OLD MUTUAL | plc

8 November 2007

# Trading update for the nine months ended 30 September 2007

## Good investment performance continuing to attract assets

- **Net client cash flows (NCCF) £17.0 billion, 10% of opening funds under management (FUM) on an annualised basis**
- **Funds under management up 14% to £270.4 billion during unsettled market conditions**
- **Life APE sales up 13%* to £1,294 million (up 19% at constant exchange rates)**
    - **UK up 20%*: good single premium business backed by strong net cash inflows**
    - **Nordic sales picking up, slower overall following tax changes**
    - **ELAM up 12%*: strong contribution from Central Europe**
    - **SA retail up 15%*: increased distribution channels**
    - **US up 43%*: excellent offshore sales**
- **Mutual fund sales of £6,192 million: strong US and ELAM growth offset by declines in South Africa and UK**
- **Value of new business up 9%* to £191 million**
- **Estimated EEV per share 176p at 31 October 2007**

**Jim Sutcliffe, Chief Executive, commented:**

"Old Mutual has delivered good investment performance during the period and £17 billion of net inflows from clients, continuing to grow assets under management despite the turbulence in world financial markets. Sales have been buoyant overall, with particular strength in the UK and US where the performance was supported by impressive variable annuity sales from Bermuda."

*** For the nine months to 30 September 2007, with comparisons to the nine months to 30 September 2006***

# Trading Update

## Enquiries

| | | |
|---|---|---|
| **Investor Relations** | | |
| Aleida van Herel | UK | +44 (0)20 7002 7287 |
| Deward Serfontein | SA | +27 (0)21 509 8709 |
| **Media** | | |
| James Crampton | UK | +44 (0)20 7002 7133 |
| Nad Pillay | SA | +27 (0)21 504 8026 |
| **College Hill (UK)** | | |
| Tony Friend | UK | +44 (0)20 7457 2020 |

**Notes to Editors:**

A conference call for analysts and investors will take place at 8.30 a.m. (UK time), 9.30 a.m. (Central European Time) and 10:30 a.m. (South African time) today. Analysts and investors who wish to participate in the conference call should dial the following numbers:

| | |
|---|---|
| UK (toll-free) | 0800 694 0257 |
| Sweden (toll-free) | 0200 890 171 |
| South Africa (toll-free) | 0800 980 759 |
| International | +44 (0) 1452 555 566 |

A replay facility will be available until 22 November 2007 on the following numbers, access code 22669724#

| | |
|---|---|
| UK (freephone) | 0800 953 1533 |
| US (toll-free) | 1866 247 4222 |
| International | +44 (0) 1452 550 000 |

Copies of this update together with high-resolution images (at http://oldmutual.com) and biographical details of the Executive Directors of Old Mutual plc are available in electronic format to download from the Company's website.

A Financial Disclosure Supplement relating to the Company's nine month trading update can be found on the website. This contains a summary of key financial data for the first nine months of 2007 and 2006.

**Forward-looking statements**

This announcement contains forward-looking statements with respect to certain of Old Mutual plc's plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond Old Mutual plc's control, including, among other things, UK domestic and global economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties or of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in territories where Old Mutual plc or its affiliates operate.

As a result, Old Mutual plc's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Old Mutual plc's forward-looking statements. Old Mutual plc undertakes no obligation to update any forward-looking statements contained in this announcement or any other forward-looking statements that it may make.

# Trading Update

## GROUP RESULTS

| Group Highlights (£m) | **Q3 YTD 2007** | Q3 YTD 2006 | % Change |
|---|---|---|---|
| Life assurance sales (APE) | **1,294** | 1,145 | 13% |
| Europe | **808** | 708 | 14% |
| South Africa | **248** | 255 | (3%) |
| US | **238** | 182 | 31% |
| Other | **-** | - | - |
| Unit trust / mutual fund sales | **6,192** | 6,274 | (1%) |
| Europe | **3,343** | 3,608 | (7%) |
| South Africa | **801** | 1,019 | (21%) |
| US | **1,570** | 1,213 | 29% |
| Other | **478** | 434 | 10% |
| Value of new business | **191** | 176 | 9% |
| Europe | **97** | 99 | (2%) |
| South Africa | **42** | 40 | 5% |
| US | **52** | 37 | 41% |
| Other | **-** | - | - |
| Net Client Cash Flows (£bn) | **17.0** | 16.2 | 5% |
| Europe | **4.1** | 4.6 | (11%) |
| South Africa | **(1.2)** | (0.3) | n/a |
| US | **14.1** | 10.9 | 29% |
| Other | **-** | 1.0 | n/a |
| **(£bn)** | **Q3 2007** | FY 2006 | % Change |
| Funds under management | **270.4** | 237.1 | 14% |
| Europe | **59.1** | 51.2 | 15% |
| South Africa | **41.0** | 40.1 | 2% |
| US | **163.7** | 140.0 | 17% |
| Other | **6.6** | 5.8 | 14% |

During the nine months to 30 September 2007 (“the period”), Old Mutual has experienced strong life APE sales and positive net client cash flows in most of its businesses compared with the nine months to 30 September 2006 (“the comparative period”).

# Trading Update

### Investment performance drives net client cash flows

Net client cash flows continued to be positive overall during the third quarter, driven by good investment performance in the US in particular, where 87% of our clients received returns in excess of their benchmarks on a trailing three year basis. Funds under management had grown to £270.4 billion by the end of the period. This was particularly gratifying given that it was achieved during a period of market volatility caused by the tightening of credit conditions during August.

### Sales

Life APE sales were strong at US Life (primarily as a result of sales from Bermuda) and Old Mutual South Africa (OMSA) performed particularly well in the Retail Life segment. Both our UK and ELAM businesses produced solid results and we were pleased that Nordic life sales, after a slow start to the year, were higher in the third quarter than in the equivalent months in 2006. Unit trust sales overall were consistent with 2006 levels with good performance at US Asset Management and ELAM, but some weakness caused by market conditions in the UK and Nordic. On a constant currency basis unit trust sales were up 3%. Total gross premiums from our increasingly significant Asia Pacific businesses are double that of the comparative period.

### Skandia synergies and developments

We have continued to invest to deliver our targeted synergies from Skandia including launching Selestia Investment Solutions, our new integrated investment platform in the UK as well as investing in IT in Sweden. During the period, we announced the rollout of a new Skandia logo clearly identifying it as part of the Old Mutual Group by changing the colour to green. In October 2007 we launched Skandia Investment Group (SIG), a new global investment management function which will be one of the world's largest MultiManager investment businesses. It will manage combined assets of around £60 billion across a variety of MultiManager and open-architecture investment solutions.

### Value of new business growing

Life margins were higher in the US and South Africa, and slightly lower across Europe. The value of new business was up 9% in total, and on a constant currency basis was up 15%.

### Nedbank and Mutual & Federal

Nedbank has progressed well and for the end of the period exceeded its longstanding 20% return on equity target for 2007. It is continuing to invest in its retail franchise. Impairments are rising, but are within normal tolerances. Mutual & Federal produced better results in the latter part of the period and is seeing the corrective actions implemented now taking effect.

### Other Matters

Our £350 million share buyback programme was announced at the beginning of October 2007 and we have so far repurchased approximately 28.5 million shares through the London and Johannesburg markets at a total sterling equivalent cost of £49 million.

The Group EEV per share as at 31 October 2007 has been estimated at approximately 176p. This is based on the Group EEV per share calculated as at 30 June 2007 rolled forward to allow for the earnings run rate, foreign exchange movements and changes in the share price of the listed subsidiaries.

# Trading Update

## UNITED KINGDOM AND OFFSHORE

### Another good quarter from Skandia UK

Our industry-leading open-architecture platform, which enables a wide range of investment choices for IFAs and clients, continued to boost sales and net client cash flows. New business margins were 10% as a result of the operating leverage delivered by a 20% increase in life sales over the comparative period (with increased scale benefits and a shift towards single premium retail pension business) and a 15% increase in funds under management to £41.5 billion since 31 December 2006. During the period we launched Selestia Investment Solutions, the combination of Old Mutual's Selestia platform and Skandia MultiFUNDs, giving financial advisers a single, easy-to-understand market proposition. This is well positioned to harness the market's demand for simplicity, flexibility and choice.

Net client cash flows were £3.2 billion for the period, representing 12% of opening funds under management on an annualised basis. Good inflows, combined with favourable market movements during the period, have driven a significant increase in funds under management since the beginning of the year. In the third quarter, however, volatile markets affected investment performance, but this was partially offset by positive net client cash flows.

Skandia UK continued to deliver good new business growth. The first nine months of 2007 were characterised by buoyant net client cash flows and ongoing recognition from our distributors for our award-winning platform. However unit trust sales (excluding institutional investment business) were down against the comparative period, as a result of uncertainty in markets since the end of the first quarter. Institutional mutual fund business was significantly down in the period, with no recurrence of the exceptional business volumes experienced in the third quarter of 2006. Market share increased from 5.0% in the prior year to 5.4% on a whole of the market basis.

Life sales on an APE basis were £569 million, driven by particularly strong UK single premium sales of £430 million and the continued impact of the "A-Day" pension changes. International covered business increased to £205 million during the period, benefiting from strong institutional portfolio bond sales into the UK in the first part of the year. A significant tail-off following a tax change in the UK budget has been offset by higher regular premium business in the latter part of the period. The value of new business improved by 28% to £59 million against the comparative period due to strong sales growth and mix of business across our core products.

Skandia Investment Management Limited's (SIML) risk-controlled products have continued to deliver excellent absolute returns, with SIML's *Aggressive*, *Balanced* and *Cautious* funds up 89%, 73% and 46% respectively since launch in February 2003. The *Global Property Securities Fund* has remained Skandia's best selling fund throughout 2007. Together with the launch of the *Best Ideas* funds, including the new *UK Strategic Best Ideas Fund* in September 2007, this has driven improved sales, generating direct subscriptions in excess of £309 million for the period. *Global Best Ideas Fund* has delivered 30% since launch in June 2006 and is top decile in the IMA Active Managed Sector.

Skandia welcomes the FSA's Retail Distribution Review which provides the industry with an excellent opportunity to debate the developments taking place in the market and drive forward best practice. Proposals that promote increased transparency and place value on financial advice are a positive development and should be embraced by advisers. We believe consumers will benefit from increased choice and clarity of the service they receive and Skandia is well placed to continue to build on the rapid growth of its platforms.

# Trading Update

## NORDIC

### Sales starting to recover in Sweden

The negative trend in life sales APE has turned around during the third quarter, with sales on an APE basis up 12% over the third quarter in 2006. The improved quarter performance in Sweden, up 8%, is due to continued focus on sales activities (impacting both internal and external sales channels), providing a more attractive investment offering as well as some pricing adjustments. However, life sales on an APE basis for the nine month period were still 5% down on the comparative period as a result of weaker performance in Sweden earlier in the year. The tax advantages of the Swedish *Kapitalpension* product were removed from 1 February 2007 following a change in regulations. This negatively impacted sales as *Kapitalpension* products accounted for 10% of sales in 2006. New sales growth in Denmark continued strongly, up 30% as a result of a general increase in the Danish life market as well as good performance of the new *Skandia Match* product. The third quarter of 2007 was the best quarter ever for our Danish business.

Life new business margin was 14% compared to 27% for the comparative period. The decline can be attributed to a change in arrangements between Skandia and Skandia Liv, negative operating leverage from lower sales, increased competition in the Swedish market and a changing mix of business as a result of the high margin *Kapitalpension* product no longer being sold.

Funds under management increased during the period to SEK117.8 billion due to continued positive net client cash flows and good fund performance. Negative market movements in recent months have slowed down fund growth, but closing funds under management were still up 10% over 31 December 2006. Funds under management include an adjustment to the opening balance of SEK3.2 billion with SkandiaBanken Norway and pension savings (IPS) in SkandiaBanken Sweden now included.

Lending at SkandiaBanken increased to SEK51.3 billion, up 20% on the comparative period, mainly due to strong mortgage lending in Norway and Sweden. The deposits increase of 12% to SEK50.2 billion related to saving accounts in both Norway and Sweden. The number of bank customers in Sweden and Norway has increased 3% over the past 12 months. SkandiaBanken's savings offering has been strengthened by widening the fund range and introducing discounted share trading.

Our Danish banking operations were divested during the third quarter to strengthen profitability and to bring focus to the remaining businesses.

On 23 October 2007 we announced the sale of SkandiaBanken Bilfinans, the vehicle financing business, to DnB NOR. SkandiaBanken Bilfinans provides lending and leasing credits in co-operation with general agents and car dealerships in Sweden and Norway. The business today comprises some 115,000 customer contracts and includes an aggregate credit portfolio of approximately SEK13 billion. The sale is part of SkandiaBanken's focus on being a market-leading direct bank in Sweden and Norway. The total consideration of the transaction is SEK2.3 billion and the sale is expected to be complete in early 2008. Completion of the deal is subject to regulatory approvals in Sweden and Norway. In the first half of the year, the profits on this business were SEK63.2 million.

We have continued to focus on improving operational efficiency and aggressive marketing activities in the Nordic business. The investment programme has reduced adjusted operating profit for the period and this is expected to continue during the fourth quarter in line with previous market guidance. The improvement of our unit-linked product offering is underway and will be launched towards the end of 2007. Furthermore SkandiaBanken's savings offering has been strengthened by widening the fund range.

# Trading Update

## EUROPE AND LATIN AMERICA (ELAM)

### Solid sales

In ELAM, strong performance in Central European markets, particularly in Poland where our positioning continues to be strong in a fast growing market was partially offset by lower sales in Southern Europe, most notably in Italy. Regular premium sales for the period were 17% ahead of the comparative period on an APE basis, while single premium sales were 7% ahead. Overall, life sales of €204 million on an APE basis are up 12% over the comparative period.

Mutual fund sales of €1,988 million were up 26% over the comparative period with strong contributions from our discretionary asset manager, *Skandia Global Funds* (particularly in Latin America and Taiwan) and our Latin American pensions business (particularly in Mexico and Colombia). Average margins on mutual fund business improved as funds placed in the low margin institutional asset management business in Spain have been replaced by funds in the higher margin discretionary asset management businesses. This led to an improved adjusted operating result for the mutual fund portion of the business.

Net client cash flows of €1.2 billion for the period were 15% of opening funds under management on an annualised basis. Market movements for ELAM were positive for the first six months of the year but experienced a downturn during July and August in line with markets across the world. By the end of the third quarter, markets had staged a partial recovery and, together with further net fund inflows of €0.4 billion, funds under management were broadly flat compared to the start of the third quarter.

As reported at the 2007 interim results, the Italian business has been experiencing higher surrender activity. This results from products sold five years ago that are now approaching the end of the surrender penalty period. We have reassessed and updated the surrender assumptions in Italy and external acquisition costs will now be amortised over a shorter timeframe. The financial advisory market in Italy, our predominant distribution channel, continues to see consolidation and strategic stake building.

VNB of €35 million for the period was flat against the comparative period. This is due to a higher contribution from less developed markets being offset by an increased investment in sales resource in Europe. The latter creates a time lag factor with sales volume expected to increase in later periods.

Poland continues to grow strongly and is now a significant contributor to both new sales and ELAM's overall result. This reflects the efforts put into this business over recent years, with particular emphasis on growing distribution. We continue to grow market share in France. Sales on an APE basis were flat in the first half due to a strong tax-driven market in the first half of 2006, but we saw new business sales grow strongly in the third quarter. This was partly due to our sales segmentation project and further investment in e-tools for distributors. We made a significant investment in distribution in our Latin American and European markets during the period, and this sees us well placed to capture the growth in those markets.

## SOUTH AFRICA – LIFE AND ASSET MANAGEMENT

### Continued retail sales performance

Sales through our growing retail distribution channels in South Africa were strong and we launched a number of new funds into the institutional market from our investment boutiques. This structure is progressing well and we are very pleased at our overall investment performance. It will take time for the market to appreciate fully the benefits of this model, but the innovation emerging from our asset management boutiques in the form of new offerings is beginning to attract new flows.

Our stated intention to migrate from Traditional to New Era products in the life business has continued and the returns on the shareholders' funds backing the business's capital requirements have been excellent.

# Trading Update

Funds under management, at R476.2 billion, grew by 5% relative to the position at 31 December 2006. Good investment returns were partially offset by negative net client cash flows which were a negative R11.5 billion compared to R1.6 billion net inflow in the comparative period. This was mainly because of significant net outflows from institutional clients, notably from two multi-managers.

Life sales on an APE basis of R3,362 million continue to be strong, up 15% on the comparative period. This performance was driven mainly by the productivity of our direct sales force and the expansion of the numbers of sales people in our Mass Market business. Recurring premium sales grew strongly with relatively moderate single premium sales performance.

Unit trust sales were down 6% with caution among multi-managers over portfolio manager changes and short-term investment performance on certain core funds (*Dynamic Floor* and *Enhanced Income* funds). The new *Stable Growth Fund*, an alternative to the *Dynamic Floor Fund*, was launched in July 2007 and has had good early sales. We have also seen a switch to platforms that receive fee rebates from underlying unit trust funds, and these platforms tend to drive flows to related asset managers rather than independent asset managers.

The value of new business was R527 million for the period, 24% up on R425 million for the comparative period with improved margins. This was primarily driven by a higher proportion of risk business and good expense management in the Mass Affluent segment, leading to lower distribution costs.

### Mass Market

Retail Mass sales were up 25% on the equivalent period in 2006, continuing the strong rate of growth seen in 2006. The result reflects the continued focus on growing the sales force, which at 30 September 2007 was 14% higher than at the beginning of the year. Sales force productivity has remained sound, despite the effects of the protracted public servants strike, which impacted a key customer base. Sales through the broker channel were nearly double (up 97%) those achieved in the comparative period.

The value of new business was 14% higher than for the comparative period, with the new business APE margin lower (28% versus 31% for the comparative period), reflecting the higher proportion of lower margin savings business sold during the period. We have responded by implementing changes to adviser remuneration and increasing minimum premiums for savings business to change the mix back towards risk business. These measures, implemented in August 2007, are beginning to take effect. We have designed new savings products to be launched in 2008 (to coincide with the new commission regime), with a focus on giving better value to clients and acceptable returns.

### Retail Affluent

Total Retail Affluent life sales were 11% higher, but unit trust sales were somewhat lower than the comparative period. Disappointing performance in 2006 in some of our funds and concerns over several investment staff losses led to a significant slow down in unit trust sales, particularly from multi-managers. This has impacted net client cash flows, which were negative R1.9 billion.

Life recurring premium sales were 18% higher, driven by continued good risk business, leveraged from enhancements to our *Greenlight* risk product range and good credit life sales, reflecting the extension of personal credit through Nedbank. Recurring premium *Max Investment* savings business (both life and non-life wrappers) performed well, with significant growth of the non-life recurring option but from a relatively low base.

Single premium investment sales were relatively flat as a result of residual concerns over the investment business restructuring and significant reductions in competitors' fees which attracted flows at lower margins. These effects were offset by improved investment performance, the new *Absolute Return* fund launch and enhancements to the fixed bond rates of the life product. Single premium sales of the offshore investment product through Old Mutual International continued to accelerate and were 49% up on the comparative period.

Life VNB at R251 million was 62% higher than the comparative period, with the new business APE margin improving from 9% in the comparative period to 13%. This was as a result of an increased proportion of higher margin risk business being sold, as well as good expense management and the improvement brought about by distribution expenses being spread over higher recurring premium volumes, and improved efficiency in the distribution channels.

Bancassurance sales through Nedbank continued to grow and were up 25% on the comparative period. The launch of a new, low cost, simple savings product through Nedbank branches was very well received. Credit life sales slowed following the introduction of the National Credit Act, but were offset by the new savings and risk product flows.

### Corporate

There is a strong focus on activities to improve future flows. The emphasis on building strong relationships with corporate clients through the key account management process continues and an increased emphasis on managing the relationship with investment consultants has been implemented.

Corporate life sales were slightly higher driven by strong risk sales, particularly in the third quarter. Single premium sales were lower and were affected by the timing of deals.

The life new business margin (post-tax) reduced as a result of the change in mix and, in particular, the relatively lower with-profit annuity sales and higher Symmetry (multimanager) volumes. There was also a reduction in with-profit annuity margins during the period. Net client cash flows in the Corporate market were better than the comparative period as a result of significantly better than expected termination experience. We have had R0.9 billion in terminations during the period versus R6.2 billion in the comparative period, which included R4.6 billion Guaranteed Income Contracts (GICs). The smoothed bonus products have declared high bonuses which has encouraged retention as has the increased focus on managing the relationship with long-standing clients.

### Old Mutual Investment Group South Africa (OMIGSA)

The implementation of the boutique structure in OMIGSA is on track. Appointments have been made for all roles where staff losses were incurred after the launch of this structure at the beginning of the year. The focus is now on stabilising the structure and increasing investors' confidence in individual boutique investment philosophies.

OMIGSA investment performance continues to be satisfactory. Overall, 78% and 68% of funds outperformed their benchmarks over one and three years respectively to 30 September 2007. For the peer cogniscent institutional funds, 91% and 45% of mandates were above the industry mean over one and three years. 79% and 71% of institutional mandates outperformed their benchmarks over these same periods. The Macro Strategy Investments boutique's *Profile Balanced Fund* was ranked second over one year, fourth over three years and third over five years ended 30 September 2007 in the Alexander Forbes Large Manager Watch (global) survey.

83% of the thirteen unit trust funds, representing 44% of unit trust assets, were first and second quartile performers over one year, 82% over three years and 88% over five years ended 30 September 2007. 98% of the life funds outperformed their benchmarks over one year and three years ended 30 September 2007 demonstrating consistent performance on these assets.

During the period, Marriot Income Specialists' launched the *Marriot International Income Growth Fund*, OMIGSA Property launched *Triangle*, an industry defining direct property fund and Umbono Fund Managers launched the *RAFI 40 Index Fund*.

# Trading Update

## BANKING - NEDBANK GROUP (NEDBANK)

### On track to deliver 2007 targets

The full text of Nedbank's trading update for the nine months ended 30 September 2007, released on 8 November 2007, can be accessed on Nedbank's website, *http//www.nedbankgroup.co.za*

Nedbank showed continued positive momentum into the third quarter in an environment where South African banks remained largely unaffected by the volatility and risk aversion that have characterised international financial markets since the start of the US sub-prime crisis. Growth in Nedbank's wholesale businesses remains good, with retail earnings growth slowing as this sector feels the impact of increasing interest rates, rising household indebtedness and ongoing pressure on margins, particularly in the home loans area. Nedbank Capital's earnings improved in the third quarter after a disappointing first half.

Headline earnings increased by 31% to R4,211 million for the period from R3,216 million for the comparative period, with headline earnings per share increasing by 32% to 1,059 cents for the period from 801 cents for the comparative period. Diluted headline earnings per share increased by 31% to 1,021 cents from 782 cents in the comparative period. Attributable income grew by 25% to R4,248 million from R3,394 million in the comparative period.

Nedbank achieved a return on average ordinary shareholders' equity of 21.2%, an improvement from the 18.6% reported for the comparative period, and ahead of the 2007 target of 20% set during 2004. Net interest income grew 30% from R7,928 million to R10,288 million for the period, underpinned by a 31% growth in average interest-earning banking assets over the comparative period.

The margin for the period was 3.94%, down from 3.96% for the comparative period, but up from the 3.90% for the period to 30 June 2007. Similar to trends reported at the 2007 interim results, the margin reflects ongoing competition for assets and pressure on deposit pricing as the sector has had to source a higher proportion of funding from the wholesale deposit market, offset by the endowment benefits of interest rate increases.

The impairments charge rose by 56% to R1,646 million from R1,055 million for the comparative period. In line with expectations, the credit loss ratio increased marginally from 0.63% for the period to 30 June 2007 to 0.64% for the full nine months. This increase reflects higher impairment levels for Nedbank Retail and Imperial Bank, while the credit loss ratios in Nedbank Capital and Nedbank Corporate are below normalised levels and have continued to benefit from further recoveries, which are unlikely to be sustained into the future.

Non Interest Revenue (NIR) grew by 13% to R7,518 million for the period from R6,660 million for the comparative period with commission and fee income 16% higher, benefiting from good transactional banking and bancassurance volumes. As reported at the 2007 interim results, NIR growth was adversely affected by disappointing trading income in Nedbank Capital. Trading income for the period amounted to R878 million, down from R1,111 million in the comparative period (Nedbank experienced record trading in the first quarter of 2006).

Expenses increased by 16% to R9,714 million over the comparative period of R8,369 million, driven mainly by a 18% growth in staff expenses as additional employees were appointed in the client-facing and collections areas and an increase in marketing spend of 21%.

The 'jaws' ratio remained positive, with total revenue growth of 22% being 6% above expense growth of 16%, resulting in an improvement of the cost-to-income ratio from 57.4% for the comparative period to 54.6%.

With the majority of Nedbank's non-core asset disposal programme completed, income after taxation from non-trading and capital items declined from R178 million in the comparative period to R37 million. Total assets at R490 billion are an annualised 21% higher than at 31 December 2006. Advances increased by R56 billion (25% annualised) and average interest-earning banking assets increased by an annualised 31%.

As a result of the total 300 basis points (six consecutive quarters of 50 basis points) increase in interest rates prior to 30 September 2007, consumer asset growth has started to slow. Following the further 50 basis points increase in October 2007 the bank anticipates a continued slowing of asset growth and an increase in impairment charges, more specifically for Retail advances. While Business Banking conditions remain robust, it is anticipated that the interest rate increases will slow advances growth in the small and medium business sectors, which are also likely to start seeing increases in impairments levels. However conditions remain favourable for the corporate banking environment as a result of substantial infrastructure spend by both the private and public sectors.

Nedbank remains well positioned for the transition to Basel II on 1 January 2008.

Nedbank Retail's strategy to expand its retail footprint across South Africa remains a key focus and Nedbank has invested a further R44 million since June 2007. This includes opening an additional 23 outlets and upgrading and increasing its ATM network from 1,361 in June to 1,465 ATMs in September 2007.

On 25 October 2007, the Nedbank Group announced that Nedbank Limited (Nedbank) would acquire Old Mutual's 50% interest in Old Mutual Bank, which operates as a division of Nedbank. The current joint venture arrangement will be replaced by a broader group strategy whereby Nedbank will acquire Old Mutual's share of the joint venture, but will continue to offer intermediary and broker-friendly products through its own branch network. This will enable some branch rationalisation and a broader distribution network for these products.

## GENERAL INSURANCE – MUTUAL & FEDERAL

### Solid performance

The full text of Mutual & Federal's trading update for the nine months ended 30 September 2007, released on 8 November 2007, can be accessed on Mutual & Federal's website, *http//www.mf.co.za*

Mutual & Federal maintained positive results despite ongoing high levels of competition in the insurance market and has been successful in increasing premiums in an attempt to return all portfolios to satisfactory levels of profit.

The underwriting results for the period were significantly influenced by a sharp increase in the frequency and severity of industrial and commercial fire claims in the second quarter, whilst the motor account continued to be negatively impacted by continued high levels of accidents and escalating repair costs.

Gross premiums grew by 9% during the period benefiting from rate increases, underwriting interventions and the cancellation of unprofitable blocks of business.

Mutual & Federal generated an underwriting surplus of R298 million, up 25% from the surplus of R238 million in the comparative period. The combined ratio (the ratio of claims, commissions and expenses to net earned premiums) decreased to 94.9% (95.6% in the comparative period), mainly as a result of a reduction in the claims ratio (excluding Risk Finance business) from 64.0% to 63.5%. This reduction includes the release of R72 million (R62 million in the comparative period) from technical reserves following further refinements of estimation methods. Whilst the trading environment remains extremely competitive, management are confident that the various corrective measures will lead to a general improvement in underwriting results.

The solvency ratio has increased from 44% to 49% following strong growth in the value of listed equities in the period.

Following the resignation of Bruce Campbell, from 16 August 2007 Keith Kennedy, previously Executive General Manager: Business Services, has been appointed Managing Director.

## US LIFE

### Continuing strong offshore variable annuity sales add to diversity of earnings

Excellent sales through Old Mutual Bermuda, our offshore variable annuity business unit, represented 51% of APE sales in the US Life business. With strong demand for fixed indexed annuities also being felt, we were able to produce (on an APE basis), sales of $473 million, a 43% increase over the comparative period.

We now have a diverse mix of product offerings, including variable annuities, fixed indexed annuities, term life and universal life. Offshore sales through Old Mutual Bermuda increased by 187% to $239 million (APE) versus the comparative period. The increase in sales is due to a new product launch in April 2007 as well as new distribution agreements in Asia. Bermuda now represents 21% of our total funds under management. Universal Life (UL) sales are up over the comparative period by 36% as part of a shift from a term-focused distribution to a universal life focused distribution.

Funds under management of $23.3 billion at 30 September 2007 were up 5% from 31 December 2006 primarily due to strong sales, which were partially offset by surrenders on the Multi-Year Guaranteed Annuities block of business.

The new business margin of 22.0% was above our longer-term expectations primarily driven by the volume of variable annuity business. The overall business continues to benefit from good investment performance, wider style capabilities and enhanced distribution. Our coordinated retail distribution strategy has made good progress.

Old Mutual has very limited direct exposure to sub-prime debt and this helped it weather the market turbulence during August. Profits from the US Life business are in line with our expectations, with better than expected sales and margins being offset by increased hedging costs, reflecting increased market volatility.

The business remains on track to return cash in 2007.

Our overall US advertising strategy was launched at the intermediary level and was built on our theme of innovation. Our proposition, "The thinking is new, the name is Old Mutual", has resonated in the marketplace. Later this year we will launch our consumer campaign with a focus on making Old Mutual a recognised name in the US financial services marketplace.

## US ASSET MANAGEMENT

### Continued growth in assets through strong cash flow and leading investment performance

Our US asset management business continues to deliver excellent net client cash flows, attracting $26 billion in the period, driven in particular by strong flows at Analytic, Acadian, Dwight and Rogge. Cash flows, positive markets and investment performance, and the acquisition of Ashfield Capital Partners in February enabled us to grow our funds under management from $272.6 billion at 31 December 2006 to $330.2 billion at 30 September 2007. We are also seeing a diversification of our client base, with a significant proportion of our net cash flows coming from investors outside the US.

Net client cash flow reflects the strong long term investment performance of our affiliates. At 30 September 2007, 87% of assets had outperformed their benchmarks over three years. 88% of assets were ranked above the median of their peer group over the comparative period.

Our retail initiative is making progress, with Old Mutual Capital's mutual fund sales increasing 24% to $1,175 million from the comparative period. OMAM (UK) unit trust sales increased 54% to $1,949 million from the comparative period ($1,263 million), benefiting from our investment made during 2006 to enhance the product offering and distribution capabilities of the business. In the third quarter, three of the Asset Allocation funds managed by our affiliates marked their three-year anniversaries and were awarded four and five star rankings by Morningstar. We have also recently gained regulatory approval to restructure our Asset Allocation funds into a "Fund of Funds" structure enhancing our flexibility as well as helping to achieve scale in many of our single strategy funds.

OMAM has been a pioneer in the market for 130/30 and similar strategies, which seek to further enhance the alpha our affiliates produce. This is fast-growing area for institutional and retail investors, and these products typically command higher fees. Five of our affiliates (Acadian Asset Management, Analytic Investors, Thompson, Siegel & Walmsley, Thomson, Horstmann & Bryant, and Dwight Asset Management Company) manage assets in this market. Acadian and Analytic in particular have established excellent five-year track records.

## OTHER

### Australia

Operations in Skandia Group Australia include retail mutual funds and institutional investment funds. After breaking even for the first time in 2006, the business continues to be profitable. At 30 September 2007, funds under management were AUD15.0 billion (£6.6 billion) up 6% from AUD14.2 billion (£5.8 billion) at 31 December 2006. This was made up of institutional funds of AUD9.1 billion and retail funds of AUD5.9 billion. Integration of the institutional business, acquired late 2006, is now substantially complete and on track to generate the expected synergies.

### China

Skandia:BSAM, our 50:50 joint venture with the Beijing State-owned Asset Management Company (BSAM), is now in its third full year of operation and continues to show strong sales growth. The business sells unit-linked products and has licences to operate in Beijing, Shanghai and Jiangsu Province (Nanjing). We now have approval to open a branch in Guangdong Province and we hope to open sub-branches in Wuxi and Nantong in Jiangsu Province, before the end of 2007. Despite its recent entry into the market, of the 24 foreign owned joint venture insurance companies in China, Skandia:BSAM had the eighth largest gross premium flows (up 2 places compared to 2006). Gross premium income for the period totalled RMB1.6 billion (£103 million), an increase of 329% over the comparative period and almost triple Gross Premium Income for 2006.

### India

Kotak Mahindra Old Mutual Life Insurance Ltd (KMOM), our joint venture with the Kotak Mahindra Group, in which we have a 26% stake, continues to show steady progress. The business now operates in 55 cities and 85 locations across India. Gross premiums for the six months (since its 31 March year end) were INR3.6 billion (£44 million) against INR2.3 billion (£28 million) for the comparative period. In September we agreed to boost the venture with a capital injection of INR1.5 billion (approximately £19 million) in order to extend its office network to 150 locations and increase its workforce by 35% by its year end.

**Jim Sutcliffe**
Chief Executive

8 November 2007