably about 4/5 years ago. Prior to that it was sold basically through banks as a group term policy. But our organisation was one of the first with the help of one of our partners in designing a product that an individual can buy which ends up being a portable style product. Meaning that they do refinance the mortgage. They don't have to give up that policy. It can go with them to the next mortgage so that's kind of the selling feature if you will with individually owned mortgage term insurance. The former distribution officer from our company went over to another company thinking that they could take the distribution and start in that market place and take our market share and because this is such a specialised market share and because we have invested the money in building an infrastructure to support this business everything out in Nebraska our relationship with TAG, it is very hard for someone to come in and replicate that.

Plus because this is mainly driven by about 12 special (MGA) organisations that have designed and invested money to be able to create the lead regeneration part of the sale. We do business with the ones we choose in that market which is (8 of 12) do significant business with us is that it's a pretty tied, even though it's independent, a pretty tied distribution system.

And I did not need to enquire that there were a large number of companies getting out of that business so were basically two main competitors that tried to get in and that have had to back out.

OMNIA – you can see the sales growth there. The OMNIA acquisition was April of 2003. They had good sales during the 2nd half of that year and this year they continue to grow very well. Both in their fixed and variable annuity sales internationally.

Corporate channel. Again to give us some diversification and some risk offset. About $164 (million) dollars executed through June of this year. Provides some balance there. Through our FHLB programme and then re-insurance another $88½ (million) dollars through June.

And again, I see this is a channel we have essentially "switched off" for the moment. Retail is doing so well we've no need for the volumes for the corporate channel but it's something we can switch on easily – all the options actually are in our hands on this one. They make funds available to us on request on certain terms to suit us so it's an important part of our management of volumes and profitability to have that available.

Our 2004 marketing initiative most significantly was our relocation of the sales team from from Baltimore to Atlanta, basically to allow them to have more focus on what they're being asked to do in terms of generating sales and managing the distribution of relationships, put them out of a kind of corporate home office environment so they do that better and Bruce has done a great job of putting a very high energy team together down in Atlanta, basically a complete turnover of the annuity sales team, with a few exceptions. Linda Hoite, the leader of that team moved from the Baltimore operation to Atlanta, a very high energy and focused team now. Getting a lot of relationship access, both in terms of bringing MGA visitors in to the Atlanta office as well as putting more feet on the street so to speak in terms of getting out and visiting those relationships personally.

A product-pricing move from our corporate actuarial area to the marketing area has allowed us to basically dedicate some pricing actuarial resources to the pricing function in order to better integrate into our product development process and improve our speed to market. Commissions contracting licensing was a function within marketing that was really an administrative function and so we moved that operation from marketing into operations to help consolidate the management of our call centers and that's been very successful so far. Allowables, that's basically a reference to a project that was kicked off this summer to help us identify key expense drivers within our organization that were really mis-aligned against the allowables, what was built into the pricing of the product, and restructure the expense allowables within our price to better align with the expense drivers throughout the organization.

Question:
Are you using that to gain a tax advantage?

Answer:
Not the tax side. For example we were using sales-based expense assumptions in pricing, to align against our fixed overhead infrastructure.

We're moving expense assumptions from variable to more fixed, so that our fixed expenses within the organization are better aligned with fixed expense assumptions.

Question:
Can I just ask you, when you disclose the value of new business, does that improve the number?

Answer:
Not necessarily.

John
This is John, let me just weigh in here a little bit on the expense issue. Effectively we're talking about a different organization, so all we did really in the allowables project is reset and recalibrate our organizational costs, so it's not really a change for change sake. In general, as you all know, with our

move towards the TPA's and outsourcing framework and model that we use in general we are moving to as much as possible, a variable expense structure. However, at the same time, as Guy eluded to earlier, Sarbannes Oxley and increased risk management in the industry and our corporate environment etc and all those things that have come over the last few years, there's been a need to re-challenge the extent of our overhead that is needed to support a FTSE 100 company. So it's a recalibration as apposed to a real change.

In rough terms, we're drawing far too much expense value from the sales side where we've got much more volume than the infrastructure needs. But on the other hand with full compliance, full controls, full risk management, we've been drawing too little expense from the in-force side. When you net present value that in our year's production, it doesn't make an awful lot of difference, but, let's recognize where the expenses actually fall. So all that tuning that's been going on to give us a next generation of product expenses, in terms of new business value – well we'll wait and see when the answers come out.

Did that answer your question?

Question:
It would sound to me that if that's the case, you would move the expenses the other way around if you'd get more capacity in terms of volume. You're actually moving it to the fixed cost.

Rick Pretty
Volume can become a source of skill risk at the moment, where as we want to be building up within the policy, money to pay for the maintenance of the in-force, going forward.

When it comes to the next presentation, we'll have a mature development of that theme.

Summary conclusions, basically, since the Old Mutual acquisition, we have demonstrated great success in the creation and expansion of distribution, light business continues to grow steadily, creating a balance to our annuity risks. The annuity business has shifted, primarily 2003 and so far in 2004, from fixed interest oriented annuities to the equity index oriented annuities and our strong positioning of our equity index annuity products has allowed us to achieve the market share of the success that we've seen this year. Omnia Burmuda, again gives us further diversification of our risks and our sales through their international relationships, bank relationships in particular, the corporate to corporate channel and as Guy mentioned, really allows us to regulate our corporate sales, versus our retail sales – when retails sales are going very well, we don't do the corporate sales, we don't need them and vice versa, when retail sales are down. And then Life star financial network giving us our first opportunity into company owned distribution, really this year is their first full year in terms of sales generation and they're looking very good, very promising opportunity for us going forward.

So that concludes my remarks.

Guy Barker

Thanks very much Rick. We talk about operations, it's either be the best or choose the best.

Where are we on be the best or choose the best – we've got 100% of the new business over with TAG. We had our 18 month conference with the top 400 agents and MGAs, and the silence on, in terms of the traditional complaints we've had about service, we've got the balance right.

The in line on this, is saving $17 – 20 million of expense loadings each year, which is just cheaper, and that's about, as, Vic Lumby, our new COO designate reminded me, 25% of the administrative costs of our box of business. Conversions have gone very smoothly, 90% of the In-Force has been converted this year, there's a final transform going through in November, it has been absolutely invisible to our customers, this conversion, very smooth indeed. Underwriting has transferred to MAAS, etc.

Next slide please.

Operations Strategy - Predictable, sustainable, acceptable –
On service, fundamentally we add value through an MGA operation which puts our customer close to an agent who feels that he's fairly rewarded and give them good service, and we add value in the MGA environment where the MGA supports the agents.

We don't want to set up a competitive framework of having super service because then we'll have the expense of that to deal with as well, so it's a very balanced approach of predictable, sustainable, reliable, acceptable – and scalable – we stack in these expenses which then leads it into a holding, which actually takes in so much of the expense infrastructure out of our books under the old arrangement with the outsourcers.

With the outsourcers, we paid for the infrastructure of the outsourcer, under the new arrangement, they pay for that infrastructure in unit costs, that makes it much more stackable in volume terms, and we leverage Old Mutual Group resources. I expect that to expand, there are some excellent reasons for looking into South Africa over a longer-term future, so our model is scalable, stretchable geographically, and you can pick and choose outsourcers.

We major on TAG and MAAS, we have a firm called McCamish that's going to move in and take the OMNIA business. We still use CSC for some lines, so with this we have a central infrastructure that will pick up best of breed outsourcers on our specialty business.

Operations is key to what we do for cost reasons, for efficiency reasons, and for speed of product development issues – we can be a fast follower – Allianz copied our products, but they certainly took their time getting it right, or getting to it. We've got a much more flexible, rapid response system. I'd like now to turn to Baltimore, and to the financial overview, you heard John Varvaris' voice earlier, and John will now turn to cover the finances – and John will you then do the direct hand over to Michel to talk about the investment portfolio?

Question:

Sorry to interrupt, just on the operations side, the TAG, what percentage of their business is your business?

Guy Barker

We're probably responsible for just over half their business this year, they're bringing on a very major company, I can't say what the name is, but they're bringing on a major partner next year. Our aim is to be about 40% of their business going forward and that seems to be where we're heading. They manage it so that we have, in essence, a dedicated community, which is our people, which gives them an ethos of them working for us, and they have other office blocks essentially rather than communities and as I said, a half give or take, probably give at the moment, and take by the end of next year of their total business.

Question:

And MAAS?

MAAS – about the same, slightly lower but full time they do a lot of business elsewhere, MAAS International, were they to go under a new name with a link, we'd probably be 25% of the total

Question:

I mean given that you are such a big part of their, when you mention flexibility in terms of the technology and the investment in technology – do you drive that? You also mentioned your innovation in terms of product development – Isn't that a function of TAGs ability to support?

Guy Barker

Yes, where they've come up from, the history of TAG is as the administrator of difficult blocks of business, so what they've come up with in architecture terms is a business which is capable of adapting very quickly. If you're a regular waterfront company like NY Life say, every time you go through a system conversion you go "oh, we only sold four of those" we don't want to set up the structure to administrate. Or there's that old block of business there, which is quite important to us but again, we'd rather switch off that system. That has been tech specialty, so their speciality has been to build a system that can take on complications and we come on, and as a new business, modernizer as it were, we're just another facet of having to a system that will react quickly and easily to us. We fit them much more than say we fit company's that have got the life 70 or the vantage type systems that are fairly rigid and fairly aged, haven't really grown up to deal with that sort of business, so the leverage is, is that particular expertise of theirs turned to our new business portfolio. I'll give one particular example, we talk about equity and index annuity, when the equity index supplier – the previous outsourcer for us developed the equity index product for the F&G platform, this took place in 1998 I think, It was a 2 million cost to F&G to develop it – when we came along to TAG to get the same done in the new environment, it was under half a million of expense. That didn't reflect, to any enormous extent, extreme efficiency vs. extreme inefficiency of the firms involved, it reflected the flexibility of the architecture adapting to a completely new concept in the US environment. So that architecture we think is sustainable in TAGs case, where it isn't sustainable, which is why we use McCamish for Omnia predominantly a variable company, we choose a company that the architecture which fits it and the administrative structure above it. Does that answer?

John, could you take over please.

John Vavaris

Ok, thank you Guy. The financial overview section – I'm going to carry through the same theme that Guy had teed up at the beginning which is really a look back as to what this company is versus what it was, prior the last time we spoke with many of you – I think it was in November, in Baltimore in the first year, I'm not quite sure how many of you were there. We're a very different business than we were when the company was acquired in 2001 – our results are different; I'm going to talk a little bit about why the results are different, how we've transformed the business and how we're poised for the future to continue our growth.

The next slide on financially a very different business. You can see the numbers there with 2001 in the first prior full year without the Old Mutual acquisition involved and sales were less than one third the times we're generating now. Profits have doubled since and the assets have almost tripled. Cash flow is three to five times what it was. So a very different organization than it was back then.

Next page - why results are different. Some of these themes have been touched on earlier, but I think I wanted to reiterate them from a financial perspective. We believe our core competency is product manufacturing - right product, right time yields success. You can see the discussion earlier that went around our ranking in different niche markets. We look for the niche markets and try to get the product at the right time – right product at the right time. Diversification strategy referred, we talked about that before, lets talk a little bit more about that. The key message there is most of our external constituents view the annuity market place in the US as a very head to head competition and in order to play there you need to be a very good product manufacturer, you need to pick your niche markets and you also need to diversify so you're not 100% dependant upon that market and have to get your growth in your business from that market place. So that's why it's important from a financial perspective. You'll see that as I've just described, we've had steady growth, profitable, sustainable life business, we will be again, Rick shared a little bit about that and we'll talk a bit more about that again and we're transforming the business. Since we are a different organization, we had to – in many of our businesses and operations and business units – create infrastructure that can carry us into the future and that's happening now and the finances as well, we'll talk a little bit more on that. Effective investment management is a key tool in our toolbox and Michelle will talk about that and how we've been successful there and differentiate ourselves with some of Scott's team and the Old Mutual asset management network. Lastly, I think, a key result is the fact that current UK accounting, even more so with International accounting standards, that will continue, is a much different environment than what we have seen in the past in the US. The US has historically been – I think Sarbannes-Oxley is changing that – historically has been a quarter on a quarter earnings drive and engine and push from the analyst community as well as from internal management.

On the next slide, I'll talk a little bit more about our corridor of growth. The blue box on the bottom of 1.5 billion, that's about what this company was in the 2000/2001 pre-acquisition framework. Right away when Old Mutual came along, there was an endorsement into our business that said that Old Mutual was here to stay; they wanted to grow the life business in the US and obviously put capital dollars in that. We believe – rough terms – that gave us an extra billion dollars of capacity that we could tap into in the sales market place very quickly. Then you have additional growth opportunities in market penetration, dependant upon the market conditions, our product – right place, right time – some of the things that I've talked about, that gave us the capacity to do another $2.5 billion. So we have said in the past that our corridor of growth is somewhere between the $2.5 - $4 billion, which is the arena we've been playing in, as you saw and Rick touched on, in 2002 we had a lot of things go right for a multiple year guarantee product, so we had a very big year that year, but we weren't driven to get on the theme of what would happen in the US versus what would happen for a longer term value build operation – there wasn't pressure to beat that, it was what is your corridor of growth and profitable sales, so the next year we had a slightly down year and this year we should get about back to the level that we were in 2002, different product mix, different products.

On the next page, supports growth with capital. Obviously you are aware the capital dollars that have been ploughed into the US life operation. I believe some of you are aware – some more so than others – as to the regulatory requirements in the statutory strain that is required in the US regulatory environment – basically the growing company loses money on an operation stand point the way the regulatory results are presented because there's heavy strain up front for the profitability in the future. What this chart shows is that for our different statutory companies, F&G, F&G of New York and Americom, what has been the risk base capital levels – and these are percentages of the company action level – and you can see that there's been a strong growth and our target now is the 265 risk base capital percentage.

The next slide, diversification. This is – just in case you're thinking this is the same slide you saw before, this is again from a financial perspective, I don't want to understate the importance of this diversification. When our outsiders are challenging us on the annuity, head to head competition, we say well we don't have to play there, you know, we can take a break and we can do other products and work on our product development or we can play in the corporate arena, or we can continue with our life sales, we can build our Omnia Bermuda channel. So that is a very important theme to us and to the success of this business.

On the next slide, again a similar slide, but I don't want to underestimate it from a financial perspective, our outside stakeholders look at us and say, tell me that you're not just an annuity head to head player and we said well look at our life growth. Our life growth has been steady and increasing and with the statistics and rankings that Rick and Bruce mentioned earlier, we are a serious player in the pure life business arena. That helps with sustainability of business, it helps with profitability and is a nice tool in our toolbox.

The next slide deals with the transformation of business. Since we are such a different business than we were three or four years ago, we had to do some things different, obviously Nebraska and the migration of the TPA's in the red has been the major theme of moving our infrastructure to a better, more cost effective outsourcing relationship, that also included separating a mass TPA as well and underwriting with a separate TPA. I think it was referred to earlier – on a run rate basis, will save us the $15 – 20 million that we can actually point to and see. We actually believe inherent in there are more savings, but it's less easy to point to and measure them.

New commission system, the commission system that we have off of our prior outsourcer needed to be changed, not only because we went to a new outsourcer, but we had some different products and different needs. So we built a new commission system and that will be ready by the end of this year with its first phase and then into next year with its next phase. We went on a project Avon that was basically a transformation infrastructure review of our organization – do we have the right costs in the right place, do we have the right things getting the most value out of them, so we did a review and indicated what came out with our results, that the move to Atlanta that's been referred to earlier, we've moved different functions to different organizations that are more closely aligned with our new world here and are more cost effective. So a lot of this is to drive efficiency and effectiveness.

The latest piece in the orange that we've done is Project Nova, which is to take a look at our financial and actuarial backbone. The company, as you know, was on a block for several years before it was acquired and after acquisition, we had tremendous growth and things to do, so we have put money into the company in the last couple of years to build the new general ledger system, we have an Oracle general ledger system, but we came to the realization that we needed to really take a look at our financial back bone, get all the systems and processes functioning especially in the coming Sarbannes Oxley world. So we are in the middle of that project right now and are looking forward to benefits from that improved infrastructure.

So that's all financially very important, to have the right structure and backbone behind us in order to move ahead with the dynamic environment we're in.

The next page, which is the latest results, I think you've all seen, so I won't go into great detail here, but you can see obviously the growth from half year to half year on the adjusted operating profits AP sales, assets and management's margins and value of new business.

Third I'd like to turn it over to Michel for the investment aspects of the financial results.

Michel

Thank you John. Let's talk about the investment world and as you'll see, the acquisition of F&G brought tremendous amount of resources to the company that previously were not available to us so the investment story has been extremely positive. The contrast of 2001 with 2004, what has occurred in 2001, F&G was essentially a buy and hold investment shop versus an active trading shop today. What does that mean? In the arena that we play with, many companies view bond investments as essentially purchasing the security today and holding on for it through good and bad times, hoping that the investment will pay off upon maturity. And there is sufficient spread in the business to be able to use that strategy if everything goes well. Unfortunately in the bond world, things don't always go well and through active trading, we are able to take advantage of price issues in the markets and adjust our trading in and out of sectors as the market appreciation of those sectors may be changing. It gives us more flexibility, it gives us more opportunity to add value to the portfolio. Resources we had were all in-house in 2001, a staff of 8, we now have resources spread around the country, as you saw, in the initial geographical slide FTE's now roughly of 27, supporting our business in many different sectors of expertise. So the staff of 8, just to contrast it, was really four credit analysts and three portfolio managers with one administrative support. You can see from that sort of staffing, quite difficult to follow the complexity and the depth of the fixed income markets in the US, which has many different sectors, many different structures. Invested assets, obviously, have grown tremendously in the period, the in-house staff managed all the assets and now what we are able to rely on, somewhat similar to our outsourcing model on the operational side, is that we're a significant part 17% assets managed by these entities at OMAMUS, but we're not the whole thing. So we can benefit from their size and their growth that comes to the management of our portfolio.

Impairments as we look back in 2001, the credit issues were a lot more significant in the market about 60 odd million was the impairment that we started the balance sheet at, back in 2001, today we have no impairments in the portfolio, completely clean. Some of that has come from us cleaning up the portfolio, some of it has come from us having to eat up these impairments and bring on more capital to the business, but the trading that we've done has now resulted in a completely clean portfolio with no capital issues.

Guy asked me to put a slide together as to why fixed income is being the basic approach to our business. The annuity business in the US, which is most of our balance sheet, is quite different than what is sold in South Africa and in Europe, the liabilities are all that fixed income, we're not into variable annuity market plays as you know and what our fixed interest rate is, well they're essentially liabilities that are very similar to a bank account. They grow with interest and policyholders have certain rights to withdraw the funds when they so choose. We have some penalties and surrender charges and other features in the products that limit the exercise of those policyholder options, but in large part, we expect our policyholders that upon maturity of these contracts, to take the money in the contract and invest it elsewhere.

While all deferred annuities have annuitisation guarantees underlying the contracts, which allow the policyholders to buy essentially a unique annuity with the company and pay out their investment over time, in reality less than 5% of our customers use that feature. The other 95% essentially, when the time is right, when the time suits their planning needs, they take the funds as they've accumulated with interest and reinvest it elsewhere. So the management against that type of liability is most effectively done using fixed income bonds. As I mentioned, they provide dependable coupons to provide for the interim cash flow needs that we expect, those are either partial surrenders or surrenders that occur prior to really final maturity of the contracts and end the bond maturity proceeds that match what we expect to pay out eventually.

Now market prices on bonds will fluctuate everyday and at times significant price fluctuations can occur, but the way the accounting works in the US, the statutory accounting is those price fluctuations don't have to be recognized, unless the bond is significantly impaired. So we're not necessarily concerned with price fluctuations, it is an issue, obviously, and at times it is an opportunity, but the day to day marking to market of the portfolio is not necessary for US statutory accounting. So fixed income bonds does provide a very smooth type return over time and a smooth progression of the capital in the company. What we have seen, however, is with allowing Dwight to actively manage the portfolio, they have been able to see some of these price discontinuities and do some small shifts from one sector to the other, from one duration to the other, short to long or long to short and take advantage of market adjustments that we don't think are permanent and as the market often times tends to over react on different news, we can move in and out of the different sectors or maturity structures and then get paid off for those small movements in the portfolio and that is how value gets added by active management.

Lets look at our key investments partners. We've talked a lot about Dwight, obviously the main fixed income manager. Their expertise in structured products, credit products and sector rotation. We have a very strong track record of performance, really based on two different metrics that we keep track of on a retail return basis, we've been able to track Dwight's retail return performance against other annuity writers in the US and track their performance over the last three years and they have been the strongest fixed income provider on a retail return basis based on those comparisons.

Internally, we look to Dwight to out perform their pricing assumptions, so the products are priced assuming Dwight will be investing in a benchmark group of securities, so this benchmark has been determined, it gets asset yields from various sectors and various qualities that we are comfortable with. That benchmark is available everyday to Dwight and us, as far as what the yield is on that day and we know what cash we give Dwight everyday to invest against. So we can measure their performance starting the clock date one against the yields that were available in the market on the day they received the cash and we track that very closely and we have seen a very strong performance from Dwight against our pricing benchmark. We don't bring that over performance into the pricing of the products, we don't pass that on to the policyholders, but when it does emerge, it does create additional value that would be reflected in the value of the business and the in-force value over time.

Analytic investors is our equity index dynamic hedging manager. This is a program that started in the end of 2002 and Analytics supports and managers the exposure on our equity and index annuity products, this 3 billion that we have. Those that understand or know of Analytic, they are a very specialized shop, made up of PhDs that like to build complicated models and have a number of interesting product offerings in the market, investment institutional market, quant type products where the decisions on portfolio allocations are all essentially determined by computer models. We've used that expertise to build an option trading program with them where Analytic everyday looks at the exposure that we have to the S&P 500 on the liabilities side, based on the equities index annuities that we've sold and everyday then looks at the options that we have on our book, either futures, calls or over the counter options and aligns the two so that the company can match its liabilities and can do so at an affordable rate within very tight risk tolerances and risk constraints. That program has worked very well with us and we are now seeing a number of our competitors looking to adopt a similar program and some of the largest consultant firms in the US, essentially trying to shop this type of program to them to give them these advantages. It has worked very well for us.

Lastly we have Barrow Hanley, which is more of a specialized fixed income manager currently roughly 300 million management and Barrow's expertise, which is a little bit different than Dwight, is finding attractive credit products, bond offerings that are out of the main radar screen of the big indices, so these are companies that are not in the S&P 500, that have strong businesses, that are not necessarily tracked as intensively by the Wall Street

Trading Firms. They meet with those companies, the management of those companies and get comfortable that there's a strong story behind what they're doing and provide value by bringing us names that would be more difficult to track any other way.

To go on to the investment portfolio, a quick pie chart, where we are at June, you'll notice how we've diversified the credit quality portfolio, treasuries and the mortgage sector, which is really mortgaged backed type securities and commercial mortgaged backed securities, of high credit quality. AAA at 6%, which are mostly structured products that are wrapped, which give us the high quality rating. AA and single A at 23 % of the portfolio and then BBB which is at 38% of the portfolio. And lastly, what we call the high yield investments, BB and lower at 10%. The mix here is somewhat predetermined so that the quality constraints that we've given Dwight and the benchmark is somewhat reflective of this type of distribution, so we track the portfolio against these constraints every month when we needed them, but this gives Dwight enough opportunity to move bonds around these sectors within each of these categories and at times moving from credit quality sectors, when the opportunities are there. But this is a reasonably good snapshot of what is needed to support the products and what we hold Dwight accountable to.

Guy should you take the summaries and conclusions?

Guy

I think I'll just pause there – can we board on the viewpoint to bring in Mike McGrath as well? I'll pause there and take questions on the investments and finances, while I get the general summary.

Question:

You mentioned something about 2001 and I still remain disappointed with the disclosure we get on F&G on the earnings side and it hasn't improved since 2001. On Scott's presentation you've clearly got assets from which you can determine revenues, from which you can determine performance fees, fixed and variable comp and get to some kind of earnings line. But with the life business we've still got very much a black box and it's still "oh this is how much the business made" and when you try to tie that back to the embedded value, the problem is the embedded value is on a statutory basis and the business still makes statutory losses and we try to reconcile that with a business that makes profit on a US GAAP base.

Answer:
The business does not make statutory losses

Question:
Ok, for large parts of the time, it's now just turned into making a statutory profit, but it's still impossible to reconcile the change in the VIF on the statutory basis to the US GAAP stuff. This is also a UK company, so we're reporting on a LTIR basis and in the interim results there were huge variances that weren't coming out of the South African business, they were coming out of the US portion of the LTIR, which still, I think, is something which, I don't think most investors have their minds around how that actually comes through and how that's going to change once we actually move away from LTIR to some kind of IFRS accounting. So it's probably not a question that can be answered now, but going forward, maybe for the final results we can get some more breakdown of how this business really makes it's earnings. On the South African side the disclosure's poor in the financial results, but we get the account, so you can reconcile between a full set of OMLACSA Accounts and the plc accounts. With F&G I'm not too sure about …. Those are generally poorer than other parts of the business.

Guy
I'm going to refer to John and Michel to answer that and while they're gathering their thoughts, I think part the theme that we're putting in and some of the systems and the like is in order for us to keep the gate open as to all the mechanics of the accounts. Fundamentally we're working off a base which is a statutory close which you can adjust to UK GAAP values and disentangling all those pieces is clear to us, but is very difficult to extract in a

visible, clear way. John and Michel, do you want to pick up the theme from here please?

Wait for a time when we will have the full mechanics to show more without putting estimates in place.

John

I guess I would respond a couple of different ways. There were several questions in the comment, the base question was to be less of a black box and more transparent. I'd have to turn to our Investor Relations folks as well and we can take that off line and talk about exactly what are you looking for and what you need. We do have control and have reporting on ten different basis of accounting, that we have to deliver for our alignment for Bermuda and statutory and separate accounts, so that information is there, I don't want to mislead you that we don't have the information, its' just a matter of those complicated different basis of accounting that need to be positioned correctly and reported correctly so that different users can understand and appreciate them. So we need to take that piece off line. I think there are embedded value disclosures attempts at trying to reconcile some of that information back to GAAP, adjust the net worth and profitability, so some of that information, I believe, is there.

On the LTIR point, I think what you're talking about is the volatility in the short term fluctuations where LTIR or smoothed earnings is just that, it's been fairly smooth and our methodology there we can go though, has been explained effectively the mark to market adjustment, the unrealized gains and losses get factored out of the smooth earnings and effectively an average of our duration of the realized gains and losses get smoothed in and that gets a very smooth result. What happens is you see the volatility of the short term flux come back out or go back in, however you want to say it, whether it's unrealized gains or unrealized losses to get the retained profit at a mark to market income statement. What the International Accounting Standards are moving to is actually much like US GAAP. US GAAP is effectively just about every entity in the US insurance industry categorizes their assets as available for sale and what that means is the volatility of the unrealized gains and losses do not go through the income statement, they go through equity and virtually all of the US analysts discount that movement in the equity statement because they know it's just a mark to market adjustment on bonds depending upon wherever the particular interest rates are at that time. So the International Accounting Standards are moving to that kind of view, which again will take the biggest driver of the volatility currently in short term flux and put it in the equity statement and effectively have a close to a smooth income statement as we currently have. A piece that would be different are the components of the realized gains and losses that we're smoothing in effective trading environment.

We plan on, not exactly what's been discussed disclosed, and it's a moving target, international accounting standards are moving and we are planning on showing supplemental disclosures on a former UK GAAP smoothed result basis. So I'll turn to Michel now, but the one aspect of your question that I've answered in enough detail, other aspects of it, yes we do have it, as Guy alluded to, improved systems and financial backbone in process, but I also would say that we have sufficient financial information to allow us to run our business currently. I'll have to get with the Investor Relations folks from PLC.

Guy Barker

Can I just come in for a second? Where as at the moment we build over our current backbone, we build spreadsheets. It gives us what we want, when we want it, but it's not in all aspects, an automated process.

John

That's exactly right and the automation project is expected to be completed by the end of 2005.

Michel, do you want to add anything?

Michel

Only to comment that embedded value and GAAP equity are meant to be two different measures of the value of the company. But they're actually quite close. So once you get rid of the short term flux, which is not, as I mentioned, required to be accounted for that way under statutory accounting. If you take that component out of GAAP equity, you find out that the GAAP results as an indication of the value of the company are actually quite close to the embedded value. Obviously the migration of the numbers, period to period will have different factors impacting them, but it's not coincidence. We would expect that over time that the two numbers would follow each other quite closely.

John

I would add that the statutory statements for the insurance companies are about half an inch thick with an extensive amount of information on our business, that I think some of the folks in the audience have received, so there is full disclosure on that basis of accounting of every aspect of our business.

Question:

Thanks. In the pie chart on the bond portfolio, you've got quite a big component on the BBB and something like BB being lower. Would you mind giving us a better detail on what actually the investments are there and then can we find out the typical average running yield on your portfolio?

Guy

Michel, if you caught that, the BBB's can you give a bit more detail on that. I'd suggest talk about the spread of indices we've got there and of course also about the limit we set on any particular asset we've got on that category. And then if you'd span that into a discussion on the core spread that we have on top of treasury that was mentioned earlier in Scott's presentation, particularly in the BBB portfolio.

Question:

Just in terms of the mortgage make up, can you tell us how much of that is retail backed mortgage securities and how much is corporate backed and can you compare those to back in 2001?

Happy to do all those – Michel, could you pick that up? I'm glad to get the mortgage question because it's a differentiation between us and each one of our UK owned competitors.

Michel

Well the mortgage sector of 18% is roughly half and half. So half of it is what's called commercial mortgage backed securities. These are not mortgages that are originated by us to commercial entities, but they are commercial mortgages that have been wrapped in a security and are sold to the market. The nuance between a commercial mortgage backed securities versus a retail mortgage backed security, is that there are infrequent, although very expensive, pre-payment penalties on the commercial mortgage backed securities. So there is not the interest rate sensitivity that you'll find on the retail side. On the BBB question, I think our issuer limit in the BBB area is roughly $80 million per issuer and that portfolio is spread to 30 different sectors in the market and there are limits to what exposures we might have to any given sector. So the diversification of that portfolio is extensive and a key feature that not only is just good risk management, it also is recognized through the capital formulae that AM Best or S&P or Fitch that diversification is encouraged and companies can have less capital if they've got a very diversified portfolio, so that is our intent with Dwight. What we do balance that against is we don't want them investing in companies that they would not want to, so that our issuer limit has to be balanced to the supply of names that are in the market and roughly as a rule of thumb, our issuer size limits will force Dwight to invest in roughly 60% of the issuers in that particular credit quality. So in the BBB area then our 80 million forces them to invest up to 60%, which is quite comfortable for them, because there is the other 40% and there is a significant piece of that 40% they would not want to own anyway.

So that's the balance. Under the BB the limit is 35 million. Similar constraints of ensuring appropriate diversification while not forcing Dwight to invest in things they don't like.

Question:

You mentioned the fact that you have an active as opposed to a buy hold strategy for the bonds. You've mentioned in the past that you allow in pricing. Do you still do that and to what extent do you allow for it? And just to follow up on that, how's your performance been relative to that, because you've mentioned that impairments have actually been very good, but have you then been achieving the required trading profits as such?

Michel

I reiterate that in the pricing of the business, which is done in advance of writing a liability. In that pricing exercise, we do not expect Dwight to over deliver over the benchmark asset mix that we measure them against. So what's offered to the consumer and to our agents are products that are not relying on any over performance on that benchmark. But we do look at new business value every month, so we do look back and look at what exactly Dwight invested in and compare that to the daily benchmark that we're tracking their performance against and the value of new business then will reflect their actual performance versus the pricing targets. That was a positive contribution for the first six months of the year and I would expect it would be a similar positive contribution for the full year results.

Does that answer? I think there's a supplementary behind you.

Michel

There was an impairment question when we look at the enforced portfolio of assets, which was a good question. The embedded value assumptions do assume a certain level of defaults to occur every year and that becomes another target for Dwight to out perform and so far this year we have not had to use that default budget essentially, we have not had any impairments, so that performance against the default assumption is a favorable variance, also through six months and knock wood, here – we haven't done the full year yet, obviously – we're not seeing any issues on the return horizon.

Question:
Can you give us an indication, you mentioned the investment strategy towards the equity linked products. Is there any underpinning guarantees there?

The hedging of the 3 billion goes towards Analytic. The 3 billion equity link portfolio is fundamentally the same shape as the fixed annuity portfolio in that the customer is guaranteed surrender value, some market value adjustment, which essentially says there are surrender charges on it, so you will not get your money back if you cash in early. It will then appreciate at, typically, because there are some state variations on this regulation, at 1.5% per annum. So that's the guaranteed up-side. We then use the margin between what we're investing at and that guarantee from the run off costs to purchase the derivative instruments through Analytic to cover the equity exposure.

Question:
Sorry, can I just stop you. Can you just tell me what guarantee you offer to the client and to the product?

Fundamentally, lets give you an example, it very much differs from product to product.

Question:
On average?

<u>Guy Barker</u>
It's 90% of your invested amount increasing 1 ½ % per annum, Rick, you're closer to all the variations we have,

Question:
It's not higher than that? Because I know Allianz…

Guy Barker

90%, we know Allianz because they have similar products, what they may give as their flagship we can talk about, but that 90%, rather that 10% surrender reduction will also run off over 7 years

Question:

And just to sort of finish off on your bond portfolio and your fixed annuities, a lot of what you are referring about on your new business could you just on your existing fixed annuity portfolio, what is your average credit rate at the moment that you're offering and what is your sort of average yield on the existing fixed annuity portfolio?

Guy Barker

Existing portfolio – the interest-sensitive portfolio or the guaranteed portfolio?

Question:

You can break it up if you like.

Guy Barker

Will do. Michel, I thought you were trying to give me the answer.

Michel

Before I answer, let me clarify the equity index and annuity question, Guy, you're absolutely correct but the $3 billion dollars that is in the slide is the liability amount that is exposed to some variant formula of the (S&P500). Most of that $3 billion is invested in bonds and all that is managed by Dwight, its only the roughly, 3 to 4 percent of that amount that gets handled by Analytic, and that is the amount needed to cover the liability exposure to the (S&P500s), so as Guy mentioned in our earnings today we can make 5 ½ - 6 % return on the bonds, there's a piece of that that goes to cover the minimum guarantees but a significant portion then goes to buy an option in the market, and some of the products on option cost is 2 and quarter percent , and the difference is on the spread that we make on these designs and it comes to the bottom line. If we look at the in-force block, wide variety of products written over different courses of time and periods of time and many products still have guaranteed rates that were set at issue and we haven't had the opportunity yet to renew them, but the typical pricing historically was roughly looking to get gross spreads of 225 basis points, so that would be the difference between our bond return and the credited rates and that gets dispersed somewhat as follows:

1% of that 2 and a quarter is needed to cover commissions and some of our variable overhead costs, 45 basis points is meant to cover ongoing maintenance of the contract as well as a more fixed acquisition cost of issue, 30 % or at least 30 basis points gets handed over to the government as taxes on the profits of the business which leaves roughly 50 basis points of spread profit for us which I would relate that to an average capital or surplus to liabilities of roughly 5-5 ½ %, so the 50 basis points you can relate that to holding 5% of surplus against the product that gives you a 10% return on that 5% but then the 5% is also invested, so the 5% gets invested in bonds and earns something like 3% after tax. So you get 10% from liability, 3% from the surplus investments, we give you a 13% type return, now that is the pricing mechanics and obviously product designs will change how much needs to go to acquisition cost and commission cost, so some products will require lower total spreads because we're paying less significant acquisition costs, and others go the other way, but that's sort of a general model that may be helpful to understand, when we look at our in-force, we are not returning a 12 % ROI yet so the in-force has had some hic-ups against the pricing assumptions, part of that has been defaults that we've incurred in '01 and '02 that were higher than our pricing assumptions, so that essentially takes away from that spread, and we've had some higher expense issues largely through the transition of our operations from a very expensive vendor, to a new vendor that have taken away from that spread. So the actual spread on our business overall probably gross spread now, I would estimate at probably 190 basis points or so.

Guy Barker

If you're going to take the average crediting rate you take the yield on the portfolio and stack 190 for the older business as a reasonable rule of thumb. Michel?

Michel

Yes, I think that's probably cautious because we also have a significant block of life insurance which where there, the profits are not investment spread, but they are mortality and lapse as profit elements, so we can't ignore the contributions of that block of business, but on the fixed type liabilities that we have, that's a general rule of thumb.

Guy Barker

Thank you, I think that we have time for one more formal question and then I'll do a quick summary.

Question:

This question is on the bond portfolio again, firstly a simple question, is it more risky or less risky than your average competitor in your fixed annuities?

Guy Barker

It's got different categories, mostly I think, the average competitors annuities rely on what I might call "at the edge" type private investments or specialist investment portfolios to make their yield. Now we, when we want to make competitive yield advantage, do it on activity. So for that reason we think we've got the edge on risk avoidance. The other reason we've got the edge on risk avoidance is getting back to that thing, we are a youngish company, which is still in the phase in it's products where there's still a high difference between the surrender value that we pay on the annuity and the principle of literally investing. That's a strong discourager for anyone to move their money. So our lapses are much better perfected and therefore our asset liability matching, we think has got a stability advantage, which an older company would not have. So I think there's two angles there, but I think we're pretty well set up against a competitive universe, particularly the ones we track ourselves.

Question:

Guy, there's still a second part to that question, that was the easy part. Now obviously in South Africa we don't need to hold additional capital for credit risk, but in the US, I assume, is probably the second biggest driver of your capital requirement is credit risk…

Guy Barker

Now the risk based capital driver, if I may just interrupt there, the risk based capital is structured to very heavy capital rates against the high yield and that underlies the default less the capital against it will be a minimal capital rate against AAA, so the whole risk based capital structure forces you to put your capital behind the riskier bonds. And it has also a heavy carrot and stick approach to any mismatches that you have and clear the assets and liabilities situation. It goes directly to the formula and then of course gets multiplied by 2.65 in our formula.

Question:

So basically the question would be, are you really adding value on a return capital basis or… you say you make a net spread of 50 on 500 of capital, now if you move to an average of AA, how would that net spread come down and how much would that capital requirement come down as well? Are you sure you're optimising your return of capital on this?

Guy Barker

Oh yes it's very carefully worked out to optimise to the extent where in this account high yield bond environment, we've been agonising whether we should follow the need of efficient capital management, which would take us out of high yield bonds, while default rates are so low and we decided we may do that in a very structured sense where it's opportune, but fundamentally won't become a rule of thumb. But the capital models we have and the efficiency we have is looked at very carefully. It's one of the expertise drivers of this form of business. Michel, I would like you to expand a little bit on that if you wouldn't mind.

Michel

No, I think that's very accurate Guy, that the pricing targets that Dwight has for the various quality sectors are capital adjusted, so the additional capital that is required to be held against a BB bond becomes the additional spread or gets translated into the additional spread that Dwight needs to get off of those bonds and it's only when they can get comfortable with a company that delivers above that, that they would then purchase it. So their targets are capital adjusted for the RBC costing.

To give you live example in the current year, we've been decreasing our high yield bond levels because the capital adjusted risk return is not worth it right now, but we've studied that and will continue to study that to see if the risk return and costs and exiting and getting back in at a later point in time, kind of make sense for us or not. But that would be an illustration where the capital costs and high yield are too heavy for the spread that we're getting.

I have a question at the back. I think that's my last question.

Question:

It follows from this whole discussion. So bond yields rally, you've now got very little spread left on your BBB's. Effectively you've been forced to carry the same amount of capital, so you now sell your BBB investments or your BB investments that's how you get out and into AAA, but now you've got a product problem because you are buying much less spread, so what do you do now? Do you exit the market, do you change your pricing structure?

What I'm trying to understand, if one looks at BBB spreads today, they've come a very long way. Default rates are down, because basically corporate profits are up, so you're probably at the top of the credit cycle. So now if you continue to buy those bonds today, your risk adjusted returns probably likely to be a lot worse than it has been in the past. So now one exits BBB's. You sell your BBB portfolio out. But now you've got a problem because your crediting rate is affected by the BBB that won't combine to the portfolio, so what do you do to sell the new product? What do you do with your pricing or do you just exit that industry? Just exit that product and wait for the next cycle?

Guy

The answer in practical terms is that's why new products change over in the cycle. It's no longer an effective product to sell the pure interest product..sold because the customer looks at the interest stakes you can pass through on an efficiency investment basis and say "I don't really want to buy a 3.5% or 4% savings bond, because I'd rather put my money at 1.5% in the banks savings. It's not attractive enough. But it's customer perception. If they adjust to a new interest environment, … and part of it sustainable difference between that and other investments. And that's where the customer turns and says "Well I've been a bit burned by the pure equity and I'm not interested in being burned again. I'm not that attracted to an interest rate portfolio, what can I invest in?" And that's the genesis of the equity index portfolio, which says, well look, what we will do – provided you keep the product for seven years, then all the surrender penalties disappear – we will offer you something guaranteed at 1.5%, but that is just as good as you can get at the bank at the moment. Not a frightfully exciting interest rate, but the market around doesn't allow us to offer more exciting interest rates, but we can put it in an investment portfolio, whatever mixture is appropriate and BBB's is still ok in this environment, according to my calculations. We can put into that an equity turn on so that we will take part of the spread between what we can offer in a bond market and at 1.5% … and at 2.25 spread and we would now use it to buy instruments to give you an equity up side. So what we've seen is that effect which is the effective investments have gone from high yielding on average to low yielding on average, even relative to treasuries. Total corporate spread has gone down. It's taken the edge out of the interest related market, but it's given us an alternate market to go to, which is the equity index portfolio. And that market is always there, because the customer need for safety first products is always there and the agents need to earn a living is still there and the agents passes on the views and expertise of a product and that essentially is a reasonably efficient counter market to the variable equity link market that there will always be a product need for savings bonds and you would just re-write them irrespective of a particular shape of an interest market or even the corporate spreads around it. That then gives us the new business functionality and by having the corridors that we can permit in our structure and show profitability at 2.5 to 4 billion, that's plenty of fluctuation built in.

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