Analyst Call 2008

10 September 2008

Presenters

Christopher Collins, Chairman
Julian Roberts, Chief Executive

In attendance

Jonathan Nicholls, Group Finance Director
Andrew Birrell, Group Chief Actuary

Chris Collins

Good morning everyone, and welcome to the call. With me here this morning are Julian Roberts, our new Chief Executive, and Jonathan Nicholls, our Group Finance Director. As you know we have announced today that we have set aside a further $250 million of capital which we expect to inject into the Old Mutual Bermuda business. We are recognising additional guarantee reserves for the costs associated with guaranteed benefits on variable annuity products, and, we are also recognising an impairment charge related to the loss on preferred shares in Fannie Mae and Freddie Mac.

You will also have read our announcement that Jim Sutcliffe has decided to stand down from his position as Chief Executive with immediate effect. The Board has accepted Jim's resignation and would like to put on record its thanks for the service he has given the Group over the past eight years. He has made a great contribution and we wish him well for the future. Julian Roberts has been appointed as the new Chief Executive. Julian has been Chief Executive for Skandia since February 2006, and before that was Group Finance Director of Old Mutual Plc. We are fortunate in having an executive of Julian's calibre who is familiar with both the industry and the company. His broad experience means that he is very well qualified for the job. I am now going to hand over to Julian who will talk you through the update we are providing today on US Life.

Julian Roberts

Thank you Chris, good morning everybody. First of all I would like to say that I believe Old Mutual is a great company with really good potential. I am delighted to be appointed as Chief Executive, and I plan to make sure that the potential this Group has is fully achieved. Turning to the immediate challenge I will recap what we have announced this morning.

At the interims in August we announced the strengthening of reserves in the US Life business to reflect the impact of volatile equity markets on variable annuity product guarantees. Increased market volatility and a significant strengthening of the US Dollar have led to a further increase in the costs associated with the guaranteed benefits on these variable annuity contracts.

We therefore recognised additional guarantee reserves of $155 million. Under current Group accounting policy $93 million of this will be taken through adjusted operating profits reflecting the ineffective portion of the hedge and the remaining $62 million will be recognised in adjusted operating profits over five years.

Separately, the announcement on the 7th of September that the US Government has placed Fannie Mae and Freddie Mac in conservatorship has resulted in a sharp fall in the market value of the preferred stock of these companies. This has led to a write down of around $135 million in the value of the preferred stock in these companies held by Old Mutual US Life business. Under our Group accounting policy this write down will be taken through adjusted operating profits over five years.

As calculated today, these two charges are likely to result in a combined impact for 2008 of 1.2p per share on adjusted operating EPS on an IFRS basis, and 2.9p per share on basic EPS on IFRS and 2.9 again on adjusted operating EPS on an EEV basis* as there are unlikely to be any tax credit associated with these charges.

* Old Mutual wishes to clarify that the two charges are likely to result in a combined impact for 2008 of 1.2p per share on adjusted operating EPS (IFRS basis) and 2.9p per share on basic EPS (IFRS basis) and Embedded Value per share (rather than adjusted operating EPS (EEV basis)), as there is unlikely to be any tax credit associated with these charges.

A number of actions have been under way with the aim of limiting Old Mutual's Bermuda exposure to the guarantees including withdrawing products, currency hedging, improved fund mapping to reduce basis risk and reviewing options available to de-risk the in-force book through various corporate actions. Whilst this work has made good progress it will take some time before the benefits from these actions are realised. In the meantime if market conditions remain adverse it is likely that further reserve strengthening will be required. The Board has therefore decided to set aside a further $250 million of capital to support the ongoing capital needs of the Bermuda business. The Board expects to inject some or all of this capital by the end of the year depending on business performance in the light of actual market conditions.

Following the preference share write downs in the US Life business we are reviewing the options we have to ensure that the US Life business continues to be appropriately capitalised.

I would like to add that apart from the US Life business the rest of the Old Mutual businesses continue to perform in line with our expectations at the time of the interims on the 6th August.

With that, I would like to turn the call over to questions and answers. Chris, Jonathan and I are happy to take your questions, but could I ask that if you do want to ask a question you start by stating your name and the institution you are calling from.

Marius Strydom, BJM

Hi Julian, I assume I don't have to state my name again. What I would like to know, is what are the chances that you will be selling the US Life business in the short term; and furthermore considering breaking up Old Mutual to unlock value?

Julian Roberts

Marius, the first issue – my announcement only came through just a few moments ago – the first issue and the most important issue is getting to the bottom of these exposures of the US Life business. As you know we have put in a new team, we have moved Don Hope into running Bermuda. We have also brought in some other people to get to the bottom of it, and my highest issue at the moment is to get to the bottom of these issues. Once we have got to the bottom of them, once we understand it, then I will review what action we need to take, but at the moment the priority right at this stage is to draw a line under the exposures.

James Pearce, Cazenove

Good morning everybody. I missed the start of the call because I was on hold, but I was wondering if the Chairman was on the line, if he could explain the process through which Jim's replacement was made. Was there an external search and what were the pros and cons of an internal versus external appointments?

Chris Collins

The position is that Jim in the wake of these problems decided to resign and the Board regularly considers succession and for some time Julian has been the heir apparent to Jim, and we felt that we had to move immediately and we have got every confidence in Julian who has got great experience, so the Board unanimously decided that we should appoint Julian.

James Pearce, Cazenove

Ok, thanks very much.

Raghu Hariharan, Fox-Pitt Kelton

Good morning Jim, Julian, good morning all – Raghu Hariharan Fox-Pitt

Kelton. I just have two questions please, if I may. Can you give us a sense of the size of the in-force book which is related to the offshore VA product? That is question one. The second one was could you give us a sense of the sensitivity of the in-force in terms of say 10 or 20% foreign equity markets or currency movements and/or credit market movements please?

Jonathan Nicholls

It is Jonathan speaking. The size of the book is about US$4.6 billion for the VA.

Raghu Hariharan, Fox-Pitt Kelton

And the value of in-force related to that? This is liability, and the 4.6 billion on liability, I am wondering what the value of in-force would be in your EEV?

Jonathan Nicholls

Sorry, I am afraid I haven't got that number immediately at hand. I will have to come back to you on that, apologies. In relation to the sensitivity of the markets, I am afraid we haven't as yet been able to fully quantify that because of the variability of the book and that, as Julian said, is one of the key issues that we are focusing on in terms of matching the hedging and the underlying liabilities, but clearly as you will have seen from the reserves strengthening at the moment we are as yet haven't been able to close off that position and continue to work to do so.

Raghu Hariharan, Fox-Pitt Kelton

Just one follow-up if I may please. On the reserve strengthening; does the reserve strengthening make you good for the movements till year-to-date or do you have some if you will ‘spare fire power’ left to handle any further reasonable volatility till the end of the year?

Jonathan Nicholls

Yes, exactly, the latter. We have incorporated year-to-date, but also in terms of the reserves strengthening is to the end of August, but in terms of capital we will be allocating to it we have announced on the 250 that also takes us through to the end of the year on an anticipated basis, so we are anticipating the capital that may or may not be required depending on how the markets perform.

Raghu Hariharan, Fox-Pitt Kelton

Thanks very much, appreciate it.

Risto Ketola, Deutsche Bank

Hi, it's Risto here. I think just following up on the previous question you have got a separate account of 4.6 billion in the US – that is variable annuities; what percentage of that actually has guarantees attached? Is it more than half or less than half, the whole book?

Jonathan Nicholls

Most of that book has guarantees attached to it. And as we said at the half year the Hong Kong book which is creating the majority of the issues in relation to the guarantees and the hedging.

Risto Ketola, Deutsche Bank

Then, I know I asked this question at the interims as well, but I am not very clever so you will have to explain it again – how do you split the above the line and below the line; I am still struggling. If you just set up a single guarantee reserve I would probably have been happy, I am just struggling why some of this goes above the line and some below the line.

Jonathan Nicholls

Andrew Birrell is going to answer that question.

Andrew Birrell

Hi Risto. What we have done is we have modelled what the guarantee portion or what you would normally expect to buy in terms of a proportion of premium and that is proxy what the above the line component is, and the below the line component would be the balance.

Risto Ketola, Deutsche Bank

So, effectively what you are taking above the line is how would I say – you must be in some sort of a stochastic approach, though, but that is your

Andrew Birrell

That is quite right, yes. And it does also proxy – when we check it for reasonableness it proxies that the above line works out as roughly being an equivalent amount to where we see the hedge ineffectiveness being and the below the line being what we see as the hedge effectiveness component being.

Jonathan Nicholls

With some conservatism built in from that number.

Andrew Birrell

Remember as well that ultimately everything that goes below the line gets amortised above the line as well.

Risto Ketola, Deutsche Bank

What is confusing me is that quite often when Mutual takes something below the line, like for example impairments, that is actually when you are crystallising a loss and you are just recognising it over a future period, whereas here I am struggling to see whether the loss has been crystallised or not?

Andrew Birrell

I think it is basically the loss has been accounted for on a stochastic basis looking at what the cost of those guarantees would be in future. So it is a very equivalent kind of concept, right.

Risto Ketola, Deutsche Bank

While I've got the phone – you wrote down these preferred shares on the US Government sponsored enterprises, if you want to use the current jargon, have they been written down to market value or to zero?

Jonathan Nicholls

Yes, they have been written down to the close of business price on Monday evening which was 12c in the Dollar; so the gross was 155, we have written them down by 135. But clearly over time depending on what happens, obviously they will be marked-to-market and we will continue to monitor those preference shares.

Risto Ketola, Deutsche Bank

Then just last two questions. You have put aside this $250 million; I suppose you made this comment just to highlight the fact that you have enough liquidity in Plc to fund any short term needs. Now, I don't know if you are going to even answer this question, but can I assume that the dividend policy is largely unaffected by this sort of amount of money?

Jonathan Nicholls

In terms of the $250 million as we sit here today, that is well within our liquidity and funding capacity and so I am very comfortable with that and clearly going forward we will consider the dividend policy in the light of normal market trading conditions and our anticipation of future conditions at the appropriate time.

Risto Ketola, Deutsche Bank

Then just a last question is to Julian in that – Marius already sort of touched upon this, but you say reviewing options around US Life business – you have been the CEO for the morning so far, but do you think reinsurance is a more realistic way of doing this and trying to solve this asset?

Julian Roberts

I think the problem, and I don't mean to be evasive, I mean this is a big issue for us; this is an issue that we have got to get to the bottom of. We have got a team of people that I am very comfortable are making progress and getting to the bottom of it, and we will look at all of the avenues that we have got available to us once we have crystallised our thoughts and understand the exposures that we have got. And I don't really want to say anymore because this is work in progress. What I will say is, this is the highest priority; we have got to resolve it quickly, we have got to get to the bottom of the issue and we will have more to say at the Third Quarter announcement.

Risto Ketola, Deutsche Bank

Thanks.

Michael Christelis, UBS

Good morning guys, I am sorry again, I also was sitting on hold for most of the call. I am not sure if you have mentioned this, but have any steps been taken to reinsure some of these guarantees at least to give us a bit of comfort that we are not going to see further guarantee provisions needed out of this particular block of business?

Jonathan Nicholls

Michael it is Jonathan speaking. We are looking at all options including reinsurance as a possibility, but as yet no we haven't closed any transactions to limit or put a cap on the liability, we are still working on that.

Michael Christelis, UBS

So still in progress. Then just again, also to Julian really, on your strategic view; in the past there has obviously been a lot of rumours that Nedbank has been for sale, etcetera and Jim has always been quite vocal against that, and his view that Nedbank was core to the Group; do you hold the same view, or have you held the same view in previous discussions around the topic?

Julian Roberts

Well as you know Jim and I have worked very closely particularly in the years that I was CFO. What I would say is I am absolutely behind the businesses that we have in South Africa, and also the international businesses that we have got. We have got some very good businesses with I think huge potential to move forward. What we have not been good at – and I will be open – is the central control and the governance process, therefore one of the issues is the operating model that we run the Group I will be looking at quite closely. But the overarching businesses that we have got in the Group I think are quality businesses and I think they are a valuable part of what we have got in the Group. As I said my key focus as I go through the review stage and get myself up to speed having been submersed in Skandia for the last two and a half years is to tackle and resolve this US Life issue, and at the same time getting up to speed with the businesses that we have got.

Michael Christelis, UBS

Great, thanks. Just lastly, can you give us any update on the competitive sale process at Mutual & Federal; any news there in terms of number of bidders or anything you can tell us at this stage?

Julian Roberts

At the moment there is no further update.

Michael Christelis, UBS

Thanks a lot guys.

Oliver Steel, Deutsche Bank

Good morning everyone. Risto has asked so many questions, I think he has used most of mine, but the $250 million capital that you are setting aside – what is the thought process behind that in terms of the quantum; is this effectively to replace some of the write downs or losses that you have declared today, or is it an indication of what you might expect to lose going forward. I wonder if you can just talk us through that number.

Jonathan Nicholls

Oliver, it’s Jonathan. The capital that we've set aside, as I said earlier, is anticipated on what we hope is the conservative basis to be sufficient to provide sufficient capital for the business at the end of the year. So it’s actually both of the answers – the answer to both your questions is yes, it firstly recapitalises to reflect the losses that we've incurred to the end of August. And in addition we've also extrapolated in our minds going forward the three-and-a-half months at the run rate that we have been experiencing over the last two or three months. So clearly, obviously, it depends entirely upon what market conditions we encounter and also of course any revisions or the revisions to the hedging and the performance we get from that. But what we hope we've done is that we have been conservative in terms of the provisioning and therefore the capital requirements, and hopefully that will see us through to the end of December with no further issues.

Oliver Steel, Deutsche Bank

Just to make…because you've not given us any sensitivities. I mean in fact you've said you didn't know the sensitivities. So just to make it clear what you're saying is that you've extrapolated…I mean you've basically assumed that's what happened in the last whatever it is, three months since the end of June will happen the same again in the remaining three months.

Jonathan Nicholls

Exactly. I mean broadly we'll continue with the same sort of negative run rate so we've gone on the conservative side and we hope it will be sufficient. As I said, it depends on the hedging and the market performance of the funds.

Jon Hocking, Morgan Stanley

Morning everyone, I've got three questions on my mind. Firstly just in regards to charge, is that over and above the amount you indicated at the interims that are going to go in the second half? Secondly, in terms of Julian talking about getting to the bottom of the issues, just in terms of getting to the bottom you've actually had to cap out the liabilities. I mean are you still in the stage of actually quantifying the issue is it and can you give me a something with a bit more detail, in fact I'm actually trying just to understand the underlying fund movements or the principal or how the hedge relates to the funds. Can you just give us a little bit more detail? And then finally can I take it from your comments Julian that you're not going to be conducting a strategic review of the business, and because you seem quite attached from the business units. Thanks.

Julian Roberts

Yes, I'll let Jonathan answer the first two. The answer to the third one is you're absolutely right. I'm not going to do a strategic review of the business. What I'm concerned about is once again getting to the bottom of the issues of the US Life business and sorting it out, but I think there will be some changes in the way that the Group is run.

Jonathan Nicholls

Jon in relation to the charge that is correct; it's in addition to what we've already taken so, as we said in the announcement, that will give you the full impact.

In relation to the issues, I mean as we said at the half year, what has happened in 2008, particularly since April/May time is that the correlation between the hedging instruments that we're using against the funds has deteriorated. That has continued in July and August and, as we said in the announcement, as a result therefore we have increased the amount of capital that we need to provide behind that.

From the point of view of the work that we're doing, I mean again, as we said in the announcement, we're continuing to review the fund mapping; we're looking at the underlying hedge programmes and we will continue to work with that. And, as Julian said, we have agreed – I think we said this at the half year – Don Hope is now specifically running Old Mutual Bermuda and is charged with doing that. Can Andrew Birrell just add something.

Andrew Birrell

I'd just like to add on this whole guarantee issue; these guarantees are guarantees that take effect after five years and after ten years on the contract. Many of the contracts have only been in force for a relatively short period of time (up to one-and-a-half years) and the guarantee cost is a stochastic projection of where we think things could be and we take one of the worst outcomes when we calculate what that guarantee cost should be. So it's not a cost that's been crystallised yet; it's a projection and it's one of the more penal projections when we look at what the potential guarantee cost could be. And obviously the numbers do move around quite a bit because we have to…our starting point will be the current value of the fund at any point in time. So when we've had investments market volatility like we've had recently our starting point is worse than if we hadn't had this volatility, and that is why we are having to provide more at this stage.
But just to be quite clear that it's not actually a realised loss, as such, at this stage.

Jon Hocking, Morgan Stanley

Can you give us a little bit more reflection in terms of the exact nature of the hedge versus the underlying; just to give us some idea of the extent of the mismatch?

Andrew Birrell

We have different…well, the underlying funds are selections that clients make and we have different hedging formulae depending on each of the underlying funds that are being managed by various fund managers. The hedges are generally performed as futures hedges against the larger indices. As we revive the fund mapping we have included more of the Asian markets – in the past we had more hedging around US markets – and that is where the basis risk has come in because there is a difference in the manner in which the hedging indices moved to the underlying funds. I think that has been particularly accentuated in the last few months and that is why we have been seeing the volatility.

You also have to bear in mind that the contracts are in dollars and when you are talking about the Asian funds the currency that you're investing in are not dollar-based. So there is an element of guarantee that costs that come through as well are based on that.

Jon Hocking, Morgan Stanley

Can I just ask one follow-up question? In terms of the underlying funds as has been featured as quite a blunt instrument, to what extent would you say there is a style deviation from the indices?

Andrew Birrell

There is a wide range of funds and so you have a number of different style variances. One of the issues that we've looked at is how we allow for that. This product is no longer sold, it's no longer written because we actually found that the range of funds offered ended up having too much tracking error against the indices that we typically would have used in the past to hedge against them. And that is why we have been reviewing the fund mapping to see if we couldn't get a better fit in order to have a better predictive hedge.

Jacques Conradie, Peregrine

Hi guys. I just want to ask you a question about the dollar. You mentioned earlier that some of the losses were a result of the strengthening of the US Dollar. Now were you aware of your dollar exposure at that interim stage and also what kind of exposure to the dollar do you have left or have you now hedged most of the US Dollar exposures so that you're not at risk for further dollar strengthening?

Jonathan Nicholls

I think we said in the Q&A at the interim stage that we had dollar exposure. At this point in time we're continuing to modify the hedging programme in order to reduce the dollar exposure but we would still have a dollar exposure with the underlying funds versus the hedging.

Andrew Birrell

If I can also add, one of the complications that you have in the currency hedging is that in the underlying funds the Fund Managers can move their mandates. So if we look at some of the Asian funds Fund Managers can move from an asset that's denominated in, say, China into an asset that's in India, so that does make the underlying currency hedge more complex. This is all dynamically done but just to give you a flavour of why there is some complexity to manage here that is one of the reasons.

Trevor Moss, MF Global

You probably won't thank me very much for saying this but this issue was first flagged to us back at the US showcase in June, so clearly from comments you made today was identified in April/May. It's a relatively small book at 4 point something billion dollars and I understand the complexities of getting to the bottom of it but I'm very surprised here we are in the middle of September and you're still trying to get to the bottom of it. I'm equally surprised that after four to five months of looking at it you still haven't been able to give us any quantification of the sensitivities to further developments in the capital markets and into currency. I think that's, despite the complexities, pretty poor show at this stage.

My second point is that clearly to develop and sell such a product with its inherent complexity and risk, and to sell as much of it as you have done represents what I would consider to be a complete breakdown of internal controls somewhere in the Group. I was wondering whether you could give any levels of comfort to investors as to whether they should be worried about similar types of products making their way through the other operations in the Group without anyone at Head Office clearly knowing about it.

And the third point in relating to the preferred stock you owned it's a little surprising that you had that amount of preferred stock in your general account assets in that particular issue. I'm also interested in whether the original amounts you had of the preferred stock in Fannie Mae and Freddie Mac were larger than the gross amount of $165 million I think you said initially, and that you've actually been selling it down. My point really being that this issue with Fannie May and Freddie Mac has been known about now for weeks if not months and I'm very surprised that some sort of action was not taken to mitigate the potential for sitting on a monster loss when it all goes belly up as it has done. Thank you.

Jonathan Nicholls

Well, let me just talk about the sensitivities. I mean we don't have an answer as yet and as I said we are working hard to come up with the sensitivities to the market. And I'm sorry I can't give you anything more than that. It's not that we're ignoring it; it is complicated and we continue to work on it.

In relation to the internal control process over the period of time that I've been here we have been building the control process centre. There has been a lot of extra process introduced. The approval processes for products has been centralised and that is both an approval process that obviously the business units have to go through and also has to be approved centrally by the Group actuarial team as well as other teams at the centre. As has announced at the half year, I have a raft of other initiatives that I have been introducing over the period of time that I have been here and I'm conscious of going forward that products will go through the appropriate processes.

In relation to the preferred stocks they were purchased in December. From the point of view of the Fund Managers, from our point of view they were rated AA-, as we all know, and clearly from our point of view we didn't anticipate that the US Government would, at the end of the day, do what it did on Sunday. Clearly with the benefit of hindsight we wouldn't have held them but I'm afraid from our point of view we haven't anticipated that and so we have had to take the impairment.

In terms of the amount I'm afraid I don't have right with me the trading history of the individual holdings.

David Danilowitz, Merrill Lynch

Good morning guys, again apologies; I don't think these questions have been asked but if they are then obviously we can move on. The first question: have you had any interaction with rating agencies, obviously specifically Moodys? Any comments you can make. And within the answer can you give us a feel for the ratings obviously on the US business and hence need to recapitalise but obviously the implications for Plc itself and how the agencies are viewing that interaction.

Second of all, Julian if you can give us a feel for replacements for you heading up Skandia. Currently, would all the operations be reporting still into yourself?

And then third of all just maybe a bit of an update, obviously the Freddie and Fannie story right now, have you had any other material price movements that you are think are worthwhile noting at this stage in terms of any other exposures?

Jonathan Nicholls

If I pick up the first and the third; ratings. David we have obviously notified the rating agencies, we have been talking to them at some length since the interims and you will have seen that Fitch downgraded the US rating. So from that point of view they have been briefed and obviously at this point in time we are waiting to see what their conclusion is. In terms of the ratings, as we have said before, a one notch downgrade in the US is okay, if we had a two notch downgrade in the US I think that would be problematic in terms of new sales for the onshore business. In relation to your third question which I think was…

David Danilowitz, Merrill Lynch

Other exposures…

Jonathan Nicholls

Other exposures and whether there is any thing else material, the overall book since the half year has moved further offside, I haven't seen the valuation as of yesterday because obviously prices of mortgage-backed securities other than preferred did tighten in the markets yesterday, so I have not seen the impact of that, but the overall book has moved another couple of hundred million dollars offside over the last two months. So I think from the point of view of individual securities other than these two, Freddie and Fannie, there is nothing individually of materiality that we need to talk about in this conference call.

Julian Roberts

David in answer to your question, I am not as much in favour as Jim was of the degree of the decentralised model that the Old Mutual Group ran. And then fairly quickly I will decide what changes need to be made in the very short term, therefore the three Skandia units were reporting to me, but that will be for a short term measure.

David Danilowitz, Merrill Lynch

Thanks. Actually one final question, it is probably small in the big scheme, but your longevity issue in the US Life business has that issue – do you feel that we have dealt with that or is that still a potential issue for yourselves looking at the business?

Jonathan Nicholls

This is in relation to the SPIA block, the large case SPIA's, it is a very small block. Performance in the first half of the year was worse than we had anticipated when we strengthened the reserves in June 2007. Having said that, in August it was actually – I am not quite sure how to put it – but it was a good month from the point of view of us in terms of longevity as we had a couple of deaths – sorry, you know what I am saying anyway. As I say, the problem is as we have said before and we said over the years it is a very small block and therefore it is actually very difficult to get good modelling on it but nonetheless as we sit here at the moment I think it would be premature to say that we have finally put to bed the reserves on that particular block, but clearly as we go through the rest of the year we will continue to review it.

David Danilowitz, Merrill Lynch

Great, thanks very much.

Brian Mushonga, Merrill Lynch

Just a question for Julian, you seemed to imply earlier on that these losses were limited to the Asian product line. Is that the case and are you looking at all variable annuity sales in the US? And just in terms of the nature of the remedies that you are putting in place, are you actually going to crystallise these losses or are you hoping for a rebound which would have caused the position to worsen from the half year?

Jonathan Nicholls

I am sorry, if you got the impression it was just in relation to the Asian Hong Kong book then no that is incorrect. As we said at the half year, the more challenging of the books was the Hong Kong book that we had sold, but the correlation of both books is running lower than we would have ideally wanted, so it is not just in relation to the Hong Kong block as we call it. In terms of elsewhere there is a very, very little bit of onshore VA that is being sold in the US but we are talking tens of millions of dollars, so very small indeed. In terms of the hedging, in terms of whether or not we close out and crystallise the losses or whether we put in down side protection absolutely it is a very good question and it is absolutely one that we are working on as we speak. And we haven't as yet reached a conclusion, but clearly the priority in the first instance is to look at the down side protection which we are currently doing.

Brian Mushonga, Merrill Lynch

Thanks.

Risto Ketola, Deutsche Bank

Yes, I am just trying to simplify this a little bit in that you have got a book of 4.6 billion of these variable annuities, now the maximum loss is then 4.6 billion although if that happens we won't be too worried about the Mutual share price. Now what is the guarantees you have set up so far as a percentage of this 4.6 billion, is it something like 5%, 10%, I just wondered in a very simple frame of mind I am thinking five to ten years from now, maybe your worst case scenario is 10 or 20% of the book. What is the current reserve as a percentage of the book?

Jonathan Nicholls

That is about 11% as of the end of August.

Risto Ketola, Deutsche Bank

Ok. That seems pretty, well I am not an expert on option pricing, but that seems quite high. Then the second question is Dwight manages the assets for the US general account as far as I recall. Now if they called Fannie and Freddie so wrong, can we assume that they have not performed extremely well in terms of client mandates either?

Jonathan Nicholls

The performance over the years has been very good, the matching of the assets and the liabilities in terms of the cash flows is something else we monitor on a continuous basis and that has been good as well. I think to extrapolate the performance on Fannie and Freddie in these market conditions, to be frank, a pretty exceptional action by the US Government, welcome as it is, I think is unduly harsh to extrapolate that across their overall performance in terms of their mandate.

Risto Ketola, Deutsche Bank

Maybe it isn't fair, but I specifically recall a number of times the US Life companies saying that one of the advantages are that they are more active in managing the portfolio than their competitors are in the US. We've been told before that because of the active management they can probably avoid these situations better than your traditional life companies can, but maybe that was just a marketing speech. Just the last question here is, now I mean Julian is not going to answer in terms of selling US Life, but how integrated is US Life and US Asset Management in terms of distribution? You know, if you were to dispose of US Life, would it have any material knock-on effect on your retail plans for US Asset Management?

Julian Roberts

I have to say at this stage I really don't want to go down, you know Risto going down that route of what we might or might not do long term. Clearly under the previous country head the management teams were pulled together to try and leverage growing the retail business, as you know when he left then we separated out the two businesses. There are a number of initiatives between the two businesses, but they are not significant at the moment.

Risto Ketola, Deutsche Bank

So you would say that the value of US Asset Management does not change much depending whether US Life is or is not in the Group?

Julian Roberts

Absolutely right.

Risto Ketola, Deutsche Bank

Okay, that is all thanks.

Michael Christelis, UBS

Hi guys just a couple of quick follow up questions. Firstly you are considering all your options in this VA business, I mean have you looked at reinsurance and if so what sort of costs are we talking about if you were to reinsure the guarantees. And then just a technical question on – you know mention was made earlier about the stochastic process and using one of the sort of worst outcomes. Can you give us some indication of what sort of percent are they using or how far from the mean in terms of standard deviations, some sort of indication of how worst that worst case scenario are you using actually is?

Jonathan Nicholls

In terms of the reinsurance, I mean that is one of the options that we are looking at, we haven't as yet crystallised or finalised any of the quotes on that, but it is absolutely one of the things that we are looking at and clearly as and when we progress that then obviously we will communicate that back to you.

Michael Christelis, UBS

Have you actually received quotes?

Jonathan Nicholls

No, as I say we are still working on it so we need to finalise that and as I say we will give you an update as and when we progress that. In relation to the modelling – I'm sort of looking at Andrew on that. Can we come back on the exact number on that because we don't have that immediately to hand?

Michael Christelis, UBS

Great, thanks guys.

James Pearce, Cazenove

Hi again. On this issue of strategy, I am interested that you have decided not to have a strategy review and I would just be curious to know why not because I think there is a pretty widely held view that the control issues at the centre stem directly from the sheer complexity of the Group. I mean the disadvantages have been pretty apparent over the last couple of years of that complexity. Could you explain what the advantages actually are because it is not that obvious at the moment? Thank you.

Julian Roberts

James, I think the big issue for me is that the Group has been run on a very decentralised basis on a each business being very stand alone. I think what I have proved to myself and hopefully to you is through the Skandia business is there is a lot of leverage, there is a lot of value that we can get by running businesses more closely together and cooperating and getting intellectual capital sharing across those businesses. That has not been the model that we have run in the past. Now I believe that having our decentralised model has made it harder to make sure our controls are robust, has also made it harder and seem that the business is more complicated than it actually is. And as a part of this issue of looking at the operating model that we have got, I will explore that going through to see whether, which I do believe is the case, that we can bring far greater control, far greater leverage by running the Group in a different way. I think the one issue that we have got, and I make no bones about it, is we have got a very difficult situation in the US Life business and that is the piece of the jigsaw for me that we have to get to the bottom of fast and we have to resolve.

James Pearce, Cazenove

Thank you.

Marius Strydom, BJM

Hi again, my question relates to the Skandia Liv demutualisation. The additional capital that has had to be injected into the US Life business, does that make Skandia Liv demutualisation more difficult because obviously there are certain capital needs with such a demutualisation as well and what is your plan going forward in that regard?

Julian Roberts

I think our first issue let me answer it before Jonathan. Naturally where we have had to this year put more capital into the US, does therefore reduce our available resources. I think the other issue that we have got is the potential demutualisation is still quite a long way out and therefore there is a lot of work that we need to go through to get through the end of the US problems before one can say whether the potential quantum of the demutualisation will be an issue or not. It is just too early to say at this stage. So our plans are continuing unchanged.

Christian Dinesen, Merrill Lynch

Thank you very much. Just reverting to the rating agency issue – obviously difficult to say what they might or might not do, but we would very much like to hear what your assessment is on the impact of your franchise particularly in the US if the financial strength rating for Moodys goes to the triple-B level from the single-A level because clearly that can be something that has a negative impact on the franchise – so your assessment of the impact of that will be much appreciated. Thank you.

Jonathan Nicholls

In terms of, as I said before, if we end up with a two notch downgrade, that does affect our ability to sell the product ranges that we have in the US, but clearly from the point of view of the specific impact we need to specifically see what the rating result is before we can announce what that will be.

Christian Dinesen, Merrill Lynch

That of course I can understand. Could you just – I am sorry, I am not sure I understood why it is a two notch downgrade. Currently I think your Moodys financial strength rating is low single-A?

Jonathan Nicholls

Sorry, Moodys, yes. I was referring to the AM Best, the AM Best ratio is the one that actually is the more important of the rating agencies that we use for, or that customers use in domestic onshore. Moodys, whilst obviously very important as well, is not used as much by local domestic.

Christian Dinesen, Merrill Lynch

Thank you very much.

Raghu Hariharan, Fox-Pitt Kelton

Hi there, it is Raghu Hariharan from Fox-Pitt Kelton. Sorry to prolong the call; I just had two follow up questions please. One is on your excess capital on an IGD basis can you give us a sense of where you are today with market movements after first half '08 and I think you said you were at £1.5 billion. Also in that could you tell us what the genuine deployable surplus is, i.e. if the binding constraint is rating agency what is the amount of surplus capital that actually can move around regions and/or businesses? That is one. Second, just a quick follow up on a question that was asked earlier. In terms of dividend policy, am I right in understanding that you are saying that at this point in time you are not reviewing or changing your dividend policy? Thanks.

Jonathan Nicholls

In relation to the latter, yes, I have already answered that where I have said that clearly when we come to dividends we will consider it in the context of the markets and the outlook for the business at the time. In relation to the FGD surplus; from a rating point of view or from our own point of view we like to run a surplus of around £700/750 million of surplus. At the half year I think we said that the surplus was around 1.5 billion; that is broadly unchanged at the end of August, but clearly as a consequence of injecting capital over the balance of the year that will reduce by the amount of the capital that we have injected in.

Raghu Hariharan, Fox-Pitt Kelton

Thank you.

Michael Christelis, UBS

Hello guys, just one last one. Julian I see you have been – you have just been quoted on Reuters saying that you are not considering selling the US operations; is that correct or is that a misquote?

Julian Roberts

What I am saying very clearly is we have got to get to the bottom of the issues and once we have got to the bottom of the issues and made our assessment then we will make a decision.

Michael Christelis, UBS

Is this potentially an option?

Julian Roberts

It is an option once we have got to the bottom of the issues.

Michael Christelis, UBS

Great, thanks.

Colin Hundermark, Credit Suisse

Sorry, just on the strategy issues will the Asia Pacific acquisitions continue or is there a period where you will start bedding down all of these issues before you continue on the acquisition trail in the Asia-Pacific region? Thanks.

Julian Roberts

Yes, apart from the announcement that we made at the moment there naturally will be a pause as we go through the Group, address the issues that we have got, and then work out the way we move forward; so there is nothing further at the moment there.

Nesagan Chetty, RMB Asset Management

Hi, just the first question maybe to Jonathan. In terms of the impact on EV; I mean at the interim you had an EV of 143.2 – is it safe to say – you have given the impact on IFRS earnings that from all of these adjustments the impact on EV is still minor.

Secondly, in terms of the follow up question on acquisitions in Asia; post interim results you announced an acquisition in China for €165 million. Is it safe to say in light of all these problems that acquisitions potentially would be put on hold?

The last question for Julian; in terms of overall strategy – Old Mutual has always put out the strategy that – it has been a wealth accumulator/asset gather; is it safe to say that given the light of these problems it is extracting further value that size is no longer an issue, that extracting shareholder value is more important for investors versus size?

Julian Roberts

I would absolutely say that is my position. I want to run this Group more efficiently, more effectively, and leverage across the businesses, the capability that we have got. As I just said now with Asia the asset management acquisition that we made, that will need a lot of work to bed down, and that and the growth of the business that we have got in China and India will be the focus of that team for the foreseeable future.

Jonathan Nicholls

Just back on the EV – the EV impact was 2.9p of the adjustments you made, so you are right, that is the impact on EV.

Nesagan Chetty, RMB Asset Management

And just one more last question. Just in terms of – you said that the way the costs are modelled are on a stochastic basis and you make stochastic projections, and in terms of your assumptions you have got worst case estimates that you have put into assumptions; what typically would be a worst case estimate that you assume now in terms of percentage fall in equity market?

Andrew Birrell

That is a complex question to answer because we take into account volatilities in different markets and also interest rates movement when we do the stochastic projections, so as you would imagine the stochastic projection starts rolling forward and at each point you can either go up or down in a range, and then you roll that forward, so you almost end up creating a tree over a period of time. So, it is actually very hard to give you an answer there because the volatility for the different markets are different.

Nesagan Chetty, RMB Asset Management

I mean alternately, would a worse case be a 20% or 30% fall in market from here on in; would that be a comparable worst case scenario?

Andrew Birrell

I am trying to answer your question simply, but I don't think there is a simple answer to it.

Nesagan Chetty, RMB Asset Management

Okay, thanks.

Julian Roberts

I am going to draw, if you don't mind, this to an end – as you can imagine we have got a fairly busy day in front of us. I think in conclusion I would turn around and say let me be clear. I am very passionate about Old Mutual. I think Old Mutual is a good business, but we have issues, we have issues particularly in the US Life that we have got to resolve. I wouldn't have accepted this job if I didn't think that we could give significant shareholder value moving forward from what we have got in front of us, and my short term focus as I said is to resolve as quickly as possible the issues in US Life. We have got a team heavily focused on this. We have got a Group that I believe has really good potential and my aim is to spend that time realising that potential. Thanks very much for joining us on this call this morning.