OLD MUTUAL

INTERIM MANAGEMENT STATEMENT

5th November 2009

Julian Roberts

Good morning everyone. I know there's still people joining the call but I thought we'd start fairly promptly as I know this is a busy day in the London market for announcements, so welcome to our conference call for our Q3 Interim Management Statement. You'll see in the statement we issued this morning, what I'd like to do is to update you on sales and then give a quick overview of the continued progress we are making against our strategic priorities. As usual Philip Broadly is here with me in London.
So let's start with our Q3 sales. I want to highlight Q3 2009 compared with Q3 2008, so that's the analysis we'll use rather than year to date. In Q3 long term savings sales for the period were down 4% though long term savings unit trusts were up 47% to 1.7 billion. This is a significant improvement compared with the first half of the year. The recent recovery in equity markets has generally help drive renewed sales of equity based products and positive client cash flows, particularly in wealth management where unit trust sales were up 64% to 853 million.

The South African economy was one of the last economies to enter into recession. It appears to have been relatively shallow and is predicted to be out of recession fairly soon. Despite this sales in OMSA remain flat driven by a 15% increase in recurring premium protection sales in both retail, mass and corporate segments offset by lower savings product sales. Nedbank was managed tightly in the difficult environment with stable margins and impairments still at elevated levels but firmly controlled. Group funds under management in the third quarter were up 33.6 billion from 30th June to 281 billion, however average funds for the nine months are approximately 1% below the average for last year reflecting movements in market levels. Interest rates are also at much lower levels across our region than in the comparative period last year. We had a small net client cash outflow in the quarter, however our long term savings division had positive net client cash flows.

So let's look at the group in a bit more detail. The long term savings business delivered a good sales performance for the quarter. First quarter APE was 326 million and unit trusts were 1.7 billion. 2/3 of the APE was in Europe.

If we look at each element of long term savings in turn starting with emerging markets. This consists of OMSA, Latin America, the Far East and Africa and we've put them altogether because they now report to Kuseni Dlamini. We've brought these businesses together under Kuseni as we believe we can leverage OMSA's capability across these emerging market businesses. Within emerging markets OMSA sales remain solid with an improvement in protection products, primarily regular premium business. Single premiums in the affluent segment were soft, but this trend did not deteriorate in the third quarter. Overall retention has stabilised, however the impact of the downturn in the South African economy resulted in an overall fall in net client cash flow. Underlying sales in Namibia and non-South Africa emerging markets were stable. China although very small showed good improvement. Latin America also had strong growth in unit trust sales with shares up 37% to 243 million driven by a good result in Colombia. The Nordic business saw good sales levels notably in unit linked products. Mutual fund sales were up a huge 77% on the same period last year and the APE sales were up to £46 million from £44 million. This was driven by particularly strong investment performance in the region as a positive trend towards rising equity markets continued. Retail conditions in Continental Europe do remain tough. The German speaking market in particular had a difficult period for sales, however they had good retention and consequently positive net client cash flow.

The recovery in markets generally helped drive sales of equity based products and positive client cash flows particularly in the European wealth management area. In the UK quarterly sales of covered and non-covered business were at their highest level since the second quarter of 2008. Let me just repeat that. In the UK quarterly sales of covered and non-covered business were at the highest level in the third quarter 2009 since the second quarter of 2008. UK APE sales were up 6% and mutual fund gross premiums were up 53% on the third quarter of 2008. This reinforces our belief that we are in the right segment of the market where assets will move out of traditional products that we don't like onto platforms such as ours.

The international business continued to find the markets challenging particularly in single premium where we saw APE sales of £29 million. Regular premium sales were flat versus prior year for the quarter and year to date. APE sales in France and Italy were up 64% to £23 million with Italy being stronger than France.

I'm delighted with the continued transformation at US Life. Operational and product risk have now been brought in line with the strategic plan for the business. Continuing improvement in credit markets has resulted in an unrealised loss position in aggregate at the end of the quarter of $614 million. This is a major improvement on the position at the end of December last year when it stood at $2.3 billion.

Surrenders in the long term savings division has stabilised during Q3 in comparison to the first half. On a year to date basis we've generally seen elevated levels but we've had improving trends in South Africa, US Life and European retail in the quarter. This reflects in part the economic conditions but also the split of single premium and regular premiums in our markets. Surrender management programmes are in place across all our businesses.

Let's turn to Nedbank. Interest margins were maintained at 3.4% and the credit loss ratio improved to 1.47%, an improvement from 30th June when it stood at 1.57%. Like for like non-interest revenue was also positive rising 38% for the quarter and 14% on a year to date basis. Retail impairments remain challenging but corporate credit quality continues to be strong. We are holding a Nedbank showcase in London on 13th November which will be webcast. This provides an opportunity to gain a fuller understanding of this business.

Mutual and Federal experienced challenging market conditions in South Africa, premiums within personal group schemes declined by approximately 40% year to date due to the cancellation of a number of unprofitable schemes which we initiated during 2008. For the balance of the business we had a marginal 2% decline in premiums in the quarter.

We experienced increased funds under management in our US asset management business. We saw good inflows from a number of our equity boutiques and some delayed effects of weaker quant performance on outflows from seven other boutiques. In aggregate we saw net outflows during the quarter of $1.2 billion. The management team has made significant cost savings and is continuing to take steps on the retail side of the business to position it for the future, however the level of average assets for the period is still below last year as is the proportion of equity assets. Nevertheless the quarterly progression in funds under management this year for the first quarter onwards is very welcome.

I'd now like to update you briefly on the group priorities which we identified at the start of the year and the progress we're making. Let me start with capita. Our capital position remains strong with a pro forma FGD surplus at 30th September at £1.4 billion compared with the £1 billion at 30th June. The increase is due to the improvement in equity markets in the period, the strengthening of the rand and the earnings achieved in the quarter. All our businesses remain well capitalised.

Since the end of the quarter we've successfully placed a £500 million seven-year bond. At 31st October the holding company had available cash and commitment to facilities of £1.3 billion. We continue to simplify the portfolio. In September we sold our Chilean business and more recently announced the completion of the sale of Bankhall. You will have also have seen that on 14th October we announced our intention to acquire the remaining shares in Mutual & Federal. This transaction will allow us to build a closer working relationship with the mass retail business of OMSA in particular, drive synergies from operational improvement and leverage additional capabilities across the group's African operations. Most importantly it confirms the future for our staff and customers. The Mutual & Federal board have recommended that Mutual & Federal shareholders vote in favour of our offer. The scheme vote takes place on 23rd November. We have had an active engagement with shareholders over the last month and expect the transaction to complete before the end of the year.

As part of the simplification of the group, the Bermuda business is now in run-off as all written policies have passed their first anniversary date and policyholders are not permitted to pay an additional premium. Hedge effectiveness measured in respect of the components that we hedged stabilised at the 95% level at 30th September. Given the improvement in the capital position of the group, the stabilisation of the hedge effectiveness, management's improved understanding and management's systems for tracking the underlying risk, a process of selective and progressive release of the hedge position has commenced since the period end.

So let me summarise. The group has delivered a good sales performance during the third quarter showing a marked improvement on the first half of the year. The UK performance is especially pleasing. We're doing what we said we'd do. We've resolved the capital and liquidity issues. We are successfully managing the risks in the US Life business. We continue to make good progress on simplifying the portfolio. We expect market conditions to continue to be volatile and consumers and asset allocators to remain cautious. We are in a low interest rate environment and asset levels are still below the levels of 2008. However we remain focus on managing risk and capital tightly and on driving further underlying operating efficiencies so we can capitalise on further recoveries in our markets.

I look forward to seeing everyone at the Nedbank showcase and updating you all with our final year results on 11th March 2010.

At this point I'm going to stop and open up the call to questions to Philip and myself.

Michael Christelis

Yes, good morning guys. Just two questions relating to the Bermudan business. I'm struggling to understand the rationale or the reasons for the hedge release. What is the point of actually doing that at this stage? Secondly in terms of the run-off, first of all what is the rate of run-off? Are we expecting this book to stay on if it's trading at the current rate for five years, ten years? Then also what have you done to manage the cost per policy in that business as obviously the number of policies run down? Thanks.

Philip Broadley

Let me start with the question about why we've done it. A year ago so obviously the capital position of the group was somewhat different, trends in markets very uncertain but with a clear view that market conditions were likely to get worse before they got better and therefore it was appropriate from the point of view of managing capital in particular and also preserving liquidity to effect a full hedge programme over as many of the risks to which the Bermudan business is exposed as possible. A year on with the business in run-off and with various steps that we've taken to simplify the way in which policyholders can select funds and so on and so forth, we're just in a different place from the point of view of using shareholder resources to continue to meet the cash costs of hedging all of the risks to which Bermuda is exposed. So with the view that we've taken on the broad direction of equity markets in particular we've begun to release some of the hedges over equity markets. We also continue to hedge interest rate risk and FX risk. You may also recall that we've said that there were some risks that we have never thought to hedge, some of those being volatility. The reason for doing it is that the capital position of the group is that much stronger, it enables us to manage some of the movement in unrealised gains and losses on the portfolio that might arise.

So far as the run-off is concerned we do expect a low level of surrenders to take place. That is the nature of any book of business, but fundamentally the products were sold to customers on the basis of a guaranteed minimum asset value at the fifth and then the tenth anniversary date, so we would expect the larger part of the portfolio to remain over a period of years while customers hold that benefit. In terms of managing the expense base, the administration of the policies is handled by a third party administrator so the costs of administration are largely variable. The number of employees that we ourselves have managing the Bermuda business is about 12, so our own costs of managing it are quite low.

Michael Christelis

Great, thanks very much.

Greig Patterson

Good morning gentlemen, three questions. One is in terms of US unrealised losses, on a statutory basis, not the IFRS basis but on a statutory basis could you give me a guide for the amount that is below 80% for six months, in other words the key criteria for the impairment process. What's the nominal unrealised loss on that criteria? The second one is I wonder if you could give us a steer of where the RBS ratio is currently versus the 305 target? The third question is I see in the UK one of the drivers of the sales has been "strength and distribution relationships and increased promotional activity". How long is that activity going to continue? I assume it's of a one-off nature and will this activity hurt margins in the UK in the second half of the year?

Philip Broadley

Let me take the first two Greig and Julian will take the third. I don't have a figure to publish today on the level of securities in the portfolio below 80%. Clearly the number of securities that have traded below 80% for more than six months will have reduced significantly given the overall position of the portfolio and the fact that unrealised losses of $600 million on a portfolio of $15 billion gives you some sense as to where the overall portfolio is. You will have been able to see I'm sure from page 7 on the release the trends and impairments over the last five quarters and an indication as to the lower run rate. I think you can also get a sense from the comment that we've made in the release that our expectation now around capital injection in Q1 was at the lower end of the guidance we gave in August which also suggests a view that we have that the rate of impairment is likely to be lower in the fourth quarter than it was in the first half. So far as the RBC is concerned, it's not a ratio we calculate each quarter. Our target is 300%, clearly it is below that, below 300% at the end of the year hence the commitment to the capital injection to return it to that target 300.

Greig Patterson

You wouldn't know what the unrealised losses on a statutory basis is because you've got the IFRS. What's the adjustment from IFRS to stat at the end of the third quarter?

Philip Broadley

It's not a number I have Greig.

Julian Roberts

If you then move on to the UK, there are two things going on here particularly. One, we announced this week a significant change to the sales organisation structure in the UK and that will result in a change of the branch network with the regional branches, many of them closing and a total revamp of the sales organisation. We believe that's in line with the fact that the platform technology is working extremely well now and therefore quite naturally as the platform business is a lower margin business we've then had to look at expense and look at what support the IFAs need on a platform business and they don't need to have that close contact that they've had in the past. So that's one of the things that is sort of codified in the message. The other side of it is we have refreshed the bonds that we're offering on the platform and we also went through a significant road show round the IFAs and both of them have helped significantly in growing our volumes of business. There should not be an impact on the margin negatively on that brief incentivisation programme we've got in place.

Greig Patterson

Just to confirm, you have or you haven't changed your pricing or commission structure in the third quarter versus the first half of the year?

Julian Roberts

No, we haven't changed it.

Greig Patterson

Hi guys. A couple of questions, I think I will do them one by one. The first one is the £1.3 billion of available liquidity. What is the rough cash and facility split on those?

Risto Ketola

Hi guys. A couple of questions, I think I will do them one by one. The first one is the 1.3 billion of available liquidity. What is the rough cash and facility split on those?

Philip Broadley

I think it's roughly now £500 million of cash and £800 million of facilities. To be honest it's not a distinction I'd regard as particularly important. The facilities are available at call and we've both drawn on them and then we've used the great majority of the bond issue immediately to repay them.

Risto Ketola

Is that facility still dated September 2012 and if it is, do you feel very comfortable about rolling it over?

Philip Broadley

It is still dated September 2012. I think it's probably at least 12 months if not 18 before we will begin substantive discussions about renegotiating it. I would expect facilities to be available albeit at different terms from those that were granted a couple of years ago when that was taken out.

Risto Ketola

Then the second question, I have seen the totals. The second question is around these NAIC changes in the US. Now I agree it's unlikely but what is the worst case scenario because clearly the $200-300 million you speak about assumes no change?

Philip Broadley

Yes, that assumes that there is no change in the NAIC current rules.

Risto Ketola

So the negative scenario, let's assume preference shares need to be mark to market. How bad could it be?

Philip Broadley

I'm not sure I'm quite understanding where the question is coming from. Our target range is set on the basis of the current rules and therefore our expectations of ratings migration under the current rules.

Risto Ketola

Sure. I'm just trying to fish whether you have done internal modelling of what the capital could look like under the proposed changes?

Philip Broadley

The proposed changes are likely to make the position easier for us, not worse.

Risto Ketola

Brilliant, ok.

Philip Broadley

That's why I wasn't understanding where your question was coming from.

Risto Ketola

I thought that the mark-to-market of preference shares would have a bigger negative impact than the other relief you'll get.

Philip Broadley

No. We consider the net effect of the changes under consideration if they come through will overall be positive. I never seek to anticipate regulatory changes, let's deal with them when they're made.

Risto Ketola

That's exactly the answer I was hoping for. The last question, new business margins. Any change of giving a hint on where those are going?

Julian Roberts

This is a quarterly statement on trading.

Risto Ketola

Thank you.

James Pearce

Good morning everybody. Two questions please. Could you comment on the prospects for a resumption of dividends in light of what you're saying about capital injections in the US. Does that mean that we're looking at interims rather than the '09 final still or do you think there's a chance of it resuming sooner? Secondly, there's not much in the statement about the strategic disposal programme. Is that because you think there's less need to make disposals in light of the improved trading or is there just nothing to say on that yet?

Julian Roberts

It's the latter James. The position hasn't changed at all. We are on the journey, we do believe that there needs to be further change to the group. There is no update here that I want to make at this statement and we will say more in March. Equally so on the dividend, there's no change otherwise we would have put it in the statement. The fact is that the reason that we stopped the dividend, the capital and liquidity has significantly improved as you can tell but the decision on the dividend will be made by the board in March.

James Pearce

Thanks very much.

Larissa van Deventer

Can you please provide some colour around the very impressive mutual fund sales, whether you believe your market share has changed relative to your peers especially with respect to the Skandia operations in Europe?

Philip Broadley

What I believe we're seeing and it's very early in the first quarter, but as you know I believe that the model that we have in the Skandia platform business is flexible, it's transparent, it's absolutely in line with the way the retail distribution review wants the UK market to go and people can see what they get and they have choice. The way that we've got various facilities around there to tailor the investment into what wrappers people need, whether they need a wrapper or also whether we are understanding and people are understanding their risk tolerance, I believe that we are really right up in the forefront of that type of market. So in many respects it's not surprise to me that the traditional insurers in the UK have struggled with their products in this period of time and it's also no surprise that when the equity markets pick up that we are seeing more assets come onto the Scandia platforms. That's why I'm positive about that business. That's why we've invested a lot of money. Now our issue moving forward that we continue to tackle and that's why I've talked about the sales organisation, it is a lower margin business and therefore we have to deal with the operating efficiency and expenses in order to make sure that the margins and the return that we get from this are good. I think this quarter has shown that this business is in the right place of the market moving forward.

Larissa van Deventer

Thank you.

David Danilowitz

Good morning all. I have two questions, I'll start off with the first one and I'll move on to the second one afterwards. Net client cash flows as you said are certainly a negative over the period despite the strong inflows. Obviously the rising market is putting a lot of pressure on the outflow. Could you give us a sense how much of the activities taking place in terms of increased volume of outflows versus increased levels due to higher markets? Maybe another way to do that is what do you see the Q4 performance looking like to date?

Julian Roberts

Look, it's very difficult to look through to what the level will be moving forward. I think we are quite comfortable on the long term savings business cash flows where the market has continued to improve. As we said in the document surrenders have slowed down from the significant increase, so we're quite positive with that. You have seen our US asset management business has had outflows in the quarter and those managers that are very much linked to a comp model, they're not good when you have this type of market that we've experienced this year. So it's very difficult to predict whether we'll be back to positive net cash flows across the group or whether we will be in an outflow position but clearly if you look at the level of assets that we've got, the markets are at a higher base than they were in the earlier part of the year.

David Danilowitz

Great, thanks. I guess the second question relates to that and is part of the answer, you referred to consistency improvements. I wondered if you could maybe give us a sense of what that improvement has been and importantly within South Africa, I know the UK you did highlight some improving trends there. How has the South African performance been since last year?

Julian Roberts

I just want to repeat what's in the document. If you look at have we got higher levels of surrenders in 2009 and 2008 the answer is yes and really that's no surprise in a recessionary environment. Is the position in Q3 an improvement on Q1 and Q2? The answer to that is yes as well but the level is still higher than 2008. That's really the colour I would give on it. It's very difficult to predict in this type of environment quarter on quarter, but all I can say is the trends that we've seen have been an improvement on the first half.

David Danilowitz

Great, thanks Julian.

Jon Hocking

Good morning. I've just got two quick questions on the US. The capital injection in 2010. Is that intended to top up to the RPC to 300% and thereafter have a further drift in 2010 and maybe a further capital injection beyond that if you think that's going to be the end of it? Then secondly can you comment a bit on the prospects for actual divestiture of the US Life business, is there any sort of secondary market activity, private equity, interest etc? Thank you.

Philip Broadley

On the first one Jon, the intention is to make a capital injection, build the capital up to 300% and in a normal market thereafter as the liabilities reduce given that our current budgeted level of sales will over time cause the general account liabilities to reduce, we would expect in a normal market the business to be capital neutral thereafter. On the second one, I think you can observe the US market as well as I can. The list of US insurance companies that are for sale is a long one and it was added to last week. I'm not clear that there are a large number of buyers, either trade or private equity yet emerging.

John Hocking

Ok, thank you very much.

Colin Simpson

Hi there, just a couple of questions please. Regarding your recent debt issue, do you think you could have raised more? If yes why don't you and if no I guess why not? Then just a follow up on the Bermuda VA hedging relaxation I guess at a time when the VIX has just started to pick up, is this an exercise to try and reduce the gap between the benefit base and the account balance or are we going to see some sort of near term benefit?

Philip Broadley

On the debt issue the size of the issue we made was really one of judging on the advice of the book runners where we could obtain the best price for the size of issue that we wanted. In the context of thinking about the group's liquidity, the size of the issue was I think a relatively large one in the sterling market and has been sufficient to enable us to get to the group close to the level that I'd described perhaps somewhat simplistically at the half year but nonetheless I think still a useful benchmark to think about. That, we have cash resources and committed facilities available to us at plc like unequivocally that are broadly equal to the FGD capital, so from the point of view of what is FGD capital for, it's a buffer against unexpected losses wherever they might arise around the group and we have the liquidity that enables us to put capital behind such losses were they to arise, but clearly that is about managing capital in extreme conditions. So far as Bermuda is concerned, yes, volatility is rising. As I mentioned earlier in the call volatility itself is not a risk that we have previously hedged but with the improved capital position of the group we are able ourselves to bear some of that volatility that gives rise to unrealised losses as well as gains and that therefore does introduce a little bit more volatility into the FGD calculation. So it's actually around I would say managing the risks to shareholders over the medium term and balancing that volatility against the cash outflow which would otherwise would be borne by shareholders if we were to continue to hedge all of the risk in the portfolio.

Colin Simpson

Ok, great. Thanks.

Marius Strydom

Hi there. My first question relates to the cash and resources position. If I remember correctly that position was around £800 million at 30th June and it has now increased to £1.3 billion after raising debt of 500 million. I just wanted to understand, how come the increase is so limited and were the cash outflows offsetting the cash generation by the business over that period?

Philip Broadley

Bear in mind that the figure I'm quoting is as we quoted in August is the cash and facilities that are available to the parent company, so it is not a reflection of the consolidated cash flows in the group and therefore profits generated in the third quarter have not necessarily been remitted in the form of dividends in the quarter. So the definition is deliberately a narrow one because I wanted to state previously and as again today is what is actually available without effectively overnight to the holding company.

Marius Strydom

I understand. Then my second question is do you see any capacity for reducing head office costs at Old Mutual? They came in quite high during the first half of the financial year. Could you give me any indication for cost cutting at that level?

Julian Roberts

Marius, next week we have all of our business units coming through to look to present to Philip and myself the business plans over the next year. One of those that we look at at the same time is the head office costs. One of the issues we've got that we've grappling with right now at the moment is quite clearly the regulatory intervention that the group has not just in London but around the group is significantly higher and we've had to put in as well under our operating model because of the problems we've had in the group more resource in the risk management side and in addition to that we are spending money preparing ourselves for Solvency II. So in the short term it's hard to see ways to reduce those costs but it is on our agenda because it is a very large sum of money.

Marius Strydom

I understand. My final question is has there been any change over the past 12-18 months in the way that the management in the company is incentivised? Are incentives still based on IFRS earnings or has there been some kind of change to incentivise more on an ROE basis?

Julian Roberts

No, there is no change on the incentivisation but this is a fairly hot topic because a number of our shareholders have been questioning the shape of remuneration when you're in a turnaround situation, a restructuring situation and there's work being done to look at the incentive packages. But currently there has been no change.

Marius Strydom

Thank you very much.

Jacques Conradie

Hi, good morning everyone. I've also just got a question on Bermuda where you're relaxing some of the hedges. I just want to understand, so let's say if you relax an equity hedge, can you share both the upside if markets keep going down and exposure you to some downside on going down, so effectively you will then also be long the underlying investment. Is that the right understanding?

Philip Broadley

Yes, absolutely.

Jacques Conradie

Can you give us an idea of the total exposure you'd be targeting to get to in a six month period, like a billion dollars or $2 billion or what kind of amount would you be happy to carry?

Philip Broadley

I can't actually give you such a medium term view. This is very much managed on a daily basis rather than something where we have six monthly goal. As I mentioned in an answer to an earlier question, the policyholder liabilities that we have, effectively they all have got a guaranteed minimum asset value, a guarantee minimum accumulation benefit on the fifth year anniversary date. The bulk of those policies were sold in what, 2007 and the first half of 2008 so that's the block of liabilities that we're running to. Many of them were sold in Asia so the underlying funds are invested in a variety of Asian equity indices and we've obviously been monitoring again on a daily basis how those indices are performing. So taking a view over the period of time until the fifth anniversary date, we have a view as to where markets may head. This time a year ago we were seeking to protect shareholders from further downside risk and therefore we bought protection against that. Where we sit today we have perhaps over the long term a view of broader recovery in Asia and therefore we're prepared to run on a daily basis without some of the downside protection that we had, but it is something we look at each day. There is a stop-loss on it and we would buy futures protection for example very quickly if we were concerned about trends and getting towards our stop-loss limit.

Jacques Conradie

Great. Can you maybe just outline your current open position to just me an idea of where you guys are at the moment?

Philip Broadley

I don't have that number to disclose today. We have taken off some of the hedge protection on equities that we had at 30th September but not at this stage a significant amount.

Jacques Conradie

Thank you.

Raghu Hariharan

Hi there, good morning gentlemen, this is Raghu Hariharan from Citigroup. I just had three questions if I may please. The first one was on the… I'm just trying to understand the liquidity, the scale of liquidity challenges in the US. You're saying you have $841 million of short term investments in cash and I was just wondering how much would that cover your surrenders by? How many months protection do you have and any other cash flow that might come in to maturities? The second question was around US annuity pricing. I see you're saying that this provides capital and that we are happy to be in this business. I was just wondering how has pricing moved in Q3 versus Q2 or even over last year, so you're writing this business a profitable terms? The third one is another goal, trying to figure out how the Bermudan hedging is working. I was just trying to figure out how have the…what is the gap between the guarantee reserves and the guarantee value, the option value of the guarantee. What is that gap in say millions of dollars? If you could give us a sense of either the number or how it has moved that would probably help us understand why you're taking off some of the hedges. Thank you.

Philip Broadley

I may have to come back to the second question. The first of your questions, 800 plus million dollars of cash would cover nine months of surrenders assuming there was no other income. I don't know if you recall the slide that I showed at the half year which was designed to provide a dynamic view of how the US Life fund actually works or worked over the six months. Over that period of time the fund received US dollars1.3 billion of proceeds from maturities of bonds, so the reason we've taken the decision to reduce the amount of cash we hold is that our view and we have re-invested some of the cash we received in the third quarter is because surrender experience has improved and in the first half of the year we were being very cautious in terms of holding cash to cover us at levels of surrenders that would have been very exceptional. So we're very comfortable with the liquidity in the US Life general account, hence the reason to invest some of it in the third quarter. So as far as the Bermuda hedge position is concerned, assets and liabilities, I think this is disclosed in the half year and we can follow up with you on that later. It's not a number that I'm in a position to update today for the third quarter. You had a second question about the annuities which I missed but Julian may be able to…could you repeat the second one again please?

Raghu Hariharan

Yes, sure. It's on the US onshore immediate annuities actually. You were saying in the press release that this is a product line which is important for you because it gives you capital I guess after the Solvency strain and reserving. So I was just wondering how the pricing has moved on this product, i.e. is this product profitable enough for you guys to write it and how the pricing has moved say over the last year?

Philip Broadley

I'm not sure I can comment on pricing over the last year. The profitability of the US Life business, the product mix that it's selling in aggregate is designed to achieve an IRR of about 13%, 12%, I'm just being corrected by Julian, 12%.

Raghu Hariharan

Ok, thank you very much.

Francois du Toit

Good afternoon gentlemen, good afternoon South Africa at least. You mentioned that you've got plans to stop sales of unprofitable products in your Nordic sales in the third quarter while that's very low. We've got normal seasonality there. Have you already stopped sales and can you give us some guidance in terms of volumes and will margins pick up as a result of this action next year? That's the first question. The second question, UK sales are obviously very strong and driven by platform sales and you re-priced your platform business from the beginning of the year and towards the end of last year already, but how much of that sales is just cannibalisation of existing clients or do you exclude the cannibalisation of existing clients from your sales figures?

Julian Roberts

Let me answer the second one first. The answer is yes there is some transfer of business onto the platform but we would still have positive growth quarter on quarter from new business that's coming through, so the good performance is largely net new money coming through. The other answer on the Nordic business, we have recently done a product profitability review of all the various products in Nordic and there's been some concern with one line of business where the product profitability is not accurate and that's what you've picked up we've been taking action on it and I have to say that is an ongoing process that we've got which will subdue the overall sales growth of this but we feel that the main product is still going extremely well. So there's a bit of mix that we are dealing with right at the moment.

Francois du Toit

No indication of the impact that will have on volumes for the fourth quarter and next year?

Philip Broadley

The difference is I think the extreme growth that we've had previously will be back to normalised growth.

Francois du Toit

Thanks.

Brian Mushonga

Good afternoon everyone. Just two questions. Firstly how actively have you been managing the US portfolio, in particular can you give us an update of the overall portion of the portfolio that's rated BBB? That's the first question. The second question, next to restructuring, can you give us more colour as to the sort of criteria that you're considering for the restructuring? I guess the last question relates to Mutual & Federal. You indicated you've had ongoing engagement with investors. Can you give an update on the 22-23% acceptance that you previously indicated?

Philip Broadley

We have been making some sales in the portfolio during the third quarter. We have also been reinvesting some of our cash proceeds as I was just commenting on in very highly rated securities, so I can't give you the specific proportion of BB or below at 30th September, but maybe comment that it is a portfolio where we are undertaking some de-risking activity and where we are reinvesting at very much the top end AAA and AA+, so the overall characteristics of the portfolio will be improving.

Julian Roberts

On Mutual & Federal we haven't as yet got further irrevocables coming through. This is the conversation that we've had with shareholders and the general view is that nearer the date we will either get irrevocables or people are confirming that unless there's a sudden, significant change in circumstances around the Old Mutual share price then they will be voting in favour. We have had from the major M&F shareholders little resistance to date.
The second question you asked on restructuring. I've got nothing further to add on what I've said before that the market believes we are too complex, we have too many business lines and we are working through exactly the shape of the group but there's no more I've got to say on that at the moment.

Brian Mushonga

Thanks.

Andy Hughes

I think a lot of my questions have already been answered but I just want to ask one quick question on VAT because clearly in the UK most of your funds are outsourced as part of the open architecture structure. What threat or otherwise would VAT moving around be to the whole open architecture model? So for example of VAT was at 15% and stayed there, presumably that would be positive whereas if VAT went up quite a lot then that would impact the relative attractiveness of your model versus potentially wherever the money is coming from, i.e. in-house insurance funds.

Julian Roberts

It's an interesting question that I have to say I haven't got top of mind and I haven't got an answer to it and I've never been asked before, but let's dig into that and Patrick can come back to you with an answer.

Andy Hughes

Right. Thank you very much.

Davy Corubolo

Hi, three questions from me. The first is, I wonder if you could give us an estimate or an update on FGD surplus at the end of October? The second question relates to the US Life business. It sounds like you've been doing a lot of work in restructuring that portfolio. I wondered if you could give us an idea of what sort of impact there could be on profits in 2009 as a result of that? I'm not sure if there's been a move to lower yielding securities. Then the third question relates to the South African business. The life sales for protection business and unit trust sales have been very strong compared to the life savings sales. I was wondering to what extent do you think that's driven by commission changes and when market confidence returns are you concerned that life sales might grow at a slower pace in future than they have in the past because of the commission changes?

Philip Broadley

Let me take the first one. The FGD position over the course of October will have been affected by two things, a weakening of the rand relative to the pound offset obviously by October's earnings. We've previously disclosed the sensitivity of a 1% move in rand-sterling as £13 million on FGD, so you can make that call and make an estimate offset by earnings in October. It won't have changed significantly over the course of the month. So far as US Life profitability is concerned, the decision that we've made to reinvest some of the cash I think will have minimal effect in terms of the earnings of the business over the remainder of the year. Looking forward over the life of a typical FIA contract which will be seven years or so, part of our thinking was clearly around investing for the more normal yield that we would want to get on our assets to support the cost of the minimum crediting rate and the equity market participation that we buy to meet parties on the liabilities.

Julian Roberts

When it comes to the South African business and the life savings and the commission changes, it's hard to see at the moment how much the changes on commission structures are affecting sales and how much it's the actual market. Quite clearly commission changes we believe will mean that the IFA market will change. Is that hugely significant for us? As you know we've got a very substantial agency sales force and so therefore that lessens any impact. I think what we generally see elsewhere is when the markets begin to come back, people will be more cautious and are being more cautious, but I have to say right now it is difficult to tell what the impact of the commission changes is on business.

Davy Corubolo

Ok, thanks very much for that.

Julian Roberts

I'm afraid everybody that we've now run through our one hour of allocated time but can I just say thank you to everybody for being on the call. I'm sorry if we haven't been able to answer all of your questions. Either if you're in South African Deward's there or Patrick's here in London and happy to pick up any questions we haven't got round to, but overall thank you for being on the call.

Philip Broadley

Thanks very much.

END.