OLD MUTUAL

PRELIMINARY RESULTS 2009

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11 March 2010

Julian Roberts

Good morning, everyone. Welcome to the presentation of Old Mutual's 2009 preliminary results. As usual, with me on the stage is Philip Broadley, our Group Finance Director. And here in the front row, Paul Hanratty; Andrew Birrell; Patrick Bowes; a number of our management team here and spread around the room.

In Johannesburg, our host today is Kuseni Dlamini, Head of Emerging Markets. Kuseni joined Old Mutual in September and is making a huge impact on the Group. We are pleased that he hosting our results presentation for the first time. Can you hear us okay, Kuseni?

Kuseni Dlamini

Yes, Julian, I can hear you loud and clear. Thank you very much.

Julian Roberts

Excellent. As usual, there are also a number of people on the phones and webcasts. Welcome to you all.

I've laid out the running order for this morning. After a few introductory remarks, I'll hand over to Philip to take you through the financial and operational performance. Once Philip has finished, I'll make some comments to conclude our look back on 2009. And then, we'll make a separate presentation looking ahead with an update on our strategy.

There is an awful lot to say, so I make no apology that our presentation is just that little bit longer than you're used to.

In 2009, we delivered a strong set of results in what was a challenging year. Operating profit though was up on 2008.

The second half saw improvement in market conditions resulting in increased demand for equity-based products. In particular, we had a very strong fourth quarter. Group Life APE sales were up 29% on quarter three, whilst mutual fund sales were up 18%. And for our Long Term Savings business, this was the highest sales quarter for at least two years.

We've also been working hard to drive change and improvement in our businesses despite the extraordinary market environment. We have made some hard decisions and taken some difficult actions. We've been managing expenses aggressively, specifically in the US, but also increasingly elsewhere in our Long Term Savings business.

We've reduced headcount and closed and sold businesses. We've changed our operating model. And we entered 2010 in a much better shape than we were 12 months earlier.

We built our capital position through active and disciplined capital management. Our FGD at the end of the year stood at GBP1.5 billion.

As you will have seen from our announcement this morning, the Board has decided, in the light of our performance, our capital position, and the Group prospects, that it'll recommend payment of a final dividend for 2009.

I'll now hand over to Philip to go through the numbers in a little bit more detail.

Philip Broadley

Thank you, Julian. And good morning, everyone. I hope you've had at least some time to read our release this morning. As always, it gives a lot of detail, which is supplemented by our additional disclosures. And in my presentation, I'll just pick out some of the key points. I'll talk about Group profit, capital, and liquidity. I'll review trading performance around the business, before touching on our MCEV result.

So, let's start with an overview of IFRS statutory results. At a Group level, we generated almost GBP1.2 billion of pre-tax adjusted operating profit in the year; up 3% on our 2008 AOP figure, restated for a change in the way we account for Bermuda.

Reflecting the fact that the Bermuda business in now in run-off and receives no new premium income, we've reclassified it as non-core and, therefore, excluded it from the operating result for AOP, earnings per share, and return on equity. This has the effect of increasing the restated profit for 2008, but decreasing AOP for 2009.

Whilst profit was up in the year, earnings per share were down at 12.1p, against 14.9p for 2008; again, restated for Bermuda. This change is mainly due to higher tax, which, as predicted, has returned to a more normal level; an effective rate of 25% compared to the somewhat atypical 8% effective rate last year. And we expect a similar tax rate to continue in 2010.

Group net client cash flow was a negative GBP3.1 billion. The main net outflows where in US Asset Management, in line with industry trends in the US, and also in the corporate sector of OMSA, and OMIGSA. The latter being due primarily to the withdrawal of funds by the public investment corporation as part of their planned mandate reallocation.

However, the improvement in market conditions and the strong investment performance by our businesses offset the negative Group NCCF. And, overall, funds under management ended the year up 8% on the opening position.

Let's now look at the operating results in a little bit more detail. Nearly 60% of the Group's pre-tax adjusted operating profit was contributed by Long Term Savings, which was up over 50% on 2008. The key driver of this was the GBP279 million swing in US Life, which moved from a substantial loss in 2008 to a profit in 2009.

Nedbank profits, which were reported separately two weeks ago, were lower, as expected in the current environment, with a reduced endowment income from lower interest rates and an increase in impairment provisions.

Mutual & Federal's contribution was slightly down on 2008 due to a lower underwriting result, although it returned to profit in the second half following a first half loss. There was also a lower long-term investment return following a reduction in the rate we use.

In US Asset Management, AOP was down as a result of lower management and performance fees, partly offset by the considerable success of the expense management activity undertaken in that business.

Lower interest rates reduced our financing costs in 2009 relative to 2008.

Following the reclassification of Bermuda as non-core, we now account separately for GBP40 million of interest payable to that business.

The other expenses comprise principally corporate costs. These include Group overheads, which were GBP10 million higher than the underlying figure for 2008 as a result of the cost associated with strengthening governance and control, including our Solvency II compliance program, which we refer to as iCRaFT. And these were partly offset by a number of other cost improvements.

The 2008 number also benefited from GBP20 million of provision releases.

You may recall that in our first half results we reported that we reduced the rate applied to the long-term investment return, most significantly in OMSA and M&F, to reflect lower expected returns on shareholder assets. The change in rate has resulted in a lower LTIR contribution to AOP. And you should expect to see the same trend in 2010, as we've taken the decision to make a further change to the rate applied to OMSA and M&F from 13.3% to 9.4%, reflecting the mix of assets held.

On this slide we're showing a reconciliation of our AOP; firstly, to profit after tax, and then, at the bottom to the change in equity holders funds over the year.

The key driver of the difference between 2008 and 2009 in profit after tax is the movement in the mark-to-market of our own debt instruments as a result of the improvement in the external valuation of Group debt. This is a movement of GBP263 million, and the amount of the mark is now GBP205 million.

We've also impaired GBP266 million of goodwill in relation to our European businesses due to changed economic circumstances in Europe and market movements.

We continue to recognize goodwill of around GBP200 million for Retail Europe, but the goodwill for the Continental European part of Wealth Management is now substantially written off.

Our focus is on the underlying profit in our business, and profit after tax is essentially the product of a series of non-cash accounting adjustments and is always subject to market volatility. And so too is the change in equity holders' funds over the year.

And if you look now at the difference there, you can see that equity holders' funds increased by over GBP1 billion over the year. The main item included in other comprehensive income being a more than GBP1 billion gain on the fair value of securities compared to a GBP1.6 billion loss in 2008.

Looking at AOP earnings per share on this waterfall chart, the main movements from 2008 to 2009 are the increased contribution from Long Term Savings, resulting from the turnaround in US Life, offset by reductions from Nedbank and US Asset Management, as well as smaller reductions from the other businesses.

The return to a more normal tax rate was equivalent to 3.8p per share, adverse on EPS, and various other smaller effects, netted out at an adverse 1.7p.

Currency effects, principally rand strengthening against sterling, contributed 1.5p gain to EPS.

Before I move on from Group profit and earnings, I wanted to show you the longer term trend in our EPS, and in particular H1/H2 split over the last five years.

You can see in the figures for the second half of 2008 and the first half of 2009 the effects of the recession and our problems in US Life, as well as the effect on our operating leverage of lower sales during that period. And in the second half of 2009, you can see a cautious recovery as market conditions began to improve.

Over the period, we've grown funds under management, but with a dip in 2008 that continued into the early part of 2009.

And the final line on this chart shows that over a five-year period, IFRS book value per share has increased steadily and progressively by 48%.

Moving on now to Group capital and liquidity. Over the year, our capital requirement increased by 19% but our capital resources grew by 35%. And this results in an increase in our pro forma FGD surplus from GBP0.7 billion at the beginning of the year to GBP1.5 billion at the end of it.

The main contributors were the addition of GBP440 million of statutory profit and the GBP280 million benefit of currency movement net of hedging costs.

Various management actions generated a positive GBP80 million towards FGD. This is the net effect of the disposal of Australia; closure of Bermuda to new business; the exit from the TEDA acquisition in China; a change in the investment mix of OMSA shareholder funds held to back the Capital Adequacy reserve; and the way we finance Royal Skandia's reinsurance through Munich Re.

We paid dividends on preferred shares of GBP45 million during the year.

And this year-end, we've taken the opportunity to strengthen the basis of our FGD surplus calculation by taking a more cautious view of the capital surplus in US Life. Whereas we previously calculated the surplus over capital requirement at 150% of RBC, we've now increased this to 200%. And the effect of this change has been to reduce our surplus by around GBP40 million.

The remaining movements include statutory valuation adjustments offset by a small rise in statutory bank capital requirements in South Africa, as we reported at the time of our half-year results.

And the year-end position is shown before the proposed ordinary share dividend. And by the time this proposed dividend is paid, towards the end of June, we'll have the benefit of further statutory earnings.

On this slide we're providing updated sensitivities of our Group FGD position to movements in the rand, dollar, and kronor exchange rates, and also to movements in the level of the JSE.

You'll see that the currency sensitivities have improved on last year, and as a result of our hedging activities, and they remain small in relation to the size of our surplus.

The bottom half of the chart shows the position of our individual businesses, which remain strongly capitalized. Once again, I draw attention to OMLAC(SA) which is now 4.1 times covered; also, US Life, which at 312% is above our 300% target for that business. And this has been achieved without the need for any capital injection from plc.

Nedbank continued to strengthen the capital position, and its ratios are well above both the required regulatory minima and also Nedbank's own target ratios.

I recognize the interest in understanding the generation of cash flow from insurance activities, as well as from other businesses in the Group. And I'm presenting this chart today, and it's backed-up by more information in your schedule.

In 2009, we generated GBP434 million of free surplus, compared with GBP83 million the previous year. In aggregate, the Long Term Savings business accounted for GBP551 million. And of the free surplus, GBP249 million came from the covered business and GBP185 from the non-covered business. So, we are generating cash from operations, whilst at the same time continuing to invest in new business.

Moving on to holding company cash flow. As previously reported, during the course of 2009 we extended two existing bank facilities totaling GBP250 million, and agreed a new three-year facility of $200 million. And in the fourth quarter, as you know, we successfully placed a GBP500 million seven-year senior bond.

As a result of all of that activity, at the year-end, the holding company had overall liquidity of

GBP1.2 billion, incorporating GBP400 million of available cash and GBP800 million of undrawn facilities. And in addition to which, at an individual business level, each of the businesses continues to have sufficient liquidity to support its normal trading operations.

In respect of dividends, the final ordinary dividend that the Board is recommending today has been set cautiously with regard to our improved capital position, but also the continued uncertain economic outlook. We're planning to offer for the first time a scrip dividend alternative for eligible shareholders, subject to finalizing the associated logistics and timetable.

Going forward, the Board's intention is to pursue a dividend policy which is consistent with our strategy, and has regard to overall capital requirements, liquidity, and profitability. We will target a dividend cover of at 2.5 times IFRS AOP earnings over time.

In line with the way that we've declared dividends in the past, it's likely that the dividend will be split one-third/two-thirds between interim and final.

Now let's go down into the business units in a little more detail. In the interests of time, I won't talk about the Nedbank results today, as they have already been published.

So, looking at Long Term Savings, and here, if I'm permitted the cliche, you'll see a story of a year of two halves, with encouraging signs emerging in the second half after a tough beginning to the year.

For the year as a whole, on a sterling basis, Life APE sales within Long Term Savings were down 6%. But this includes the effects of our management decision to reduce the sales target for US Life. So leaving US Life aside from the figures for a moment, APE sales for the rest of LTS were broadly flat year-on-year.

As Julian mentioned in the introduction, sales performance was particularly good in the fourth quarter, powered by very strong sales in Wealth Management. And overall, second half Life APE sales were up 18% on the first half.

The value of new business was 6% on 2008. And the full-year AOP margin of 12% was also an improvement on the prior year.

Lower sales in Wealth Management and Retail Europe were not sufficiently offset in the year by the reduction in the cost base of these businesses, but this was offset by a profitable sales growth in Nordic.

Unit trust sales by LTS were also strong in the fourth quarter; up 14% on quarter three. And overall, second half unit trust sales within LTS were up 32% on the first half.

Net client cash flow for LTS was positive overall. Nordic and Wealth Management were positive and better than 2008, while Retail Europe was positive but flat year-on-year.

OMSA NCCF was negative, as I explained earlier, and there was a net outflow at US Life, as planned, resulting from the lower sales targets, expected redemptions, and also an increase in surrender activity, driven rising unemployment and low equity markets.

Following implementation of a conservation program, surrender experience trended downwards during the second half to end the year within our long-term expectations.

The combined effects of positive NCCF and improving markets contributed to year-end funds under management 23% higher than at the start of the year and 28% higher than at 30th June.

Adjusted operating profit for LTS as a whole was up by 52% on the prior year. And on this slide, you can see clearly that the main contributor was the improvement in US Life; from the GBP230 million loss to the profit of GBP49 million in 2009.

The sterling increase in Emerging Markets, including OMSA, was principally a currency effect. And on a rand basis, the AOP was lower than 2008 due to reduced profit from the Long Term business, as well as the reduction in LTIR.

Across the other businesses, the weak first half resulted in profits for the year as a whole being down on 2008. And the Wealth Management result also includes GBP13 million of restructuring costs in the UK and in Skandia Investment Group.

Turning now to Mutual & Federal. Having made an underwriting loss of ZAR96 million in the first half of the year, a number of management actions were implemented. And combined with a gradually improving trading environment in the latter part of the year, this drove a return to profit.

The business delivered ZAR223 million of underwriting profit in the second half, giving a net underwriting profit for the year of ZAR127 million. So, a good second half result, but still substantially down on the second half of 2008.

The solvency ratio has been strengthened and is now just below 56%; well above the 41% reported at the end of last year and above the business's target level.

For the past two years, M&F has been going through a period of restructuring and systems implementation. With this largely behind it, the business can focus more specifically now on improving performance and profitability. We expect the underwriting result to continue to improve in 2010, despite higher claims experienced in the first couple of months as a result of extreme weather conditions.

In US Asset Management, second half sales were up 78% on the first half. In line with many of the peers in the US, net client cash flows were negative for the year, but nearly half of our affiliates individually delivered a positive NCCF result.

Equity market improvements offset the cash outflow and, overall, funds under management increased 9% over the year; two-thirds of the growth occurring in the second half.

Average funds for the year, however, remained below 2008 levels, with a consequence negative impact on management and performance fees. So, as expected, adjusting operating profit was down on 2008.

The effect of lower fees was partly offset by the success of expense management activity, in particular, during the first half of the year. As a consequence, while the overall operating margin for the year was lower than 2008, this was mainly a first half effect.

Second half AOP was up 83% on the first half, and the second half margin was 21%; an improvement on the full-year 2008 margin.

I'd now also like just to take a few moments on US Life, which I know continues to be of interest to you. We delivered what we promised in US Life in terms of turning the business around, and it delivered an operating profit in 2009.

This is largely the consequence of the transformation actions, which include reducing the product range; scaling back distribution; and de-risking the portfolio. We've also been managing more tightly our expenses and have more than halved the expense run rate. For the year as a whole, expenses were down around a third on the prior year.

APE sales were 57% lower than last year, in line with our revised plans, and to some extent industry trends.

We focused on sales that are more profitable and have a lower capital strain. In 2010, we're planning for some sales growth, but this will be tightly controlled within the Group's capital and risk appetite. And we do not plan to return to the sales levels of the past.

The value of new business, APE margin, and PVNBP margin were all positive in the year. And funds under management were up 10%, driven by the improvement in the market value of the investment portfolio and investment income for the period.

As we've previously discussed, the management team is working hard to de-risk the portfolio. The net unrealized loss position improved considerably in the first half of the year, and even further in the second half, to end the year at $500 million. This reflects the substantive improvement in US market conditions, with the recovery in financial markets and a narrowing of corporate credit spreads.

Valuations have continued to move favorably since the year-end. And at February 28, the net unrealized loss position was less than $200 million.

Similarly, the impairment position has improved with a total for 2009 of $389 million, compared with $711 million in 2008. The 2009 figure includes some $235 million related to adverse changes in expected future cash flows on a number of structured securities; principally, commercial and residential mortgage-backed securities.

There were just three corporate bond defaults in the portfolio over the year, and the impact of these totaled $14 million. And note, that there are some modest unrealized gains, about $55 million, on some of the perpetual preferred securities that we've previously impaired. These gains can only be accessed on sale.

The industry-wide change to the methodology for calculating the C1 reserve benefitted the capital surplus of US Life by some $130 million. So, as I've already said, the risk-based capital ratio ended the year at 312%; comfortably ahead of our target.

No capital injections were made from the plc in the second half of the year. And contrary to our expectation when we spoke to you in August, we've not needed to make a capital injection in the first part of this year. The 312% surplus was achieved by US Life without Group support. The capital injection made by the plc in early 2009 was, as you recall, included in the 2008 statutory RBC calculation.

The Group remains committed to maintaining this business with an RBC ratio of at least 300%. But given the capital position of the business, and our estimate of a lower level of potential impairments in 2010 at around $55 million, we do not anticipate needing to inject any capital into US Life this year.

Turning now to Bermuda, which was closed to new business in March 2009 and is now in run-off. As all written policies have passed their first anniversary date, existing policyholders are not permitted to make any new payments inwards.

The total size of the corporate bond portfolio at the end of the year was $1 billion, reducing as a result of surrenders, and the market value to book value was 97%.

Over the year, the liability on the guaranteed book virtually halved, from $1.4 billion to $763 million, as a result of the rise in value of the underlying invested assets of policyholders.

We said in November, that we'd begun a process of selective release of the hedge positions in line with agreed risk parameters and subject to a stop-loss protocol. We've developed better systems for tracking continually our exposures and effective hedges can be reinstated quickly, if required.

Inevitably, the release of the hedges will generate a higher level of volatility in Bermuda's reported IFRS earnings. But with the Group's improved regulatory capital position, this is something we're comfortable with, particularly set against the context of the cost of hedging and our outlook for Asian markets.

It's perhaps worth mentioning in this context too, that our reported FGD surplus makes an allowance for a sharp 20% fall in equity values in respect of the reserves carried against Bermuda.

In the fourth quarter of 2009, the release of hedges was positive for our result as we were able to benefit from rising equity markets; a trend that's continued into this year.

That concludes my review of the individual businesses. So let me now move on to the market consistent embedded value results, which have been prepared in full compliance with the CFO forum principles.

Covered business post-tax operating MCEV earnings were GBP492 million; up significantly on the prior year. Excluding Bermuda, the 2009 results would have been GBP511 million.

The value of new business, as already discussed, was up on 2008. Though, on a MCEV basis, the year-on-year comparison for the Group is flattered by the inclusion in 2008 of a GBP54 million negative from Bermuda.

Assumption changes are a negative GBP283 million in 2009. This is a lower amount than last year, which was driven by the cost of guarantees in Bermuda and in US Life by the strengthening of expense and mortality assumptions relating to the single premium immediate annuity block of business.

The negative assumption changes that we've made in 2009 include changes to persistency and project costs, partially offset by the positive impact of changes to mortality following positive experience in 2009, particularly in OMSA's retail mass business.

We've strengthened the persistency assumptions based on adverse experience in Wealth Management, Emerging Markets, and Bermuda. This is a medium-term strengthening as we go through the economic cycle, rather than a fundamental change to our long-term assumptions.

To be prudent, we've also changes our approach for the cost of certain products, including the cost of iCRaFT. These will now be capitalized in the VIF, to the extent that such costs are embedded in business plans over the next three years.

But we've not taken account in our assumptions of the cost improvements built into our plans that Julian will talk about in a moment.

Other factors affecting the operating MCEV earnings result were the higher expected existing business contribution in US Life and Bermuda, which include the corporate bond spreads that are expected to be earned during the reporting period, but which are not capitalized in VIF. And this is partly offset by lower expected existing business contributions in other covered businesses arising from a reduction in short-term swap yields.

Turning now to our adjusted Group MCEV per share. Growth continued on the path established in the first half of the year, and ended 2009 up 45% on the prior year result at 171p. Many of the contributing factors are ones that we explained to you at the first half, so I'll highlight just a few points now.

The largest movement was on economic and other non-operating variances, which contributed a positive 20p per share, due to the improvement in equity markets and the contraction of US corporate bond spreads, partly offset by a reduction in the liquidity premium adjustment for US Life.

Let me just remind you about our use of a liquidity premium. In relation to the US Life portfolio, and for OMSA's retail affluent immediate annuity book, we look at a range of market data which suggests that we can earn returns in excess of swap rates. And we, therefore, apply liquidity premium to those swap rates used for setting investment return assumptions and discount rates.

At December 31, 2008, the premium applied to US Life was 300 basis points. We reduced this to 175 basis points at June 30, and made a further reduction to 100 basis points at year-end.

For OMSA, we introduced a premium, which we set at 50 basis points for the half-year, and that's unchanged at year-end.

We continue to believe that our use of a liquidity premium is supported by market evidence over the period.

So, coming back to the chart, the positive 9.5p per share of other items includes 0.4p a share for the release of some legacy provisions in Nordic, and 6p per share for the reallocation of assets between covered and non-covered business we mentioned in August.

We also gained 3.1p a share as a result of the abolition of tax on dividends received by UK companies from foreign subsidiaries.

Currency added 10.5p, mostly due to rand appreciation.

And the improvement in equity markets gave us an additional 14p per share from the market value adjustments in Nedbank and M&F.

The positive moves were partly offset by an increase in the market value of listed debt, and the fair value of non-listed debt as market perceptions of the Group's financial health improved.

So, once again, I would say that our EV methodology has proved to be market consistent, reflecting successfully the improvement in investment market conditions.

Before I finish, I'd just like to show you this slide, which some of you will have seen us present before, and which we've updated for the end of the year. It shows you the breakdown of our MCEV, and in the right-hand column of the table what is effectively our tangible book value.

This marks the quoted subsidiaries to market, deducts the nominal value of certain of our debt instruments, and removes GBP1.7 billion of goodwill, the majority of which relates to the US Asset Management business, and the remainder to the Skandia acquisition goodwill, and also Nedbank.

So, at the end of the year our MCEV per share was 171p; our tangible book value was 117.4p per share; and our IFRS book value is 147p. And from all of that, I'll leave you to draw your own conclusion.

And so to summarize, AOP was up 3% on the prior year, even after the negative effect of our change to the accounting treatment of Bermuda and the lower LTIR following our change of rates for 2009. I've already flagged that LTIR will be lower again in 2010.

Second half profit was up 19% on the first half, reflecting both the results of actions we've taken, as well as a general improvement in market conditions.

MCEV covered business earnings and embedded value per share were both up considerably on 2008.

We built a stronger capital position, and have sufficient liquidity at both the holding company level and in our individual businesses. And subject to shareholder approval, we will be resuming paying a dividend.

Given the difficulty of the markets and the conditions in which we've been operating during the year, even with my natural caution as a Finance Director, I think this is a very satisfactory set of results.

And with that, I'll hand back to Julian.

Julian Roberts

Thank you, Philip. 12 months ago, I set out what we had identified as the top strategic priorities for us. These provided focus and impetus in 2009, and I believe we've delivered well against them all.

On capital and liquidity, you have seen the position has improved significantly, and we are now in a much stronger position.

In terms of streamlining and simplification, this has been a very busy year. We've closed Asia Pacific, and European, and Latin America divisional head offices; we've withdrawn from Australia, Hungary, Portugal, Chile, and the Czech Republic; we've sold Clay Finlay and sold Bankhall; we have bought out the remaining shares in Mutual & Federal, giving us the simplicity and control that comes with full ownership; we've cut back the product range in US Life and Old Mutual Capital; and, of course, we've closed Bermuda to new business.

We are into the journey of leveraging scale in our Long Term Savings businesses. I'll come back to that in a moment.

Our South African businesses have continued to collaborate on a number of initiatives. The management teams have been strengthened, and we have tidied up our corporate structures.

We have taken significant costs out of US Asset Management and US Life. Other cost initiatives are under way around the Group. For example, at the end of last year we restructured our sales force in the UK.

And, finally, we have strengthened governance, both at Group level and through changes to our subsidiary Boards. We've made great strides in running our businesses within set risk appetites, and are embedding a real risk culture throughout the Group.

Accountability and oversight are now much improved. This Group is changing, and will continue to do so until we operate best-in-class standards.

As I said at the beginning of the presentation, we've delivered a strong performance despite the challenging environment and the problems with which we entered the year. We are encouraged to see market conditions beginning to improve in the third quarter and continued momentum in the last three months of the year.

We've made transformational progress on our priorities, doing the things we said we would do.

We are a stronger business than we were 12 months ago both financially and operationally, and we're well-placed as global markets recover.

At this point, I'd like to draw a line under 2009 and move on to talk about the future.

My first priority when I was appointed as Chief Executive in 2008 was to assemble a strong Executive team capable of sorting out the problems so that we could stabilize the business. We then turned our attention to what sort of Group would create best value for shareholders.

One of the conclusions we drew was that whilst we had very good businesses there was little common understanding of what we were about as a Company. That had to be fixed. We've, therefore, spent some time analyzing the Group into forensic detail; looking at our markets; looking at the opportunities; reviewing the strengths and weaknesses. We've considered various strategic options open to us.

This morning, I want to tell you clearly what our strategy is; tell you what we are going to do differently; share with you the new targets we are setting for ourselves; and explain why we are confident that we will succeed.

There are a number of issues that we took into account, things that we were aware of ourselves and things that our shareholders talked to us about. We aimed to develop a clear strategic imperative; to reduce the perceived complexity of the Group; to improve governance and control; and to align capital with risk. Our aim; to be capital light with a lower risk profile. In short, we needed a change of philosophy and a change of approach.

The final box on the bottom of the slide refers to shareholder value. Let me be very clear, we've developed a strategy which is absolutely about maximizing value for shareholders. We must unlock the value in this Group; not just the discount in the price, but also the latent value within our operations.

Over the next three years, we will focus on building a long-term savings, protection, and investment business, concentrating on delivering what our customers want, and in that way grow the business and shareholder value. This means making fundamental changes to our business and the way we do things.

Firstly, we will put the customer at the center of everything we do. Across our businesses, there are examples of excellent customer focus but we have not been consistently good at it. In some areas, we've been very internally-focused, mostly for very good reasons, for example, fixing our problems, developing our systems, but this has to change.

We need to provide products that meet customers' needs; help them make informed choices; make it easy for them to buy from us; and deliver service and returns that exceed their expectations. By doing this successfully, we'll be well-placed to capture a substantial share of the long-term savings and investment pool.

Secondly, we'll improve operational efficiency and the returns from our businesses. We have identified at least GBP100 million of annualized costs that we will remove by the end of 2012. We've already strengthened our risk management, and governance processes and the way we allocate capital. We are using the requirements of Solvency II to improve this further. We'll be disciplined and rock solid in our approach.

And, thirdly, moving to structure, we're exploring the possibility of reducing our exposure to the US, through a disposal of US Life. For the past 18 months we've been managing this as a turnaround business, and Philip has already talked about its performance improvement in 2009.

However, by the nature of the market it's in, the business sits outside our Group risk appetite. Accordingly, we believe that it's more likely to meet its future potential under different ownership. Whilst the business is within our ownership, we do, however, remain committed to supporting an RBC ratio of over 300%.

We will also anticipate listing a minority of our shareholding in US Asset Management, also within the next three years.

We will continue to streamline and simplify the Group where appropriate, and where we can create value by doing so. And we expect to use the proceeds of rationalization, as well as retained earnings, to pay down at least GBP1.5 billion of debt and improve the quality of our balance sheet.

So, let me say a few words about what I mean in practical terms by streamlining and simplifying. Our aim is to run a balanced portfolio encompassing mature businesses with high cash returns; growing businesses that are well established and self-funding; and younger businesses, which have the potential to grow embedded value quickly but require funding in the short-term and are some way from delivering high cash returns.

In the past, we have allowed ourselves to be distracted by businesses that do not make a meaningful contribution to the Group and have limited potential to become meaningful within an acceptable timeframe. This is another thing that we are changing.

Each of our businesses must operate within our capital and risk requirements. It must be capable of making a 15% return on equity; it must be able to add value to another part of the Group; there must be growth potential in the market; and it must have a clear path to profitable and sustainable growth.

As I've outlined earlier, we've already taken some hard unsentimental decisions about businesses that have not met our requirements. Our operations will be subject to continual review, and we will be ruthless in the applications of these criteria.

So, in the next section of my presentation I want to focus on long-term savings, protection, and investment businesses, and show why they satisfy our laid down criteria now, or are capable of doing so in the future.

Firstly; our Emerging Markets business, which encompasses South Africa, Africa, India, China, and Latin America. South Africa, as many of you know, has a stable political environment with a sound fiscal and monetary policy since 1994. Debt-to-GDP is lower than many developed countries, and GDP growth is forecast at over 2% in 2010. In the long-term savings market, there is a good regulatory track record and very strong actuarial and accounting professions with similar standards to the UK. Personal income levels are rising, and there are growing middle income and affluent markets.

We provide financial products that meet a range of customer needs. And we also play a substantial part in the development of the country via efficient deployment of assets into sustainable infrastructure development funds.

We have opportunities to grow within South Africa. For example, in the retail mass and affluent market, our heritage and brand give us the opportunity to grow with a full product offering across long-term savings, protection, and investments through OMSA, OMIGSA, and Mutual & Federal.

South Africa also has the potential to be the gateway for us into Africa, and then onwards to other emerging markets. We're, therefore, coordinating our Africa and emerging market businesses from OMSA.

Although Africa is in an early stage in development, it has a population of 1 billion people; almost as big as India and China. It is starting to deliver its potential as a consumer market, and this presents a tremendous opportunity.

There is also potential for us in other emerging markets, as mostly these markets are under-penetrated. We will use our South African capabilities to support our activities in the emerging markets, enabling us to benefit from an efficient cost base while we are building scale. For example, OMSA is already providing product development skills to our Indian joint-venture, and will do the same for our Mexican business.

Across the Emerging Markets, we see scope for annualized cost reduction of GBP5 million by 2012. And we intend to maintain the return on equity above 20% despite the reduction in the long-term investment returns in South Africa.

Let me turn to Nordic. Sweden has a sophisticated financial services market, and with our well-established position we are poised to take advantage of market opportunities. We will broaden the product offering.

In Sweden, we've recently launched a range of risk-targeted funds. This is based on the very successful Spectrum concept developed by Skandia Investment Group for Skandia UK. This has been tailored to suit the needs of our Swedish customers.

We will add capital-light products and will offer more modern product to Skandia Liv policyholders.

We will increase the use of cross-selling, including through SkandiaBanken, which was an early entrant into the eBanking world and has been very successful at capturing Internet-savvy customers.

We will tighten-up expense management, and by 2012 estimate that we will have removed costs equivalent to an annual run rate of GBP10 million.

We are targeting a return of equity of between 12% and 15% for this region.

Turning to Retail Europe. There are around 140 million people in the market served by this business, most of whom need to save for their retirements against a background of reducing government and corporate support. This provides a significant opportunity for our business to grow given the range of products, relationships, and investment expertise that we can mobilize to address this market.

The challenge for Retail Europe is to deliver more competitive products, grow volumes, and widen profit margins. We believe that our South African scale, product, and administrative capabilities offer us the opportunities to achieve a more efficient cost base. Accordingly, as I've said before, we are exploring moving some IT and back-office activities to Cape Town.

We will also look to offer products and solutions into this market that have been developed in South Africa and elsewhere in the Group.

We have set a cost reduction target of GBP15 million per annum by 2012 and a return on equity target of 15% to 18%.

Moving on to Wealth Management. External data suggests that the UK platform market will grow by GBP300 billion between 2008 and 2013, driven largely by the migration from maturing traditional life products.

The latest Lipper data confirms that Skandia UK is the leading UK platform with a 33% market share; 5 percentage points above its nearest competitor.

Our model is well-advanced. And because it was developed in-house, we have flexibility to make further enhancements. We are also looking to re-use the technology in other businesses within Wealth Management.

We intend to broaden the product range offered in the UK and elsewhere in continental Europe, and develop closer relationships with both customers and IFAs.

Skandia International is a leader in the single premium offshore market and had strong cash flows in 2009. We intend to grow this business by enhancing the proposition and improving distribution.

The platform world, though, is a low margin one and a very transparent one. We are restructuring, we started last year, to get the business into shape to compete and deliver acceptable returns.

The restructuring program focused initially on our UK sales force, and we are now looking at administration and the back-office. So, by 2012, we aim to have taken out GBP45 million from annual operating costs across Wealth Management, and are targeting a return of equity between 12% and 15%.

Moving on now to businesses that are outside the Long Term Savings division. Let me start with Mutual & Federal. This business is well-positioned in its market and has a very strong brand, but over the past few years it has lost market share.

It has begun a process of restructuring and major systems improvement and has a well-motivated, invigorated management team.

Now that we have full ownership, we've begun an in-depth review to identify the actions needed to turn the business round. I'm very confident that we can restore a reasonable level of profitability, growth, and returns to Mutual & Federal.

As you expect, we need to finish the review before we set targets for M&F.

US Asset Management is a successful and profitable business and we have improved its cost base. It has good growth potential as equity markets recover, and its diversified asset and client mix gives it resilience. But I believe there is still more improvement we can make.

We have struggled with building retail distribution, and we've not linked our US affiliates with our other Asset Management businesses, OMIGSA in South Africa and Skandia Investment Group in Europe, nor made available the Group's various distribution channels.

We're targeting a further GBP10 million in annual cost savings by 2012 and margins of between 25% and 30%.

We believe, however, that we can create more shareholder value by giving this business a separate listing. Accordingly, we anticipate a partial IPO within the next three years. This depends on the state of the market; on margin progression; investment performance; and market conditions.

We believe there are benefits to Old Mutual and our affiliates from this alternative ownership structure, and that it will drive US Asset Management with an enhanced mechanism for growth.

Turning to Nedbank. Nedbank delivered a strong performance in 2009 in tough markets. It is well-capitalized and has a very good corporate and investment banking franchise. It has a strong position in the sophisticated and well-regulated South African banking market.

Its future prospects and expected returns are excellent. And I am sure the Bank will prosper under its new Chief Executive, Mike Brown, who took over from Tom Boardman on March 1, following an orderly succession process.

So, we have good businesses which meet our criteria with standalone strengths and potential, but what is the value of them being in a single Group? Well, over and above their individual value, they create additional value by working together, and I believe we can increase that further.

We are already sharing skills and experience in a way we've never done before. In the top box on this slide there are some examples. We've identified further opportunities, in particular in IT, where we'll rationalize technology and re-use applications; in product development, where our mantra is that we will transport, translate, and transplant innovative ideas from one part of the Group to another; and also, in administration.

To ensure that we investigate fully the opportunities and then deliver on them, we're in the process of appointing Heads of Information Technology and Product Development in the Long Term Savings area.

We're also taking a hard look at overheads right across the business, looking for areas where we can remove costs.

Financially, we are targeting GBP15 million of corporate cost reduction by 2012, largely from the Group head office once the Group is resized.

And we're also looking at aligning our reward structures with activities that drive value. Again, this is a change from the past where we sometimes rewarded activities later proved to be value-destructive.

Governance and control will continue to be one of our top priorities. Under our Group operating model, our businesses have local autonomy but operate within a Group structure and with Group discipline.

Local management have clear degrees of freedom in respect of the decisions which can be made locally and those which need to be brought to the PLC. For example, we have removed local freedom with regard to product design and pricing. We have also reinforced the role we expect local Boards to play.

We will continue to improve our risk and capital management and, of course, we will deliver Solvency II.

All of that sounds good you may say, but what does it mean for shareholders? On the preceding slides, I referred to various targets that we're setting for our individual businesses.

Our primary financial target will be to improve the return on equity across our Long Term Savings divisions to between 16% and 18% by 2012. By any account, this is a pretty good return for a long-term savings business.

The cost reductions add to GBP100 million annualized savings by the end of 2012. But of course, some of the benefits will flow earlier than that. The cost to achieve is around 1.2 times.

Around GBP25 million of the costs was incurred in 2009, principally in Wealth Management and US Asset Management. And in 2010, we anticipate the costs being around GBP50 million.

So, we will be different. But why are we confident that our strategy will succeed? Well, we have clear plans to achieve our goals and are resolute in our intent to deliver. We are confident that we have the right businesses in the portfolio; that we're in the right markets; and doing the right things.

But this is not necessarily the forever shape of our Group. We will continue to review the portfolio against our criteria, and in the short-term, as we've said, we'll look to dispose of US Life.

We anticipate separately listing a minority shareholding in US Asset Management, as I've said.

We will work as one Group. We've said it many times, but I think the message is now clearly understood. We are absolutely serious about this and working together is not optional. The skills and capabilities we have around the Group are enablers of the financial improvements we are targeting.

We have a capable management team, focused on delivery, and we will align reward with shareholder value-creation.

We will continue our disciplined approach to risk and capital management and will drive hard to achieve the three-year target.

So, to conclude, we've articulated the strategy that brings clarity across the Group and will maximize shareholder value. Over the next three years, we will build a cohesive long-term savings, protection, investment business. We will do this by optimizing the shape and size of the Group; focusing our businesses; and driving change.

We expect to pay down at least GBP1.5 billion of debt and improve the quality of our balance sheet.

With this clarity of focus, portfolio of businesses, determination to deliver, and strong accountability and governance I am confident of the Group's prospects for future growth, improving cash returns, and a long-term build-up of value.

Ladies and gentlemen, that concludes our presentation for this morning. Philip and I, and the team around me, are happy to take your questions. And, as usual, the first hand to go up is Mr. Paterson in the third row, who normally has a list of 10 questions to keep us going. Have we got one or two questions to start with, Greig?

Greig Patterson

Well, I'll give you two questions, then one rhetorical one, how's that? It's Greig Paterson, KBW. The first question is at the half-year, in the verbiage of your results, you mentioned that you'd reduced the discretionary crediting rates on your US book. I was wondering if you can give us a steer how much that was. Because that's obviously been a big swing in the margin, and also it's obviously released a big block of VIF, which contributes to cash flow, etc., etc. So, I wonder if you can just give us an idea of the basis points there.

Second thing is I notice there's a bit outflow in the fourth quarter in terms of US Asset Management. And I've seen a steady decline in your league table performance, but I think we've got a little low point now. I was wondering how you plan to improve that, at the same time cut costs and make it attractive for an IPO. So, I don't know how you're going to square that circle.

And the third thing is the ghost in the room; Nedbank. No comment about selling it at all in any of your commentary, and I wonder if you -- that's the rhetorical one.

Julian Roberts

Philip, can you answer the first one?

Philip Broadley

I'm not sure I have got the crediting rates in my head, I'm afraid. They have been -- they were reduced at the half-year, as you say. Also perhaps, --

Julian Roberts

Andrew's going to answer.

Philip Broadley

Andrew's going to answer apparently, if we have a mic.

Julian Roberts

Andrew Birrell, do you want to come up so people can see you on the camera?

Andrew Birrell

Thanks, Julian. Actually, what we saw in the EV in the first half of the year was a reduction in crediting rates, which gave us some additional margins. But you'll see in the second half of the year, for competitor reasons, we actually had to increase crediting rates again. And that's why our economic variances that come through for the US aren't as big as you might otherwise have expected.

And net reduction [then]? I'll come back to you, because I'm not quite sure that I fully understand your question, Greig.

Philip Broadley

I think it's probably worth noting more generally on rates of return in the hands of customers in the US, that the equity market increases have meant that customers are seeing an equity market return rather than the minimum crediting rate across many policies now for the first time in some years.

And we think that's one of the factors that's having a favorable effect on surrenders as if a customer surrenders now, they're no longer surrendering what effectively is a bank product; they are actually surrendering something which is giving them a return that is more linked to equity markets.

Julian Roberts

Greig, your comment on outflows at US Asset Management, yes, the fourth quarter did have some further outflows. One of them was quite a significant piece in a fund that has been performing particularly well in one of the affiliates, where they were beginning to get capacity constrained. And then, Vanguard decided to bring in another manager and, therefore, rebalance the portfolio, and that's why the fourth quarter has a bigger outflow than normal.

We've looked at that. We've compared actually the -- our net outflows with the peer group of companies we look at and, actually, we're right in the middle.

But why I turn round and say the IPO is in this three-year period -- because you're absolutely right; the market we have to look at. We have to look at the market; we have to look at our margins; there's some work that we need to do. Long-term, I'm absolutely convinced this is the right thing to do, but it will be some time in the three-year period. I'm not pointing to any particular timing for it, and it definitely won't be in 2010.

Let me make the comment first of all. Over the last month, it's been no surprise to me, I think analysts, the press, and everybody have made comment of I think almost every company that we've got in the Group about whether it was going to be for sale or not.

As you can well imagine, I'm not going to speculate here today on anything other than is in the statement. So, what we're saying now is the US Life business, we are looking to sell. We've turned round and said there will be further rationalization. You can carry on speculating if you want to, but I'm not going there at the moment on any of the businesses that we have got.

Oliver Steel

Oliver Steel, Deutsche Bank. I've done my back-of-the-fag packet calculation which, in the light of what's in the slide pack today, I can probably refine later on. But it looks to me as if -- if you make 15% return across all your divisions, it looks to me as if you're targeting something like 21p of earnings in 2012, based on today's adjusted capital x-ing out what you're looking to sell. So, I don't know if you want to comment on that at all.

And then the second point within that is the gap in 2009, again x-ing out the businesses you might not be in, looks to me to be somewhere over GBP300 million post-tax, and you're looking to save pre-tax GBP100 million, so I'm wondering where the gap is there. Is it through a reduction in capital? Or can you talk a bit more about other positives that you've got up your sleeve?

Julian Roberts

First of all, what we haven't built in to -- we haven't made a statement about because you will always dismiss it, are some of the things that we looked at of the revenue growth that we believe we can get by taking products from, as I said, in South Africa, like in Mexico, like we've talked about, of the benefit of taking the Spectrum funds and rolling them out in South Africa. I believe that if I put it on the table here to you, you would turn round and immediately dismiss it.

But there are other bits and pieces we've got. We've also got in the improvement, the general business plan and the belief that we've got for the ongoing growth of these businesses. And I've said, we believe quite strongly that the businesses that we've got are in a good position and should be able to flourish as the change in the markets moving forward. So, it's a number of combinations here.

Philip Broadley

And I think, to the first part of your question, it's for me to deliver the numbers and for you to go and do your modeling, and I'm happy with that division of labor.

But I would just comment, again, bear in mind the comments I've made about the further reduction in our LTIR, and also that we're likely to -- we expect to continue paying tax at this year's effective rate. So, that's a general comment for all of you to take account in your models. But clearly, with the targets that Julian's talking about, we are expecting and committing to deliver a growth in the, if I can call it this, core operating profit, excluding the LTIR.

Jon Hocking

Morning. It's Jon Hocking from Morgan Stanley. I've got three questions, if I may. Firstly, I think you've got about GBP1 billion of debt coming up to call dates in the next two years. Does that set some form of natural timetable for the disposal program? That's the first question.

Second question; on Solvency II, how should we think about South Africa under Solvency II? Does it get equivalence? Does it not get equivalence? If it doesn't get equivalence is there a capital consequence for the Group? I'm not saying already I'm au fait with how you might think about South African regulations on an economic basis.

And then, finally, on the Wealth Management business in the UK, the 15% hurdle rate you're setting in terms of ROE, I notice you've set 12% to 15% target for that business. Given how competitive it is, how confident are you that that's something which can sustain 15% ROE?

And I know you've mentioned the Group is not the forever shape; is that something which potentially could be -- I know you didn't say when you were going to mention it, but down the track, is that something which is fundamentally part of your Group offering?

Julian Roberts

Let me -- Philip, you answer the first one. Andrew, if you want to come up; Andrew's our Solvency II guru -- and

Philip Broadley

On debt, there's GBP200 million that matures in the next year; GBP1.4 billion between one and five years. You'll find that on page 76, together with the detail of all the individual securities. We're not being specific about a repayment schedule, but clearly that is in our mind.

And if I can just link it to Solvency II before inviting Andrew to talk about South Africa, clearly, also our comments about repaying debt do have an eye to, frankly, the continued uncertainty about what will and will not be permitted under Solvency II; what will and will not be designated territories and how those might be treated. So, we're taking a cautious view about our capital structure in the medium-term until all of that is absolutely clear. And that may not be until very close to implementation date, or possibly, if it is anything like past experience, even after implementation date before all items are certain.

Julian Roberts

Andrew?

Andrew Birrell

Thank you, Julian. In terms of South Africa and Solvency II, at this stage, South Africa does have fundamentally an economic risk- based type approach. There may be some small difference to the required. And the South African regulator has launched a project now which will mean that all South African insurers will be on a fully Solvency II equivalent basis by January 1, 2014.

At this stage, we are treating our whole Group as having to be Solvency II compliant by October 2012. So, in fact, our iCRaFT project covers all elements of the Group, and we're doing all the necessary work then in advance of the timetable that the South African regulator would have.

We don't see any major surprises at this stage. And the work is getting relatively advanced in terms of its complexity and how far we are down the line.

Jon Hocking

Thanks.

Julian Roberts

On your last question, it will be supplemented by Bob Head in the audience and Nick Poyntz-Wright here, look, we believe, on the platform business in the UK, that when the whole thing shakes out there will be a few winners, but only a few winners. So, it clearly is going to be a scale game. And that's why we like the fact that Lipper say we're number one by assets in there, so we're in that driving position.

I think as well that we have got -- the platform will largely be a technology solution and, therefore, it is one where costs can come down. And what we have to make sure -- and for the last two or three years, bluntly, we've been internally-focused integrating the Skandia platform and the old Old Mutual, the Selestia one, that's all now done.

So, it's quite clear we now have to make sure -- we know what the income's going to be, we know what our target return is so, therefore, we have to look what is happening with the expenses. And we are determined at this stage not to make the mistake that you can say life companies have over the years made; we are not going to improve the returns just by saying we're going to get more and more assets, we're going to do it that way.

So we're going to size the business, and that's what we're trying to do. Size it so, an ongoing basis, as we carry on winning we carry on -- are able to invest in the business and move it forward. So, we're pretty positive but there is a lot of work to do. And we're all committed to reshape the size of the business as it changes.

Bob/Nick, anything that I've missed you want to say? No, okay.

I'm just going to pause, if I may, now and go to South Africa. I know a number -- there's another business that has got a results presentation this morning and, therefore, we may lose our South African colleagues early. So, Kuseni, are there any questions in Johannesburg?

Kuseni Dlamini

Thanks, Julian. There is a couple of questions? Just say your name and where you come from.

Michael Christelis

Michael Christelis here from UBS. Julian, just looking at the size of your dividend of 1.5p, particularly in light of your comment about having cover of 2.5 times on your adjusted operating profit, can you give me a sense of whether a higher dividend was debated at the Board, and what was taken into consideration when deciding on the 1.5p?

Julian Roberts

There are two things that we really wanted to do. We wanted to -- we looked at the prospects, we looked at the performance for the year, and the capability of the capital and liquidity position to pay a dividend. And then, we looked at the uncertainty that there is still around in the markets.

And the last thing we wanted to do was to pay a very substantial dividend and then find the markets dive and, therefore, have to start messing around. So, we have started with a relatively conservative dividend, that's what the Board agreed that we should do, because the market is still uncertain.

Philip, anything else you want to add?

Philip Broadley

No. And I think you can -- the intention will be to grow the dividend from the level that it is. We've given some guidance today about the expected pattern of interim and final dividend. And we will obviously look again at the situation in August with the out -- with perhaps more certainty for market outlook then.

Julian Roberts

Another question, Kuseni?

Kuseni Dlamini

Yes, we've got another question, Julian.

Larissa van Deventer

Larissa van Deventer from Deutsche Securities. In your embedded value statement you made quite substantial write-offs for persistency, both in experience variances and assumption changes. Can you give us a sense as to how we should think about this going forward, and whether it is a pain that is taken once, or whether we can expect it to be recurring?

Philip Broadley

I think we set the assumptions with the expectation that we include everything that we know, and that we're comfortable that the business will continue within the level of those assumptions. So, for example, we strengthened the assumption in respect of US mortality last year, and mortality experience in that block of business has been in line, or slightly better, than the assumption over the last 12 months. Likewise, US surrender experience, which I spoke about.

So, the view we've taken on persistency in the various markets where we've strengthened it is that there is perhaps a medium-term deterioration in persistency over the course of -- as the markets in Wealth Management, Nordic, South Africa, Emerging Markets come out of the recession. So we're assuming that persistency will run worse than our assumption for the next three years; that's what we've strengthened it to. But we're expecting some improvement back to more normal levels thereafter.

Brian Mushonga

Brian Mushonga of Credit Suisse. A number of questions. You talk about paying down debt to the tune of GBP1.5 billion per year; could you elaborate on the split on where that GBP1.5 billion will come from? And I think the question is what valuation are you placing on the US Life business? What implicit valuation are you also placing on the US Asset Management business? That's the first question.

The second question; you talk about potential cost cutting measures by 2012, can you give us maybe us targets for what we can expect in 2010 by which we can measure this cost cutting exercise by?

I guess final question for now; looking at your US Life portfolio, in Q3 of last year you mentioned that you transferred about 9 billion of that portfolio to Goldman Sachs. Looking at the distribution of credit ratings, nothing seems to have changed in that portfolio. Can you just provide a bit more color on that, please?

Julian Roberts

Yes, the first answer, I'm going to disappoint you here on this one. We've set the target of GBP1.5 billion paying down of debt, and I'm not going to go into the detail of how we're going to get there. And I think you can understand as well that right at this stage we are exploring both IPO and we're exploring US Life and, therefore, I'm not going to come up with a figure of what we would expect to realize.

When it comes down to cost cutting, the easiest way to look at it is I'd refer you to back to the comment I made; that the costs of restructuring is GBP50 million in 2010 and the run-rate that we would get -- or the annualized benefit in future years that we'd get, is a multiple of savings to costs of restructuring of 1.2.

But, of course, that will depend on the savings and when they come during the year, but that will be the ongoing benefit that we would get in 2011 onwards.

The US Life?

Philip Broadley

I think it's difficult perhaps in the summary slides that we present to see what has been going on in a portfolio of multiple hundreds of securities. But if, for example, you were to look at those institutions that represent the 10 top corporate bond holdings this year compared to last, I think you'll see some movement there. And if you, as I know some of you do, analyze the blue book, you'll see some of the activity that's been underway.

Certainly, what the involvement now of Goldman Sachs Asset Management in managing part of the portfolio has provided is access to their very detailed knowledge of the asset-backed securities market. And so, we have access to information which assists us in understanding the portfolio and becoming more confident in our decisions around holding, and in some cases disposing, of securities in the CMBS and RMBS pools.

Julian Roberts

I believe we've got a call on the telephone. It's normally Marius. Have we got a --

Operator

Our first question comes from [Jan Miantis] from Griffin. Please go ahead.

Jan Miantis

Julian, I'd just like to know, on the corporate costs that has gone up significantly I've noted the write-back of the provision from the previous year, but given that that number has gone up from under 3% of your adjusted operating profit to over 7%, can you give us a little bit of light on exactly what the main components of that cost is? And what do you think an appropriate level for that should be going into the future, as a percentage of adjusted operating profit?

Julian Roberts

Well, I turned round and said that overall we expect to reduce once we've resized the Group by GBP15 million lower. But you have to remember that Solvency II has got to be done by 2012. We've talked in the past of our estimate of costing us GBP100 million and so, therefore, there is a significant cost coming through in 2009 from Solvency II.

Jan Miantis

Thanks.

Operator

Our next question comes from Francois du Toit from JPMorgan. Please go ahead.

Francois du Toit

Hi. I've just got a question about the potential impact of Solvency II in South Africa, and maybe some information will help me estimate that.

I'd like to get a feel for the amount of negative rand reserves in South Africa. In other words, the amount of capitalized future profit which helps boost the South African net asset value. And as far as I understand, Solvency II, there are implications in terms of how much of that can be taken into account for solvency, and in terms of prescribed valuation basis for that as well.

So, just give me some idea of the amount of negative reserves. I notice that a change in bases hadn't any NAV impact that you had, so potentially the negative reserves is less than I'd expected. That's the first question I've got.

And then maybe just a comment, just to future, if you do re-segment everything, whether you can please provide the old segmentation as well for some of us who do look at the detail.

Julian Roberts

Okay, that's fine. I'm going to pose that question, the first one, to Paul or Andrew, but I think the answer is I don't think we've ever disclosed the level of negative rand reserves. Is that the case Paul?

Paul Hanratty

We've never disclosed this. And, Andrew, I think it has very little impact in Solvency II.

Julian Roberts

There's little impact.

Paul Hanratty

There's little or no impact from Solvency II.

Julian Roberts

All right, let's come back to the room here in -- sorry?

Philip Broadley

Are there any more in Johannesburg we should do before people have to go?

Julian Roberts

Okay, we'll do two more from Johannesburg, if there are any.

Kuseni Dlamini

We don't have any more questions.

Julian Roberts

Okay, let's come back to London. The microphone down here, please.

Tony Silverman

It's Tony Silverman, Standard & Poor's Equity Research. It's sort of slightly related to Solvency II, the first question. I was wondering what part of the GBP1.5 billion now higher FGD surplus, the GBP1.5 billion, what part of that was made up from hybrids? I seem to remember a slide in the past with a number of GBP2.4 billion on it; I don't know if that's changed since.

And the second question was related to the debt as well. I was wondering if the loan-up from the OMLAC(SA) funds is still there, which was in a note to the accounts previously, and how much it now is? That's the loan-up from OMLAC(SA) to the parent company.

Philip Broadley

Do you want to carry on talking whilst I write on two pages to find the FGD analysis? I might be there in a second.

Julian Roberts

Okay, well, why don't we just, while Philip does that, let's take another question, and then we'll come back to yours.

Colin Simpson

Hi. It's Colin Simpson from Goldmans. Just two questions, please. I guess now that the dust has settled on the Bermuda business is there any risk of a backlash, either from the regulator or from the Bank that sold the majority of those products, regarding those products, which I guess caused some degree of consternation?

And the second question is, Julian, given your perceived dislike of minorities, does that give us a sort of steer on how much you're going to list on the US Asset Management?

Julian Roberts

Yes, let me deal with Bermuda. There is no backlash at all with the regulator on Bermuda. I think we have got a good relationship with our distributors, good relationship with Bermuda, so everything is what it is.

And the second one, yes, you do remind me, and I was expecting somebody to say, well, how have you bought out Mutual & Federal and then turning round and thinking about IPO-ing minority. I think there is two real differences.

I think the US Asset Management business is very different by its very nature. It has 20 different boutiques that are run very largely independently. And I believe that a structure of a parent in the US that is quoted, from what I've seen and what I've heard, will actually help the consultants for the affiliates because they have line of sight to accompany an evaluation. So, I am willing to have a small minority, or a minority, in the US Asset Management business. So, it is very, very different from the Mutual & Federal situation.

Philip?

Philip Broadley

Yes, total capital resources of GBP12.7 billion at the end of the year. GBP9 billion of that, all of these are rounded, core Tier 1; GBP600 million other Tier 1; GBP800 million upper Tier 2; and GBP2.3 billion lower Tier 2.

And then on inter-Company structure, there remain $1 billion rounded of OMSA loans to plc and $500 million of Bermuda notes to plc.

Julian Roberts

It's a fairly busy day, so I'm afraid we're coming to the end of questions. Blair, you've been very quiet.

Blair Stewart

Not by choice. It's Blair Stewart from BofA Merrill Lynch. A couple of points to pick-up on. First, on the UK, to what extent is the 15% target predicated on accelerating some of the paybacks, and with a particular view on initial upfront payments to IFAs, as much as it is about cost?

And how serious would you be about selling that business if it didn't meet the targets, given it's got -- there's implications for the rest of the European businesses if that went? First question.

Second question is you talk about the Group resizing, and how that might affect corporate head office costs; just a bit more clarity on that. I'm not sure how sale of the US or an IPO of the Asset Management business might affect head office costs to the tune that you're suggesting.

And then, two very quick yes/no answers. The first is Solvency II; will you be seeking approval for your own internal model? And on Skandia Liv demutualization, is that off the cards over the planning period?

Julian Roberts

We're being fairly aggressive now within the Group, the way that the ExCo and I want to run it. So we believe that if we're going to get the proper valuation for this Group we've got to show proper returns and decent returns from the businesses.

So it's a message very much to every business that we have in the Group. We've laid out that criteria; the businesses have got to be capable of getting returns that we believe can give significant shareholder value.

One of the issues in the US Life business is we can't get to the sort of returns that produce value. So, I'm not going to answer the question specifically for UK, but it's a generalization for everybody; we've got to get to a proper return otherwise the business would be better off in somebody else's hands.

The corporate costs, as you can imagine -- one of the things that I didn't say in the previous answer to the head office costs, we -- because of the problems we've had in the US Life business, in Bermuda, and some of the strategy work that we've done, we've had a lot of people that have had to focus on many of these businesses.

Now, as they go then there will be, it's a sad light of day, less for them to do in the head office. We hope that naturally there'll be roles elsewhere. So, it is generally from our calculation that as we resize we need less space, we need less people, and we become more efficient in what we're doing as a smaller group and, therefore, there is a cost reduction.

Solvency II, is it a yes or a no?

Philip Broadley

It's a yes.

Julian Roberts

It's a yes, I thought it was.

Philip Broadley

I think it's a yes for pretty much everybody in the UK actually. Most people will, and certainly all large groups, will need an internal model.

Blair Stewart

At what point do you think you can submit that for approval?

Andrew Birrell

We intend to be part of the first wave of pre-application approvals so we'll be re-engaging with the FSA at the moment, and that wave starts in June.

Julian Roberts

And if you look at -- if you're our Sweden followers, you'll see that there is another very large life company who has been going through a demutualization process; that has fallen into a tough problem. So we are watching what happens there. So, you're absolutely right; we're silent on it. The process of what we do with Skandia Liv is delayed.

I think -- all right one last question. You can be the last questioner, if it's a nice question. If it's not, we'll say we've run out of time.

Marcus Barnard

Yes, Marcus Barnard, Oriel Securities. Philip, you mentioned in your presentation that the amount of income on corporate bonds over and above the risk-free, or whatever rate you use, isn't recognized in the MCEV. I just wondered if you could quantify the amount of that income that you received that's not recognized. I think some people like to capitalize and try to add it back on.

Philip Broadley

Go back to old EEV wicked ways. Not insubstantial.

Andrew Birrell

We've got an excess spread of just over 200 basis points in the portfolio, which we don't recognize for MCEV purposes. The present value of that spread is about GBP590 million.

Philip Broadley

That was a nice question to end on, I think.

Julian Roberts

Okay, well, thanks everyone on the telephones, in South Africa, and here in London. Thanks very much.

Philip Broadley

Thank you.

END.