INTERIM RESULTS 2009

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OLD MUTUAL

INSURANCE • INVESTMENT • SAVINGS • BANKING

Julian Roberts

My watch says exactly 9 o'clock. So we are going to try and honour our pledge to be prompt today. So good morning ladies and gentlemen. Welcome to the presentation of the Old Mutual 2009 Interim Results. Here with me this morning, Philip Broadley, our Group Finance Director, and for those in London, Paul Hanratty in the front row here, our Head of Long Term Savings. In Johannesburg our session is hosted by Diane Radley, Finance Director of OMSA. Diane, can you hear us OK?

Diane Radley

We can hear you, thank you, Julian.

Julian Roberts

OK. We are also joined this morning as normal by a number of people on the phones and the webcast. I realise that this is a very busy week. It's a very busy reporting day, due to AXA moving the timing of their results. And some of you here in London will want to try and hear all three presentations taking place this morning. We will try to make this session as concise as we can. And to those of you who are going on from here to the AXA presentation and therefore will have to leave early we do have some taxis that will be waiting outside at 9.45.

Before I start on the results I would like to refer to our announcement this morning regarding the appointment of Patrick O'Sullivan to succeed Chris Collins on his retirement as the Old Mutual Group Chairman. Patrick is an experienced professional. Many of you here in London may well know him. He brings substantial experience of international business, restructure and reorganisation, and general financial services. He will take over with effect from 1st January 2010 and I look forward to introducing you to him and working with him.

Slide: Agenda

Now let's move on to our results presentation. Let me start with the agenda. We will start with an overview of performance in the first half of 2009. Philip will then drill down into a little more detail on the financial result, after which I will give a brief update on progress on the strategic priorities we outlined in March.

Slide: Group financial headlines

At a group level our results for H1 2009 were down on 2008 as you would expect given the market environment. 2008 was truly a year of two halves. In retrospect trading conditions in the first half of 2008 were relatively benign compared with conditions since. We have seen high volatility in global markets and continued deterioration in the economic environment. Although markets have now come off their lows, their average for the period was around two thirds of their average level in the first half of 2008.

In terms of our results, earnings per share on an IFRS basis were down 30% at 5.4p. But as you can see from the slide our MCEV per share was substantially higher than at the end of 2008, largely due to the more favourable position in the United States. Philip will talk about this in more detail. We have improved our FGD position and have now reached a billion, which is sufficient to cover the overall risks that the group faces. In addition our individual businesses remain well capitalised. We have been able to maintain positive net client cashflow, despite lower overall sales; something that continues to be our strength when others may struggle.

Slide: Operational headlines

Throughout this first half we have been taking decisive action to tidy up our business, address the weaknesses that we identified last year, and deliver against our internal plans.

But let me give you a few highlights on trading:

In Old Mutual South Africa sales were robust, demonstrating the strength of our diverse product offering, strong brand and capital position. In addition the operating profit of the Life business was virtually flat on the first half of 2008.

In Nedbank the effects of lower interest rates, slower asset growth and increased impairments resulted in lower profits in the first half. The focus on allocating and monitoring divisional performance on a risk adjusted basis has helped the build up of capital, with a total capital adequacy ratio now of 13.2%, which gives a substantial buffer for the difficult economic climate.

In Nordic sales continued on the strong trend that we established two years ago, reflecting an improved product range and more effective distribution.

In the UK our aim is to grow our share of the platform market. We have done that in the first half to around 40% and we are now the clear market leader. But first half margins were poor, reflecting the aggressive new pricing structure that we implemented in order to build scale. With current market conditions, platform profitability and margins will take longer to deliver than originally anticipated when the re-price took place.

We have achieved the turnaround in US Life trading following a reduction in expenses, streamlining the product range and delivering savings on distribution. The business had a good first half, in line with its plan and returned to profit.

US Asset Management had a difficult first half due to low asset based management fees and lower performance and transaction fees. But it is encouraging to note that the business maintained positive net client cashflows and improved its investment performance in the second quarter.

Across the group I am pleased with what we delivered in the first half. At this point I will hand over to Philip who will take you through the financials in a bit more detail.

Philip Broadley

Slide: Financial Review

Thank you Julian, and good morning everyone. It has been a busy and interesting five months since our last results presentation. This morning I will talk about our cash and capital position, also review trading performance around the group, make some comments about the US Life portfolio, how the general account operates, before looking at the MCEV result.

Slide: Operating profit analysis

First some financial highlights. At a group level we delivered £538m of adjusted operating profit in the first half. The main contributor to this was OMSA's insurance business where the profits in Rand terms were down 1%. Nedbank's operating earnings were weaker than the prior year as a result of higher impairments and lower endowment earnings in a falling interest rate environment. Nedbank announced its own results separately this morning. The fee income dependent businesses of Skandia and US Asset Management suffered from weak and volatile equity markets. But the US Life spread-based business returned to profit, as did our business in Bermuda, now in run-off. The impact of foreign exchange on our operating profit was a positive £85m.

Results on the MCEV basis show that profit from existing business was more important to the overall result than in the comparative period. New business made a lower contribution which is understandable in current market conditions. So too, I think, is the fact that the largest contributor to the growth in MCEV per share was from economic effects. And I will say more about MCEV later on.

Slide: Cash and capital

As Julian has already said, our pro-forma FGD surplus at 30th June was over £1bn. It has continued to grow since the period end and we estimate that at the end of July it was £1.1bn. As you would expect we have done a great deal of work to stress test our capital in the last few months. With so much of our business being unit-linked and light in capital requirement the principal risk to which the Group is exposed is credit risk in the US Life general account. Our current level of surplus is, we judge, sufficient to absorb shock credit losses in this portfolio if they were to occur.

At 30th June we had total capital resources of £10.2bn including £5.6bn of net assets, principally intangibles, that are not allowed within the FGD calculation. This leaves a total regulatory capital resource of £4.6bn against a capital resource requirement of £3.6bn. So a surplus ratio now at the end of July of just on 30%.

Our individual businesses have retained their strong capital positions. And here I would note in particular OMLAC(SA) where the statutory capital cover improved to 3.9 times at 30th June.

As a Group we concentrate on maintaining effective dialogue and strong commercial relationships with our banks. So far this year we have extended successfully two existing bank facilities of £250m and have put in place an additional three year bank facility of $200m. So as of today the PLC has overall cash and commitments to undrawn facilities totalling more than £800m. In addition each of our individual businesses maintains its own liquidity to meet normal trading operations.

Our gearing remains in line with our target range at 23.8%.

You will have noticed that, as previously announced, we have not proposed an interim dividend today. And so to forestall the inevitable questions about dividend outlook I will remind you what was said in March and which we have repeated today: The Board will consider the position in respect of a final dividend for 2009 at the appropriate time, in light of the then prevailing market and economic conditions. Longer term the Board will look to pay a dividend based on the Group's capital, cashflow and earnings, with a view to maintaining cover of at least two times.

Slide: Movement of regulatory capital surplus

So let's look a little more at the capital position. As you will see on this chart the main driver of the improvement in the regulatory capital surplus from year-end was the addition of over £200m of statutory profits.

From an FGD perspective we are now fully hedged against the sterling/dollar exchange rate and have reduced, where it is efficient to do so, our other currency sensitivities. In the period, after hedging costs, foreign exchange contributed a net positive £90m to our FGD position.

There was a positive £30m movement arising from various management actions including the disposal of Australia, closure of Bermuda to new business, and a change in the investment mix of shareholder funds backing the OMSA capital adequacy requirement. The £41m break fee paid to exit the TEDA acquisition reduced our FGD surplus but, had the acquisition proceeded, it would have reduced the surplus by a greater amount.

The South African banking regulator has introduced a new capital requirement for credit risk and this reduced Nedbank's contribution to group FGD by around £60m. But there is an offsetting £40m from the Nedbank subordinated debt issue which we reported earlier in the year giving a net £20m negative movement in respect of Nedbank.

We paid preferred dividends of £20m in the period and there was a further £40m reduction in

FGD as a result of other movements in statutory valuation adjustments and capital requirements.

Slide: Net debt

Our reported net debt at 30th June was just on £2.4bn, up 5% on the year end. The business units contributed £350m of inflows which were offset by £449m of operational expenses and organic investment. This included the $225m of capital injected into US Life in the first quarter, the break fee and also a £47m partial payment in respect of the American Skandia legal settlements which we have provided for as referenced in the full year accounts. We made no ordinary dividend payments in the first half and no new debt or equity was issued. The non-cash movements that you see on the chart are largely the negative impact of currency movements and the marking to market of certain of our debt liabilities under IFRS. For our non-South African businesses operational receipts tend to be skewed towards the back end of the year, while the expected funding of operations have been skewed towards the start. Indeed the capital injection into US Life is the principal item of funding we expect to make in 2009. We have more than sufficient receipts to meet our interest and expense obligations overall.

So let me now move on to talk about the business unit results.

Slide: Long-term savings: OMSA

OMSA performed relatively well despite the deterioration in economic conditions. Return on capital was over 26%.

Life sales were down 11% in constant currency. But this was more than offset by a 13% increase in unit trust sales, the latter being primarily sales in money market unit trusts. Although sales in the Retail Affluent market were down, Retail Mass had a very good half, with total life sales up 11% and risk sales up 37%. This result demonstrating the benefits of OMSA's investment in growing its sales force.

Persistency experience overall has worsened due to the economic conditions but it is offset by improvements in mortality and morbidity experience. One further point which I should mention is that we have reduced the rate applied to the long term investment return by 330 bps to 13.3%. This isn't a change in accounting policy but reflects lower expected investment returns on shareholder assets. These assets are now separated from those backing OMLAC(SA)'s capital adequacy requirements and this moved £53m of LTIR out of OMSA to PLC in respect of last year and £46m this half year.

Slide: Long-term savings: Europe

Looking now at Europe where total life sales were, as expected, generally down on the previous year. The exception is the Nordic region where sales have continued to hold up well. The Swedish stock market performed rather better than other European markets in the first half and I think that was undoubtedly helpful for sales.

Overall net client cashflow remained positive but, with lower sales and a cost base which is relatively fixed in the short term, overall profitability is down. We are addressing our fixed cost base as part of an overall review and restructuring in the Long-term savings division and we will take out costs where it is appropriate to do so.

Slide: Long-term savings: US Life

In the US Life business we have shrunk the product range, cut unprofitable distribution and reduced the expense run rate by nearly 50% compared with the prior year period. Sales in the first half were ahead of our revised target but were within the allocated capital limits we have set for the business. And, as a result of the cost reductions, the new business margin is now positive.

Surrenders were an issue for the business in this half, particularly in the fixed index annuity product. This is unsurprising in a period of both low equity markets and rising unemployment. Surrendered policy proceeds are going equally to new policies with other companies and to cash withdrawals; as customers face various financial pressures they simply need access to cash. And over half of the fixed indexed annuity policies that have been surrendered have a face value of $50,000 or less. In the second quarter we instituted a conservation programme. and in the last six to eight weeks we have seen an improvement back towards our assumed surrender levels. Equity markets have improved and, if the S&P index were to continue at its current level, then policy holders should expect to receive an equity credit this year in addition to the minimum crediting rate and that should have a beneficial effect on future surrenders.

Slide: US Life capital and impairment update

Since March I have spent a lot of time with you talking about the US life portfolio and I am sure there will be questions about it today. But with the time constraints of the morning I will just make a few comments. The appendix slides have the extensive disclosures that you have seen in the past and we will be happy to take your questions.

It is clear that market conditions have changed substantially and for the better since the year end and indeed since the end of the first quarter. The unrealised loss position improved considerably from $2.3bn at the end of the year to $1.6bn at 30th June. This is largely due to the narrowing of corporate credits spreads generally, as well as some recovery in financial markets. Valuations have continued to move favourably during July and the unrealised loss position was $1.4bn at 31st July. We have recorded impairments of $199m in the period, mostly in residential and commercial mortgage backed securities, preferred stocks and hybrids. But the impairment loss was partially offset by $40m of net investment trading gains. We suffered no defaults in the six month period and indeed suffered none during July.

Our US company's regulatory capital resources increased, driven by strong statutory operating earnings. But the regulatory capital requirement also increased, partly as a result of impairments and the C-1 capital requirement, the capital which is held against securities dependent on their credit ratings. The net effect of this was a small reduction in the RBC ratio to 281% which, while lower than the year end position, is within the target range for the interim period. And we have no plans to inject capital into the US Life business in the remainder of this year. However, we do remain committed to supporting the US Life business with a capital ratio of around 300%. Although the unrealised loss position has improved, statutory capital is driven by impairments and, if nothing changes, it is likely that we will make a cash injection into the business in early 2010 as we did at the beginning of this year. This could be in the order of $200m-$300m, depending upon a wide range of factors including our statutory earnings in the second half, market movements, ratings migration and the implementation of possible changes, both to US GAAP and to the NAIC accounting rules which are currently under consideration.

Slide: Cash flow from the US

I think it's important though to understand that the US investment portfolio is managed dynamically and that there are cash movements into it and out of it daily. On this slide we have attempted to illustrate this showing the various flows in the first half in and out of the fund. So all the inflows are blue and all the outflows are red. And note that as with all the figures we are showing for US Life this morning these relate to the onshore business only.

As I think the chart shows, the US Life business is now a very different one from that of the equivalent period of last year. New premiums are down considerably in line with our plans and we are therefore not making significant new purchases of bonds. On the right hand side of the chart you will see that we have cut head office costs and commission payments are also down. Regular claims in the forms of immediate annuities and term policies continue to be paid out. And lapses and surrenders are in total lower than last year. The US portfolio in business operations produced net cash inflows of $260m in the first half. Cash generation from the portfolio in the form of interest and maturities amounted to $1.8bn, more than sufficient to fund the payments to policyholders. Bond maturities and sales were down on last year, reflecting a lower level of trading activity and a policy of retaining premiums in cash to build our liquidity position. I would say that this is analogous to selling the bonds internally from existing policy holders to new ones. Net capital transfers were made to the business from the PLC, as I have already said, in order to maintain the RBC cover ratio. And if you look at all of these items together, at the end of the period the portfolio had $1.2bn of cash in it up $260m on the year end position. And note too that the portfolio remains relatively well matched, with the average duration of the assets at 5.62 years and the liabilities at 5.14 years.

If you extrapolate these trends in the longer term the general account will reduce in size as the current sales run-rate is less than the expected outflow of surrendered policies. And over time the absolute capital requirement will reduce and the prospect of surplus of regulatory capital emerges.

Slide: US Asset Management

Moving on to US Asset Management. The average level of FUM was about a third lower than the average for the first half of 2008. As a result we suffered a reduction in management and performance fees. Other factors depressing profit in the business included the one-off cost of closing Clay Finlay which was around £4m and lower seed-capital investment returns.

Management actions to contain costs have been successful and we have been able to reduce expenses by over 30% to date. Further actions are planned, as Julian will discuss in his final section, and we expect to see expenses continue to fall in the second half. If markets maintain their current levels we do expect to see an improvement in our fee income which should contribute to the second half result.

Slide: Nedbank

I will highlight a few points now from Nedbank's results announcement of this morning.

The bank has continued to strengthen its capital position, with improvements in both its Tier 1 and total capital adequacy ratios to 10% and 13.2% respectively. These are now at or above Nedbank's target ranges and well above regulatory requirements. Its liquidity is also sound with a loan/deposit ratio of 94%.

As expected in the current environment, management of retail impairments has been a challenge. And the credit loss ratio has continued to worsen although there has been a small recovery in the second quarter. Total advances in default were R25bn and total impairment provisions increased to R9bn. Note that, in this context, default means that customers are not fully up to date with repayments, but that a high percentage of the advances are still recoverable.

The business remains solidly profitable, but it is suffering a reduced endowment from lower interest rates. And this is a significant change to the environment for all South African banks. One of the challenges for Nedbank in a reduced interest rate environment is to grow its non-interest revenue streams.

The emerging recession in South Africa will affect both the retail and corporate sectors and Nedbank remains cautious on its second half outlook.

Slide: Bermuda

Finally a brief word on Bermuda, a business now in run-off. There is little to report this half other than to confirm that the hedges in place continued to be effective in the first half at over 95%. And we have benefited from not hedging volatility. Total liabilities have fallen with the rise in Asian stock markets. And, after allowing for the dynamic cost of hedging, the business returned to a small profit in the first half.

Slide: Adjusted Group MCEV per share

So looking finally at market consistent embedded value. Our adjusted group MCEV per share grew by more than 20% in the period from 117.6p at the end of December to 143.8p at 30th June.

Adjusted operating EV earnings contributed 8.9p per share to the growth. This was principally due to the improvement in the US Life result. And I would remind you that under MCEV we do not capitalise credit or equity risk premium in advance and we expect them to come through as they are earned. This was demonstrated in the period with just over half of US Life operating MCEV earnings coming from spreads in excess of the projected returns.

Economic effects contributed a positive 11.4p per share, a further effect of the narrowing of US corporate spreads. The reduction in unrealised losses in the US reduced the implied credit default rate by 230 bps to 4.6%. This was offset by a reduction of 125 bps in the liquidity premium that we apply, to 175 bps, having taken third party advice. We believe our use of a liquidity premium is supported by the evidence of market movements over the period. Note also that we have introduced a 50 bps liquidity premium on the OMSA Retail Affluent immediate annuity book, reflecting the holdings of corporate bonds in the matching asset portfolio.

During the period, following further investigation and refinement of our MCEV methodology, we have amended an allocation of assets between the covered and non-covered business made at December 2008. And this change adds an additional 5.3p per share to the result. The effects of currency, marking debt to market and other factors have added a net positive 0.6p per share.

So, in summary, the MCEV result reflects the continued improvement in investment market conditions - which is only as it should be, given that the methodology is market consistent.

And at this point I will hand you back to Julian.

Julian Roberts

Slide: Progress on the strategic priorities

Thank you Philip. At our 2008 full year results presentation I talked to you about the strategic priorities that we had identified for the Group. Philip has already talked about capital and liquidity, which as you can see are much improved. So let me talk about the others.

Slide: Streamline the portfolio over time

I said in March that we were in too many geographies and with too many product lines. We have been addressing both of these issues. Let me run through the things that we have done:

We closed the Asia Pacific divisional head office in Hong Kong with an annualised benefit of some £5m. We chose not to go ahead with the Chinese asset management acquisition. We sold our Australian business. We exited Portugal. We are withdrawing from the Hungarian and Czech markets. In US Life we reduced our annuity product range by two-thirds and our life range by three-quarters. And of course we have closed Bermuda to new business. We also announced recently that we are cutting back the product range offered by Old Mutual Capital, the retail arm of US Asset Management. And as you know we have closed Clay Finlay.

We are committed to moving away from countries and markets where we are under scale and have limited possibility of reaching it within an acceptable time frame. Market conditions still do not favour execution of corporate activity in a way that creates shareholder value. But against this background I am pleased with what we have achieved and we are continually reviewing the portfolio with simplification and value in mind.

Slide: Leverage scale in our long-term savings businesses

We have brought together our long term savings business under Paul Hanratty and are restructuring the division around markets that have distinct characteristics and where we have competitive advantage and the opportunity to grow.

In Europe we had already divided ELAM into Retail and the Affluent market but now we have put the ELAM Affluent business together with the UK and International to create European Wealth Management. European Retail has large growth potential but we need low back office administration costs and increased access to customers through both existing and new distribution channels. We are exploring the possibility of administering this business from Cape Town. Wealth management is a market that is served by independent distribution using open architecture investment platforms. Our model is well suited to this market, but we need to build on the position we have, to develop our wealth management offering. This unit includes Italy, France, the UK, International and Skandia Investment Group.

Our Nordic business is well established and relatively discrete and we are leaving it as a separate unit. We are exploring how we can get better value out of this business including maximising the contribution of Skandia Liv as well as making effective use of the SkandiaBanken distribution capability.

We will maintain a separate unit covering the US where there are different issues to be dealt with and a different focus is required.

We are bringing together our other long-term savings businesses, namely OMSA, the rest of Africa, the businesses in Latin America, India and China, into an emerging market unit. There are similarities between these markets but, more importantly, we have immense capability in South Africa which we can use to support our other businesses. And indeed we intend to explore how we can use it to support the other units within the long-term savings division: I have already given you an example of European Retail possibly being processed in Cape Town.

Implementation of the new long-term savings structure has begun, and we will be reporting our full year results on this basis.

Paul and his team are currently developing a strategy for this division. This includes a thorough review of the cost base with a clear aim of driving margins and delivering improved long term profitability in each of the units and across the division as a whole. I intend to come back to you with more detail on this when we report our full year results in March. An early outcome of the review and the restructure is that we are closing the divisional head office of ELAM. The cost of the office was around £11m per annum, the majority of which will come through as a direct benefit of closure.

Slide: Drive value creation in South Africa

Turning to South Africa: The economy is now in recession, the downturn having started later than in other economies. This creates a difficult environment for financial services and, accordingly, our businesses have a cautious outlook for the remainder of 2009, which is likely to be reflected in our overall full year results.

We recently announced the appointment of Kuseni Dlamini as Chief Executive of OMSA. He will take up his role on 1st September.

At Nedbank, in addition to the appointment of Mike Brown to succeed Tom Boardman as Chief Executive at the end of the year, there are extensive changes taking place across the management team which you may have seen in Nedbank's announcement. I believe we have a very strong executive team in Nedbank to take that business forward.

Kuseni and Mike, along with Keith Kennedy at Mutual & Federal, will be working closing together to drive value from our South African businesses.

Collaboration has continued. For example, Nedbank and OMSA have launched a joint credit card. Customers receive a rebate on purchases made using the card which is provided in the form of an investment into an Old Mutual money market unit trust. Other areas are being explored and we will see more joint initiatives in the future.

We are making changes to the corporate structure to simplify the organisation and improve control: You will have seen that Nedbank has acquired Old Mutual's stake in NedLife, Fairbairn Private Bank and BoE Private Client joint ventures. And Nedbank itself is in negotiations with Imperial Holdings Limited to acquire the remaining 49.9% shareholding in the Imperial Bank joint venture. It is much easier to run things when you have 100% control than in a joint venture. And both of these I believe will have significant impact to our business moving forward.

Slide: Improve operational efficiency, risk management and governance

Finally efficiency and governance. All our businesses are focused on driving down costs and some are well advanced in this. For example, we have already taken over 30% of the costs out of US Asset Management and nearly half our expenses in US Life. The reduction to the Old Mutual Capital product range that I mentioned earlier will enable us to take out a number of administrative and sales posts. And combined with the closure of Clay Finlay we expect these further changes to save in excess of $25m next year.

We are well advanced on the implementation of the group's Solvency II delivery programme which we call iCRaFT. This is a costly exercise as all insurance groups are finding as they prepare for the new requirements. In addition the Group Risk and Capital Committee has agreed a framework for business risk appetite and risk limits. These have been set for each business and each business is actively trading to these new standards.

We are rolling out a new Group operating model which is a fundamental shift away from the decentralised model of the past. The new model will strengthen our governance processes by clarifying roles and responsibilities, providing clear accountability and increased oversight. Part of this includes strengthening our subsidiary boards and you will see changes to subsidiary board memberships throughout the rest of the year. You will have also seen Mike Arnold's appointment to the main PLC board bringing additional industry experience. These changes are all aimed at making sure we improve the way our businesses are run.

Slide: Summary

So finally to summarise. For the past nine months we have been focused on fixing our problems and protecting ourselves against downside risk. We have strengthened our capital and liquidity, increased FGD and negotiated over £300m of new bank facilities. US Life and Bermuda have been profitable and the improved position can be seen most clearly in our MCEV result. We have taken steps to simplify the business, delivered cost savings in a number of areas and avoided an expensive acquisition.

We are now looking past the immediate market challenges to leverage our capabilities to ensure we are in a strong position to take advantage of the upsides that will come as the markets recover. There are some challenges regarding profitability which we are addressing and I do expect the second half of the year to continue to be challenging.

We are becoming a simpler business and are clear on our strategic priorities. I am confident that we are building a sound foundation for sustainable profitability and long term creation of value.

Ladies and gentlemen, thank you for your attention this morning. I would now like to open the session to questions. I know, as I said earlier, that some of you will be leaving at 9.45. I will try to come to you first for your questions but in fairness to others I am going to ask you to restrict yourselves to a single question. That will be hard for some of you. I know that we will take, of course, questions offline when you have more time. We will continue this session when people have left here in London. But I do want to start first of all with London. So if you have a microphone and also give your name and then ask your question.

Greig Paterson, KBW

A single question, it's a number: Of that £0.8bn cash and facilities could you divide it into what portion is cash and what portion is facilities please?

Philip Broadley

Roughly speaking half and half.

Greig Paterson

50% cash?

Philip Broadley

Pretty much and it's all available overnight. So if you give me 24 hours I could have it in a truck in the middle of this room, if you would like to see it.

Blair Stewart, Bank of America Merrill Lynch

Just the one question obviously and that is: Can you talk about the quality of your available capital under statutory. You have got quite a high proportion of debt within the overall available capital. Is that something that you would look to change over time or perhaps take advantage of the depressed levels that some of your own debt is trading at?

Philip Broadley

I think all I would say about that is that the Directive gives us a requirement to have a positive capital surplus at all times. We therefore maintain a surplus to cover the risks to which we are exposed. As I said in the presentation that is principally and predominantly the US Life general account and the risk of shock credit losses. And clearly with unrealised losses at the level they are now and with the level of capital we have, as I said, we can more than withstand that. In terms of the Balance Sheet structure, I think as I have said in the release this morning, we do have plans and would expect to further improve our liquidity during the second half. But beyond that in terms of changes as a proportion of debt or equity I have nothing to announce this morning.

Jon Hocking, Morgan Stanley

In terms of the US general account can you talk a little bit about how you are managing this cash inflow, how are you attracting the appropriate level of inflows that you want, where you are setting crediting rates, obviously because you have got some high spreads on the bonds that you are flipping over to incoming policyholders versus the sort of new investments that people may be making in the market.

Philip Broadley

The plans for the US Life business were really developed last year and we are continuing to operate under that. We have reduced commission levels in common with pretty much I think everyone else in the industry. Relationships with distributors remain therefore very much open. There has been quite a lot of contraction in capacity. So distributors are keen to maintain their relationships with us to have access to the business that we are prepared to write. That, as I said, has enabled us to substantially reduce the level of sales but also to improve the profitability of the business that we are writing. Going forward we don't expect to significantly change the level of our activity. We will be content to continue to run sales at pretty much the levels that they are at. And as I indicated therefore over time we will reduce the size of the general account which we think is appropriate relative to the Group's capitalisation as a whole.

Oliver Steele, Deutsche Bank

What interest rates are you paying on the newly extended facilities and what were you paying before?

Philip Broadley

I am sorry I don't have the figure for the new facility in my head. Of the facility that has renewed it was at a marginally higher rate than that which had existed before. There have been no significant changes in the covenants on any of the facilities. But the precise rate of the new loan, I apologise, I don't have in my head.

James Pearce, Cazenove

Could I ask you to shed some light on the mechanics of the US in-force unwind of plus150 given the opening negative VIF of 175. Why is there a substantial positive there and how does that work? And can you shed some light on how we should expect that to develop in H2, given the closing negative VIF in the US as well?

Philip Broadley

James, could we possibly take that one offline? Because I am not sure I can articulate an easy answer in less than about 10 minutes I suspect. So could Andrew and I talk to you about that later?

Greig Paterson, KWB

Your answer must be low, medium or high….it's simple. In the next 24 months what is the probability of there being a material change in the structure of the group? In other words I am talking to those commentators who feel the group will be broken up. So 24 months, low medium or high probability of the group being materially structured or broken up?

Julian Roberts

Medium. As I said before and as I say now you know the environment is still a very tough environment to get the Group into a different shape.

Blair Stewart

You made a comment Julian, and maybe this is out of context, but you said something about it being much easier to have control over decisions when you have got 100% control rather than a JV. What should we read into that with regards to Nedbank?

Julian Roberts

I don't think you should read anything into it. One of the issues that we have gone through with the operating model, and we have spent quite a lot of time on it, is to look at the relationship that we have got with all our subsidiary boards, whether they are 100% or whether they are majority-owned. One thing that works extremely well is, when we went through the Nedbank recovery period, we put in a separate shareholders' agreement which was public record of how the Nedbank Board and the Old Mutual Board would relate together. And part of the operating model I have realised that actually it will be good to have absolute clarity of the relationship between regulatory boards and the PLC. So that is a process that we are going through And I am quite keen, from a management point of view, there is no difference between whether there is a 100% subsidiary or whether there is a majority subsidiary. So in answer to your question you shouldn't read anything into the comments I had before. I am quite happy with majority owned and 100%.

Blair Stewart, Bank of America Merrill Lynch

You have said in the past that the ownership structure is not right for you. You have said that in the past right?

Julian Roberts

I have said that in the long term, yes, it is better to be up towards 100%, at 100%, or sold down. And I openly still say that. Nothing has changed with that overall position. But you shouldn't read anything into the long term strategy either way for us at the moment. So there is no change in position.

Michael Christelis, UBS

Just two questions if I may: The first one, you talk about taking a weakened assumption on your single premium annuity book in the US, and I am just wondering about the prudence of that move given the historical problems you have had with that particular book of business. And then secondly, there is a comment made about the surrenders in Bermuda will determine obviously how quickly the book runs off. Can you give us some indication of what you are experiencing there since the book has been closed and, again, if you have got any intention to re-open some sort of enhanced surrender option policyholders just to wind that book down quicker.

Philip Broadley

On the first one, what we have done is to slightly weaken the MCEV assumption to align it with the IFRS strengthening. And that is supported both by our experience in terms of the number of debts that we saw in the portfolio in the first six months and also actually by the pricing on an external transaction because we sold a small number of high value cases for an amount within the reserves. So we think the alignment of the reserves is sensible. And my recollection is that the average life of that portfolio is 85 years, and we are assuming that there is a remaining average life expectancy of 8 on that group of business which we think is a reasonable assumption.

Julian Roberts

Bermuda: As Philip said, there is nothing new really to report on Bermuda and that's why it was very brief in Philip's part. Bermuda is behaving as we would expect it to. The hedging is working properly. So there is no real new news to come through. We are not planning to make an offer similar to the one that we did previously. We haven't ruled out that we might do it at some stage in the future. But we are just carrying on running that book of business. And we are happy with the way that it's behaving properly.

David Danilovitz, Bank of America Merrill Lynch

Two questions: First of all, net client cashflows, certainly an improvement in quarter two clearly supported by depressed market valuations and improving your outflow scenario. Certainly markets have bounced which has positive implications across the group. But are you finding that inflows have actually bounced to a similar degree or should we be expecting the net flow scenario in quarter three to come under pressure?

Julian Roberts

At the moment in the US we are in the good space at the moment. We have still got a good pipeline of assets that our affiliates believe that will come on the books. And of course we are much happier because the market levels are higher. So no particular change in what has happened in quarter two. So the investment performance improved;.we are therefore hopeful of the net client cashflows and there is a good pipeline. And hopefully if the markets carry on behaving it's good for the second half as well.

David Danilowitz

The second question again on the US Asset Manager, you clearly last year converted some of the compensation into equity stakes and market levels have moved around quite a bit over that period. Have you found any internal difficulties with that conversion process? And could you maybe just emphasise what type of protections you have both for shareholders as well as the minority shareholders, i.e. ensuring they are appropriately incentivised.

Julian Roberts

As you know the general structure that we have got with people is they have an ownership stake in the affiliate as well as having a significant bonus arrangement. So the affiliates largely are still profitable, although reduced from what is going in the past. So therefore they are still paying out adequately to the portfolio managers and the people there. They have reduced their expenses. As we have said before there have been quite a few lay-offs in many of the affiliates. So therefore they keep on adequately remunerated. But quite clearly some of the long-term incentive arrangements are not giving the uplift in value that they would have expected a year ago. There haven't been any issues with any of the affiliates of that position.

Larissa van Deventer, Deutsche Securities

Your South African operations have been tremendously profitable in the past and you do mention caution about the recession setting in in May of this year. In your persistency evaluations have you noticed any specific pockets that are more challenged? You mention that the entry level market has been slightly more resilient than the affluent. But what are the key aspects that you believe you should…you are going to focus on in the next half of this year?

Julian Roberts

I have been waiting to have a question that I could pass on to Paul Hanratty sitting here so the people in London could actually see him face to face. Is there a microphone we can give to Paul? Paul, if you want to come up here, then the camera can pick you up.

Paul Hanratty, Head of Long-Term Savings

I think that when Julian referred to the pressures in South Africa it is true that sales have kept up relatively well in the mass market but have been more depressed in the affluent market. And I think that is particularly single premium sales as stock markets have been under pressure. On the persistency side we have seen a lot of pressure on persistency, particularly actually in that mass market. I think we are somewhat protected in our business because a lot of our market are civil servants who in South Africa are not feeling the full effects of the economic woes. But there is no doubt that in certain industries, in certain geographic regions, in the private sector, in that bottom end of the market, persistency will be under real pressure going forward. And that is probably going to last we think for the next 18 months or so.

Brian Mushonga, CSSS

Given the uptick in impairments in Q2 versus Q1 can you give us an idea of the proportion of your bond portfolio that is being monitored internally for possible impairment? How this compares to the position at the end of last year.

Philip Broadley

I would reckon about 15% of the portfolio would fall on the watch list and therefore is reviewed monthly. But as Paul Hanratty is reminding me sotto voce the whole portfolio is the subject of review by management, by the investment committee, and also by the oversight committee here.

Marius Strydum, BJM

My question relates to the Nordic profitability. It was a negative surprise for me considering the strength of the Swedish equity market for the period. Obviously …I mean from Skandia Banken…maybe give some more colour on…maybe Skandia Banken in particular.

Julian Roberts

The issue really within SkandiaBanken is that interest rates, as you know in Sweden, very similar to the UK, have fallen away to next to nothing. And therefore that has had a very significant impact on NII. And that's the large reason and that has dented the profitability quite significantly in Nordic.

Marius Strydum

And the life assurance business was, I would assume, more resilient?

Philip Broadley

Yes, but still affected by market levels and also some specific items.

Marius Strydum

And then my second question relates to Mutual & Federal in South Africa. Are there capital efficiencies that can be achieved by breaking out the minorities in Mutual & Federal and running the business more leanly?

Julian Roberts

It's an interesting question whether, if it was a 100% subsidiary, whether it would be more efficient. M&F at the moment is very much focused on reorganising its business and also implementing a new IT system. And one of the issues that we are looking at quite closely now is to see whether there are more things that we can do jointly with OMSA that would produce added value. But that is work and an assessment that we are doing at the moment.

Francois Du Toit, JP Morgan

First question relates to the slide 19 or 20 that you have got in your pack where you show that MCEV benefited by 5.3p per share from transfers. Can you clarify that transfers boost to MCEV? I think you mentioned briefly that there was some transfer out of covered businesses into PLC. But how has it had a net 5.3p per share positive impact on MCEV?

Philip Broadley

The simplest way of answering that is to say that there is an element that we were previously treating as a loan that we now treat as capital. And therefore it boosts the net asset value in the way that it does.

Francois Du Toit

But it still had a net positive impact on MCEV which I thought would have used market consistent values for the capital whether it was within the covered business or within PLC. But we can actually maybe clarify that one maybe in more detail later.

And then also it seems like there are no more details in the supplementary disclosure document on the adjusting items. And I would have thought that the adjusting items is quite important given that the difference between adjusted operating profit and basic IFRS earnings is fairly significant. Your adjusted operating profits are 5.4p per share versus basic IFRS earnings of -1.8p per share. Clearly a very big impact comes from your LTIR assumptions and your long term investment return. Can you comment on whether you believe that a 20 bps of assets under management default or loss allowance in the US is sufficient given that impairments amounted to about 250 bps in the first half?

Philip Broadley

I think there were two elements to your question. In terms of the analysis that you are discussing, I think note 4 in the accounts, the operating profit adjusting items, might help you there. If not, let us know. Regarding the 20 bps assumption we have thought about that carefully. We have considered amongst other things the historic data from Moody's and others and we believe that is appropriate as a long term charge, recognising that we are at the moment at the bottom of a cycle where impairments are likely to be ahead of that. But as a long run assumption we do think it's appropriate.

Francois Du Toit

What is the implied assumption in MCEV given that your reference rate addition has moved up to 175 bps?

Philip Broadley

I am afraid I don't have that number in my head. Andrew Birrell is just telling me it's 290.

Francois Du Toit

And then one further question…sorry about all the many questions. Can somebody please clarify what was the financial impact on MCEV of the 50 bps addition to liquidity or to the reference rate for annuity business in South Africa?

Philip Broadley

I will have to admit that I don't know that one. We will let you know.

Risto Ketola, Ketola Research

Two questions. First one being to Julian. Am I correct that if you do integrate your back office more into South Africa it does inhibit breaking the group up down the line?

Julian Roberts

No, I don't believe that is the case. We have many arrangements across the group where we outsource. Part of the US business outsources. Part of the UK business outsources. So if at the end of the day we believe that economically it's more efficient to save money for the group it is still going to be efficient, whether the group was divided in a different way. So you shouldn't read anything into this. Where we are now we believe we can be more efficient.

Risto Ketola

OK. To Philip: Can you give some indication of the size of the DAC Asset in the US and how big a threat that poses to IFRS earnings over the next year or two.

Philip Broadley

If you give me a moment to turn the pages I could probably find it. It is disclosed in one of the segmental analysis schedules.

Philip Broadley

I think it's note three. But in terms of its recoverability we do assess that. And given the nature of a fixed indexed annuity book we do believe that the DAC Asset is secure and indeed if your concern is around surrenders typically the surrender charge would more than offset the DAC Asset which would be removed on the surrender of a policy.

Jon Hocking, Morgan Stanley

Can I just ask a question on European Retail and European Wealth Management? Do I take it that these businesses are going to be running on separate back office platforms? Because you mentioned moving, I think, Retail to SA. Why don't you try and run them on one platform or move everything to SA?

Julian Roberts

The difference that we are exploring is that actually the retail business that is in Eastern Europe is a very different business from the UK business and also the Italian and the French business. So, if you like, one is more mass market, one is more affluent. And therefore they have got different needs and different requirements. And that's why originally we did that division between the two in ELAM. If you will recall what we first of all looked at was through the Eastern European business whether we could leverage the scale going to Poland. And now under Paul's leadership we have got more capability in South Africa at doing it, so it was obvious to turn around and look at South Africa. So that's a process we are going through. The platform in what we call the wealth management division is far more complicated. It needs far more functionality. And it's functionality that would not be required in Eastern Europe. But our aim quite clearly is to reduce the number of hubs, to reduce the number of separate IT platforms and get these cost bases down. Then we think we have got businesses that will give us a good ROE moving forward.

James Pearce, Cazenove

On the FGD I just wonder if you could point to anything during Q2 that surprised to the downside. I think given the sensitivities you gave for your Q1 IMS I at least came out with a number a hundred million higher than the actual. And I was just wondering if there is some explanation you could point to in the second quarter as such. I have seen the reconciliation you have given for the whole half. But is there anything in the second quarter that could explain why the sensitivities haven't quite worked at least for me.

Philip Broadley

No, I can't point to anything in particular James. Where we ended up was very much in line with our internal forecast, recognising the profits that were achieved. And the only item I could point to perhaps is whatever number you might have been assuming for impairments in the US in the second quarter would have had an effect. But otherwise the trends were very much as we were expecting. Possibly Nedbank impairments as well, Katie suggests, depending upon what you have been assuming there. But obviously they come through in the calculations.

Julian Roberts

Any further question in London? While you are thinking, let me nip back for the last questions from South Africa.

Diane Radley

Final questions? No. I think, Julian, we are all done here.

Julian Roberts

OK. Thanks Diane. Anything further here from London? OK. Well thanks very much everybody.

END.