



OLD MUTUAL

**Q3 INTERIM MANAGEMENT STATEMENT 2011
TRANSCRIPT**

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OPERATOR: Good morning and welcome to the Old Mutual Third Quarter 2011 IMF Analysts' conference call. Throughout the call all participants will be in listen-only mode and afterwards there will be a question and answer session. Today I am pleased to present Julian Roberts, Group Chief Executive. Please begin your meeting.

JULIAN ROBERTS: Thank you, operator. Good morning everybody, welcome to the conference call for our third quarter Interim Management Statement. As usual, sitting next to me I have Philip Broadley but, for a change, today we are making the call from our offices in Cape Town rather than London.

I know it is another busy reporting week in the sector and, indeed, a very busy day today, particularly in London, so I will endeavour to be reasonably brief. I will give you a short overview of our third quarter performance with comparisons to the third quarter of 2010 at constant currency, and will then open up the call to questions.

It was another period of good operational delivery continuing the momentum that we have built up in previous periods. When you think of the position this group was in exactly three years ago and the subsequent turbulence of the markets, you will see from today's statement that the actions we have taken have improved the strength and resilience of our business, and this has enabled us to perform well at a time of acute macroeconomic uncertainty.

So let me try and give you some context. Equity markets have been highly volatile on the back of concerns over European sovereign debt and bank capital levels. Over the quarter, the UK and US markets fell by some 14% and the JSE All Share fell by 7%.

So, in terms of currency in the quarter, the Pound was, on average, weaker than a year earlier against the Rand and the Euro, but stronger against the US dollar.

You will have noticed that the Rand has, however, weakened considerably since August. Despite macro factors, customers continue to save for their financial futures and need the long term savings solutions that we provide. Equally, we are not allowing ourselves to become distracted by market events; we are just continuing to get on with the job of improving our business and delivering on those promised operational performance improvements.

In the third quarter, Net Client Cash Flows for the Long Term Savings division were pleasingly £1.4 billion positive, 17% up on the previous year with particularly strong contributions from Emerging Markets and Wealth Management. Group Funds Under Management for core operations at 30th September were around £270 billion, down 9% on the quarter. Unsurprisingly, the main movement was due to equity market falls and this pattern of positive NCCFs but lower Funds Under Management is repeated across most of the LTS businesses. Group funds were also affected by Rand weakness at the period end and continued outflows at US Asset Management, which I will talk about later. We estimate that equity market movements in October added around £12 billion positive to our Funds Under Management.

So, let me move on and look in more detail at trading and sales in particular. I am pleased to report another very good quarter. Life APE sales were up 8% on the third quarter of 2010; Emerging Markets, Nordic and Retail Europe were all up significantly, and Wealth Management held up well. Unit trust sales across the Long Term Savings division were up 1% on the prior year, with particular strength in both Emerging Markets and Nordic. A good performance, I think, against a difficult background.

Our capital and liquidity positions remain strong at both the Group level and within our individual businesses and, as we reported at the half year, we are still

on track to deliver our 2012 cost reduction, Return on Equity and debt repayment targets.

Now, let me go through a few headlines for each of our businesses, starting with those within the Long Term Savings division.

It was another excellent quarter for Emerging Markets; we maintained the positive trend in Life APE sales, which were up 18% on the comparative period. The South African Mass Foundation Cluster continued to grow strongly, with an overall 30% increase in regular premium sales, reflecting the success of our efforts to serve this growing market through increased advisor headcount and productivity.

Unit trusts for Emerging Markets were up 12%, primarily due to a large transaction in Colombia. As a result of this sales performance, Net Client Cash Flow was R5.7 billion positive, a considerable turnaround from 2010 and the early part of 2011.

The highest degree of equity market volatility in the period was in Sweden, so it was encouraging that Nordic achieved Net Client Cash Flows of a positive SEK1.2 billion. Although customers had been switching between asset classes, in general they have continued to keep their money with us, illustrating the strength of our brand franchise.

In Denmark, we have continued to develop the tied agency force and are seeing the benefits, with APE sales up 62%.

In Retail Europe, Net Client Cash Flows remain positive despite a high value of surrenders following fund growth in prior periods. APE sales were up on the

comparative period with good growth in Poland, where we have maintained share in a growing market.

Wealth Management Net Client Cash Flow was solidly positive at £700 million, with continued inflows on the UK platform offsetting the impact of our withdrawal of a number of old-style, non-RDR compliant product lines. Surrender rates were at the lower end of our expectations due to the success of retention activities.

Platform gross sales in the UK were up £1.2 billion, up 7% on the comparative period. From industry data, it seems clear that we are continuing to perform as well as, if not better than, our competitors in this space.

Now let me talk about the business outside Long Term Savings. Nedbank's results were announced yesterday; I hope you have had a chance to have a look at their release. The bank continues to perform well and is delivering on its key strategic initiatives of growing Non Interest Revenue, which was 16% higher than in the comparative period. Its capital and liquidity positions remain strong and comfortably above the regulatory minimum requirements.

The Core Tier 1 ratio strengthened further to 10.8%, well in excess of the 9% requirement for European banks. Mutual & Federal has maintained the improvements in its sales run rate, Gross Written Premiums were up 5% on the comparative quarter, a good result in an increasingly competitive market.

In US Asset Management, outflows have continued with over \$7 billion of net outflows in the quarter from short-term products, almost exclusively Stable Value.

Philip has talked about this in some detail at the half year, and you will remember his analysis. This showed that these products have become such low margin

business that the bottom line impact of losing the funds is minimal. Clearly, however, stemming outflows remains an imperative for the business. It is, therefore, very pleasing to note that investment performance for long term assets have seen a significant improvement over the last quarter for both the three- and five-year periods with respectively 59% and 58% of assets outperforming benchmarks, and one-year performance remains good with 65% of assets outperforming.

Overall Funds Under Management at USAM, whilst down, are very much in line with the company's peers, as I am sure you will have seen from their results announcements which have been published over the last week.

Finally, a few words on Bermuda. We have always said there remains volatility in this business, and it was affected by equity and foreign exchange market conditions in the third quarter. Active management of the hedging programme allowed us to remain resilient and the business continued to reduce risk, manage for value and execute its run-off strategy. We remain confident that Old Mutual Bermuda has sufficient resources to meet expected payments to policyholders, particularly the fifth anniversary payments in respect of certain variable annuities. These are expected to peak, as we have said before, in late 2012 and early 2013.

Ladies and gentlemen, that concludes my brief review of our third quarter performance. There is, of course, far more detail within our statement and supplementary disclosure.

So let me conclude by summarising. I believe it was another strong quarter of operational delivery, this continues the trend we have established over the past three years. Those past three years – in that period, we have sold more than two

million policies to our Mass Foundation customers and more than doubled the Assets Under Management on our UK platform.

Sales were strong in Emerging Markets and Nordic and held up well elsewhere, in a traditionally soft quarter and against the background of difficult market conditions. Net Client Cash Flows in Long Term Savings were again strongly positive. Unsurprisingly, Funds Under Management were down at the quarter end due to the falls in equity markets, but we saw some recovery in October. We remain, as you see in the statement, well-capitalised and have good liquidity and, I repeat, we are on track to deliver our 2012 targets.

At this point I will hand back to the operator and, as usual, Philip and I will be happy to take your questions.

OPERATOR:

Thank you. Ladies and gentleman, if you do wish to ask a question please press zero one on your telephone keypad, if you wish to withdraw your question you may do so by pressing zero two to cancel. There will be a brief pause while questions are being registered.

Our first question comes from the line of Jon Hocking at Morgan Stanley, please go ahead with your question, your line is now open.

JON HOCKING:

Morning everyone. I have just got one question. The first half, Philip gave a very useful bridge of how close you were to achieving the 1.5 billion de-leveraging target, and I think at the time you identified a gap of £300 million. I wonder if you could give an update of where we are and this liquidity has improved again at the holding company, is that something that is reaching to that £300 million or are we pretty much where we were at the first half. Thank you.

PHILIP BROADLEY: If you recall the slide that I presented at the first half, Jon, I talked about the debt that we had already repaid. We paid a further \$50 million of senior debt, so that was extinguished in September. And, as you note, we built up our cash reserves, our cash balances, in addition. The sources of that have been operational cash flow so, again, one of the items identified in the chart. The other item, which is discussed on pages three and four of the release, is that the various cash flows anticipated in respect of the unwind, if you like, of residual risks in US Life have proceeded, and so all of that £130 million that I anticipated in August is now in the hands of the PLC bank account.

In terms of the other items, the Emerging Markets transfers, those transactions proceed with all speed in terms of regulatory filings and so on and so forth. I identified that there were other initiatives in place that we were pursuing to complete the debt reduction programme, those also continue, but for the same reasons as I gave in August, I do not want to go into any more details as to what those comprise today.

JON HOCKING: It sounds like you are at least on track, if not a little bit better than, where you expected to be in August.

PHILIP BROADLEY: Yes, I think that is right because, in particular, thanks to the good efforts of Harbinger in executing their reinsurance transactions earlier than they were obliged to, we have been released from the XXX and AXXX residual liability during this quarter. They had up until the end of 2012 to execute that, so we are grateful to them for their own efficiency.

JOHN HOCKING: Okay, excellent, thank you very much.

OPERATOR: Our next question comes from the line of Blair Stewart at Bank of America Merrill Lynch, please go ahead with your question, your line is now open.

BLAIR STEWART: Thanks very much, good morning everyone. Three questions; the first one, there is a lot happening in terms of product mix, you are seeing some of the legacy stuff coming off the UK replaced by platform, in Emerging Markets you are seeing a swing to regular premiums and protection sales as well, and bits and pieces going on in Nordic. I just wonder, I know there is not a new business margin figure in Q3, but I just wonder if you could talk in general terms about what these changes in product mix mean for profitability?

The second question is, is there any need to take any cost action in the US Asset Management to protect profitability?

And the third question is related to Bermuda; you say that you do not expect to make any capital injections in anything other than extremely adverse scenarios. I just wondered; within that, is there the assumption that you will increase hedge coverage if things do start to get worse? Thanks.

PHILIP BROADLEY: I will take them, if I may, and Julian can add. I think overall, as you say, there were a number of things going on in the product mix. I would note that the run-off, if you will, of the traditional business in the UK actually continues to proceed at a lower level than we anticipated, so the business is staying for longer than we might have expected. So, overall, I would see the margin development or the product mix developments that you see as being marginally positive for margin.

In terms of cost actions in US Asset Management, well, one of the actions that we have taken which does reduce cost is the sale of OMCAP and the elimination of the costs of the retail operation in Denver.

And then as far as Bermuda is concerned, you are correct that we would expect to further increase our hedging at various levels if there were to be further market declines. So, we continue to monitor the position in Bermuda on a daily basis, as we have said, but to give you an indication; if the equity markets were to fall instantaneously by 20% and, therefore, we were unable to increase our hedging, then the additional cost of meeting fifth anniversary policyholder guarantees would be \$163 million. By the same token, if there was an instantaneous rise, we would see a hedging gain of a lesser amount because of the variation margin we would be paying out on the hedges we have put in place. So, an extreme situation which I have just illustrated gives you that range of cash cost. In a more realistic environment, if we were to see markets falling steadily, we would increase our hedging and reduce the cash cost of meeting policyholder guarantees to a lower amount than the one I have just quoted.

BLAIR STEWART: Okay.

JULIAN ROBERTS: Let me just add something on the US, just reminding that we did set ourselves a target on US of operating margin of a minimum of 25%. Despite what is going on with the Net Client Cash Flows, I am pretty confident that that target of 25% will be met. The saving that, for instance, just one thing – OMCAP – gives us, significantly outweighs actually the loss in profitability that we have had on some of these short-term products coming through. So, yes, clearly as assets go down there is action on costs, but I am confident we will hit the targets that we set out.

BLAIR STEWART: Okay, that is great, thanks very much.

OPERATOR: Our next question comes from the line of Colin Simpson at Goldman Sachs. Please go ahead with your question, your line is now open.

COLIN SIMPSON: Thank you. Hi, good morning. Just a couple of questions on Bermuda just following on from Blair there. Your \$620 million that you have disclosed today, what number should we compare that with? Is that to be compared with the £2 billion of assets that you have got on your balance sheet, or you had on your balance sheet at the first half? And I think the second question from me is just on the fifth policy anniversary, do people have to actually lodge a claim on their exact fifth policy anniversary to receive the guarantee, and have those policies actually come up so far and what has the experience been around those policyholders, please?

PHILIP BROADLEY: Okay. I think that the direct comparison, Colin, to the 620 is the increase in that cash amount from June as a result of the deterioration in policyholder account values. It is offset by the fixed income general account and hedging gains that we make on the hedge assets that we bought. So, let us say a 5% equity movement would cost about \$90 million gross and would be offset by about \$55 million of hedging gains, that's the sort of, if you like, trade-off that we would get with the current hedging that we have in place.

So far as the products themselves are concerned, the fifth anniversary feature is a non-elective benefit, in other words, the client does not have to lodge a claim, it is an obligation that is automatically triggered, and no fifth anniversary dates have yet been reached. They begin in a modest way in the first quarter of next year and then, as noted in the release, the peak period comes in Q4'12 and Q1'13.

COLIN SIMPSON: Okay, thanks. Could I just follow up on the first part? So we cannot actually do anything with the 620 million number, because it does not actually tell us what you may need to put in, or anything really. Is that right?

JULIAN ROBERTS: The purpose of describing this number, and to give a sense of the costs involved, is really addressing the questioning I was receiving from shareholders over the course of September around the affordability of the fifth anniversary guarantee in volatile markets. So, it depends what else you might want to do. You have the gross reserve set out on an MCEV basis, but at the more immediate focus, at least some shareholders in current times, has been what actually would be the cash cost of meeting the fifth anniversary guarantees, and seeking reassurance that the cost of meeting those guarantees in adverse markets would not detract from the achievability of the debt reduction target. And I think, giving this amount and giving the sensitivity of equity market movements on the net cost, i.e. the \$8 million per 1%, is, I think, helpful in terms of understanding the affordability of the fifth anniversary guarantee feature.

COLIN SIMPSON: Okay, excellent, thanks. I may need a bit of help just identifying the cash resources, but I am sure we can take that offline afterwards. Thanks very much.

OPERATOR: Our next question comes from the line of Risto Ketola of Standard Bank. Please go ahead with your question, your line is now open.

RISTO KETOLA: Yes, good morning, I think I will stick to the traditional three questions. I will start by just following up on Colin's question that; is it gross cash and not just the difference between the guaranteed value and the current unit account on that policy? Okay, so that is the first question.

The second one is that very large Colombian mutual fund transaction, what was the size and nature of that, because obviously you probably want to strip that out in terms of ongoing numbers?

Then the last question is; there is a comment about acsis and private equity in South Africa; now both of those have not really been covered before in detail. Is it possible to get an idea of how much assets are firstly in acsis, and how much assets do you have in private equity funds?

PHILIP BROADLEY: Yes, Risto, the answer to the first question is you are correct, the cash cost of meeting guarantees is the difference, is effectively the amount we have to top up an individual, or the aggregate of all of the individual policyholder accounts as at the month end. So, it is the aggregate of the differences between each of the policyholder accounts and the 105 guarantee.

RISTO KETOLA: Okay, great.

JULIAN ROBERTS: I think going to Colombia, to give you a feel for the size, and I am going to shift it into Rand so you understand the currency better, it was, the inflow was R5 billion [CORRECTION: R4 billion], or the equivalent of. And the inflows on private equity were new and we have not given the detail of how much assets we have got in private equity.

RISTO KETOLA: And what about acsis?

JULIAN ROBERTS: We have not given that number either.

RISTO KETOLA: Okay, thank you.

OPERATOR: Our next question comes from the line of Larissa van Deventer of Deutsche Bank. Please go ahead with your question, your line is now open.

LARISSA VAN DEVENTER: Thank you. I have a two part question on sales, please. First of all, congratulations on an impressive showing in your Emerging Market operations. To that point, you did mention that you significantly increased your sales force last year. Are there any more headcount increases in South Africa or should we start thinking about this as a re-established base?

And then, with respect to the UK operations, you have been very upfront about the non-RDR-compliant products that have been culled, have you made any new product launches, or how should we think about the products in that space going forward?

JULIAN ROBERTS: Thanks, Larissa. The first thing on the mass foundation, we keep looking to broaden out the sales base but we are quite comfortable with the level of sales agents we have got at the moment, particularly as we are going through this period of people going through exams. So, I think one can reflect it is probably a fairly constant level at this size.

In the UK, again, a very good question. So we do have a number of non-compliant RDR products. Over the period of time over the next, really, two or three years, you will see us broadening out the product range that we have got. We are working on a number of new products. I do not want to go into the detail, but having got this very solid investment base on the platform very close to break-even, we would, therefore, like to expand it with a number of additional products to broaden out our margins. But there is nothing to talk about today.

LARISSA VAN DEVENTER: Thank you.

OPERATOR: Our next question comes from the line of Mark Salmon at Investec. Please go ahead with your question, your line is now open.

MARK SALMON: Hi guys. You may have partly answered this question already, but just for clarity, you talked to your guarantee liabilities in Bermuda having been increased by \$300 million odd, is that gross or net of the hedging offsets? And, if it is gross, can you give us some guidance as to the net effect?

PHILIP BROADLEY: The number for the reserves which is set out on page eleven of the release – the increase in the quarter, is a gross number. And, as described, because we calculate it on a Market Consistent Embedded Value basis, it is affected not only by the weak equity markets in the quarter, but also by the decline in interest rates, so almost \$77 million of the reserve increase is actually due to the non-cash item of lower US swap rates that are used to discount the gross reserve.

In terms of the net effect, I think the easiest way again I can describe it, is to say that on a growth basis, a 1% move or decline in equity markets would increase the reserve by about \$25 million, but at current levels of hedging, the hedge assets would show a gain of about 17, leaving you with a net increase again in the cash cost paid out in the next eighteen months of about 8.

MARK SALMON: Okay, thank you.

OPERATOR: Our next question comes from the line of Greig Paterson of KBW. Please go ahead with your question, your line is now open.

GREIG PATERSON: Good morning everyone, can you hear me?

JULIAN ROBERTS/PHILIP BROADLEY: Yes, we hear you fine, Greig.

GREIG PATERSON: My question is also on Bermuda. I wonder if you could just give us the following statistics: One is what the unit accounts are on the book now for Bermuda; what

the guarantee, the statutory guarantee, reserve is; what the shareholders' funds are; and how much of those shareholders' funds is an asset that has actually been lent to the centre as a loan to the centre; just those four statistics?

PHILIP BROADLEY: I am afraid I do not have any of those statistics, Greig.

GREIG PATERSON: As I said, I am just trying to get a mental picture because I agree with...

PHILIP BROADLEY: I appreciate you may be, I am afraid I unable to assist you with any of those statistics; I simply do not have them to hand today and they are not in the release and I do not intend to add further to the disclosure we have made.

As I said in answer to Colin's question, we have sought, with the further disclosure on Bermuda today, to focus on the particular concerns that were being expressed by shareholders to us over the quarter, which is the immediate impact or, becoming immediate, impact of meeting the fifth year guarantees, and we have sought to describe all of that today.

So far as the statutory reserve is concerned, it is not actually a number to which I attach any particular significance and, as I described before, hedging is around, or our hedging strategies have been around managing our FGD capital surplus and ensuring that that remains robust. As the capital reserve, the capital position improved we began to focus more on liquidity, and I think for understandable reasons when you look at the amounts discussed here in terms of the extent to which we need to top up the policyholders' accounts over the next couple of years.

So, for me, the MCEV reserve, which we have disclosed, together with the FGD impact that Bermuda has, together with the cash costs of meeting policyholder

guarantees, those are the three things on which this business is managed primarily in its run-off.

GREIG PATERSON: No, well, put it another way, I think you can answer this one. What is the market value of the guarantees versus the general account? Or let me put it another way, what is the general account and how much of that general account is actually loans to the centre? So, in other words, if you burnt through the hedges, after the cost net of hedges is borne by the general account, but a portion of that general account is assets actually lent to the centre of the group so, in other words, if you eat into those you will hurt central liquidity.

So, I am trying to understand, maybe you can just tell me what the size of the general account is, and how much of that general account is actually assets lent to the centre of the group?

PHILIP BROADLEY: I am being referred to the half year numbers which is the intercompany of £600 million at the half year; that has not changed. Again, I can only refer you to what we have said. The general account portfolio, OMB's reserve and hedging gains would be sufficient to meet OMB's liabilities to its policyholders and no further capital injection is anticipated other than extremely adverse scenarios. Those scenarios are more adverse than the scenario I have already described in this call, which is a 20% instantaneous equity market fall with no increase in hedging, the net additional cost of that being \$163 million.

GREIG PATERSON: All right, and when you talk about that, that is, adverse is when you have to phone up the head office and ask for cash flows, is that what you mean by...

PHILIP BROADLEY: No, what I mean is adverse is a one day equity market, sorry, a period, an equity market fall of significantly more than 20% occurring in one or two days, i.e. before we were able to increase our hedging.

GREIG PATERSON: All right, I will have to take this offline. Thank you very much.

OPERATOR: Just to remind all participants that if you wish to ask a question please press zero one on your keypad now and press zero two to cancel. There will be a further pause while questions are being registered.

Our next question comes from the line of Francois du Toit of JP Morgan. Please go ahead with your question, your line is now open.

FRANCOIS DU TOIT: Hi guys. My question is just around the US Asset Management business, I have just noticed that Dwight has had outflows of \$7.4 billion in the last quarter, it is a fixed income asset manager; I think there were rumours also that you are quickly looking to sell that business. If you can maybe just give some comments around those observations and rumours, and also maybe if you can give an indication of the cost-to-income ratio within Dwight, separately of the others, I guess there could be some facts or information available for us to look at, but if you can save us some time and give us that information, I think it would be helpful.

My second question is just around the Nordic area. I think you are guiding effectively for lower earnings in this half year, I think you were saying that there is going to be switching, or there has been switching, into fixed income assets and also that you are incurring some restructure costs. Maybe if you just can quantify the earnings impact of those two movements during the half year.

JULIAN ROBERTS: Fine, let me make the comment. You are right in your comment that we have the large bulk of what we call the short-term outflows, were in Dwight. I will not comment on whether any asset in the group may or may not be for sale, so I am afraid I am not going to comment on that, as you would expect me to if it was any asset.

What we have said, I do not have cost-to-income ratio information at my fingertips, but what we have said in the past, and I continue to say, is the Dwight stable value business has pretty low profitability and low margin and so, therefore, the impact of the loss of short term assets is not huge for us in terms of profitability. That is why we distinguish between cash and stable value and call them short-term, from the main, far more highly profitable, business.

I'm happy to take this one or Philip will comment, on Nordic, we have made the comment in the past and we did at the half year, that there was significant restructuring in Nordic and, yes, that still stands to turn around and say that that has an impact on the profitability for that business moving forward. And, clearly, as there are switches in any of our businesses, and there is a theme in Northern Europe or in Europe, that people have carried on saving but we have seen more of the switch towards cash and fixed interests away from equities and, of course, that does have an impact on profitability.

FRANCOIS DU TOIT: Thank you.

OPERATOR: Our next question comes from the line of...once again, if you do have a question please press zero one on your keypad now.
As there are no further questions I will return the conference to you.

JULIAN ROBERTS: Thank you very much, operator.

We try to be helpful in this statement, because we knew our shareholders were having questions on Bermuda, to add a paragraph on Bermuda even though I would not say it is part of a normal trading update; and no surprise, you have focused a lot of questions on it.

I repeat in the statement of what we have put on Bermuda, that you can see we are managing this business tightly, I am comfortable with the financial situation and the managing of that. We added the information of the current levels of hedging, a 1% fall in equity market levels increases the net cash cost of meeting policyholder guarantees by approximately \$8 million. We have given you the levels of hedging to help you so we know that there are questions on it, but I can assure you that I am very comfortable with the way that we are managing the Bermuda situation, and I am comfortable with that exposure that we have, even though naturally I would rather not have it.

If I go back to trading, we have had a strong quarter. Looking at many of the peer group releases, lots have had drops in sales, our sales performance has been very robust, our platform is continuing to trade well with good cash inflows, our Emerging Markets business is doing particularly well. We have not mentioned it because we do not need to, we don't have issues with Greece, Italy, Spain or any of those PIIGS countries. So, I am pleased with our performance, I think our sales are going particularly well at the moment. It is a highly volatile market but we will continue to focus on trying to make sure that we give the right products and support to our customers and I think, as you can see, they have continued to trust us with their money moving forward.

So that is the summary, thank you for joining me, look forward to talking again with the full year results.

OPERATOR: This now concludes our conference call. Thank you all for attending. You may now disconnect your lines.