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Old Mutual AGM Trading Update Conference Call

Presenter

- Jim Sutcliffe

Jim Sutcliffe: Thank you very much and good morning, everybody. I am sure you've all seen the press release and what I would like to do is go through it briefly and then we'll take questions as the organiser said.

I think first of all I'd just like to comment on the overall picture, you know last time we spoke or Julian spoke in fact we were reporting on a significantly different group, the life sales that we're talking about today are nearly £400 million APE compared with £150 million this time last year, and funds under management nearly £250 billion compared to 140 billion this time last year.

We think we've had a strong start to the year, we can pick apart the numbers, I'll go through them in a minute, but I think each of the businesses and particularly Skandia has performed well. This means Skandia is delivery what we expect of it. And we've had good growth both in sales and in funds under management.

Now with sales, as you know, we're reporting both life insurance sales and unit trust mutual fund sales as well as net cash flow in the asset management business. Life sales were up 11% compared to 2005, the unit trust sales nearly doubled to £1.9 billion, so I think what we're seeing very much in our customer markets overall is a big trend towards the unit trust-type wrapper. From our point of view the profitability of that is every bit as good as the life business so we're very comfortable with that and certainly we don't try to shift that one way or the other.

The Group funds under management, just comparing the year-end with the end of March is up 8% so the growth rate on an annualised base is something well up above 32% but the funds under management as I indicated are actually 248 billion at the end of the first quarter.

We are going to talk about Skandia of course on the 20th June so the embedded value issues that we are focused on today are really on the ex-Skandia, the pre-Skandia numbers so embedded value per share pre-Skandia are up 13% for the quarter to 198p per share or R21.17.

Just taking you through the markets one by one, and talking to Skandia first, I think we've seen growth in all markets and I think we've had a very encouraging start in the first period that we've been reporting Skandia. Mutual fund sales are undoubtedly the highlight because they're up 77% and if I do it in Krona, Swedish Krona, SEK13.3 billion which is about £1 billion if you're working in pounds. Unit-linked sales up 22% to SEK3.3 billion APE. Now of course that number would be a little higher if you unpicked the German overhang from the first quarter of last year. So a bleak comparative from Germany last year but nevertheless overall sales up, life insurance sales up 22%. Funds under management in total up 8% in the quarter to SEK691 billion.

Diving into the three businesses within Skandia, the UK and Offshore; UK insurance growth up 31% which I think compares well with the market to £152 million and you've got the growth in Selestia to put along side that with – Selestia's had sales that were up 84% to £254 million. So a very substantial growth rate there. And mutual funds sales in the Skandia leg of the business up 59% to £286 million. And I know that sometimes the commentators outside kind of look at the whole of Skandia and they'll either think of it as Sweden or they'll think of it as the UK so I think it's quite important just to pick out the individual businesses.

Turning to the Nordic business, unit-linked sales up 15% to SEK559 million and the "Kapitalpension" product continued to do well. So I think any concern that the business had been affected by the deal I think certainly are pushed to one side by those kind of numbers.

And in the third Skandia business, the Europe Latin America business, Europe excluding the UK and Nordic, underlying unit-linked sales were about flat – excuse me, unit-linked sales overall were about flat so recognizing the German overhang. If you strip out the overhang, sales are up about 50% and mutual fund deposits are up 150% so very strong rates of growth across Europe and particularly in France, Italy and Poland.

And then South Africa, overall life insurance sales were up 5% which might disappoint some people but if you look inside that, you'll find the retail business is up 17% which I think is a good number on the life insurance side and 66% in unit trusts so again a very big growth in unit trusts after a huge rate of increase last year. The disappointment was on the health insurance side which was affected some regulatory changes but I think that overall a result that reflects the strengths of the South African economy. And in particular, and given that in the end profits are driven by assets, assets are up 4% to R501 billion in the life insurance business and net client cash flow turned around from being negative to being positive with a positive R2.4 billion, both the better sales and improved retention contributing. So I think a good start to the year from the South African life insurance business was offset a bit by the disappointing healthcare results.

Nedbank, I think everyone has seen their good results from last week. Mutual & Federal underwriting results not quite as high as it has been in recent years but still well in line with the long-term averages so the cycle turning but certainly not troughing at the moment. And I think those of you who live in Johannesburg will know that it has rained this year, a lot, and so weather claims have returned to more normal levels in the first quarter.

In the United States, I think we've seen on the asset management side a continuation of a very powerful net fund inflow pattern, $4.2 billion in the first quarter from the ongoing businesses and another 7 billion from eSec which is in the process of being sold. And we've seen positive momentum at a number of the affiliates and in particular the retail initiative with gross sales in the first quarter of $571 million from [OM Cap] so remember this is a business that we set up more or less in October 2004 so its gone from nothing very much to a quarter's sales of 571 million in about eighteen months.

On the life side, I know there's been some confusion about the sales going up and going down and so on but what we are intent on doing here is selling about $4 billion of premiums a year. That's where we've been for the last couple of years and we trim the sales to reach that kind of target and we talked about at year-end, we trimmed about October/November last year and what we've seen in the first quarter of this year is what we expect or want in order to get to $4 billion this year. So you know it goes up, it goes down a little bit but in the end we got to 4 billion last year and I'm pretty confident that we'll get to 4 billion this year.

And from a margin perspective in South Africa we've seen margins about the same as last year, probably at the low-end of our long-term expectations in the high teens, and in the US we've seen an 18% margin which is at the high-end of our long-term expectations. So overall margins about the same as last year.

So taken as a whole I think that we're very comfortable with these results, there's obviously a huge amount of work going on, not that there isn't always in Old Mutual but I think the potential of the business remains enormous and I think that the first quarter shows that if we put our backs into it then, with good increases in sales and good customer acquisition, it can be achieved. We've got good markets, good winds at our backs, South Africa having a great period economically, the baby-boomers in the northern hemisphere providing a wonderful market to sell into and I think the investment performance that we've be able to show our customers has been able – has encouraged them to give us more money to look after, so all in all I think a good start to 2006 and certainly we look forward to the balance of the year with some confidence.

Organiser, Jemma, if that is all right, I'll stop there and I wonder if we could take any questions?

Operator: If you would like to ask a question, please press *1 on your telephone keypad. Your first question is from Dylan Ball, please go ahead.

Dylan Ball: Good morning Jim.

Jim Sutcliffe: Hi Dylan.

Dylan Ball: I was wondering if you could give us an update on the Skandia integration, in particular the 70 million of synergies and if you give us your views on how achievable the project turbo targets are?

Jim Sutcliffe: Well Dylan you know we're not going to say much about that until the 20th of June so I hope you'll forgive us, we're putting that off. I have got Julian here, I don't know if there's anything you want to add? I don't think we've seen anything that's disturbed us but Julian, the 20th June [will address that].

Julian Roberts: It really is the 20th June, I don't want to go through the detail, we're still working through all of our plans of you know the shape of the business and what we're going to do so you know the first thing for me was to make sure the sales carried on at the same level and you can see from the first quarter I'm really pleased with that. But we're working through the process and we'll come up with a fair amount of detail on the 20th.

Dylan Ball: Great, I've also got a second question, I think given the level of operating cash flow that I could see coming out from the subsidiaries and the group leverage as well, could you possibly give us a feel for any revision to the dividend level at the half year or possibly how you're going to pay down some of the Skandia leverage?

Jim Sutcliffe: I don't think we've got a huge amount to add to what we've already said, I mean there clearly is good cash flow from South African businesses, that's strong. We're looking to the US business, the life business to turn the cash positive next year. I think from a Skandia perspective we've obviously got to wait till the 20th June so you know when you look at it as a whole, we're waiting to see all those results. But I mean what is for sure is that the way this business is run is to produce that cash and the dividend policy of the company is to make sure that we produce a dividend that reflects underlying development of the company. And with the kind of dividend cover rates that we've got, I think we're well-placed to increase dividends in the future. But we haven't got any more, anything more specific.

And in the gearing level, something of the order of 18% post-Skandia clearly is not stretching and I think you know we'd like to see the reaction from the rating agencies and so on before we take any dramatic action.

Dylan Ball: Great, thanks very much.

Operator: Your next question is from Matt Lilley, please go ahead.

Question: Good morning.

Jim Sutcliffe: Hi Matt.

Matt Lilley: Hi there, I've got a couple of questions. First on the South African healthcare business, could you just give us an update on the regulatory situation there and what the outlook is for that for the rest of the year. And then secondly in the US, I mean are you really saying that you're sort of restricting your sales there when you could sell more in order to keep sales at this $4 billion level, is that really what you're doing there?

Jim Sutcliffe: Yes, on the health insurance, the issue was that the regulator said that some of the features of our products needed to be changed so we had to go back to customers. This wasn't specific to Old Mutual by the way, this was industry issue although the companies reacted differently to the regulator – and altered the benefits. You know naturally that caused a fair amount of disturbance and some cancellations, so the selling process cost got affected in the confidence of the sales people started to get affected. So I don't think the underlying development of the market in South Africa is affected by this issue. But it certainly taught people to think about doing something else this quarter. It is a business that's struggling a bit, I don't want to kind of undershoot it and we're putting a lot of effort into getting it right but the market possibilities are in good shape. And that regulatory isn't something that goes on and on, it was an issue that was dealt with once.

I hope that's ok, Matt.

Matt Lilley: That's great, thanks.

Jim Sutcliffe: On the US, exactly I mean what you've said is exactly what we're doing. We – you know we took the view and Julian in his previous role as finance director was very much driving that, that the way we want to run that life business is we've got to think about it as an asset growth business, not as a sales growth business. So we were fortunately able to get sales to this 4 billion mark, I won't say 2001, Julian, but it might be 2002…2002. And at 4 billion we were starting with a business that had 6 billion assets under management and when we sold 4 billion you know that the big assets are going to just drive up and up and up and the consequence of that is you have to put more capital and cash in, which we did. And what we wanted to see was that business producing cash so it's got, you know, got kind of embedded value theory if I can put it like that, it's about [sending us a cheque]. And so we took the view that we were better off growing the assets steadily and because the 4 billion level of sales grows the assets so the profit number grows on a steady, underlying basis, without growing the sales, and that it was better to keep it on that path and get cash sooner rather than sell the absolute maximum.

It is no doubt that if we really wanted we could go and sell a hell of a lot more at the moment and obviously what we would do next year once the cash, once the cheques have cleared is we will take a decision for the future, whether we actually want to ramp it up another layer or whether it's better to hold the cash. And that is an ROE-driven decision.

But absolutely, I mean what we did at the end of last year was we trimmed out some of the MGAs and we trimmed back some of the products. And because we were on a target, on a rate of selling that would have got up to something nearer 5 billion which was more than we wanted, we got it to 4 billion last year, I don't have the exact number but it wasn't very far away, it was you know 4.1 or 3.9 or something and that's exactly what we're doing this year and we're on track to get to 4 billion again this year.

Matt Lilley: Ok, thank you.

Operator: As a reminder, if you would like to ask a question, please press *1 on your telephone. Your next questions from Risto Ketola of Deutsche Bank please go ahead.

Risto Ketola: Yes, hi Jim, it's Risto here.

Jim Sutcliffe: Yes hi, Risto.

Risto Ketola: Just two questions, I'm just going to go back to the US sales now, I know from numbers here and it looks like your sort of North American segment the total sales were $890 million, but if you strip out the Bermuda business your onshore sales were only $560 million, which is quite a bit shy of the run rate where I would expect you to be to get to your near $4 billion onshore. Now the question really is: are you going to pick up the feet from here to get near your target or should we expect this levels of sales going forward?

Then the second question is a bit more irreverent in that the Indian business you gave some sales numbers for the first time, now you own 26% of that business so the first question is: is there any scope in India you know in terms of regulatory changes to increase that stake; and secondly, will you look to include this in your EV calculations at sometime in the near future?

Jim Sutcliffe: Ok first of all the run rate, I think the point you're making is exactly right so let me just go into the detail for a second. First of all, the approach we take to the sub-product or the product categories within the total is very much to focus on the things that are demanded by the markets so that's kind of a margin approach if you like but what we've found is that the advantage of our structure where we are very outsourced is that we can move to product to product relatively more quickly than many of our competitors and therefore that allows us to pick off the higher margin bits, if you like. Bermuda, as you quite rightly point out, has been growing like crazy, it's a high-average sized case business because it sells mainly through private banks and the profitability is good, it is also variable annuity business where on balance the capital demand of the business is relatively low so that's where we've seen our best opportunity. But you know that will vary form time to time, you know that might change but at the moment that's going like a steam train, and I believe it was up something like 63% on the same period last year. So the point you're making is right. Sorry?

Julian Roberts: 65%

Jim Sutcliffe: 65% sorry. The total number, the $890 million that you're talking about and you know we can all multiply 890 by 4 but if you go within the quarter what you found was that the impact of the removal of the product last October continued into January and February and March was good so that's why we're confident about getting to the billion, that was always you know we kind of have done this before and we know roughly how it works and there's a bit of a lag before you see this kind of the tap and you turn the tap but the money only comes out a little bit later; and you can't really turn the tap on in December just in case it all comes out again you know, you kind of worry about that. So you turn it on on the

1st January and then its kind of appears in March but the run rate in March is what's giving up the comfort for the full year.

And we have some quite effective ways of topping up, if we get space from a retail business we've got the FHLB business, which is also rather profitable, to top the thing up to $4 billion should we ever need. So overall those two things give us that comfort and we will do more then $890 million, in other words, in succeeding quarters.

On India the scope to increase the stake, yes, the law has not yet been changed to allow you to move from 26% to 49%. The Indian government was, or a new Indian government was elected last year, they have publicly said they are able or they are very committed to that but there's a lot of political machinations to go to until we get there so I don't think that's near.

As far as including it in the EV numbers I'm just going to look, I think that one associate we presume we don't. No so unless we owned the different number we wouldn't intend to change that practice.

Risto Ketola: Ok that's great, in terms of the US maybe another point is that as long as a lot of the sales comes from Bermuda you can maybe go over the $4 billion level in terms of the capital needs?

Jim Sutcliffe: Yes, there's a balance also in the end, its slightly a bit more complex because you know sometimes the term assurance product takes more then 8% of the assets under management and so on and so the Bermuda business growing is a bit balanced by the other side, what is growing onshore is the life insurance business particularly rather then the annuity business. It's life in the US sense so that means term assurance in South Africa but absolutely if there gets to be a bit of faith because we can sell low capital products then the number would go up driven by, its driven by the cash, not by the number of sales, so I think that's the point you're making, isn't it?

Risto Ketola: Yes. No, that's perfect.

Operator: Your next questions from Mikir Shah of FPK please go ahead.

Mikir Shah: Yes hi Jim, going back to the US again, once you've got the cheque in 2007 maybe even 2006 what sort of growth rate can we expect the US business to self fund, will it still be just literally $4 billion self-funded or will they be able to grow that on their own?

Jim Sutcliffe: No Mikir, I should probably get you a better answer then this but the algorithm if you work it out comes to a fact that you can grow the assets at about 10% to 15% per annum on a self-funding basis. So you have to sort of think about what the outflow is as well but that means that if you get lets say at the end of this year we were $20 billion round number assets under management end of last year, let's suppose it gets to 24 or something this year. If you think about the 15% level you know that means you can do something close to 4 billion consistency in the future, not far off that although obviously slightly short. But what that did is that you can grow premiums by 15% a year and you sill still be self funding once you get to that level. I don't know if that's a helpful way for you to sort of input into it.

Mikir Shah: Great, a follow-on question is we've had no announcement on a new finance director since Julian has moved to running Skandia, is that too soon?

Jim Sutcliffe: Well we're working hard at the issue, it's not immediate but I'm hoping it won't be too long but you there are issues outside our control as that.

Mikir Shah: Thank you.

Operator: You have a question from Johny Lambridis of Citigroup, please go ahead.

Johny Lambridis: Hi Jim, it's Johny, how are you?

Jim Sutcliffe: Yes, fine and you?

Johny Lambridis: Not too bad, thank you, just going also through the Skandia five pages that they put out this morning an their results were due on the 31st May, they talk about only showing IFRS numbers and not including any sort of EV numbers, is that to mean we won't see any new business margins for Skandia for the first quarter?

Jim Sutcliffe: I'll talk to Julian, but let Julian answer that question.

Julian Roberts: Johny, the press release will just show IFRS numbers, all of the Skandia finance people are working very hard at the moment going through fair value balance sheets, changing EV assumptions to align them with Old Mutual and I actually had the choice of doing EV numbers on the old basis or actually being ready for the 20th June and align Skandia with Old Mutual basis moving forward and I know it's not particularly satisfactory but that's why I'd decided to focus on the way forward and you'll get the clarity on the 20th June but I'm afraid you don't have them on the old basis in May.

Johny Lambridis: Ok, thanks a lot.

Operator: Your next questions from Greig Paterson of KBW, please go ahead.

Greig Paterson: Morning gentlemen, just in terms of South African volumes, they're quite a bit below the number I'd pencilled in, I do accept the healthcare story but two other areas concern me. One was the group schemes number came in below my expectations and the individual savings. Now on the group schemes, I know that Metropolitan was giving you a hard and then you sort of had the upper hand second half of last year, I was wondering they have managed to turn the thing around and have the better of you in the first quarter. And the second point is individuals' single premium weakness. I know that's decent margin stuff, is that because the sort of currency hedge type sales are doing worse on the back of the stronger rand? I mean I thought that would be counterbalanced by much stronger local equity based sales. So with respect to the groups schemes, what's the competitive environment and why are single premium not grown a lit stronger given the strong equity market?

Jim Sutcliffe: The group schemes sales are up over 30%, I don't know what number you were expecting Greig but we felt pretty comfortable with that. You know maybe we should have had our sites higher but 30% felt like a pretty good increase so.

Greig Paterson: But was quarter one not a very ,very weak number because that's when Metropolitan stole a whole bunch of your staff?

Jim Sutcliffe: You're talking about last year?

Greig Paterson: Yes.

Jim Sutcliffe: Well I think if you looked at it quarter by quarter and I spoke to [Marshall Hapiya] last week, week before last and yes the quarter by quarter number keeps growing pretty steadily so you know, I think 33% growth, gee I'd like to do that every quarter that's for sure. I don't think the, I mean certainly the first quarter of last year wasn't a great quarter you're right about that but I would have thought that if you looked at it quarter by quarter you'd be seeing a steady, fact I'm just looking at it as we speak so Q3, is that, it looks like…is that 199, Kasia?

Kasia O'Donnell: Yes

Jim Sutcliffe: What have we got here, 175. Yes, so it is a little lower then the fourth quarter, Greig, but there's certainly nothing that I'm worrying about there, I think that's moving forward steadily and I know I'll just have to go and think about it and perhaps Malcolm can talk to you about the seasonal patterns over the year and which we just have to go forward and think through. But now that business is in good shape, we're recruiting agents healthily. It's certainly not suffering in my view at all. On the single premium issues, yes I think what you're seeing is really unit trusts, you know I think that what's people have latched onto and you've got to remember that our product, the max products and the way that we remunerate our sales people is completely neutral between Life and Unit Trusts so when Unit Trust is doing well I think that's where you're going to see all the sales go to so when you see the sales, the South African Unit Trust sales up 66% I suspect that might be the difference with what you had in your model but like your model I always say you can't be sure.

Greig Paterson: Right, and just one follow-up question just listening to some of the commentary coming out from these results this morning. You flagged in your results the fact that Gordon Brown's changes to the Trust Law is going to impact second quarter negatively. Now that's an issue that's been well flagged at least amongst UK analysts and they said it would have a moderate impact, are you suggesting that the impact would be worse for Skandia then it would be for say instance Friends Provident International or should we not read across the same sort of messages we've had from the other UK in terms of investment trust law changes.

Julian Roberts: Greig, it's Julian, I think what we wanted to do was to flag it in the trading statement as it is an issue. We are working through it at the moment, exactly what the ramifications yet are Skandia's business and Friends Provident Offshore is a fairly similar but actually we don't know the full effect as we go through the year and we were just flagging it.

Greig Paterson: To put it another way, I know for instance Pru, Aviva, Legal's have pulled their products from the market, did you pull your product as well and did you pull it on March or did you, I mean when did you actually pull you, did you pull your product and when did you pull it?

Julian Roberts: I'm pretty sure the product hasn't been pulled but I will have to double check that with you. As I say at the moment we're just working through fully what the ramifications are, we'll give more of an update on the 20th June.

Greig Paterson: All right, thanks very much.

Operator: There are no other questions at this time.

Jim Sutcliffe: Ok well thank you very much everybody, I think surely we'll talk more and the IR team will as usual be available for any further questions or detailed questions, Malcolm's been listening to the call and Kasia and the other all or backup people, Richard, Deward and we look forward to talking to you more about it and be happy to ask any further questions but I think overall what we certainly felt was that across the piece there were lots of strength in these numbers and that we're well positioned to continue to grow into the future. So thank you very much for coming along today.

Operator: That does conclude our conference for today, thank you for participating. You may all disconnect.