



OLD MUTUAL

**Q1 INTERIM MANAGEMENT STATEMENT
TRANSCRIPT**

12 May 2011

Operator: Good day and welcome to the Old Mutual Q1 Analyst Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to your host today, to Julian Roberts, Group Chief Executive. Please go ahead sir.

Julian Roberts: Thank you very much, good morning everybody. Welcome to our conference call. As usual, Philip Broadley is here sitting next to me. This morning I'll go as normal, I'll give an overview of the IMS and then open the call up to questions.

So let me start with some highlights. I'm pleased with the progress that we've made in the quarter. We have continued to deliver good operational performance particularly in those areas we've specifically identified with you as having high growth potential particularly emerging markets and the UK platform. Net client cash flows for the LTS division were £900 million positive but at Group level were offset as expected by the continued net outflows in US asset management. Equity markets, specifically the FTSE and the JSE were broadly flat, funds under management grew by 1% to £303 billion. Just to remind you that as usual we are now quoting all of our movements on a constant currency basis.

So let's move on to sales and I remark as I did in March that we look at our performance across both our combined life business and unit trusts, although we show these separately. Emerging markets life APE sales were up 13% with recurring premium sales up even more strongly at 18%. Sales in Wealth Management were lower than the particularly strong comparative quarter last year due to the impact of the tax-driven sales in Italy last year and I'm sure you will have seen this from the trading updates of our peer group with Italian businesses. As a result of that the overall total life was down some 4%. Excluding the Italian sales our sales were up 2%.

So as I said we've managed the business by looking at the combined life and unit trusts, so what did we do with unit trusts? Group unit trust sales were up 20% with continuing good contributions from emerging markets and Wealth Management businesses, both of which were up 8%. Once again I'm pleased to report an excellent quarter for the UK platform. It continues to be a major point of strength, [gross] inflows were up 6% at £1.4 billion in the quarter and this run rate continued through April with over £200 million of inflows in the first week of April in the run-up to the tax year end.

I'm going to talk about sales, APE of sales were up 11% in South Africa with a 48% increase in sales in our target mass foundation market. The increase was seen across both savings and protection products up 51% and 45% respectively. In South Africa we're now seeing the benefit of the actions we have taken to increase the number of advisors, improve advisor productivity and reduce cancellation rates. In our other emerging markets we also had a very good quarter with sales up 33% on the comparative period. In Latin America we've increased the productivity of the tied sales force by broadening the product offering and distribution using our experience in South Africa. In China our new product and distribution strategy is also bearing fruit, life APE sales were more than double those of quarter one 2010.

If we look at Nordic, net client cash flows were positive and higher than the previous quarter but down 20% on the comparative period as clients withdrew funds to crystallise investment returns earned over the last two years. Funds under management fell by 2%. Nordic sales were up 5% on the comparative period particularly we had a strong performance in Denmark where we've worked hard to develop the tied agency force and are starting to see the results of this in our sales. The focus for the management team in Nordic is to continue to improve distribution and product development at the same time as delivering the targeted cost savings. The restructuring programme in this business will result in around 300 jobs being removed with an associated charge this year of around £30 million as we flagged to you in March. Retail Europe NCCF remained positive but funds under management fell by 3% in the quarter largely due to the lower markets and local FX. APE sales were up 11% with an increased contribution from Switzerland and also from Poland which benefited from marketing activity and broader distribution. We are continuing to explore opportunities for Retail Europe to leverage the capacity of the new Skandia branch in South Africa where the outsourcing of Retail Europe's IT and admin is going well.

In Wealth Management the net client cash flows were £900 million positive and funds under management increased by 2% in the quarter. I've already commented on the excellent performance of the UK platform. Just looking at the figures for Wealth Management the UK accounts for some 60% of total funds under management and of this over 50% is now held on the SIS platform. Almost two thirds of the reduction in Wealth Management APE was accounted for by Italy where sales in the first quarter last year were boosted by the temporary tax concession I mentioned and in the UK also as previously flagged we stopped selling a number of old style covered business products

that did not meet our risk adjusted return target. So life sales in Italy and the UK were down but we actually beat our expectations in the quarter which I am very pleased about. In the UK, unit trust sales were up 5% [correction 7%].

I didn't talk about emerging markets net client cash flow so let me just recap on that. The net client cash flows were strongly positive in retail and affluent in emerging markets and also in our other emerging markets but NCCF was lower because we had withdrawals by the PIC as well as outflows for some of the OMIGSA boutiques.

So let me turn to the businesses outside long term savings. In US asset management gross inflows were higher than the comparative period at \$7.7 billion and included over \$2 billion of net client accounts. I stress that because although we're disappointed with the net client cash outflows it's good to see that the inflows are still going pretty well. The net client outflows was as we continued to experience outflows from some of the boutiques primarily from the lower margin stable value funds. As you know the margins are low in stable value and we've highlighted for quite a while that that business has continued to lose funds. It doesn't have a negative impact particularly on our margins. So net outflows were \$6 billion [and] better than the outflows in the previous quarter.

Investment performance across the long term products were generally positive and improving. Fixed income strategies performed in line with benchmarks and there was outperformance in the US and international equity strategies. As a result funds under management grew by 1% in the quarter. In February we appointed Peter Bain as the Chief Executive. Peter is already getting his teeth into the business with the aim of improving investment performance, growth prospects and margins and you may have seen his statement yesterday on the people changes he is making and on his short term strategy. Nedbank released its own strong quarterly trading update last week, I hope you've had the chance to look at that. The bank traded well in the first quarter, continued momentum on earnings, net interest income was up 6%, non-interest revenue up 16% and continued improvement on the credit loss ratio, down 36 points. Finally Mutual & Federal held premiums flat despite a highly competitive environment in which a number of insurers have reduced rates in pursuit of market share. Underwriting conditions have remained good. Peter Todd has been in post now for a number of months and I am extremely pleased with the job that he's doing and continuing the change programme that we started last year.

The final issue I wanted to comment on this morning is the sale of US Life which we concluded last month. As you know the sale is a significant step towards simplifying and de-risking Old Mutual. I think some of you may have forgotten that it reduced our FGD surplus by around £100 million, we mentioned that in March but importantly it will reduce materially the future volatility in the surplus particularly in extreme stress events. Following the sale our investment credit risk exposure reduces by 83%.

The other point that occasionally comes up - that we often get asked - is it's worth noting that Old Mutual has less than £5 million worth of exposure to the euro peripheral sovereign debt, the so-called PIIGS. We are not exposed in those areas at all.

So let me summarise. 2011 is an important year for the Group, for the delivery. I am pleased with the way things are progressing and the achievements we've made in the first quarter. We continue to see strong performance in our emerging markets and UK businesses. We are undoubtedly positioned well for the growth opportunities which exist in those markets. We are continuing to work towards our targets. We are making progress in US asset management, but it is slow and I look forward to going through in more detail on profitability and more detail on the overall position in August with our interim results.

Operator, that's all I'm going to say as an introduction and of course as usual Philip and I are happy to take any of your questions.

Operator: Thank you. If you would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the queue by pressing *2. Again please press *1 to ask a question. We'll pause for just a moment to allow everyone to signal.

We will take our first question today from Jon Hocking from Morgan Stanley. Please go ahead.

Jon Hocking: Good morning everyone. I've got two questions please. First on US asset management, could you give us some idea of the assets under management in the stable value strategy so we can get some idea of what the potential tail is in terms of the outflows? Then

secondly on the UK business you've split the platform from the legacy business and there were modest outflows in the legacy business. Can you just comment on what tax wrappers the outflows were from and whether you expect to see an up-tick in the outflows given the decision to move out of the bond wrapper business in the UK going forward? Thank you.

Julian Roberts: I have to say Jon while you were asking the question there was a rapid turning of pages to find the appropriate page where we can quote the actual number on the asset management, quickly flying across the desk to Philip who is now going to give you the answer.

Philip Broadley: Dwight have \$42 billion at the end of the quarter of which about two-thirds I would say is stable value.

Julian Roberts: I think the interesting thing just to note even on that, why I am probably more positive moving forward is investment performance in the stable value business was pretty poor in 2008 and 2009. It did recover in most of their client portfolios very dramatically in 2010 but there are a few of those portfolios which haven't recovered and therefore there is still a pipeline of assets at risk, but it is reducing quite significantly now.

Jon Hocking: So is it too much to say that you're just taking two-thirds of that \$42 billion, is it too much to say that that's the amount of risk or would you say it's a smaller proportion?

Julian Roberts: I would actually say a much smaller proportion. If you go back and look at our investment performance across the majority I would say it's a reasonable size of it but I think probably it would be closer to a quarter rather than looking at the whole lot.

Jon Hocking: Ok, thank you.

Julian Roberts: You asked another question on the tax wrappers. I don't have that at my fingertips so I don't know if any of the guys have here. We'd have to come back on that one. We'll have to come back on that Jon I'm afraid.

Operator: Our next question comes from Larissa van Deventer from Deutsche Bank. Please go ahead.

Larissa van Deventer:

Thank you, good morning. You reported a very good result in South Africa Mass Foundation sales up 48% and those are profitable products. Could you give us a little bit of colour as to what drove that, whether those were once off events or whether it is a reflection of the general recovery of the economy?

Julian Roberts: I think the main driver is that I do think our productivity is really quite exceptional I think in our mass foundation cluster. We have brought on more agents. We I think have a very good management team moving forward and therefore the market has been recovering in South Africa with the broadening of our product range over the last year or so. It's a combination of all of those so we put it down more to the fact that we've got the productivity up from a larger sales force.

Larissa van Deventer:

Ok, thank you.

Operator: Our next question comes from Colin Simpson from Goldman Sachs. Please go ahead.

Colin Simpson: Hi there, just two questions please. One on the UK platform, I read an article saying that industry flows were actually flat year on year. You seem to be taking share. Do you have a feeling as to why that's the case and whether that's sustainable? Also on Bermuda you've lost a lot of business which is great. I'm just wondering whether these surrender promotions you're doing are MCEV accretive and when we should entertain the notion that maybe some of this MCEV could find its way in the form of capital back to the hold co?

Julian Roberts: I think on the UK platform the feedback that I am getting from people is our platform is very reliable. It works. It gives people the functionality that they want and therefore we are benefiting from the growing relationships that we have been having over the last year or two with IFAs. So I think if you ask Peter Mann that's exactly what he says: ours works. It works well. Our customer service has always been well regarded and I think we're reaping the benefits.

Colin Simpson: Would you say some of your charging is a bit keener because you've got more scale or is that just not coming into play?

Julian Roberts: No, I don't think that's as significant this year. I think people are charging more or less the same. I would argue it's not the differentiation of pricing, it's the differentiation of service.

Colin Simpson: Great.

Philip Broadley: On Bermuda I think your assumption is correct that there is a benefit to us on an MCEV basis on the surrender of any of the contracts that carry with them a guaranteed obligation, so there's a marginal benefit from the surrenders we've seen. However in the context of the reserve levels that we continue to hold against the business and in particular the implied volatility of equity markets it's a little bit too early perhaps to anticipate any changes in capital requirement for Bermuda.

Colin Simpson: Could you just remind me Philip when we expect a wall of almost natural surrenders after the fifth policy anniversary?

Philip Broadley: That period of time of fifth anniversary surrenders starts in 2012 and runs through pretty much through to the end of Q1 or into Q2 2013 and although there are some variation in the dates, these are fifth anniversary dates on the day the products were sold, so it's actually a pretty steady flow of fifth anniversary dates over that period 2012-2013 and again we will need to see what happens in terms of customer behaviour once they've reached their fifth anniversary date.

Colin Simpson: Great, thanks very much.

Operator: Our next question comes from Blair Stewart from Merrill Lynch. Please go ahead.

Blair Stewart: Thanks very much, good morning everyone. A couple of questions, the first one just on the UK legacy business that you're stopping. Could you just describe that in a bit more detail and let us know if there's any other tranches of products that you're thinking about ceasing as well and given what we know about the profitability of the legacy business versus the platform, can you perhaps talk a little bit about the expected impact on profits from the removal of that business? The second question is really just to get you thinking on the IPO of the US asset management business. Is the return of net inflows a key factor in your thinking for the timing of that? Thanks very much.

Julian Roberts: Let me do the second one first. Really it follows on the comment Blair from what I said in March. The focus of attention right now is to make sure that the investment performance is improving, we are improving the margins of the business and a key to a successful IPO absolutely right is a good, positive equity story and growth in the business. So we do need in my view to move the business back into a positive scenario as well as get the margins into the right manner and we're very clearly not there. So there are two impacts, there's the things that we're doing and then there's the overall market condition and until we get the business into that shape and have those sort of criteria and flows moving forward then it would be nonsensical to do the IPO. I have to say when you look at the headlines of the outflows you can take a negative position. I see myself and I think I said it in March I do see an improving position and I think we're past the worst, but it is going to take time before we get flows back to the positive level that we'd like.

Philip Broadley: Within the UK the products that we've discontinued include critical illness and commission based personal pension products and multi-bond. I think if you're looking at profitability for Wealth Management going forward clearly it's a combination of top-up premiums coming into existing contracts and the rate of surrender. So this change in mix of sales from traditional products to the platform is very much in line with our plans for Wealth Management. Persistency is something we'll talk more about at the half year but you'll know from what we said in March that the persistency of the legacy book has been running at least in line with our expectations for a while.

Julian Roberts: Can I just add one thing? The main driver of some of the legacy products is because these products aren't RDR compliant in 2012 and we had decided that clearly as we move forward new products will have to be RDR compliant and they will be on the platform, so therefore that's what you see of this of the changes that we have made already in that context.

Blair Stewart: It's interesting on the critical illness side, I thought protection was an area that you were hoping to start to ramp up. Was it something specific on that product and are you still looking to do more protection business?

Julian Roberts: Critical illness just didn't have particular scale and wasn't particularly profitable.

Blair Stewart: Ok, very clear. Thanks very much.

Operator: Our next question comes from Greig Paterson from KBW. Please go ahead.

Greig Paterson: Good morning everyone. Three questions, one is individual annuities in South Africa were down quite a bit. I was wondering is that high or low margin relative to the South African margin? Second of all you made a comment about limiting the sales guaranteed products on the retail side. I wondered if you could just talk, is that high or low margin? I was under the impression from the earlier presentation that you guys had done that you were trying to, that was one of the areas that you were going to ramp up exposure in terms of guarantees, I wonder if you can tell me what I think is right that that's not in line with your strategy. The third question is Bermuda, the holding company has obviously given a \$500 million loan to Bermuda and all your accounting seems to indicate that you don't expect that to be repaid. Is that the case? Are you expecting some of the capital repatriation to be able to repay the loan? I was just wondering should I be writing that off or should I be assuming that some of it will be recovered or you will have to pay it back to Bermuda?

Philip Broadley: I think the comment I'd make overall given that this is not a release that has commentary on margins or profitability in it, but the overall mix you're seeing reported today in emerging markets was a significant growth in Foundation products is likely overall to be positive for margin. On Bermuda I'm not sure in what timescale you're thinking as I was commenting in response to the earlier question, the fifth anniversary dates are out in 2012-2013 and beyond that most of the contracts have features that carry on to the tenth anniversary date. So a final determination in terms of cash flow to or from Bermuda is some years out. I certainly do not expect in the period between now and when we next report results for there to be any flow to Bermuda, to or from Bermuda.

Julian Roberts: Greig, the comment that you were picking up about the market and the guarantee piece was really just flagging your sentiment is right what we'd said before that we were quite happy writing products but what we were just flagging is we have written last year and the beginning of this year considerable sales of fixed bond product and we have set ourselves the amount of capital we're willing to put behind that product and just flagging it's not going to be an inexorable growth in the product but we're managing it to the particular capital we're willing to put behind it.

Greig Paterson: Thank you.

Operator: As a reminder to ask a question ladies and gentlemen please press *1 on your telephone keypad. We will take our next question from Gordon Aitken from Royal Bank of Canada. Please go ahead.

Gordon Aitken: Thank you, good morning. Just a couple of questions on the mass foundation sales which were strong up 48%. You seem to be saying that this is more due to factors within your control such as the number of advisors that increased productivity. The first question is to what extent can these factors continue to improve? Secondly can you also comment on factors out of your control such as customer demand within that space and competition? Thank you.

Julian Roberts: Again Gordon a good question. Let me just highlight and we occasionally show these statistics but not big enough. This sector of the market in South Africa is growing very fast and it's quite amazing, I was looking again at some of the statistics how you have got the wealth creation coming through the sector of the population and really we do have a very significant market share in that area. We do have a sales force that many people would like to replicate and have difficult replication of and I think it is absolutely one of the core competencies that we've got, so of course it's not just all the things that we do but you've got a marketplace where people are getting more money, where through the transformation that's going on in South Africa and we've got very good relationships through our tied agency sales force and a very good, diversified product base in order to satisfy their requirements. So at the moment the growth is good. I don't like to say it's exceptional. I'd love to say that every quarter will be the same growth that we've got which is unrealistic, but we're very confident in that particular cluster and the ongoing growth that we'll get out of it.

Gordon Aitken: Just to follow up on the number of advisors, is there any limits to the extent to which it can grow and productivity?

Julian Roberts: I think realistically we are happy with the number of advisors that we have got. We are still looking to add individual advisors where we can and we continue a process of weeding out poor performing ones and improving it, so we think although our productivity is particularly good that we can carry on with that growth. What you have to be careful of is the cost of training and the cost of developing people, but I'm rambling a bit. We think there is more growth that we can get at but we're actually quite comfortable with the number we've got.

Gordon Aitken: Thank you.

Operator: There are no further questions in the queue at this time. I'd now like to turn the call back to your host today for any additional or closing remarks.

Julian Roberts: Thanks very much everybody. I know it's only one quarter in a year and too much really for conclusions to make with one but I think what you see is continued growth in the platform which is important to us and continued growth really across all of our emerging markets not just in South Africa, so we're comfortable with where we're going and I think when you analyse where in Wealth Management we've been pulled back, understand that our Italy sales are very much in line with others in those businesses. The US asset management outflows, the position is still an outflow and I'd like it clearly to go back to an inflow but again we see that the position there is improving as well.

So look forward to giving a much more detailed update when we get to August in the half year but thanks for joining us this morning.

Operator: That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.