Interim Results 2007

10th August 2007

Johannesburg & London

Jim Sutcliffe

OK, sorry we are still….we are still waiting for the South African…oh we are ready, OK, good.

OK, good morning everybody. Welcome to the presentation of Old Mutual's interim results for the first six months of 2007. We are presenting, of course, from our offices here in London, where I have got with me our Finance Director, Jonathan Nicholls, and in the front row here, Julian Roberts and Scott Powers, who run our European and US businesses respectively. And as usual we are linked by satellite to Johannesburg where Ralph Mupita is hosting. And I hope you can hear us well, Ralph. We are of course….

Ralph Mupita

Loud and clear.

Jim Sutcliffe

We are, of course, webcasting the event live. And a copy of the presentation will be available on the website later today. As usual we will follow the format that we have used in the past. I will start by giving a brief overview of the group's progress. Jonathan will then go into the financials. I will come back and talk a bit more about the outlook and then we will take questions.

So looking at the results. The results do indeed, I think, show good underlying earnings growth and good underlying performance overall. We have certainly delivered good investment performance to our clients. Again 93% of the US clients have got results in excess of their benchmarks. Good investment performance as usual has led to a very healthy net inflow of funds under management and strong sales performances. And these, of course, are the drivers for our future profit growth. These results have been achieved despite, as we forewarned at the end of the year, and again repeated with the first quarter results, a year when we have been investing in scaling up our businesses around the world. We have been investing as promised in scaling up US Retail, in building the US mutual fund business, in obtaining the synergies across all of Skandia's businesses and in the new platform, which we are going to launch next Wednesday for our UK businesses, and clearing the legacy issues in Sweden. We have been expanding our South African sales force. We have been building out the branch network at Nedbank. And indeed we have been investing in our fast growing Asian operations. And with the benefit of no legacy behind us, we have been focused…been able to focus this investment in the areas of the market that we believe offer the best prospects, where the demographics offer growth, and where our expertise in modern generation platforms can play powerfully. We are building scalability in our businesses that we can leverage in years to come.

So let me now touch on the results in a bit more detail. As I have said, these results do show continuing growth across the business. FUM, as you can see here £263bn, are up 11%, up £26bn. And …and net cashflows are £12bn which at 10% of opening FUM have been very considerable. 10% is about double the average rate achieved by asset managers around the world. So much faster growth than our competitors. Sales, you can see that …in fact the big trend that we have talked about in the last while of a switch from life to unit trusts took a little pause in the period. But life sales, despite the impact of currencies, are up 10%. In fact they would have been about 17% at constant exchange rates, with strong contributions from our investments in the retail businesses and the offshore distribution channels. We have been, as I have said….[cough] excuse me….able to retain the highs that we achieved last year in unit trust sales. But there has been the pause. Value of new business there grew just modestly, up from £121m to £124m. Again the underlying growth offset by exchange rate movements. So underlying growth good. IFRS earnings £757m, offset somewhat in Sterling terms by the strength of Sterling, again the currency movements. And in fact…the currency in fact on the IFRS EPS is about 1p. So if you extracted it, looked at the underlying growth, again the growth rate at constant exchange rates is about 10%. And our RoE at 13.4% shows a pleasing improvement. EV/share also of course affected by exchange rates, but with our much greater diversification nowadays the effect is fairly modest and we have been able to maintain the EV at 161.6p per share. And in line with our policy, and in recognition of the strength of the business, and that underlying growth momentum, the board has been happy to be able to declare an increase in the dividend, a 10% increase in the dividend to 2.3p per share. Let me now hand over to Jonathan to take you through the numbers. Jonathan.

Jonathan Nicholls

Thanks Jim, and good morning.

I am going to start this morning with the group position and then move on to the regions.

As Jim has said there has been solid underlying progress made by the group in this, the first half of an investment year for us, despite the FX headwinds.

Our key revenue generating KPIs of FUM and net client cashflows both showed very strong growth. Although EPS were down 4% on the prior year, this is a solid result given the 7% dilution from issuing additional Skandia shares, the drag of FX and the ongoing integration costs of Skandia, which were £22m in the half. RoE at 13.4% improved significantly by 1.4% reflecting the improvement in the earnings run rate compared to 2006. Our value of new business has increased from £121m to £124m, driven by strong growth in our UK and Bermudan businesses. The EEV operating profit per share was 8.7p, down from 9.8p, largely driven by Forex movements and the operating assumption changes in Nordic and the US. However the RoEV increased to 14.5% from 13.8%, which demonstrates the good underlying profit growth.

This slide shows you IFRS operating profit by geography and business segment. IFRS adjusted operating profit decreased 2% to £757m. With adverse FX movements masking strong underlying profits growth. At 2007 exchange rates profits would have increased by 21%. South African profits at Nedbank are R4.3bn and OMSA of R3.6bn grew strongly in local currency, increasing 32% and 28% respectively. In Europe, UK profit growth of 10% to £80m was offset by Nordic. And in the US asset management profits growth was offset by US life modelling changes. I will talk more about what drove profit growth when I cover the individual business units. Life sales grew by a healthy 10% in the first half. The stand out operations were Skandia UK where sales increased 32%, South Africa with an increase of 17% and our Bermuda operations with a 133% increase. Unit trust sales are flat across the group as a whole. US sales increased 44%. This was offset by lower sales in South Africa as customers switched back into life wrapped products, but where, nonetheless we held sales close to the peak achieved last year.

FUM grew £26bn to £263bn. Net client cashflows of £12bn and market growth contributed another £17bn. This was partially offset by Dollar and Rand exchange rate movements.

This slide analyses the net inflows by business unit. US Asset Management and Skandia UK both delivered excellent net inflows of 13% of opening FUM on an annualised basis. Overall Old Mutual's net client cashflows were a very healthy 10% of opening FUM on an annualised basis.

Once again this slide provides a split of revenues and costs by business unit. The numbers are from our IFRS accounts and are therefore inclusive of DAC amortisation where appropriate. We find that this is a useful snapshot of Old Mutual. In the round Old Mutual is a 55 bps business after including head office and debt costs which we have added to this analysis since the year end. On average around £15bn of FUM will generate an additional 1p of EPS. This provides a good starting point for reviewing efficiency in our own business units and comparing our performance with that of our peers.

Moving on now to the business units, starting with the European businesses. Skandia UK's leading open architecture model continues to benefit from being at the forefront of the sector, delivering excellent sales and winning many awards for service. The integration is well advanced and synergies remain on track. Our next generation platform, as Jim has said, is due to go live on 15th August. IFRS adjusted operating profits grew 10% to £80m, benefiting from a significantly higher level of FUM. Overall life sales are up 23% to £389m and onshore pension sales, still in part being driven by A-Day, contributed £249m, an increase of 32%. Sales of bonds and offshore products were strong. The increase in the value of new business reflects higher sales and improved new business margins from higher operating leverage. Unit trust sales were flat at £1.3bn, with disappointing institutional sales, offset growth in Selestia and SIML. FUM increased to £41bn, reflecting strong net client cashflows of nearly £2.4bn and positive equity market movements. As you know, net client cashflow is a key measure for us, because it not only shows our sales success but also our ability to retain FUM. In this context we compare very favourably with our larger competitors in the UK.

Moving on to the Nordic region. IFRS adjusted operating profits were lower due to the impact of the Liv-link agreement, lower sales and the leverage impact on expenses. Overall sales in the Nordic region were down 11%. Life sales in Sweden decreased 15% in the challenging environment, partly due to the abolition of the Kapitalpension product. Further sales declined as a result from our decision to reduce upfront commissions and the gaps in our product range. We have seen improved sales in the last two months which is encouraging. The Swedish market continues to be extremely competitive. We have reduced fees in the corporate and in the collective markets. And the outlook remains one of strong competition. This affected both the value of new business and margins. Margins at 15% were depressed by the new Liv-link arrangements and expense and mix issues. As we discussed in the showcase the management team in Stockholm is focused on restoring margins to our target levels over time. We are investing in the IT infrastructure, developing new products, pro-actively managing commissions with our broker network, and have put the Liv-link relationship on a proper footing. FUM increased 7%to SEK114bn, with net client cashflows of nearly SEK1bn and equity market gains of SEK6bn.

In Europe and Latin America IFRS adjusted operating profit of €20m was well ahead of the prior year. This growth was driven by increased sales and FUM. FUM grew 18% to €13bn, with net client cashflows of nearly €0.8bn. So overall our European businesses are doing very well in the UK and continental Europe, but we have work to do in Nordic. Finally the cost of synergies and associated gains are on track, with a further spend of £26m to come in the second half of this year.

Moving on now to South Africa. Many of you were at our showcase in June and heard about our plans for the South African life and asset management businesses. During the first half of 2007 the business continued to transition as planned towards a modern and premier savings and wealth management business. This means moving away from traditional high margin products to more flexible less capital intensive new era ones. Our investments in retail distribution continue to reap rewards with life sales up 16%. Institutional life savings and protection sales grew by a very healthy 25% and 86% respectively. However, this was offset by lower bulk annuity and healthcare sales. Retail life sales were 20% higher and corporate sales were marginally higher. The increase in new business value and margins can be attributed to retail sales and reflects the improving operating leverage, lower distribution expenses and higher risk business sold. This offset a decline in margin in the corporate side. Adjusted operating profit of R3.6bn was 28% higher than in '06, boosted by an 8% rise in the life operating profit to R1.7bn and a 77% increase in the long term investment return to R1.4bn. Life profit benefited from an increase in the average level of policy holder FUM and a significantly lower IFRS II shared base payments charge. The LTIR increased primarily as a result of the continuing strength of the JSE. Asset management profits were up 11% to R0.5bn. Net client cashflow remained a challenge for us, primarily due to net outflows from our third party asset management businesses. You will recall that last year's investment performance was disappointing and this continues to impact current flows as does uncertainty around the restructuring into boutiques. Investment performance has now improved significantly. A good performance in the fourth quarter of '06 and the first half of this year show investment performance figures for the year to June '07 improved to 84% of funds outperforming benchmarks, and achievement of the number two position in the Alexander Forbes large manager watch over one and three years. The performance speaks for itself, and we have seen strong interest from clients in some of our more specialist boutique offerings. So we are making progress and we are confident that flows will improve to reflect the changes we have made and the performance improvement that we are delivering. We have set the business a net client cashflow target of 2.5% of opening FUM - clearly a challenge based off current numbers, but one we are focused on achieving. Client FUM at the end of June of R440bn were 4% higher than the end of December, reflecting higher market levels.

Moving on to Nedbank. Nedbank remains on track to meet its 2007 performance targets. IFRS adjusted operating profits rose 32% to R4.3bn. And RoE increased to 21.2% from 18.3%. Net interest income grew 30% to R6.6bn, mainly as a result of the 31% growth in average interest earning banking assets. The impairments charge as a percentage of average advances increased to 0.63% in the period. As expected impairments in the retail portfolios of Nedbank Retail and Imperial Bank deteriorated as a result of rising interest rates and increased levels of consumer indebtedness. Non-interest revenue increased by 5.3% to R4.7bn for the period. Commission and fee income grew by 12.9%, supported by good transactional banking and bancassurance volumes, with the latter increasing by 33%. NIR growth has been adversely affected by disappointing trading income in Nedbank Capital. Trading income for the period was R0.5bn, down from the high base of R0.9bn in the first half of last year. The jaws ratio remained positive, with total revenue growth of 18.5%, being 3.6% above expense growth of 14.9%, resulting in an improvement in the efficiency ratio from 56.9% to 55.2%. Nedbank remains very well capitalised with a Tier 1 ratio of 8.3% and total capital adequacy ratio of 12.4%.

Moving on to general insurance, operating profits at Mutual & Federal were up 7% to R0.5bn, despite the softer insurance market. Gross premiums grew by 8% in the first half and follow rate increases, underwriting interventions and the cancellation of unprofitable blocks of business. Combined ratio increased to 97.1%, mainly as a result of the increase in the claims ratio following large fire and weather related claims. Sadly Bruce Campbell has resigned. But we look forward to seeing M&F develop under new CEO, Keith Kennedy.

Moving on now to look at the United States. In US Asset Management IFRS adjusted operating profits increased 28% to $149m. FUM increased 15% to $315bn. This was underpinned by good investment performance which contributed $24bn and very strong net client cashflows of $17bn. That represents 13% of total FUM on an annualised basis. Strong sales were achieved in particular in Analytic, Acadian and Rogge. Overall unit trust sales were up 44% to $2.2bn. Our retail offering, Old Mutual Capital, has made further good progress with unit trust sales up 29% to $887m. Sales by OMAM(UK) which is now reported as part of this region increased by 56% to $1.3bn. Investment performance continues to be excellent at US Asset Management, with 93% of assets exceeding three year benchmarks. The operating margin is 28%. This reflects positive operating leverage, good fee income and a stable expense base.

Moving on now to US Life. Gross Life sales of $2.5bn were 39% above the same period last year. Bermuda sales increased 133% as we expanded our distribution and overall FUM grew by 5% to $23bn. We will support sales in this operation without a sales cap, and in this context we continue to anticipate a return of cash this year. Underlying IFRS adjusted operating profits at US Life increased 8%, driven by higher average asset levels. The new business margin of 19% is healthy and in line with the target. As previously announced in the first half, we continue to undertake an actuarial review to deal with the specific issues we disclosed last year. As I committed to you, we have made allowance for and disclosure of these and other items covered by the review. Firstly, in our first quarter results announcement, we highlighted continued negative mortality experience as a primary source of losses in our single premium immediate annuity block of business. Based on the actuarial review findings and continued negative mortality experience the decision has been taken to revise our assumptions on the SPIA line. As a result of this assumption change European EV adjusted operating profit for the covered business for the first half was negatively impacted by $131m post tax. Sufficient margins in other lines of business in the US Life preclude taking a charge, because margins are aggregated at the consolidated US

Life level under IFRS. Secondly, through the actuarial review work, we have revised our modelling spreads under fixed index annuity contracts, and are now assuming fixed spreads instead of variable spreads in line with normal actuarial practice in the US. As a consequence the post tax IFRS loss is $27m and the EV loss is $34m. Finally there are other modelling changes. The post tax IFRS loss for these changes is $14m and the EV loss is $20m. The number of changes is large, both positive and negative. And our belief is that we have used suitable best estimates to account for the effects of these model changes. In summary we have taken a charge to IFRS post tax profits of $41m which feeds through to a reduction in IFRS adjusted operating profit EPS of 0.4p, and reduced EEV by $185m. This is detailed in a chart in your appendix. We have now made the changes we intend to make arising from this project, and we can move on having put this behind us. We believe this business is now on a sound footing for the future.

I would like to talk about asset quality in the context of the credit market correction. We have provided information in the appendix on slides 15, 16 and 17. Specifically in the US we have a very small exposure to sub-prime mortgage loan collateral and these exposures are concentrated in the most highly rated AAA tranches with substantial protection from subordination. Less than 1% or about $200m of the Old Mutual US Life portfolio is in sub-investment grade bonds and the overall average quality is A1. In this context this reflects the fact that we moved to raise the credit quality in our US portfolios a few years ago.

That gives you an overview of the business units. In this slide I want to move briefly down the Profit & Loss account. Other shareholder income and expenses of £19m is predominantly made up of head office costs. Financing costs of £69m were up slightly due to higher net debt levels. Our adjusted operating profit tax rate for the first half decreased from 26% to 23%. This reflects the change in profit mix which in certain regions allowed recognition of previously unrecognised deferred tax and the announced reduction in the UK tax rate offset in small measure by an increased STC charge. For the full year I anticipate a rate of around 25%.

Adjusted group EV and EV/share were broadly flat compared to December. The operating and other profits were offset by adverse FX movements and the dividend payment. Total available cash within the holding companies at the end of '06 was £76m. During the first half of 2007 the holding companies received a total of £298m of operational and capital receipts from the business units, plus net debt and equity proceeds of £235m. After operation expenses, acquisition payments and adjusting items there was £438m in available cash, of which £218m was used to pay the dividend and £160m was invested in the businesses. The balance of the remaining cash here was £60m at the end of June.

The directors of Old Mutual have declared an interim dividend of 2.3p a share, to be paid on 30th November, representing an increase of 10% over the 2006 interim dividend. The board's policy on dividends is unchanged and is to seek to achieve steadily increasing returns to shareholders over time reflecting the underlying rate of progress and cashflow requirements of Old Mutual's businesses.

The Group is well capitalised in terms of both economic and regulatory capital. And we have an FGD surplus of £1.6bn. We seek to maintain an FGD surplus buffer of around £750m to £1bn. You will be aware that we are still on negative watch at

Moodys. We are committed to maintaining our A rating and are hopeful that they will be comforted by these results. You will know that we are concerned to ensure that our capital utilisation is as efficient as possible in the context of the capital requirements that we need to run and grow our businesses. We continue to review our options for returning capital to our shareholders in this context and will keep you updated as we make progress on that.

So in summary, we have made further progress in the first half, and the underlying momentum in our businesses can be seen. FUM are growing strongly both from strong net inflows and also from good investment performance. Our short term target of £300bn of FUM is well within sight by the end of 2008. Our businesses are delivering strong underlying earnings growth. The scalability and leverage potential of our businesses is beginning to show through. The Skandia acquisition is on track in terms of growth, and with delivery of synergy benefits of £80m a year from next year. Our capital position is strong and our expanded scale and geographic reach creates a strong platform for sustainable growth. Thanks very much, and I will now hand you back to Jim.

Jim Sutcliffe

Thanks very much Jonathan.

I would like now just to go around the business by geography to summarise what Jonathan has said.

Overall we grew FUM as you heard by $26bn. And therefore the target that we laid out for the end of 2008 of £300bn - we are in good shape for achieving that. In fact not only that but we are in good shape for further growth thereafter. In Europe our target was £70bn for the end of next year. We were £57bn at the end of the first half, £51bn at the beginning of the half. So you can see at £6bn per half year we are well on track for that, and perhaps even a little bit more. And if you look through the numbers for the £300m or the equivalents or the lead up to the £300m of IFRS profits, you will see that we are also well on track, and that's before the synergies come through next year.

In South Africa the group companies were about R850bn at the end of last year, R900bn at the end of the half, so the R1tn of assets between OMSA and Nedbank is now well on track. And the transition to our new boutique style South African asset management business, OMIGSA as it is called, being implemented by Paul Hanratty, is well underway. And the investment performance, as you heard from Jonathan, has generally been better. And, of course, the highlight of those businesses is always the RoEs. And Nedbank getting to an RoE in excess of our target for this year of 20%, I think it was 21.2%, now brings the full set over our target of 20% RoE.

Now obviously turning to the United States, the one-off provisions in the US Life business are disappointing. We thought we had drawn the line before and here we are we have made another provision. But they are one-off. They do relate to the past. And we are drawing a line under this issue. We have completed a very detailed review of this business, both in terms of assumptions, in terms of models, in terms of systems. And I would like to think that as we put this episode behind us, that you won't lose sight of the sales and net cashflow growth that our US Life business is and has been delivering. It will turn cash positive during the year and we believe that it is well positioned to make a continuing growth contribution….a continuing contribution to earnings growth at proper RoE. Our US asset management business is really having a good time. It has been powering ahead with a massive inflow of $17.2bn of FUM during the period.   And actually has already met the goal of $300m. In that as Jonathan said, our geography may not be great because we include our UK asset management business. But to see a 56% increase in unit trust sales was another important mark to meet. We haven't talked about our business in Asia very much in the past. But I think the time has come to do so. Because the sales arising out of our Asian business are now significant in the context of our world totals. And so I think it is worth spending just a minute on these businesses.

In India we will have a network of 79 branches in 51 cities with 27,500 agents as we start the second half. Gross premiums are rising sharply. They are roughly doubling every year. We had $235m of premiums last year. And we expect to produce well over $400m this year. And we are working with our partner the Kotak Group to develop our bancassurance model further. The business is still loss making. We are still investing in it. But we expect it to break even in the next three years and then profits will flow strongly.

In China the growth in the sales are even more remarkable. In the first five months of this year we were the seventh largest international insurer in China and the number two international player in Beijing province. Our speciality…our focus as elsewhere has been unit linked products and buoyant equity markets have driven sales in this area, where as I say we are the market leader. We have opened in a third province during this period, in Nanjing. And we expect to open in a fourth province, Guangzhou, shortly. Premiums in the first six months totalled about RMB800 which was in excess of the number of the whole …for the whole of last year which was RMB584. So well in excess.

So as we have said before, overall our goal is to build a top class international savings and wealth management group. And I do believe we have the building blocks in place on the basis of this six months results to deliver on that ambition.

In Europe there is no doubt that we have an enviable lead…leadership position in the open architecture platform…product world. Skandia will deliver the synergies that we have targeted, and then a bit more as Julian said back in June. We have a highly scalable business model in Europe. We are able to roll out that model in other countries. And we are investing further in it. I think the opportunity we have, as Jonathan said, and I think I said at the beginning, to show what we have in the UK next week, I think we are all looking forward to very much. And despite the recovery issues and the price pressures that we face in Sweden, we are very happy with the progress that Julian is making in Europe.

In South Africa Paul Hanratty is driving that ambitious plan that he set out on market day in June. And we do have extra copies of the presentation if you want. And I think either Aleida or Merrin can give them to you later on if you would like to get another copy. We have touched on the repositioning of our South African Life business from a traditional high margin high cost product range to a more flexible less capital intensive one is well underway and the process is certainly being successfully implemented. We have been segmenting our business to match up against the new emerging middle classes and the customer segments in South Africa. And it was good to see our retail mass division increasing sales by 32%, because that is the foundations for the future. And the retail affluent division grew sales by 16%, and even that was a strong performance. Nedbank is clearly moving ahead strongly. I think those were excellent results from Nedbank. And I am confident that our group of companies in South Africa will continue to play a leading role in the country's savings and wealth management industry.

In the United States we have built a high quality, profitable and growing footprint in the world's largest savings market. We are building and we do have a diverse array of innovative and award-winning businesses that deliver excellent returns for their clients, the heartland of what we do. And that has resulted in excellent net client cashflows. We will continue to invest in our US businesses as we expect them, as I have said, to continue to make a significant contribution to the growth in the group's earnings.

Businesses in India and China are growing strongly as I have said. And our business there gives us an excellent exposure to these powering economies.

So to summarise, we said that 2007 was a year of investment, and so it is. I think we have lots to feel good about. Those underlying growth rates are excellent. But there is also lots for us to work on, lots of things to improve our business. We are maintaining the growth trajectory and this healthy set of results is underpinned by another double digit increase in the dividend. We have a strong capital position. We have clear priorities for the next steps in our journey. We are increasingly internationally diversified and we are certainly well able to ride through choppy markets. Our consistent delivery of good investment performance I can't repeat often enough. Investment performance for our clients is the heart of what we do. It is a powerful foundation for the future. The results for the first six months were strong. And we believe that we are well placed to deliver our 2008 milestones and maintain the growth that we have outlined to you today.

Ladies and gentlemen, that's the end of our presentation. We will now take questions.

As usual, we will take some in London and then some in Jo'burg. We also have…may have questions on the telephones. We have people who have joined the conference by telephone. So if you wouldn't mind getting a microphone and just saying your name. Microphone …so the people in the other centre can hear you. And then we will have a go. Let's start with Roger. Roger…and then we will…we will do Blair and then we will go over that side if that's alright.

Roger Hill, UBS

I wonder if you could just give a bit more clarity on the immediate annuity business in the US. Was the assumption change at the end of the period? You seem to have lost $20m in a half. And if you capitalise that up for several years it doesn't look like you have made a…a big adjustment. I wonder if you could just give a bit more detail about what you have assumed.

Jim Sutcliffe

Yes. It was made at the half not at the beginning of the year. So that's the answer to the first question. The assumption change is built around two things. The annuity block in the US has actually got three components to it. There is a block which has been causing difficulty, which is about 300 lives. And all of this was explained at the first quarter. So none of this is new news by the way. So I…I am just repeating. And then there is a block of non-mortality related annuities, so-called Medicaid annuities. And then there is a block of…array of more normal smaller cases. What we have done is to make an…an adjustment in relation to the 300 life block. It is hard to be specific about that, because it is not statistically significant by size. But what we have done is, we have updated the mortality table, and the block appears to be showing some selection effects. So we have made allowance for a further selection effect before it continues on its path. But it is all in that number.

Roger Hill, UBS

What period are you expecting the selection effect to work over?

Jim Sutcliffe

It will be several years yet, Roger. It depends a bit. The way we have done it is certainly I think over five or six years. Correct? Five or six years. Blair, do you want to be next? And then…and then we will go to Jim Hocking and then James Pearce.

Blair Stewart, Merrill Lynch

Just…just on that topic as well. Is the…are the changes you are making purely one-off or are there any recurring elements? You mentioned the spread moving to a fixed…fixed spread assumption. Is it…does it have an ongoing element to….in profits firstly? And the second question is, the Swedish margin, Q2, is obviously very depressed. Is there…is there a one-off element in there as well? And the final question is the…I guess one of the key factors for a…an upgrade from Moodys would have been the US issue. How…how has that changed their view do you think? And if you do get an upgrade what would….what would your plans be on …on the excess capital?

Jim Sutcliffe

OK, let's…let's deal with them. Julian…can we get a microphone to Julian who is going to talk…..oh you have got…OK, well done. Julian can talk to Swedish and you talk to Moodys. But there isn't any…if I take the easier one there, there isn't any ongoing affect on the spread. It's…it's simply an adjustment to the assumptions for the future in the way that the normal spread assumptions are done in the economic assumptions. There is no ongoing affect. Sorry.

Blair Stewart, Merrill Lynch

I just don't understand. What's the…what…what spread are you assuming…the fixed spread you are assuming compared to what you used to do. If you could talk through that.

Jim Sutcliffe

Yes, it's….Blair it's…it's a little more complicated than that. What was done in the past in the model was a combination of some of the hedge fund allowances and the spread were all built into the same line in the model. We have separated those two things out. And they had …they were…the way the model worked was it assumed a fixed crediting rate and then varied the…the earned rate around it to produce the variable spread affect. We have now moved off one to a fixed crediting…excuse me, a fixed credit spread….a fixed spread arrangement. So it…the answer to your question isn't sort of yes or no or 5%. But it has been put onto a slightly more conservative basis is what it boils down to. Julian, do you want to just talk to the Swedish margins?

Julian Roberts

Yes, the …the expenses. The margin has come down largely as a result of the sales being lower in the second quarter, and therefore the…the lack of recovery on the overall expenses. But there are …as we are now building up on some of the integration costs, there are some one-off costs in this quarter that are pulling the margin down. Not a huge amount, but there is a…there is a small amount there.

Jonathan Nicholls

And just in relation to …to Moodys. I mean clearly the …the generic issue in relation to the US issues has been well communicated to them. Over the last nine months they have been involved in the base with us in discussions. I think, you know, the way I would hope they would review it, is that they would see that we have actually spent a huge amount of time and effort. And Scott and Richard Hoskins' team in Baltimore have been focusing on this for…for about nine months, and have now done the work, and have put this behind us. And it is a very important piece of work. It has taken a lot of effort, a lot of resources. So I hope they would recognise that fact and accept that going forward the business is on a much better position going…going forward. I think the other area that Moodys are …are concerned about or want to see evidence of, is that the integration of Skandia is going to plan. And Julian's showcase in June and we have repeated it today, shows that we are not only meeting the targets that we set ourselves in…when we bought the business and….and announced in June last year. But also that we have actually got an extra £10m coming through of additional synergies. So from that point of view I…I would be hopeful that they are looking at that positively and they would feel comforted by that. But until we come off…off negative watch, particularly in America, we need that A rating to be confirmed and we need it to be unambiguous going forward for sales. So we can't afford to compromise that rating. So in terms of our plans it is very difficult for me to say to you, well put this number in your model or put that number in your model. I don't think you should put any number in your models at this point in time, because there is that decision process that has to be gone through by Moodys before we can actually come up with our…with our calculations as to what we can and can't give back.

Blair Stewart, Merrill Lynch

Thanks Jonathan…sorry…just…just to clarify, you …you said previously that you….you were confident of an upgrade after these results. Are you still confident?

Jonathan Nicholls

I don't think …I don't think I ever said an upgrade …what I said was [unclear]…

Blair Stewart, Merrill Lynch

Sorry…off…off watch.

Jonathan Nicholls

…they would take us off negative watch. You know, the…the numbers…you know, the underlying numbers are good. We have…we have…we did what…we have made our commitment to tidy up the US Life business, we have done that. We could have ignored it and just hoped that it would go away. Clearly it hasn't. So we have…we have crossed that bridge. To me all that is positive. But I am this side of the fence, Blair, and not the other side of the fence. So you know I…the numbers speak for themselves and let's hope that they do recognise that and…and we move on from here. But until they have seen and until they have commented and talked to Don and the team and we have talked to them, it is …it is difficult for me to know what…what they are thinking right now.

Jim Sutcliffe

OK, just what I am going to do Ralph is, I am going to take two more questions here, then I am going to come to you in Jo'burg. So after…if you don't mind, Greig, I am just going to take Jon Hocking and then James Pearce and…and …and then we will go to Jo'burg. Jon.

Jon Hocking Morgan Stanley

I have got three questions if I may. Firstly, on the US Life business has anything come out of this review which has changed your perception, the relative attractiveness of products within the US business? Are you going to push ahead on different products than you would have done previously of all these very much legacy issues and….and isolated? Secondly, on the Swedish business, how much of the achievement of the targets is down to what you can do on a standalone basis through management action and how much are you actually assuming some improvement or stabilisation of the underlying market? And then thirdly, just on the accounting, I notice that pretty much all of the commentary that Jonathan gave on the numbers was on the IFRS basis, and certainly you have moved to give sort of fee basis numbers on the…on the IFRS basis. Are you effectively de-emphasising EV reporting basis? Do you think we should be looking at this on an IFRS basis rather than on an EV basis?

Jim Sutcliffe

Yes, OK, let's pick them up in order. And Julian, Jonathan, help me if I…when I need help. I think first of all the attractiveness of products in the US Life business. Certainly, do I like longevity risk in the immediate annuities, no I don't. And we won't take so much of that in the future. So that piece ….you know, yes…we …we will…we have changed our emphasis in that respect. But I think more broadly, you know, what that business has been very good at, and the basis of the business with its outsourcing and so on, is to be able to focus on the blocks of opportunity out there and not get too hooked in …and you have got a machine that you have got to feed and sell so much of and so on. And we have been able to avoid all of that. So the great strength of what is happening at the moment is actually that we see the biggest margins in the offshore variable annuity business. So for the first time in this half year we have sold more variable annuity business than fixed annuity business. Now I think that is probably not something people are focused on. But I think it is a strength of the business, that it is able to move over there. And Jonathan called the margins 19% in line with our targets. I think we have always said our target was the middle teens, so 19% actually has meant that we have been able to move over onto something that we have seen is much more attractive. Now, you know, to be honest, if that starts to move along, we will move onto something else too. So we don't feel hooked into these different product lines. And we certainly will move as the attraction gets…gets on. In Sweden if I…Julian if I just sort of give an overview comment, and then you can pick up. I think that what is going on there, the market is getting much more competitive. And I think that is what we have seen. I don't think that is going away. I think some of the pressure on margins that is coming about through that is going to be there for a good long time. But I think that the underlying strength of that business with its brand and with the capacity it has to get into all corners of Sweden, the strength of the sales force and so on, I think all of that certainly needs some good leadership and some strength behind it, which is what we are providing. And it needs the IT systems to be jacked up so we can get the new product ranges launched and so on. So all of those things, they are not rocket science they are things that we need to do. And we have our Swedish or Nordic Chief Executive, Bertil Hult, started on Monday. So all the steps are being taken. So a lot of it is in…within our control. There isn't any great assumption in here about the market improving, quite the opposite. If anything I think we expect the market to remain very competitive.

Julian Roberts

Yes, I…I would absolutely endorse what Jim says. I…I am actually very optimistic in the Nordic business. I think the management team know exactly what we have got to do. And over the last few years that business has lost its way. It hasn't reinvested. It hasn't brought the products up to the right level that the market wants. It hasn't invested in IT systems. So it's in our hands to put that right, and that's what we are doing at the moment. So we know what we are doing. And it is going to take a bit of time. But the market is getting tougher. There is more competition there. So as well as we are doing that, we know that rates are going to come down, and therefore we have got to be even more efficient on expenses. But those margin targets that…you know, that we have set, they are tough. But we are taking action, we know what we are doing, and I am very confident we will get there. But it will take time.

Jon Hocking

It sounds like with…with IT and things like that, the lead time on these things always tends to be always sort of longer than you expect. So if you have got 2008 targets is it realistic that everything is going to be firing on all cylinders in time to hit the targets or is there a risk that we end up in …in 2009 on those numbers?

Julian Roberts

Well we are going flat out at the moment. It is absolutely right. I…we…we know what developments we are doing in the IT system. We know what new products we are rolling out. And we are looking at workarounds so we can roll out the new products and not wait for the IT systems. Everybody is working very hard. And what we are doing at the moment as well is seeing very clearly whether there are things from the UK that we can transport into Sweden or actually things from South Africa as well, that will help that development curve and speed it up. So we have got some product launches in the fourth quarter of things that have been replicated from what has gone really well here. There is offshore products as well that we know that we can sell into Sweden to up it. So it is…it is all action.

Jim Sutcliffe

Julian…Julian sorry, just to interrupt for a second. I think…there is no doubt we are going to make the targets. I don't want you to get any doubt about that. The targets are for the European business as a whole and there is some make up of extra in the UK versus what is going on in Sweden. Sorry, I didn't mean to interrupt.

Julian Roberts

Yes, that's fine.

Jon Hocking

And just on the …the IFRS ….EV point.

Jim Sutcliffe

OK, yes. Yes, I think what we have said regularly over time and indeed we have couched our strategy in these terms is we are focused on building an asset or a savings and wealth management business. Now the natural format for those I think is an IFRS format. And the life insurance wrapper is a specialty of ours and we continue to offer it and will continue to offer, but in reality we do think that EV results production isn't enough. IFRS is…is crucially important. And you will have seen in our incentive plans, I think we talked about this at year end, that we have moved the balance of our incentive plans to have a heavier weight on IFRS numbers than EV. So we are not saying to you, you know, don't do EV, we will provide you with all the EV data. And it's a sensible way to do valuations. But actually in terms of measurement of all of our businesses, and particularly with the asset management focus in there, we…we will put more weight on IFRS, so that is correct. James.

James Pearce, Cazenove

I have got three questions. First of all, what makes you so sure that you have put the reserving problems behind you? Have you changed the….the remuneration of management, so that if they get it wrong they…they actually take a hit? Second, is Nedbank still not for sale? Thirdly, you have been linked in the papers with UK life consolidation, could you share your thoughts on that, and could you say what financial criteria you apply to M&A?

Jim Sutcliffe

OK, I didn't write them all down, so you are going to have to repeat some of them. Why are we confident that the US is finished?

James Pearce, Cazenove

Not just the US, globally, you have had reserve additions pretty much globally in the last two or three years.

Jim Sutcliffe

Yes. I think there are always things that are variances. But the key to this is to look at the experience variances, James. If you look at the experience variance for the period you will find that only one of our three units produces a negative experience variance, which is the US. So I think it is limited to the US, it isn't anywhere else, as evidenced by the experience variance. Secondly, if you look at the multiple of the variance that is constituted by the provision you can quite easily see, and I am …I am a very old actuary now, but even with my log book I can work out that it's enough. OK, because this the debate the Jonathan and I had when, you know, the experts do long sums with long tables and all of that stuff. And if you multiply the experience variance by four… annual experience variance by four and a half you sort of get to the right number for a SPIA block, and that's where you are. And there is a little bit to spare on that. So I think you can…you can …you can base it off that. You know, nobody can give you an absolute promise about experience variances coming up positive or negative in the future, because we can't be that accurate. But the test is to do…the way we have done it…to …to assure ourselves it is enough is to do a very detailed piece of work that Tillinghast have helped us with, to say, look here, if we do all the mortality projections with all the updates of tables and allowances for mortality improvement and so on, and put in place what is a sensible provision for selection, then this is what the number is. So that's step one. Step two, go over to the side and say, yes, alright, very clever, but I don't understand the model. Apply a common sense test to this, is it sensible in the light of the variance. It clearly is. So I am…so that's the basic methodology that gives us that. If I hop ahead to a couple of the other questions and I am going to probably have to ask you to come back and….

Jonathan Nicholls

Nedbank.

Jim Sutcliffe

Yes, I mean Nedbank's position. I mean we don't comment on…on rumours and you know standard charters and blah, blah, blah, blah, right. The position is as it always has been, that we believe that the right way to operate in South Africa is with all the businesses and we are pushing ahead to take the gain from the synergies between the businesses. The M&A standards that you asked about at the end. Broadly we have a …a risk adjusted return on capital or IRR hurdle for any M&A activity. So clearly it is different in South Africa. It is 20% in South Africa. It is 12% in the UK and in the United States for purchase. And we…when we are selling things, because we do occasionally sell things, of course you are wanting to get it one side of that line. And when you are buying you want the other side of that line. But that's the…that's the standard that we continue to apply. That hasn't changed either in recent years. Now there were more questions in the middle and I have now forgotten…..

Jonathan Nicholls

UK consolidation.

Jim Sutcliffe

Just ask the question again, James, sorry.

James Pearce, Cazenove

It was just a question about whether you are into UK life consolidation or not.

Jim Sutcliffe

Well you know I …I always think that the…the…the most value adding thing to do is to pick bits off. You know, our net cashflow in the UK at £2.4bn, I can't say absolutely, because I haven't seen the numbers, but I am pretty sure that's the best in the industry in net cashflow. So you know our sales numbers are…I don't know what the market share is exactly but you know there are others who have got three or four times the market share in terms of sales. But our share of net cashflow is bigger than anybody else's. Now to my mind you know we are consolidating the industry on our platform by doing that. Now with…you know, buying something or whatever….you know, just…why bother, we can just get it coming in anyway. You know £2.4bn in half a year is…is not …not a bad shape. I think it is 13% of opening FUM. So it is quite a big growth in the number without bothering with any acquisition activity. So no, we are busy with the organic stuff at the moment. If that's…sorry, James, was there anything else? Did we miss anything? OK, you will have another crack in a minute if needs be. Ralph, can we take questions from Jo'burg. And then Andrea if there is anybody on the telephone after Jo'burg we will ask on the telephone. There is one…OK. Ralph, Jo'burg first please.

Ralph Mupita

OK, we have got a question from David.

David Danilowitz, JPMorgan

Hi Jim. Thanks very much. I will make sure I have got three questions to be consistent. The first question relates to ELAM. You have always historically spoken about this business as your medium term growth area. But 4% growth in APE I would call that a little bit disappointing. You have indicated your reasons for that. Maybe if you…if you feel you need to refer to the Asian growth, do you think ELAM might be much more moderate growth going forward. That's my first question. Second of all, the US business, no mention about the variable annuity. I know it is very small in your life at this stage. Just, because of your issues you faced on the fixed annuity side, would you consider….and you mentioned your…your enjoyment for Bermuda, would you consider pushing more towards variable annuity, possibly acquisitive. And then thirdly, the UK you mentioned about the tax changes on the offshore bonds. I know Gordon Brown has spoken about various issues on offshore bonds. Is this a significant risk…you mentioned towards the end of the period and could there be any additional withdrawals as a result of this? Thanks very much.

Jim Sutcliffe

OK, thanks Dave. Just …I will pick up the first two and then Julian…I am not an expert on tax changes on bonds. So I am hoping you are going to be. First of all ELAM, I think, Dave, that's a fair comment. I would have liked to have seen bigger growth in ELAM in that period and…and I know Julian would have as well. But nevertheless we are well ahead of what we planned at acquisition. So it's…it's OK. It's just…it's one period. And if we look at the trends that we can…we can see inside the business, I am pretty comfortable that ELAM is going to continue to grow. We have good businesses in there. I wouldn't change at all what I said before which is it's a good source of medium term growth. I think that is going to come through in places. Certainly in France…Italy is a place where it was weak in the first half of this year. The reasons are quite specific. I don't believe they are long term. And I think that we will see that pick up as we go along. Asia is not a substitute for ELAM. Asia has been sort of sitting there quietly, and suddenly it has got big. We have made some changes in particular in China to encourage the rate of growth over there. And that started to come through in the first half of this year. So it's not either ELAM or Asia. And we are not talking about Asia because we are worried about ELAM. It is ELAM and Asia. OK, so…you know, both the …the bread and the cake. In the variable annuities in the United States, yes, perhaps we should have talked about that more. Because certainly our focus hasn't changed. What we said, if you remember, was that we didn't expect to get any significant sales in the first half of the year. We didn't. But on the other hand we did sell a huge amount of variable annuity business through the Bermuda operation which is not onshore of the United States, but it is US style product. I…I don't see any reason to do this particularly by acquisition. It is the same story as elsewhere. I am not saying we wouldn't absolutely ever. But I think that the opportunity we have with what we have got already is already pretty big. And I don't know, Scott, if you would like to just talk about the variable annuity business. Have you got a microphone? Yes.

Scott Powers

Yes I do. David, Jim is correct. The …the variable annuity business plan was to have the first part of the year with the product launched, and then the training of our master general agents and…and our network of independent brokers. That process is in place. We started to see some modest sales volume as planned in the first…in the…in the second quarter. We believe that the ramp up is really going to come in the third…fourth quarter of next year. I would caution you that this is a segment of the market where variable annuity sales tend to be a more muted….the master general agent network. And a single A rated player as we are in that space is …is …in the independent agent network has a bit of an uphill climb. But we do have good experience obviously on…on the offshore piece. We have got an established distribution network with those independent agents, and we have got a very attractively designed and….and priced product. We are also launching in the fourth quarter of this year the equivalent of a no-load variable annuity for distribution through IFAs or registered investment advisors. Something we think is going to be very suitable for the …for fee only financial planner market. So I ….I will not, as Jim said earlier, that our sales volume in…in the US business this year for the first half was…was for the first time in history …we sold more variable product than we sold fixed product. And ….and I think that's a trend line we expect to see continue.

Jim Sutcliffe

And Dave, just to emphasise as well….sorry, Julian, just give it one more second on the US. That $2.5bn in the first half ….without telling you forecasts….if you look at the run rate, the annual run rate, that is $5bn a year. And you know that we have focused on $4bn a year in the past. So what Jonathan said is that we are not intending to do what we have done in some years in the past which is to yank the chain and slow the sales down. We will…we will carry on…I mean, you know, we will see whether the market allows us to do the same in the second half as the first half. But the run rate I think is now pretty good. Julian, tax changes on bonds.

Julian Roberts

Yes, I mean two things about the international business. The international business is selling just over half of the business to onshore residents, and then the other half of the business growing very strongly is showing the products into the Far East, Middle East, South America and other parts of the world. That business is growing particularly strongly. Now the…the people who are buying the product into the UK, some of them are buying for a tax benefit. And therefore you see that element coming down. But we believe the majority of people are not buying those products onshore for tax. They are…they are buying it because of the make up of the bond and the flexibility of the product. So we have seen, because of the changes, as…a decrease. But we don't think that that is going to be a fundamental problem moving forward. And we still believe that the business from this base will move forward when those changes have seen their way through the rest of the year.

Jim Sutcliffe

OK, Ralph, Jo'burg still.

Ralph Mupita

Another question?

Michael Christelis, UBS

Just two quick questions. Firstly on the Nordic region, you did mention that you have seen improved sales from the disappointing numbers for quarter two in …in the first two months of this quarter. Can you give a bit more colour on that, and you know what we can expect for the rest of the year? And then secondly, you were quoted a little while ago in the paper, talking about going into some new regions in South America. Can you just give us some…some idea of …of where you are on that, and whether you have got plans to expand further there or …or into the rest of Africa?

Jim Sutcliffe

OK. Julian, Nordic sales in June and July.

Julian Roberts

I don't want to make too much of a comment about one month, whether that has totally changed. But it is nice, and it is a fact that after having five months of the sales considerably lower then they did pick up in June and July. So whether that is a trend forming we don't know. But it is a positive sign. And that's a fact. It may be probably a bit early to read too much into it.

Jim Sutcliffe

And Mike, I...I think I remember the article on the…on the Latin America. I think… well not I think…our view, and Julian can comment on this as well, is that we have got plenty to be doing in Mexico and Columbia and Chile at the moment. So that we are not desperately keen to expand right now. The point that I had made to that journalist was that if we take a five year look there are certainly other places where the Skandia model works. And so there are things like Brazil which is a big economy that might well be on our radar screen. But I wouldn't like you to think that we are going to do that, you know, in the balance of this year or even next year. I think we have got our hands full with what we are doing. The same point does apply elsewhere in Africa. There are lots of things we can take from our South African business and re-use them in other countries in Africa. And we are certainly thinking about those things. And we will be likely to make some other moves in Africa over the next while. They are not imminent. But they are things that we are looking to do….to re-use our technology and our capability. Ralph are there…is there another question in Jo'burg? And then after that we will go to the telephone.

Ralph Mupita

Another question from Risto here.

Risto Ketola, Deutsche

I have only got one long question, so I will have to break it up into three for Scott. Also related…now firstly, your performance fees in the US look pretty low relative to your asset base, especially in light of what you refer to your very strong investment performance. So is this…is that the nature of the mandates that you are running? The second one is the very strong flows in the first half. What is the average fee on those compared to your existing assets? And then lastly, are there any major trends we need to watch out for by asset class in terms of fees?

Jim Sutcliffe

Scott, why don't you have a go at those three points.

Scott Powers

Sure. Risto the…the performance based fees are really a function of timing. We have got some projected performance based fees in the second half that will bring us onto a more normalised number relative to our…our recent history. I don't expect to see a big change in performance based fees in general. Although with the addition of OMAM UK into our business with their absolute return strategies, that carry with them some carried interest or…or…you will probably see a year over year spike in…in the quantum of performance based fees just by adding OMAM UK into our like for like calculations over the…over the year. In the flow piece, the…the average basis points in terms of net cashflow that we are seeing is consistent with our existing business. And that is partially a function of the fact that some of those…a significant part of those flows are coming in the term…in the term of fixed interest, which we find in the middle teens in terms of average basis points. And you will…you will offset that against higher flows or higher basis point flows in equity strategies that you see in the…in the…in the 40s and 50s. So on average our flows are in that ….in that 35 bp range that is pretty consistent with the rest of the overall business. And then the…the third question I think was, are we seeing margin compression or fee pressure in any of the…the major segments of our business. We really…we really have not. In…in the near term what we have seen over the last three years is, we have seen some margin compression in the retail space in the United States interestingly enough. I think as a...as an aftershock of the market timing scandal and some of the proactive and progressive legislation and…and controls imposed by mutual fund boards. As you all know we haven't been in that space in a…in a meaningful way. We are building that up over time. We have now seen kind of equilibrium between institutional fees and...and retail fees. They are about on average the same. We have seen a little pick up in…in institutional. Because we have seen more exposure into hedge fund type strategies in the institutional market or 120/20 strategies, 130/30 strategies, which have brought average institutional fees up just marginally. So now they are on about par with retail. We have not seen any compression in either of those spaces. What we do tend to see from time to time is a shift in mix. So we will see our average fees on net cash change based on the mix. If it is more heavily fixed interest, we will see slightly lower fees. If it is more heavily equity or…or non-dollar global strategies we will see slightly higher fees. I think I caught all three parts of the question, didn't I Risto? Thanks.

Jim Sutcliffe

Yes. OK. Is there somebody on the telephone? And then Greig next after that.

Phone Moderator

We have a question on the line, a Marius Strydom. Please go ahead now and announce your company name.

Marius Strydom, BJM

Firstly I just wanted to say thank you very much for your additional disclosure on the bond exposure in the US, specifically from a subprime point of view. My…my question is more to understand a bit better how defaults in the US and also marked to market adjustments in your bond portfolio translate to…to your EV there. My question is whether you are able to take those defaults and…and marked to market adjustments, and actually pass them over to your…to your policyholders, and to what extent those are all carried by the shareholders.

Jim Sutcliffe

Yes, Marius thanks. It might be helpful if I just start at the beginning. So forgive me if I just start at the beginning and then get to what I think your question is. The way we work is that there is a provision in the pricing for defaults. So we make an allowance for the defaults. And the accounting of IFRS doesn't allow us to reserve that in a…sort of a default pot. So as defaults happen, were they to happen…I mean we haven't had any, but were they to happen, they would be fed into the accounts. Now the way it works is that the …the line that we have that is short term fluctuations takes the…the capital hit of whatever the default is…or indeed a capital gain if there were one. And then it gets fed into the adjusted operating profit on an amortised basis. Yes, OK, so I am looking at the accountants in the room and they think my actuarial version was alright. So…so that's that. Now the other impact the defaults have is in the statutory accounts. Because when you get a default it…it affects your capital. So you…you have to replace the capital. So you can get that effect. As to the last bit of your question can we pass it on to policyholders? The …the fact that it is part of the pricing means we can pass it on to policyholders. There are limits. But in principle we can set whatever crediting rates we like, so long as it is above the statutory minimum which is either 3% or 1.5% depending on the block. And clearly if it is an equity index annuity there…it comes into the way in which the options are priced as well. So there is an ability to pass it on to policy holders. It isn't complete. It isn't…the risk is ultimately borne by the shareholders. But there is some…some ability to pass it back to policyholders. Did I answer that question Marius?

Marius Strydom, BJM

You answered the question on the default side. But what about the marked to market changes in…in the bond portfolio.

Jim Sutcliffe

Yes.

Marius Strydom

For instance if the…if the subprime situation were to lead to a…a marked to market negative adjustment in your overall bond portfolio.

Jim Sutcliffe

Yes, yes the same thing applies Marius. It's…it works exactly the same way. So when we have had either credit re-ratings or down ratings in the portfolio, those things go into the short term fluctuations line and the short term fluctuations line is amortised back into adjusted operating profit.

Marius Strydom

Just to…just to understand then, if…if therefore the subprime situation does not resolve itself by the end of the year we could expect some negative impact in your income statement and also in your EV.

Jim Sutcliffe

No, I think it is so small Marius in our book that it…that would be very very surprising. I …it's just…it's not of a ….a size in our book that it is going to have any impact at all.

Marius Strydom

OK, thank you.

Jim Sutcliffe

OK. Greig. We are back in London. In Jo'burg…we are just going to have…going to get a microphone to Greig Patterson, and then someone who I can't see…is that Oliver back there…I can't see you in the light.

Greig Patterson, KBW

Three questions. The first one is, last year about 10% of the life operating profits had a positive for the recalibration of risk margins. You don't…don't do any adjustments now. Are we going to see that disappear at the end of the year where bond deals are currently? Because that is obviously a very material item. I wonder if you can give us some guidance on that. The second thing is A-Day. I wonder if you can give us a sort of July August run rate for how pensions is going so we can get some kind of steer whether we have reached a peak there. And the third point, a technical question. If you are moving to a fixed spread on your US EV then you are actually not applying a more consistent basis. Now also…I also notice in the South Africa you are going to do further work on MC EV. I mean you are…we all….you know, are you actually applying MC EV base….are you moving away from it…towards it…there is a bit of confusion there.

Jim Sutcliffe

OK. I think …pass your…pass your microphone to Mukesh, because he is going to give part three there. OK, just…well we deal with one and two first, OK. The risk margin…in fact the risk margin recalibration, I mean, you could have dealt with that too. But it is not going to disappear at the end of the day, Greig, I…I don't think there is any reason to think….unless you want to….[unclear]. No…no, I understand, but I don't think it is. So Mukesh, just….

Mukesh Mittal

No, I mean we will do a recalibration episode at the year end again. So I …I am not sure it is going to go the other way. I am not…I don't have any reason to believe it is going to go the other way at this stage.

Jim Sutcliffe

Why don't you deal with the fixed spread…is that consistent with MC EV and delay in MC EV in South Africa and so on.

Mukesh Mittal

I mean I think the point on MC EV is we are …at the moment, on a broadly market consistent basis. So the underpin of our EV is a market consistent basis. What we are looking to do at the year end …and at some point during 2008 is actually move onto a proper market consistent basis. So we don't have this entire recalibration issue which we need to keep explaining every time we do the result. So we are looking to do a full market consistent basis. And actually to do that…kind of disclose that at some point during 2008.

Jim Sutcliffe

OK. Then A-Day, do you want to pick that up, Julian?

Julian Roberts

Yes, if you look at July, there is nothing that is showing us particularly that there is a great slowing down.

Jim Sutcliffe

Let's go to…go to Oliver first, if you don't mind Ragu, because he had his hand up first, and then we will come to you if that's OK.

Oliver Steele, Deutsche Bank

Two questions. The first is, you have shown us subprime exposure for the group as in within the life business.

Jim Sutcliffe

Yes.

Oliver Steele, Deutsche Bank

Can you comment on any subprime exposure that exists within the third party funds? And secondly, there has been a little bit of chatter in South Africa about possibly putting a…a sort of holistic quote around all of your South African businesses. And I was wondering, first of all, if you would like to comment on that, and if that was…if that is a…if that is a goer, how would the holding company then relate to the…that South African separate quote.

Jim Sutcliffe

Subprime and third party, not an issue I am aware of, but….Scott.

Scott Powers

The…the only area we would have any exposure in….and it is…it would be a very similar quantum to what we have in the life book, because the life book as you know is…is largely managed…outsourced to Dwight Asset Management, our fixed interest player in the…in the US. Roughly half of Dwight's assets are…are in stable value type instruments that are wrapped within insurance products, that are very short term in duration, and have very high credit quality. They tend to be bolted in the one and five year duration. In their traditional fixed income portfolios we will have a similar quantum of exposure in mortgage backed securities that we have in…in the life book. But …and that's roughly equal to the size of the life book on a standalone basis.

Jim Sutcliffe

Yes. It's…it's tiny, Oliver, I am sure.

Scott Powers

It is small.

Jim Sutcliffe

I think also, Oliver, the thing that is making us comfortable. We aren't big hedge fund players. So that...where…where you have seen people get under stress because of redemptions and hedge funds, I mean frankly even if it happened in our hedge funds it would not make a huge issue for us. So that goes away. And the second issue, the combined South African business. You know, this is a …a thing that we think about from time to time. But you know to be honest we are far busier with the organic activity than worrying about exactly where that goes. So you know I…I really couldn't speculate on your second question, because it is not front of mind. You know, there are obvious advantages to doing it that way. I wouldn't like to say anything else. But I think we are busy with…with getting on with building the business. Ragu.

Ragu Harigan, Fox Pitt Kelton

True to form, three questions. The first thing is, on the US charges, obviously nine months…at nine month stage last year you had lapsed charges on your US book. I am just wondering whether the spread changes that you have made also account for any lapsed experiences you know within that book. And …or is lapsed experience you know in line with your assumptions? So that is number one. A second, on your equity indexed annuity book in the US, obviously there is regulatory uncertainty over this product. I was just wondering how comfortable are you with your front book and back book product structures in terms of you know how the regulator would look at it. The third thing is, obviously you are flagging a higher amount of excess capital. Even when this gets unlocked [unclear] what your preferred use of capital? Do you have any preference towards returning it back to shareholders and or acquisitions? Thanks.

Jim Sutcliffe

OK, why…why don't you deal with the use of extra capital, Jonathan.

Jonathan Nicholls

Well I tried to answer that earlier with my first question. But I mean as I said, we…we are waiting for Moodys to…to a point. Clearly we are aware of the fact that we have a surplus. But at this stage, until I go through that process with Moodys we can't make assumptions about what their requirements would be in terms of the rating going forward. So I am sorry, I know you want to put a number in your models, but I wouldn't advise that at this stage. Just on the lapsed charges, Jim…shall I just pick that up?

Jim Sutcliffe

Please go ahead, yes.

Jonathan Nicholls

I mean that is …that is continuing in line with our assumptions. So the crediting rates that we have put in place are …in our view, working pretty close to where we thought they would back in quarter three.

Jim Sutcliffe

And EIA regulatory issues, Scott, I mean please feel free to add. It is not really impinging on us at the moment. I know people argue about this a lot. But we are not expecting any change really to either the inside build up of annuities, which is a longer standing ….call it a regulatory…but a tax this year. I mean whether it gets regulated by the SEC or the States, I have said many times, I am not an American and I don't vote in America. But sending jobs to Washington doesn't get a lot of votes in most State capitals. So I don't really see that coming alive myself. And so….in terms of the design of the front end, clearly we are conscious of the legal issues, as opposed to regulatory issues. And we are very conscious of the need to make sure that our processes and our products are compliant with the…with the best practices in the industry.

Scott Powers

I just would flag….there…there is one trend. And that is particularly as we see baby boomers ageing, there will be and ….and is a bit of a trend towards ensuring that selling practices to an ageing community, an ageing constituency, are in line with best practices and in…in line with appropriate compliance. And you are starting to see some noise out of Washington, Senate sub-committees being formed to look at selling practices for the elderly. And…and I ….I think that's a healthy thing. We have been very very careful and will continue to focus in our…both our risk management and in our compliance functions, to ensure we are not only adhering to the regulatory environment but industry best practices as we face off to the independent agent network. Ultimately the independent agent manages that selling practice and…and trains that network of agents. But we are making sure that we have got the…kind of a front to back controls in place so we can train the MJ network appropriately. But you are going to see some interest in that. I …I would no doubt expect to see some press coverage on that in the months to come.

Jim Sutcliffe

OK, shall we…would you mind if we just went back to Jo'burg James? Ralph more questions in Jo'burg?

Ralph Mupita

No further questions in Jo'burg Jim.

Jim Sutcliffe

OK, James.

James

I have actually got a comment as well as a question. I hope that….

Jim Sutcliffe

OK…feel free.

James

I don't know if that is outside the three questions rule. On…on disclosure can I make a plea that you put the EV P&L on about page two. Because it is about 8 o'clock before I actually get an EV P&L printed off, which makes it pretty difficult to analyse your numbers. Second, I do think EV is more important to how I understand your business than IFRS. If you are though going to move to IFRS can you explain how your P&L works for life business. From the analysts day a couple of weeks ago it does seem that quite a lot of the…the fees that you receive are actually based on inflows rather than AUM. And we need to understand what the real picture is for your revenue, and also the costs and how they relate to…to those revenues. Because it is not clear just from the current IFRS P&L. And my question is on the EV basis you seem to be grossing up the European life result at about 11% this time, it has been 24%

in the recent past. So I was just wondering why that was.

Jim Sutcliffe

You are talking about a tax…the rate of tax on the business.

James

Yes, on the EV results you state the net and then gross them up for the front of the P&L. But the grossing up rate seems to have gone down a lot.

Jim Sutcliffe

Jonathan are you….

Jonathan Nicholls

[unclear] Mukesh will you…

Jim Sutcliffe

Mukesh. We need a microphone for Mukesh. I mean just while he is getting the microphone. I mean we can certainly do things. But I think that the bulk of our revenue is most certainly derived from AUM and not …not inflows. It varies by operation. It is about 60% in the Skandia UK operation. It is 100% in the US asset management business or near as damn it. It's about 85% in Sweden. It is 60% odd in the South African life business. The proportion in the bank…the NII bit is strictly 60% but actually the NIR is very closely correlated to that. So overall the vast bulk of our revenue is generated by AUM. The relationship between the expenses I think is an important point. And what we have certainly tried to do is to take the table that Jonathan was showing you where we are using the IFRS accounts, which I think have some…the DAC effects in there make it difficult to read through. And we will try and split that out so you can see the expense piece more clearly. But Mukesh, grossing up for European EV.

Mukesh Mittal

I mean in terms of our approach, it is amalgamation of all the various business unit tax rates. So we apply the effective tax rate in each business unit and…and gross it up at that rate. I am not sure of the actual number you are referring to, but there is one thing, I think you should be aware of in the UK. We have assumed …well it's not an assumption. I mean it's an effective tax rate …has moved down from 30% to 28%, the corporation tax rate. So I don't know whether that is kind of underpinning some of that changing gross up rate.

Jim Sutcliffe

Perhaps James you could just talk to Mukesh afterwards and show him the number or…I mean I don't know if Julian…Mukesh and we will…we will work out the exact answer. Because it is not something that is front of mind for us. OK, are there more questions in the UK? On the telephone….sorry, excuse me, Blair.

Blair Stewart

Thanks, I just wonder in the spirit of credit quality, you commented on the…some credit quality concerns…well concerns may be the wrong words in…in South Africa…in the bank. And just …just a comment on that, plus how that might affect the…the credit assets that you have in OMSA. And sorry, a second question, on your…on your favourite slide which is the assets times margin profit one.

Jim Sutcliffe

Yes.

Blair Stewart

Could …could you explain how the …the changes in the US have affected the numbers there. There seems to have been a pick up in the…in the cost aspect in the US, I think.

Jim Sutcliffe

Yes, yes. I mean I…I think Jonathan will look it up and he will talk to the second question. But I think it is mainly that the adjustments are in the expense line, Blair. But….

Jonathan Nicholls

That is right.

Jim Sutcliffe

OK, that is really all there is to it. So that if you look at the right hand column, the profit column in there…by memory it is fifty something basis points this time, and it was a hundred and something last time. And all of that is just taking the provisions through there.

Jonathan Nicholls

Through that column.

Jim Sutcliffe

Through the expense line [unclear]

Blair Stewart

So …so …so there is an element of one-off in there then?

Jim Sutcliffe

Correct.

Jonathan Nicholls

Correct.

Jim Sutcliffe

Yes, yes.

Blair Stewart

OK, thanks.

Jim Sutcliffe

Yes, I mean it hasn't …it hasn't changed at an underlying level.

Jonathan Nicholls

Yes.

Jim Sutcliffe

Or…it's…you know, the differences…I mean there might be some marginal change, but it's fundamentally the same. I didn't hear all of the first question, but I think you were asking us to comment on credit quality in South Africa. And…and the impacts across into OMSA as well as in Nedbank, I think, is what…that's what you said. First of all, you will have seen from Nedbank's presentation which is quite full on the subject I think, that the impairment cost in Nedbank on retail has risen from 110bps roughly to a 135 bps. It might be 112bps to a 135 bps. But that's about the number. And the volumes in the retail business are growing all the time, as they are for all banks in South Africa. So there is quite a significant pick up in the impairment costs for retail. Now the way increased interest rates work in the bank is normally you get a…an effect in the short run which is to improve your profits, because you get higher returns on your capital. And then a bit later you get a pick up in your impairment rates, which causes the profit to move back a little bit. So you get a timing effect, one positive and one negative. The other feature that is getting in the midst of those statistics is that we have seen greater growth in our unsecured personal lending in Nedbank than in our retail mortgage lines, home loans lines, which is still a big thing. But …so you are seeing some mix issues getting in there as well. As a practical matter there were some service issues in the first half that caused some collections problems, which we think will not recur in the second half. So we are believing that the way in which the impairments will come through in the second half will be …I tell you the trend is upwards, but…but more modest by virtue of the management action. On the credit card side which is what everybody talks about, the size of the credit card book in Nedbank, by memory it is about R6bn out of a total of advances which is up in the R375bn territory, that sort of thing. So the credit card book, although it can display very poor impairment statistics, really just isn't big enough to make any real difference to the answer. The…the thing that makes or breaks the answer is retail or residential mortgages. That's the thing that counts on the retail side. If you look at the corporate lending side the impairment statistics are very stable. Nothing has changed at all in the second quarter. So there is no evidence of credit stress in the corporate book. It is only in the retail book. So when you pay across in to OMSA the…the links with OMSA are really at the corporate side, OK. There…there isn't residential mortgaging inside OMSA. There is only corporate lending. So the corporate lending read across from Nedbank is that it hasn't changed very much. I am not sure if I picked up the point you were getting at, Blair, but….happy to go into more detail if you would like. Is that alright? OK. More in London? Last call in Jo'burg Ralph?

Ralph Mupita

One more call from David.

Jim Sutcliffe

OK.

David

Thanks Jim. Sorry, just coming back to the US Life, you made a comment that your underlying earnings are rolling on at 1% of assets as a …as a reasonable run rate.

Jim Sutcliffe

Yes.

David

The difference between EV changes we have seen now and the IFRS impacts that we have seen, are those going to filter through the operating line going forward, or are those not going to be reflected in the IFRS accounts in future years? That's…sorry, the first question. And second question, very….very short…is….the negative rating watch, has that in any way affected your sales in the US? And I guess Scott would have to talk to how sophisticated the market is there.

Jim Sutcliffe

I mean the …the answer is no, to the second question. So I mean I don't think there is any…any…any issue there. I think the EV flow through to IFRS, I will try and then Jonathan will…will pick up. What you have got here is that …like all provisions, what they will do is, they will feed back in as they are amortised, feed back into the income statement. So if you want to compare what has happened in the past with what is happening in the future, to the extent that the provision is making allowance for a trend that was happening in your income statement, and now it is all capitalised, actually you won't get that income statement effect in the future, because the two things will …will offset each other. What is true is that where you haven't made a provision, as in the IFRS effects for the SPIAs, is you will continue getting what you had in the past. It won't…it won't…so it won't get worse but it…it doesn't get better either. It just doesn't change. I don't know…is…is that within pigeon accounting for actuaries or something….it's alright is it. OK, is that alright, Dave? Is he waving or not?

Jonathan Nicholls

He has lost the mic.

Jim Sutcliffe

Lost the mic.

Ralph Mupita

Dave is nodding his head, Jim.

Jim Sutcliffe

OK. So is Dave going…going to ask another question Ralph….I…we couldn't hear you.

Ralph Mupita

No, no, Dave is nodding his head. He is fine.

Jim Sutcliffe

OK, good. Alright. Any more in London, last call. OK, well thank you very much everybody for attending. I hope there is a cup of tea outside in Jo'burg and I think we failed last time to do that. But please stay and ask more questions if you would like to. And thanks again for coming along.

END.