Old Mutual 20th June 2005

Restatement of 2004 Results under EEV

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Main Presenter

Julian Roberts

Operator: Thank you for standing by, and welcome to the Restatement of 2004 results under EEV. At this time all participants are in a listen only mode. There will be a presentation, followed by a question and answer session at which time, if you wish to ask a question you'll need to press *1 on your telephone. I must advise you this conference is being recorded today, Monday 20th June 2005. I'd now like to hand the conference over to your speaker.

Julian Roberts: Thank you very much indeed. It's Julian Roberts. Good afternoon everyone. Thank you for joining me on this analyst and investor briefing on Old Mutual's adoption of European Embedded Value. I hope that you have had a chance to read the press release, one of our shorter ones, only 31 pages long, and also been able to download from our website the presentation we are about to make. I hope this works today over the telephone. It's the first presentation we have done where it has not been in person.

Gary Palser, our Group actuary who will be doing the bulk of the presentation, joins me today. We also have Richard Hoskins, my Deputy Finance Director with me here in London and Michel Perreault, our US actuary on the telephone in the USA to help with any answers to questions you may have.

On slide 3 you can see the agenda for this afternoon. I'll start by giving an overview of our approach to EEV and the key impacts of EEV on our numbers. Gary Palser will then take you through the key EEV Principals impacting us. Finally I'll conclude the presentation after which I am happy to take any questions.

So let's begin, slide 4. Slide 4 depicts the approach we have taken. As you know the CFO Forum issued the European Embedded Value

Principals in May 2004. In doing this, the Forum aimed to enhance embedded value reporting by improving consistency of approach between companies and countries, and also increasing disclosure to allow better comparison.

We have restated our embedded value, originally calculated on the achieved profits basis, at the end of 2003, at the half year 2004 and at the end of 2004 to comply with EEV Principles. Inclusion of an appropriate allowance for risk is a key requirement within the EEV Principles. The most significant point is that unlike some of our peer group we have adopted a market consistent approach for benchmarking our aggregate allowance for risk.

This means that our risk discount rates have been set in such a way that after allowing for the EEV cost of financial options and guarantees and the EEV cost of capital, our total allowance for risk is consistent with the way the market is expecting to allow for each of the risks. We will continue to use return on equity and embedded value as key performance measures for the business and we believe the EEV Principles provide us with a more appropriate tool for doing so.

In financial terms, the overall adjusted embedded value of the Group has increased by 0.5% at 31st December 2004. A reduction in the value of in-force business and the value of new business has been offset by IFRS impacts on shareholder's equity. We'll go through the detail in a moment. Finally, the results at 31st December 2004 have been audited by KPMG.

On slide 5, we have a summary of the EEV principles and the relevance of each principle to our embedded value. On the left hand side as you know with EEV, there are 12 principles. On the right hand side the size or absence of a tick indicates the degree of relevance of that principle to Old Mutual. Some of the principles, as you see, have minimal impact. For example we have not needed to alter our definition of new business and so the right hand column is blank.

As you can see, we have highlighted required capital, financial options and guarantees, projection assumptions and economic assumptions as being the areas of particular significance for us. In Gary's presentation he will take you through all of the areas affecting the Old Mutual embedded

value focusing particularly on the areas of significance I have just mentioned.

Before I take you through the key financial impacts it might be helpful to remind you of the various components of Old Mutual's adjusted embedded value and how it's built up. This you can see on slide 6.

The key businesses impacted by EEV are our Life businesses. It is these on which we will focus this afternoon. For the Life business the embedded value comprises the sum of the adjusted net worth on a local statutory basis together with the value of the in-force business and for the avoidance of doubt the value of owned shares held in policy holder funds is included here at market value. Incidentally please note that in line with our disclosure for IFRS, Namibia is now included in the Africa segment rather than in the Rest of the World. This is a change that we have made in 2005.

We've not changed our methodology for the inclusion of our non-life businesses. So the asset management results are included at the book value in the financial statements on an IFRS basis and the Group's listed banking and general insurance subsidiaries are included at market value. As you will see the embedded value of the covered Life business comprises the major component of the adjusted embedded value.

So far we have seen the theoretical reasons for adopting an EEV approach and drawn attention to the areas in which a change of approach was required.

On slide 7 you can see the effect that these changes had on the financial results at 31st December 2004. This slide shows the comparison of embedded value under achieved profits, i.e. the basis that we used to use, and European Embedded Value. The overall difference between these two numbers is small with a movement of 0.5%. The change is made up of two offsetting effects.

Firstly, an increase in net worth of 3.7% resulting from the adoption of IFRS. All of this increase relates to Old Mutual's non-life businesses, primarily changes to goodwill and dividend recognition.

Secondly, a decrease in the value of in-force of 7.3%. There are four main components: one, the allowance for capital; two, the value of financial options and guarantees; three, the risk discount rate and four, a number of items, principally the inclusion of health care in our covered business and the allocation methodology for expenses. Together these effects resulted in an increase of the adjusted embedded value, as I said, by 0.5%, an increase of £25 million or just over half of 1p on our adjusted embedded value per share.

Slide 8 shows a comparison of operating profit under the achieved profits and EEV basis. The adjusted operating profit emerging during the year is 3% higher under EEV. Within these figures the EEV profit on Life business is down 2%. Gary will elaborate on this in a moment. Non-life profits are up 12%, as I said before, due to the IFRS adjustment, mainly in respect of banking and general insurance. This increase in total adjusted operating profit of 3% resulted in an increase in the return on embedded value to 19.9%.

Slide 9 shows the comparison of the new business value. The value of new business has been affected by most of the same factors that I have already mentioned in respect to the value of in-force business. However, for new business the implementation of EEV principles made a significant impact on the North American business. The profit stream generated by this business includes investment or credit risk margins, which accrue to shareholders. The market consistent methodology does not allow for these margins to be capitalised, but allows them to emerge as earned. This has a significant impact on the value of new business and it reduces the new business margin down to 18% from 23%. The new business margin is still within the target range for our business of being between 15% and 20% but naturally under this methodology is lower than we've shown before.

In accordance with EEV principles we have also calculated the new business margin based upon the present value of new business premiums. This represents the sum of single premiums plus the discounted value of expected recurring premiums in respect of new business. The result is an after tax margin of 2.4% for the 2004 year. If you remember, we show our margins after tax, when in Europe in general people show them before tax. So our after tax margin of 2.4% would be

equivalent to 3.6% before tax, which is in the range of equivalent margins published by other companies.

I'd now like to handover to Gary to take you through the details.

Gary Palser: Thank you Julian. I am turning to slide 11. The main focus of my presentation is going to be on the allowance for risk, which is covered by the following principles: Firstly principle 5, where I will discuss the amount of required capital; principal 7, where I discuss the cost of financial options and guarantees, and principle 10 where I will discuss the risk discount rate, which is one of the economic assumptions. After that I will discuss principle 2 - our definition of covered business, principle 9 – expense assumptions, which are one of the projection assumptions and then principle 12 – disclosure.

So turning to slide 12 and starting with the allowance for risk. The EEV Principles require a comprehensive allowance for risk. Risks can be allowed for in the following ways: Firstly the level and the cost of required capital; secondly, the stochastic cost of financial options and guarantees; thirdly, one needs to recognise that the underlying liability valuation basis determines the nature of, and therefore the risks inherent in the projected profits being valued, which then leaves the risk discount rate to reflect all residual risks.

The EEV Principles also require sufficient disclosure to enable users to understand the methods employed. I will accordingly be discussing each of these points with you, hopefully helping you to understand how we have allowed for all these risks.

Starting first then with required capital on slide 13. In terms of the EEV Principles we have increased the level of our required capital for the purpose of calculating the EEV cost of capital to effect the highest of the following measures in each of our Life companies: The local statutory capital requirement; the capital requirements in terms of the financial groups directive; the capital that we have allocated to our Life businesses for internal capital management purposes, and the percentage of statutory risk based capital required by rating agencies to maintain our desired credit rating in North America.

This ensures that our required capital reflects the capital actually used to manage the Life businesses. The effect of this significant increase in the amount of required capital used for the purpose of calculating the EEV cost of capital will be shown on the next slide. I need to stress; however, that this does not have any effect on the amount of capital actually held within the Life business, this remains unchanged.

On slide 14 I show the new level of required capital for the African and North American Life businesses as at 31st December, 2004 compared with the level of the statutory capital requirement that was previously used for the achieved profits cost of capital calculation. And as you can see the cost of required capital for Africa has increased by 57%. The new figure represents the capital allocated for internal capital management for South Africa and Namibia. The North American figure is 1.82 times greater than before. While the multiple for F&G Life is three times, as required for rating purposes, some of the smaller Life companies, such as OMRE and OMNIA hold the level of capital required under the European Union Financial Group's Directive. The figure for the United Kingdom has also increased, but is not shown in the presentation due to materiality in the Group context. These represent a significant increase in the required capital used in the EEV calculation, and therefore cause a significant increase in the cost of capital.

The cost of financial options and guarantees is the next element of the allowance for risk, shown on slide 15. There is already some allowance for the cost of financial options and guarantees within our statutory reserves. For all our Life businesses statutory reserves allow for the intrinsic or the deterministic cost of financial options and guarantees. In the South African and Namibian Life companies statutory reserves also include an investment guarantee reserve calculated on a stochastic basis in terms of the South African requirements. There is no such requirement in North America. An allowance has been made for the time-value or stochastic cost of financial options and guarantees for EEV purposes, calculated on a "real world" basis.

In Africa this stochastic cost of financial options is partly reflected in the reserves and partly in the value of in-force business. The reason for some residual cost being deducted from the value of in-force business is that for EEV purposes the stochastic model has been benchmarked to emerging practice in the UK, which differs from the South African reserving

requirements. In North America the full stochastic cost of financial options is deducted from the value of in-force business.

Turning to slide 16. We now come to how we have determined our risk discount rate. Having determined the level of required capital to be used for calculating the cost of capital and the shareholder cost of financial options and guarantees, the risk discount rate is the lever to reflect all residual risks not already captured in the cost of capital and cost of financial options and guarantees.

I will explain on the next two slides how this has been done, starting on slide 17.

As Julian has said we have adopted a bottom-up market consistent approach for determining the risk discount rate in each of our regions. This method helps to ensure that, in aggregate, each risk is allowed for in a way that is consistent with the way that the way that the market is expected to allow for such risks.

We first calculated what our embedded value would be for the South African and North American Life businesses using a market consistent method. We then derived the EEV risk discount rate for each business such that the EEV value of in-force business was similar to the market consistent value of in-force business, using our EEV assumptions and allowing for the EEV cost of financial options and guarantees and the EEV cost of capital.

Going forward we will periodically recalibrate our risk discount rate using this method. We will not change the risk margin if the differences are small. For interim reporting purposes we will use the previous year end's risk margins.

Turning to slide 18. As you know there are two possible approaches to setting a risk discount rate. A bottom-up approach, that looks at the specific risks within different product lines and business units, or a top-down approach that assesses risks by considering the market price beta. Because we've adopted a different approach to that used by many other companies, I would like to spend a few minutes explaining why we have adopted this approach and why we have not adopted the weighted average cost per capital approach.

On slide 19 I provide the reasons why we have chosen the bottom-up market consistent approach and conversely why we have not adopted the weighted average cost for capital approach. The bottom-up market consistent approach provides a much better link to the different risks associated with each business. Consequently this provides a better link to pricing and risk management in each business and enables us to derive an appropriate risk discount rate for each geographic life business.

We have not adopted the weighted average cost of capital approach, because the Old Mutual Group is a very diverse financial services business and the adjustments to exclude the non-Life businesses would be very subjective. Within the life businesses, Old Mutual has two very different life businesses, in South Africa and in North America, and determining appropriate discount rates for these two businesses, would have been rather subjective using a weighted average cost per capital approach. In short, we believe that the bottom-up, market consistent approach for setting our risk discount rates is more objective and more appropriately reflects the different risks in our different Life businesses.

On slide 20, I outline the process involved in setting the risk discount rate for South Africa, as at 31st of December 2004. In the first column, I show that under achieved profits, we used a risk discount rate of 10.8%, representing a risk margin of 2.5% or 0.5% above a 2% equity risk premium. As part of the process of reassessing our economic assumptions for EEV purposes to ensure consistency with the classic modelling assumptions, we have revised our South African equity risk premium from 2% to 3.5%. 3.5% is lower than historically earned equity risk premiums in South Africa and is fully supported by the good growth prospects for the South African economy.

The second column, shows what the market consistent calibrated risk discount rate would have been, had we continued to use statutory capital for calculating cost of capital, and if we had made no explicit further allowance for the cost of financial options and guarantees. The risk discount rate would have increased to 11.5% representing a risk margin of 3.2% or 0.3% below the revised equity risk premium. The increase in the level of required capital for calculating cost of capital reduces the risk discount rate produced by 0.7%, and the effect of making further explicit

allowance for financial options and guarantees reduces the risk discount rate by a further 0.2%. We end up with a risk discount rate of 10.6%.

On slide 21, I explain what insights we gained from this process and why we believe that a risk discount rate of 10.6% is appropriate for South Africa. Most of our in-force products in South Africa have charges that are premium and Rand based, in addition to fund-based charges. This means that a significant portion of our fee income is less sensitive to market movement.

The statutory liability valuation basis in South Africa, is based on best estimate assumptions, plus prescribed margins for each assumption, and further margins at our discretion. Because the underlying valuation basis, realistically represents what actual experience will be, the margins represent a stable and reliable stream of future profit from in-force business.

Thirdly the product mix in South Africa includes protection business, as well as investment business and the profit stream from protection business is less correlated to market movements.

One should also note that the main risks in the business are reflected in the increased cost of capital and the explicit cost of financial options and guarantees, and that the increase in the explicit allowance for these risks means that the risk discount rate no longer needs to reflect these risks. It is also worth noting that the historical earnings volatility of the South African Life business has been low, despite equity market volatility and significant interest rate movements. This provides further evidence in support of the above conclusions.

On slide 22, I provide the equivalent analysis for the derivation of the North American risk discount rate. Under achieved profits, the risk discount rate was 8.3%, representing a risk margin of 4% as shown on the first column. The second column shows that the market consistent calibrated risk discount rate would have been, had we continued to use statutory capital for calculating cost of capital, and if we had made no explicit allowance for the cost of financial options and guarantees. The risk discount rate would have increased to 10.3% representing a risk margin of 6%, as shown in the second column.

Increasing the level of required capital, for calculating cost of capital, reduces the risk discount rate by 1.8%, and the effect of making explicit allowance for financial options and guarantees reduces the risk discount by a further 1%. We end up with a risk discount rate of 7.5% and residual risk margin of 3.2%.

On slide 23 I explain what insights we gained from this process for North America, and why we believe that the risk discount rate of 7.5% is appropriate. Before making allowance for the increased cost of capital, and the explicit cost of financial options and guarantees, the risk discount rate increased by 2%. This indicates that we are making greater allowance for risk under EEV than was previously made under the achieved profits method.

The main reason for this is that the profit stream generated by the North American business includes investment, or credit risk margins which accrue to shareholders. Because we are using a market consistent calibration, these margins are not capitalised in our EEV calculations. These margins will emerge over time as they are earned.

As a result of increasing the explicit allowance for risk by calculating an explicit cost for financial options and guarantees and significantly increasing the cost of capital, the residual allowance for risk reflected in the risk discount rate reduces, as shown on the previous slide.

On slide 24 I have brought together the combined effect of the allowance for risk for our African and North American Life businesses as at the 31st December 2004. The first line shows the value of in-force business and the value of new business as previously reported under achieved profits.

As you can see the South African value of in-force declined marginally from 1050 to 1026 in sterling. The South African value of new business declines by 8%. This is higher than the percentage decline in the value of in-force due to what I call new business gearing. The value of new business is reported net of new business expenses and these expenses do not change when the embedded value assumptions change, which means that the net numbers declined by a greater percentage than the gross number.

The North American value of in-force declines by 10%, reflecting the increased allowance for risk and the US value of new business declined by more than this, because of the same gearing effect, the statutory new business strain does not change when the embedded value assumptions change.

For our UK business, there has been a reduction due to an increase in the level of required capital, but this is not shown in the presentation because it's not material, in the Group context. This completes my discussion on allowance for risk.

I would now like to discuss a few other changes, starting with business coverage on slide 25. We have defined our covered business as long-term business as defined in our primary financial statements. This includes our South African Healthcare business, where profits had in the past been included with long-term business, but for which no embedded value calculations were previously done.

In previous embedded value reporting this profit emerged as part of experience variances. Coverage is now being extended to include our South African Healthcare business. This means that a value of in-force business and value of new business has now been calculated ,and new business premiums have been included for this business. The impact of this will be shown later on slide 28.

Turning to slide 26, we reviewed our projection assumptions in line with the EEV principles and concluded that it is appropriate to revise some of our expense assumptions. A pro-rata share of unallocated head office expenses has now been allocated to the Life businesses, in proportion to total management expenses. The additional expense allocated to the Life businesses was £6.6 million for 2004.

Based on a recent expense analysis the North American business has made a small change in the allocation of their expenses, between initial expenses and maintenance expenses, allocating a bit more to maintenance.

In South Africa, one off project costs are excluded from expense calculations. Different one-off projects tend to arise each year with some of these costs tending to occur each year for different projects. Our

expense calculations now include allowance for that portion of these expenses that are expected to occur each year. The effect of these expense assumption changes will be shown later on slide 28.

One of the EEV Principles requires a look through to profits and losses incurred within service companies. Profits that our asset management business earn, for managing our life funds will however continue to emerge in the asset management companies, rather than being included in EEV calculations, on the grounds of materiality and simplicity.

On slide 27 I have summarised some of the changes in our disclosure. In the EEV restatement document we show the embedded value of covered business and also reconcile this to the adjusted embedded value for the Group. A separate table details the segmental adjusted net-worth by business.

In the analysis of the movement in the embedded value of the covered business, we now show this analysis split between adjusted net-worth and the value of in-force business. We have also added a few sensitivities, such as the combined effect of investment return and risk discount rate movement up or down, and for South Africa the effect of a 10% movement in equity values, up or down.

We have now shown a new business margin as a percentage of the present value of premiums in respect of new business in accordance with the EEV principles. We will continue to also show the APE margin for comparability in South Africa. We have now also provided a product analysis of new business premiums.

On the next few slides, I will show the combined effect of all the EEV changes.

Slide 28, shows the effect on the value of in-force business for Africa, North America and the Group. UK is not shown separately on the grounds of materiality, but is included in the Group column. The allowance for risk is the total as discussed on Slide 24. The impact of extending coverage to include the South African Healthcare business, is to increase the value of in-force business by £14 million.

The impact of increasing maintenance expense assumptions, is a decrease in value of in-force of £35 million in Africa and £18 million in North America. The combined effect of all these changes is a decrease of 4% in the African value of in-force and 13% in the North American value of in-force, resulting in a decrease of 7% in Group value of in-force business.

On slide 29, I show the corresponding effects on the after tax value of new business. For Africa, there is a small reduction of 3%. For North America, there is a large reduction of 27% due to the increased allowance for risk. The update in the expense allocation from initial to maintenance expenses is the reason for the £1 million increase in the US value of new business due to expenses. In aggregate, the Group value of new business decreases by 15%.

On slide 30, I show the effect of EEV on pre-tax adjusted operating profit for the covered businesses. The African adjusted operating profit is 2% higher under EEV, whereas the North American profit is 26% lower, leaving the Group profits 2% lower. The lower North American profit on the EEV basis is mainly due to a lower value of new business as discussed on the previous Slide. Please note that the figures on this slide are pre-tax, whereas the value of new business shown on the previous slide is after tax.

The effect of African operating assumption changes, is a bit higher under EEV, because these are now being calculated on the new set of economic assumptions.

Finally, on Slide 31, adding the adjusted net-worth to the value of new business, one gets back to the total adjusted embedded value for the Group, as Julian showed you towards the beginning of the presentation. And with that, I'll now hand you back to Julian.

Julian Roberts: Thanks Gary. Looking forward on Slide 33. As you have gathered, we believe that EEV will provide a useful measure of the true value of our business, both for analysts to help you understand the values and risks associated with the business and for us in terms of managing going forward. Our bottom-up market consistent approach for determining the risk discount rate, means that we now have an appropriate risk discount rate for each business. These rates will feed into many different aspects of managing in the future.

One example for instance, is the process of designing and pricing products. We will also make use of this robust approach to risk in managing our existing portfolio of businesses. We believe that this will allow us to take a more active and informed approach to managing the risks inherent in each of our different businesses. Our interim 2005 results will be on an EEV basis, replacing achieved profit.

So finally, on slide 34, we have invested a lot of time and effort in this initiative and also in IFRS over the past year. We believe that we have come up with a robust approach to risk, reflecting the real risks associated with each business. It has been challenging, but we are comfortable with the results.

The overall impact on embedded value is £0.6p per share, which is reasonably minimal, composed of a number of different offsetting factors.

Thank you very much. I am now happy to hand back to the Operator, so that we can take questions.

Operator: We'll now begin the question & answer session. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the # key.

Your first question today comes from Greg Patterson of KBW. Please go ahead.

Greg Patterson: Good afternoon gentlemen. Just a quick question on Slide 20. When you were describing your process, where you went from achieved profit to European embedded value, via the market consistent methodology, you had a central column, where you said you had, as I understood it, to use the risk neutral type valuation. How did you determine the impact of the allowance for increased capital and financial options?

Julian Roberts: Thanks Greg. I will pass the question through to Gary. I think it probably would have been helpful to give you additional information there to help you run from one column to the subsequent ones. Gary, do you want to go through it again?

Gary Palser: Greg, yes, there's essentially a step between the first and the second column, which is the market consistent calculation. The second column details the risk discount rate that would give a final value calculated using the embedded value assumptions that equates to the market consistent calculation.

Greg Patterson: So the hidden step, would include a) a risk neutral component, b) obviously pricing explicitly the options; and c) some kind of cost to capital calculation for agency costs and double tax and all that?

Gary Palser: That's correct, except that we do not include agency costs.

Greg Patterson: In the market consistent hidden column, would you have used your economic capital and just not the statutory minimum?

Gary Palser: That's correct.

Greg Patterson: Thanks very much.

Operator: The next question comes from Andrew McNulty of UBS. Please go ahead.

Andrew McNulty: Hi, good day. I just wanted to ask a question on the level of what you say is economic capital required, you've shown percentages 157% for Africa and 282% for the US. For the US you've mentioned that it is based on what the rating agency need. Can you just give us an idea, how tangible that is? How is it likely to change? Has this been an exercise where it is just sort of convenient for you to set some sort of level that you are comfortable with so that your results end up being not too far off what you have done in the past? In other words you are working back?

I have two further small questions. Can you elaborate on what is included in the health business, that you have now included, the actual definition of what it is? And then thirdly on the expenses, it looks as if your present value of future expense is calculated using a multiple of about 11.5? That looks quite high? Can you elaborate on the calculation and how it is split between South Africa and the US? In other words the present value of the £6.6 million. How does it actually get absorbed between the two territories?

Julian Roberts: Yes, Andrew hi, it is Julian. We slightly answered Greg's question incorrectly at the end. The amount of capital is not based on economic capital. While we have been doing an economic capital exercise, we decided that we were not going to factor it into EEV. When we presented IFRS, we said that the amount of economic capital in our businesses would be lower than the actual capital allocated. The basis we have used here is the actual capital that we have allocated to each of our businesses. As you know in North America, we are running the bulk of that business on 300% of RBC. We decided for our EEV Principles that we were going to use the amount of capital that we have put in. Other's have gone through an economic capital approach and therefore used a lower amount of capital. That is not what we have done. Gary, do you want to go through Andrew's question?

Gary Palser: Ok, so Andrew, does that answer your first question?

Andrew McNulty: Well, I guess it partly does. You have a number of 157% for Africa. Where did that come from? I presume it is going to change quite dynamically then.

Gary Palser: We have a well-established process in South Africa and Namibia, where twice a year we have a Capital Management Committee meeting, that reviews the allocation of capital to the businesses. So essentially, this number, used for our required capital, is based on a well-established process for determining the allocated capital in those companies. The figure of £1 595m is an independently calculated number with 157% being the resultant ratio. As Julian said for the North American business, the required capital is the actual capital that is being used to manage the business.

Andrew McNulty: Can I just ask while you have mentioned that. In terms of the targets that you have set on minimum returns, hurdle rates and so on, given that there's a higher capital requirement, are you going to find it more difficult to achieve your objectives because typically the returns and targets that you were telling us were based on this initial hurdle using the costs on statutory capital?

Julian Roberts: The answer to that in North America is yes. I think as Gary said in South Africa this is the amount of capital that we have used all along and been judged against. There is no doubt that in the, four years

since we bought the North American business the amount of risk based capital we have had to put in the business has increased which has made it tougher to achieve the return. That is one of the reasons why the old block of business that we had before we bought the business in the early years is producing a lower return on capital. As we have increased the amount of capital in the business we have made sure that the new business is being priced to give a 12% return on capital. But yes, it is harder as we have had to increase the amount of capital in that business.

Gary Palser: Andrew, can I move onto your other two questions. The Healthcare business is essentially Healthcare Administration business. The profit we make there is the difference between the fees we charge for administration and our own expenses associated with that administration. Turning to your question about the expenses. What you have overlooked is the fact that in addition to the head office costs that have been allocated, there are additional amounts in South Africa, i.e. the project costs that are being added, and in North America, i.e. the increased allocation to maintenance expenses. The overall factors before tax are between 7 and 8.

Andrew McNulty: Can you then tell us how much the one off costs were that are being allocated? I do not think you told us that.

Julian Roberts: I do not think we have ever disclosed these.

Andrew McNulty: Well I suppose I can work backwards…

Julian Roberts: You could probably work backwards, yes.

Andrew McNulty: Yes, ok. Thank you.

Julian Roberts: Ok.

Operator: Your next question comes from Sean Nossel of JP Morgan. You can go ahead.

Sean Nossel: Hi Julian and Gary.

Speakers: Hi Sean.

Sean Nossel: I had something to ask you, on slide 20 and 22 when you were showing a build up of the risk discount rate. This I suppose was a

question before and after EEV. Why do you use a 3.2% required risk margin for South Africa and 6% for the US?

Gary Palser: Sean, these are derived percentages and not assumptions. For South Africa that is the rate you get if you want to get a similar embedded value to the market consistent embedded value and in North America, that is the rate you get if you do the same exercise for North America reflecting the risks in that business. So those are not assumptions but derived rates as a result of calibrating to a market consistent embedded value.

Sean Nossel: So implicitly what you're saying there is that the typical equity shareholder in the US would require a 6% equity risk premium whereas in South Africa, they would only require 3.2%?

Gary Palser: These margins reflect the nature of risks in the two businesses.

Sean Nossel: Ok, great, thanks. I will check to see how it comes out of the calculations. Thanks.

Operator: The next question comes from Marius Strijdom of BJM. Please go ahead.

Marius Strijdom: Good afternoon.

Speakers: Hi Marius

Marius Strijdom: I'm looking at your disclosure on page 5, not the presentation but the disclosure, and I am looking at the change from value of in-force business on the achieved profit basis to value of in-force under the EEV basis. The elements comprise the impact of the change in the amount and cost of capital, the additional time value costs, the financial options and guarantees, and then the impact of the change in risk discount rate and economic assumptions. Why does the change in the risk discount rate have a positive impact on the value of the in-force business?

Gary Palser: Marius, I think the reason for that is essentially because you have allowed for the risk explicitly under the previous two items. Because you have already allowed for more of the risk explicitly in the other two items, the residual risk that needs to be covered in the risk discount rate is lower. A lower risk discount rate has a positive effect on the value of the in-force.

Marius Strijdom: Ok, I understand. Thank you very much.

Operator: Once again ladies and gentlemen, if you wish to ask a question please press * 1 on your telephone and wait for your name to be announced. You have no further questions.

Julian Roberts: Ok, I hope that's useful everyone. We have tried to give you plenty of information to work on. It has been as I said before, a significant amount of work, and I think we are quite pleased that it is actually helpful in managing the different businesses. The overall impact as you have seen is quite small on EEV and slightly higher on the value of new business.

Thanks for joining us. I'm sure we'll talk over the next week or two once you've had a chance to study this in more detail. Thanks.

Operator: That does conclude our conference for today. For those of you wishing to review this conference the replay facility can be accessed by dialling UK on country code +44 1452 55 00 00 or from within the UK 0845 245 5205. The reservation number for this conference is 6992561. Thank you for participating. You may all disconnect.