INTERIM RESULTS 2012
TRANSCRIPT

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8 AUGUST 2012

Julian Roberts: Good morning everyone. I'm really pleased actually to see so many of you wanting to spend your morning here with Old Mutual rather than following any Olympics.

We have today Ralph Mupita, Chief Executive of Emerging Markets, hosting once again in Johannesburg. Are we going to see a picture of Ralph coming up or not? Hopefully he's on the line and will be able to host any of the questions that we get later on. Welcome to everybody who are on the phones and on the webcasts.

We have a number of senior executives in the audience here, including Paul Hanratty and also in Johannesburg, where I know Mike Brown is with Ralph and I think Peter Todd as well. We have, at an unearthly hour in Boston, Peter Bain joining us on the telephone. Philip is here as usual with me but very sadly suffered a family bereavement within the last 48 hours and as a result has asked me to read out his script that he has prepared.

Slide: Agenda
We're adopting the usual presentation format this morning: an introduction from me, detailed analysis of the financial results, concluding remarks and then we'll open the session to questions.

Slide: Operational performance
So let me start with an overview. Once again operational performance and strategic progress were the key feature of our results.

You'll notice that on these charts I have not only included the reported results for the comparative period but also those results restated at constant currency. As you know, we believe that this is a useful indication of the underlying trends. In the first half the rand was on average some 12% weaker than in the first half of 2011 whilst the US dollar was on average 2% stronger.

I think there are two main points to draw out from the slide:
Firstly you can see evidence of the continuing shift from life to non-covered business that we've been flagging for a few years now.
Secondly you can see the significant turnaround in net client cash flows from £4.2 billion negative in half one 2011 to £3.8 billion positive this year, almost entirely the result of the improvement in US Asset Management we talked about in our first quarter interim management statement. So I'm really pleased about that.

Slide: Financial results
Adjusted operating profit was up 1% in sterling and 12% in constant currency. Earnings per share were 8.7 pence, down 7% in sterling but up 2% in constant currency.

During the period we sold Nordic for cash and consequently, given lower cash returns, return on equity fell.

With six months still to go we have delivered our group cost reduction targets. Return on equity is within the target range and the operating margin at US Asset Management is on an improving trend.

The Board has declared an interim dividend of 1.75 pence per share in line with our stated policy. And of course in June we returned £1 billion to shareholders via the special dividend.

Slide: Strategic progress
In addition to strong operational performance, we continue to make progress on our strategic objectives of expanding our footprint in Africa, growing Wealth Management and turning around US Asset Management.

In Africa we are waiting for final regulatory approval for our acquisition of Oceanic Life in Nigeria. We expect to complete in the second half and the integration work has already started. We continue to see Nigeria as an important hub for expansion into West Africa and are looking at both bolt-on acquisitions and also organic growth options.

In Wealth Management we are well advanced with preparations for the Retail Distribution Review in the UK and are restructuring to create an asset management business which will power the Wealth Management business and enable us to grow revenues and margins. I'll talk more about this in the final section.

Finally, in US Asset Management we have continued to build flows, improve investment performance and grow margins whilst continuing to refine our portfolio of affiliates. In the first half we completed the disposal of Dwight and Old Mutual Capital.

Over the past four years we have worked tirelessly to de-risk and improve our business. I believe the results we are reporting today reflect the success of those actions that we have taken to build a high quality resilient and low capital-intensive business that delivers what it has promised, generates cash and sustainable profits and creates value for shareholders.

With that let me now move on to read Philip's script.

Slides: Business & Financial Review / Agenda
This morning I'll give a short overview of the group's financial results for the first half. I will delve into the operational results of the group's businesses; review cash flow, debt, liquidity and dividend; and then finally update you on delivery against our return on equity and cost reduction targets.

In the interests of time, we've moved some of our usual slides to the appendix pack and I'll attempt to talk in more than usual brevity on the slides I do show. More detail as ever is contained with our statement and accompanying disclosures.

Slide: IFRS simplified operating result

So let's start with the simplified IFRS operating result: In constant currency overall revenue was up by 8% and expenses were up by 7%, so the jaws factor allows AOP to be up by 12%.

The tax charge of £210 million is an effective rate of 27% in line with our expectations and our previous guidance. The increase on 2011 is due principally to the increased proportion of profits generated in the higher tax regime of South Africa. Tax changes in South Africa, including the removal of the secondary tax on companies and an increase in capital gains tax rates, also affected pre-tax profitability in our retail businesses. I'll come back to that later. We continue to expect the group effective tax rate for 2012 to be between 25% and 27%.

So IFRS adjusted operating profit post-tax and NCI was up by 4%. I've also on this slide shown the total IFRS profit after tax. This includes the normal accounting adjustments in respect of acquisition accounting and short term fluctuations in the investment return. But the main reason for the increase however is, of course, the post tax profit from the sale of Nordic.

Slide: Accounting impact of Nordic sale

And here let me just take a moment to pick up the main accounting changes resulting from the Nordic disposal.

The total profit on sale was £595 million. That includes a number of items, including foreign exchange gains, and the details are set out on page 13 of today's statement.

Restating the first half of 2011, we lost 1.2 pence per share of earnings from the removal of Nordic profits, offset by 1.3 pence per share gain as a result of the share consolidation. This leaves a net positive restatement of 0.1 pence of earnings per share, showing that we slightly over consolidated as a result of the share price appreciation between the date of the Circular when the ratio was fixed and the effective date of the consolidation.

In terms of group ROE, we reduced H1 2011 AOP by £58 million of post-tax income to reflect the loss of the Nordic profits. We also reduced the average level of equity for the period by £1.8 billion. So H1 2011 return on equity restated is 15.1% compared with 13.1% as reported. The fall in ROE in 2012 is, in part, due to the residual Nordic cash earning a minimal yield, which was still sitting on the balance sheet at the end of June, a portion of which has since of course been used to repay debt.

Finally the Nordic sale, special dividend and share consolidation combined to give rise to a positive uplift of 12.4 pence to adjusted group MCV per share, the breakdown of which you can see on the slide.

Slide: Sources of earnings

Moving back to the analysis of first half performance and looking now at the sources of earnings:

Fees and underwriting generated respectively 33% and 23% of total revenue. And 39% came from banking, following another strong period of performance by Nedbank. These percentages are broadly unchanged from H1 2011.

Finance costs were higher at £75 million. In part this is a result of the higher coupon instrument issued last June which has been spoken about before. In the current year we expect to see only a small impact on interest costs as a result of the debt repayment programme, but we do expect to see interest cost benefits coming through in 2013 and beyond. And incidentally, a swap deal, which will lower interest rates further, costs us £5 million to execute in the period.

In constant currency, administration expenses were up 6%, driven by some continuing project costs in Emerging Markets as well as increasing staffing in Nedbank to support higher activity levels.

And finally, acquisition expenses were up 9% on the back of the increased levels of new business in Emerging Markets and growth in non-covered sales in Wealth Management.

Slide: MCEV

So let’s turn to MCEV: MCEV operating earnings were eight pence per share, including the contribution from Nordic prior to sale. 4.7 pence per share was generated by the covered business and 3.3 pence per share was generated by non-covered business, which now represents over 40% of the total.

The post-tax value of new business from the covered business was down, obviously affected in Emerging Markets by rand depreciation and also, in Europe, by lower sales from International.

Adjusted group MCEV at 30th June was £10.7 billion. That’s equivalent to 218.1 pence per share and is up 12% from the end of 2011. The main movements are the adjustments for the special dividend and share consolidation as I have already spoken about, as well as the addition of eight pence per share of operational earnings and a 10.3 pence per share uplift for the market value of Nedbank.

Slide: Emerging Markets (1)

So having talked about the results at a group level, let's now go and focus on the operational result starting with Emerging Markets.

Here you can see the continued sales momentum in the South African retail markets. Both life and non-covered sales were up on the comparative period, although Mass Foundation growth slowed a little in the second quarter but this was as a result of the business being focused on getting advisors through the FAIS regulatory exams.

The chart on the top right of the slide shows that non-covered sales volumes are growing in our main markets, Retail Affluent, OMIGSA, Rest of Africa and Asia and Latin America.

Net client cash flows were positive and significantly improved on 2011. Retail flows in South Africa were positive while corporate flows remained negative, reflecting the drawdown of pensions in that business. The principal movement in South Africa in the period was in OMIGSA, which went from a R4 billion net outflow to a R4.5 billion net inflow this period. There were particularly strong inflows into the Dibanisa and Liability Driven investment boutiques. The strategy for the business overall is to manage a shift towards higher margin investment classes. For example, following a further withdrawal in the second half of this year, we now only manage a relatively small amount of assets from the PIC in low margin traditional asset classes.

Positive net flows and improved equity markets combine to increase funds under management by 6% in the six months to the end of June.

Slide: Emerging Markets (2)

So what did this mean for Emerging Markets profit? Overall AOP for Emerging Markets was up 8% at R3.6 billion with life AOP up 13%, excluding the LTIR and before central expenses and administration. The LTIR rate for Emerging Markets remained unchanged at 9% but the amount of the LTIR increased due to a higher average asset base.

The South African results overall were affected by a number of specific movements and here on the slide I've tried to outline the main ones for you. The reduction in profit in the retail markets specifically reflects changes to South African tax and a lower discount rate. In addition the Mass Foundation result was also affected by lower retention rates. On the positive side however, there was a benefit to Retail Affluent from the release of margins on investment products that have turned out to be too prudent. The 2011 result for the Corporate division was reduced by a provision in respect of the investment guarantee reserve. This charge has not been repeated in 2012 and, on an underlying basis, Corporate's profits was up 26%. In OMIGSA, the 2011 result included a R211 million gain from Winterbreeze, which has not been repeated this year, although this has been partially offset by a release of over-accrued prior year incentive costs.

The Emerging Markets business is continuing to deliver strong retail sales and profit growth. Towards the end of the half year there was a sharp fall in the 10 year government bond yield in South Africa and indeed a further fall since the period end. This is to an extent reflected in the Mass Foundation and Retail Affluent results. If the rates persist it will also affect results for the full year in Emerging Markets, in Mutual & Federal, and also in Nedbank as they discussed in their own half-year release.

Slide: Wealth Management (1)
Let's move onto Wealth Management, which comprises the UK, Continental Europe and our international offshore markets. As a consequence of our simplification agenda we have now consolidated our Retail Europe operations with our other activities in Continental Europe and these are shown here as Wealth Management Europe. In addition the International line now includes the results for OMAM (UK) following its merger with Skandia Investment Group.

In the UK, sales in the first half were affected by a slowdown in activity by independent financial advisors as they prepare for the requirements of the Retail Distribution Review.
Trading conditions remain tough in most of the jurisdictions served by the international offshore business. And sales were affected in particular by uncertainty regarding changes to the QROPS legislation as we reported at Q1. This prevented us from domiciling schemes in Guernsey as we have done for some years. We've now replaced our Guernsey proposition and therefore expect sales growth to bounce back in the second half.
Sales by Wealth Management Europe were in line with our expectations as we managed down the low-margin regular-premium business as part of our shift towards a more focused wealth management activity.
Non-covered sales by Wealth Management overall were up by 8%.

Net client cash flows remained positive in both quarters, though unsurprisingly were down on the comparative period. Net flows onto the UK platform were £500 million in the first quarter and actually were higher at £700 million in Q2. I think this is an interesting statistic: Since the beginning of 2010 we have taken net over £8 billion onto the platform and funds at 30th June were £20.4 billion.

Funds under management increased 12% in the half due to the positive NCCF, equity market increases and the addition of £3.9 billion of funds from OMAM (UK).

Slide: Wealth Management (2)
The total pre-tax AOP for Wealth Management was £95 million. Underlying AOP was down 4%. This excludes the benefit received in 2011 from the smoothing of prior years' deferred tax asset, which has not been repeated this year. The reduction otherwise is largely a result of lower fee income, reflecting the controlled run-off of the legacy business being only partially offset by funds growth on the platform.

Slide: USAM

Let's move on from Long Term Savings and alight next at US Asset Management. In line with the analysis presented in March, I will talk only about continuing operations.

You will recall that in our IMS in May we reported positive net client cash flows in the first quarter, continuing the trend that appeared to be developing towards the end of 2011. Q2 was tougher and net flows were $1 billion negative. But, based on what we have seen so far, we believe our Q2 trend is very much in line with our US peer group. For the half year as a whole, net flows were still a very positive $3.5 billion. This is a considerable reversal of the $3.2 billion outflow in the comparative period and was actually the first positive half for three years.

Investment performance has continued to improve both in the three and five year periods and assuming these positive trends continue we would expect net flows to remain positive over the remainder of the year.

Adjusted operating profit was broadly unchanged from the same period of 2011, although management fees were down around 4% due to a change in asset mix, specifically a not-unexpected shift towards fixed-income products.

A key element of the turnaround plan for US Asset Management is to increase margins. The business is deploying disciplined financial management and the operating margin before non-controlling interests improved by 100 basis points to 26%.

We are very positive about the progress being made to turn the business round. The focus remains to improve the level and consistency of investment performance, field flows and increase margins.

Slide: Nedbank

Next Nedbank. Clearly it was another very good period with AOP up 27% on what was, in itself, a strong comparator. The retail business performed particularly well with headline earnings up 38% reflecting increases in net interest income and non-interest revenue as well as reduced impairments. The business saw a 12% increase in its client base and higher lending volumes.

Total net interest income was up 11% and there was a 10 basis point improvement in net interest margin. Non-interest revenue, a key target area, grew by 16%, driven by increases in commission, fee, insurance and trading income.

Impairments in the credit loss ratio continued to reduce and liquidity and capitalisation remained strong. Note that the bank has implemented Basel II.5 capital criteria with effect from the beginning of this year.

As a result of profit growth and the strong capital position, Nedbank increased its interim dividend per share by 28%.

Slide: Mutual & Federal

Mutual & Federal: The general insurance market in South Africa continues to suffer but I'm pleased that the business delivered a 6% increase in gross premiums.

Service levels have been improved and costs have been managed tightly through the M&F change programme. Cost reductions were however offset by a worsening claims environment with claims incidents higher than the previous year. For example, the business suffered three substantial commercial fire claims in the period, totalling R53 million.

M&F is making excellent progress with its iWyze direct insurance joint venture with Emerging Markets and the premium growth is exceeding our expectations. The business is still effectively in start up and consequently investment remains high with a resultant impact on reported AOP.

We expect the environment for M&F to remain tough for some time, as you would expect at this stage of the cycle. The challenge for the business is to generate profitable growth in this environment. It will continue to progress its change programme with a focus on managed premium growth, service improvement and cost reduction.

Slide: Bermuda

Finally in this section of the review, a few words about Bermuda, which is non-core and which continues to execute its run-off strategy.

As at 30th June, 10% of the contracts with guaranteed minimum accumulation benefits had reached their fifth anniversary date. So far surrenders at the anniversary date have been higher than we had been anticipating, at around 70% against an expected 55% for the non-Hong Kong book, and 50% for the Hong Kong book against an expected 20%. These surrender levels, helped by rising equity markets over the period, have contributed to a fall in the reserves for Bermuda to $851 million. Note that we've not yet changed our reserving assumptions as we would prefer to see if the current surrender rates persist in the second half before we do. But had we changed our assumptions the reserve at 30th June would have been some 10 to 15% lower.

The cash costs of meeting the fifth anniversary guarantees, the bulk of which fall due between October this year and January next, was estimated at 30th June at $559 million. The options-based hedging programme we introduced in March has proved highly effective at dampening the effect of volatile equity markets on this estimate.

And just to bring things up to date, surrender experience does seem to be continuing at the same sort of level as in the first half. At the end of July we estimate that the UGO GMAB reserves have fallen to $758 million and the cash cost of meeting the guarantees had fallen to $468 million.

Since 30th June we have agreed with the Bermuda Monetary Authority the long term capital requirements of Bermuda with its new rules that are effectively close to Solvency II. These requirements are also consistent both with our internal model and the capital we've been holding centrally against the run-off for the last few years. I'll come back to the implications for FGD in a few moments. But in managing the Group's future capital needs, it is helpful to be able to anticipate future regulatory capital requirements, which this agreement enables us to do. And we've taken account of these future requirements in our recent debt repayment exercise.

Slide: VIF conversion to free surplus in LTS

So let's now move on to talk about cash generation, showing ultimately the cash that arrives in the holding company bank account. I'll start as always with the conversion for the value of in-force to free surplus in our covered business. In the first half our continuing Long Term Savings businesses generated £289 million of free surplus from their in-force books, equivalent on an annualised basis to some 16% of the opening value in force.

Slide: Group free surplus generation

In total we generated £381 million of free surplus in the period. Our operating businesses remitted £112 million to the group which, with an opening cash balance of £441 million, has been used to meet interest payments, group costs, pay ordinary cash dividends and to repay debt. Closing group free surplus was £1.88 billion, up 2% on June 2011.

It is now two and a half years since we first started talking how we turn embedded value into cash for shareholders. Philip said then that we expected to transfer around £600 million per year from VIF to free surplus, excluding any benefit from new business. In total over the two and a half years we have transferred just shy of £1.7 billion, so ahead of the run rate that he suggested. And in addition we have crystallised the free surplus from Nordic into cash.

Slide: Generation & use of cash

At this point I'd like to show you something new, as I think it is a useful piece of analysis. It shows our generation and use of cash since the beginning of 2010.

Over the 30 months the holding company has received £800 million of cash from operations. It has generated £2.5 billion of cash from corporate actions, principally of course the sale of Nordic but also a catalogue of other items such as the sale of US Life and a number of smaller transactions. We have issued £500 million of debt and received a benefit of £100 million of cash saved in respect of scrip dividend elections.

In total therefore we've had inflows of £3.9 billion. This has been used to meet £2.9 billion of payments, including interest, the special and ordinary dividends and repayment of debt. So we've increased our cash balance by £1 billion.

Importantly what I want to stress is that cash from operations has funded all interest payments and ordinary dividends over the period. So you can see just from this slide how much our position has improved over this period of time by the actions that we have taken.

Slide: Debt repayment progress against target
In March 2010 we said we expected to use the proceeds of rationalisation as well as retained earnings to reduce debt by £1.5 billion. This is another new chart. I hope it makes it reasonably clear what we've been doing and where we now are on the debt repayment programme.

To the end of 2011 we have repaid £449 million net of issuance. At the beginning of 2012 we repaid the remaining €200 million of the 750 million euro-denominated bond. And since the half year end we have had a very successful tender for £459 million of Senior debt. Consequently in total to 1st August we have repaid just in excess of £1billion net of issuance. We intend to repay the balance by the year end subject, where appropriate, to the regulatory approvals which are required for the repayment of debt instruments.

In the shareholder Circular published in February we said the Board expected that the proceeds from the disposal of Nordic would enable a total of approximately £1.7 billion to be repaid under an increased debt repayment plan. Therefore in due course we will repay a further £200 million of debt but the nature and timing of that repayment has still to be determined and will take account of capital treatment, economic impact and of course the requirements of Solvency II, which remain uncertain. So our target still remains for 2012, £1.5 billion.

Slide: Debt & liquidity
So here you see the cumulative debt repayment figure of a little over £1 billion to 1st August. We're also showing in the table our pro-forma balance sheet measures at 1st August, taking into account the tender of debt instruments that took place in July.

In the first half of the year gross debt fell by 4% to stand at £2.4 billion at the end of June.

Our reported pro-forma FGD surplus was £2.3 billion. This represents a coverage ratio of 168%, even after allowing for the new Bermudan solvency requirements that I spoke about earlier and the associated transfer of $571 million of capital resources from the centre into Bermuda.

Holding company liquidity comprising cash and undrawn committed facilities was £2.4 billion.

And our individual businesses continue to have strong local statutory cover and to maintain sufficient liquidity to support their normal trading operations.

Slide: Dividend

So let's move onto dividend: There is no change to our dividend policy. The Board remains committed to pursuing a progressive policy consistent with our strategy, having regard to overall capital requirements, liquidity, profitability and targeting dividend cover of at least 2.5 times IFRS AOP earnings over time. That's our policy.

I would like to remind you that in March we said that our intention was to set interim dividends routinely at 30% of the prior year's total dividend. I think some commentators may have misinterpreted what we actually said. In declaring an interim dividend for 2012, the Board has taken into account the share consolidation effected in April and has adjusted accordingly the base 2011 dividend per share. We have also rounded the figure for the interim dividend to 1.75 pence, which is slightly more than 30% of last year's total.

Slide: Progress against 2012 ROE and margin targets

Before concluding, let me give the usual update on delivery against our financial targets. All businesses are currently either within or above their return on equity target ranges. The operating margin in US Asset Management is moving in the right direction and pre-non-controlling interests, the continuing operations are now delivering a margin of 26%.

Slide: Progress against 2012 cost reduction targets

And here you can see that, with six months still to go, most parts of the business have exceeded their cost reduction targets. At a group level we've delivered around 25% more cost reductions than our target and at a considerably lower cost to achieve than we had originally anticipated.

Slide: Financial summary

So in order to conclude this section of the presentation this morning, let me say a few words in summary about the first half year performance.

Net client cash flow was £3.8 billion positive, which is £4.4 billion if you adjust for the disposal of USAM affiliates during the year.

And in one of those coincidences of numbers that occasionally occur and make one double-check the calculation of each, pre-tax AOP, life sales in Emerging Markets, and Funds under Management in Wealth Management all increased by 12%, which seems an amusing coincidence in this 2012 Olympic year.

Performance improvement continued at US Asset Management with positive NCCF and funds up 7%.

We've now repaid over £1 billion of debt and, in June, paid £1 billion to shareholders via the special dividend. The Board has declared a 1.75 pence per share interim ordinary dividend, which will be paid in November.

So for the final comment, I would like to reflect on the fact that over the past two and a half years, through corporate actions and operational performance, we've been able to distribute over £2 billion to our debt and equity stakeholders. And in addition, whilst we've not tended to talk about it in the past, it is worth pointing out that in the same period we've paid around £1 billion in corporate taxes, principally in South Africa.

I look forward to talking to you in March with our 2012 preliminary results.

So that was Philip's script. And after I've had a glass of water I will hand back and do my normal conclusion.

Slide: Looking ahead
The past few years have been immensely challenging for financial services companies and have had a profound effect on the entire financial services industry, including how we think about risk and where we look for growth. I believe the global financial crisis is making stakeholders review what they want from financial services companies:

Banking models are being questioned. Companies are struggling to manage margins in a low-growth, low interest-rate world. Regulators are trying to compensate for failures in corporate culture as well as becoming more protective of their domestic markets. And customers are asking who can they trust and whether they are getting value for money.

When I think about Old Mutual and what will continue to make us successful in this environment moving forward, two factors I believe are paramount for us: Firstly that we understand our customers, meet their needs and exceed their expectations in the markets we choose to be in. And secondly that we - our employees, our staff, our management, our Board - all behave responsibly, are transparent in our activities and earn the trust of all stakeholders.

In 2008 we made customer focus explicit in our vision. Subsequently we have invested in customer service through our change programmes and we're using externally recognised metrics such as net promoter score to monitor progress and identify areas where we still need to improve. Putting customers first has triggered new levels of innovation within our business. When you look at our results in detail you can see clear evidence that the growth in Retail Mass Foundation, in Nedbank

Retail and in Skandia UK has come from a real streak of innovation and a real flavour of putting the customer first.

When I think about behaviour, we are absolutely clear what behaviours are and are not acceptable in our business. We have a strong set of values which we've communicated across the organisation. We've implemented risk management and governance processes that enable us to spot issues early and to deal with them quickly. We are absolutely not complacent about this. No CEO can say that all of their people behave correctly all of the time. But we take behaviour very seriously; we set the rules, we monitor, we act and, in fact, managers have been replaced where their behaviours have not been as we have expected.

We also, and I think this is an interesting thing, we also monitor our culture using an annual process of engagement with all of our people using an independent third party. Managers are tasked to devise and implement a programme to address issues raised and the results affect management remuneration. Nedbank first implemented this methodology in 2007 as part of its recovery programme and I believe firmly that it has played a major part in the bank's turnaround. Indeed, statistics show that companies that have the right culture outperform the market on shareholder returns.

So we absolutely understand the importance of customers and behaviours and these two factors underpin all that we do.

So let me now talk… after I've got that off my chest, let me talk a bit about the future.

We'll continue to pursue our three-pronged strategy of expanding in Africa, building Wealth Management and turning around the US business.

Slide: Expanding in Africa
In South Africa there are signs that the economy is slowing slightly, not unexpected given the sluggish European market and slowdown in China. Interest rates have recently fallen by 50 basis points and the forecast for 2012 GDP growth has been lowered, though still outstrips the forecast for most developed countries. And growth will be boosted by infrastructure spending and other actions taken by the South African government. OMIGSA's economists have lowered their forecast for this year by 20 basis points to 2.8% but they do retain a 3% forecast for next year.

Over the past five years a third of countries in sub-Saharan Africa grew their GDP by an average of more than 6%. Long-run growth forecasts for sub-Saharan Africa overall are in excess of 5%. And of the 10 world economies forecast to have the highest GDP growth from 2011 to 2015, seven of them are African. So GDP is robust.

There exists a growing and sizeable population with rising incomes and discretionary spending power. There are low levels of welfare provision and an underpenetrated financial services sector with low levels of international competition.

Our results show the continued growth in our business in the SADC countries. Although it will take time to build scale, we are confident that an African-based strategy, based with South Africa at its heart, is the right way forward and we continue to be excited by the prospects for profitable growth.

Slide: Turning round USAM
As I've already said, we are making excellent progress in turning around and driving forward US Asset Management. Despite the volatility in equity markets, the US is still the largest asset pool in the world and demographic trends continue to drive a need for saving solutions for income generation and risk protection. The team in the US do have more work to do and the pace of improvement is to an extent market dependent. But the indications, I'm sure you'll agree, are good and we are on an improving trend.

Slide: Growing Wealth Management
But this morning in this section I'd like to spend a little bit longer than usual talking about Wealth Management.

Conditions for this business have been tough for some time with European markets in a continuing state of flux. I think few people would place a bet on when and how quickly conditions might improve and the extent to which they could even get worse before they get better. But I'd like to take a step back for a moment and think about the market we're actually in, wealth management: Irrespective of the economic turmoil around the Eurozone and the extent of regulatory change, structurally a wealth management market continues to exist and to grow. There are large pockets of people with investible assets who need to deploy and increase their family wealth and to save for their financial futures.

I talked in the presentation about the amount of assets that we continue to get into our platform. Platforms remain the growth area for affluent and high net worth customers but there is an emerging demand from both customers and advisors for the provision of packaged investment solutions to complex financial needs rather than just simple access to open architecture. It is likely that the Retail Distribution Review, effective January 2013, will see a significant number of IFAs offering restricted advice only and this will support further the need for product providers to deliver these solutions. We believe this creates a great opportunity.

So with this in mind let me tell you what we're doing with our Wealth Management business. The focus for the business is threefold: widening the product set, deepening our penetration of our own asset management products and, thirdly, increasing efficiency and reducing cost.

As we announced in April, we have merged Skandia Investment Group with OMAM (UK) to be the investment engine behind Wealth Management, creating an asset management platform that we will use to develop a wider range of solutions for customers.

From 1st August we've appointed Paul Feeney, where are you Paul, sitting in the front row here, as Chief Executive of Wealth Management and he will be responsible for driving its growth. His remit is to develop the business into a true wealth manager, powered by a strong asset management capability which is complemented by the risk and insurance products that our customers want. Our intention is to partner a limited number of high-quality best-in-class fund managers. We will work with them to develop a range of fund solutions that we believe will meet the majority of the needs of our customers and IFAs in the post-RDR environment. The new fund range will cover all asset classes, will be highly competitive on cost and will enable financial advisors to design their own model portfolio service for their customers.

Today is actually a very important day for our Wealth Management business. As we speak we are announcing a new unbundled platform pricing structure for the UK. The new structure is customer-focused and competitive. It will be simple and it will be transparent. There is a minimum charge and, above that, a tiered model so that the customer pays a blended rate. The price becomes cheaper for customers as they grow their assets and any new money they bring onto the platform will be charged at the lowest rate for their investments.

Although initially our new model will reduce the price to the customer by a few basis points, there is no change to our long-run view of the margins that we can obtain: 50 basis points of revenue, 40 basis points of cost, giving us 10 basis points of margin. We have one of the leading platforms in the market, which we will continue to develop and leverage. We will drive up revenue by adding complimentary products. We will continue to drive efficiency to reduce costs. Successful execution of our plans will not only enable us to meet more effectively our customers' needs but also to capture a greater share of the total available industry margin.

If I just step outside the UK business for a moment, we're also in the process of rolling out Wealth Interactive, our new wealth management system for Skandia International. The system is currently being introduced in Singapore via a new investment bond product called the Flexible Investment Account, and it will power our RDR-ready offshore bond in the UK later this year.

So as you can see, we have exciting plans and I'm confident that the Wealth Management business is in good shape and has great potential. Just look at it, the business has absorbed inflation, taken out over £60 million of costs and makes a 14% return on equity for minimal capital risk.

Slide: Summary

So finally to summarise: We continue to deliver strong operational and financial performance. We are doing what we said we would do. We are beating our targets, have a strong financial position and are making good progress on our strategy.

Whilst the macro environment does not get any easier, I am confident that we are doing the right things and we have the right people in place. We've built a resilient and sustainable business with exposure to both emerging markets and developed markets. We will continue to be successful in our chosen markets and deliver value for both shareholders and customers.

Ladies and gentlemen, that concludes the presentation this morning so I'm happy to open the session to questions. I'm going to start with questions this time from our London audience. We'll then go to Johannesburg, then to the phones and after that to the webcasts. As always, please wait for the microphone so that your question can be heard by the audience both in Johannesburg and in London and of course also on the webcast. And please, one final thing, can you state your name and your company before you ask your question. He takes a deep breath [laughter]. Any questions from here?

Kevin Ryan: Thanks. It's Kevin Ryan from Investec. On the new Wealth Management platform, could you give us a feel for how much it's going to cost and also what sort of throughput you'd need to hit that profit margin? And the same on the asset management side backing Wealth Management. What's the investment going in and what's the minimum assets under management you require to continue that return on equity?

Julian Roberts: Well, what we have said previously… And if Paul wants to add any comment… What we've said previously is we wanted to get to £20 billion of assets under management under our current charging structure that would get us to the breakeven level. And that still holds. So what we do envisage is… We aim to make money out of this business so we do believe that we will gain more assets, we will manage more assets, and now as we get above that £20 billion structure you will then see the profitability start coming through Wealth Management. So we've got up to the date of the breakeven. We don't believe that there will be a significant impact of RDR on our profitability, certainly not in the mid-term. But what we're doing is taking the very strong platform with the assets we've got and in effect wanting to broaden that out to meet customers' needs. Is there anything any of the guys in the front row want to add? Stand up Paul and there's a camera at the back for you.

Paul Feeney: I was standing up [laughter].

Julian Roberts: Paul Feeney, ladies and gentlemen.

Paul Feeney: I'll just say, first of all one of our key goals, and Peter might like to say a few words in a moment regarding our pricing for the platform in the new RDR world, was to ensure that we effectively can maintain our margins or very closely can maintain our margins, and I think our new pricing, being very customer centric, does enable us to do that. So that was the first goal we had. So we're not interested in a race to the bottom. So I think the new pricing we will be announcing today does that. Secondly, I think, and Kevin tell me if I've got your question quite right, in terms of our own investment solutions… So clearly we've got to the £20 billion mark. We've kind of got to the breakeven mark…

Kevin Ryan: It was the cost of that new solution.

Paul Feeney: Right. So the new solutions first of all are really predominantly fund ranges packaged in a way to be solutions for the customer. So whether they're risk targeted funds or whether they are income drawdown funds or whether they're a range of select funds from which IFAs can build their own portfolios, that's what we're talking about. So that's more of an operational cost as opposed to a major capital investment going forward. So we would see that as part of our normal business cost to do. I think what we've done by merging the asset management businesses is take a business which is a solutions type business and take a business which is a direct investment business, so if you like, components and solutions, so that we can actually deliver this ourselves. So we're going to be working with a group of… We haven't declared what that group will be yet. We're in negotiations with them, but a group of external managers as well as our own manager to do that. So I don't envisage a major investment to provide those investment solutions. I do think at the same time, you know, the platform itself needs to be profitable as a platform, which we are, if not quite there, virtually there at the moment. So we'll continue to make sure that that operates off an efficient base. So I think, just along with what we've done so far, you can expect to see more cost efficiencies coming through from that side of the business. So I don't have an actual number for you, Kevin, as to what it's going to take, but if you're thinking there's going to be a major capital investment to get to those investment solutions, there won't be.

Kevin Ryan: Okay.

Oliver Steele: Oliver Steele, Deutsche Bank. Three questions actually. Following up on that first question, I mean, presumably the aim here is to attract more funds going into your solutions. So what are the funds in the solutions business at the moment and how much extra do you need to make up for the small number of bps reduction in the fee? That's the first question. Second question is going back to the 1.4 billion of holding company cash, how should we be looking at that figure going forward? So what sort of amount would you be targeting in the future? And then the third question is, you've overachieved on the cost saving targets and yet you talk of continuing operational improvement being required to close the EV gap. So just looking forwards, obviously you're looking to improve the margin in the US, that's clear, but is it fair to say that future improvement is now going to be growth driven?

Julian Roberts: Let me answer that. No, I don't think that is the case. We will continue to look at operational efficiency the whole time in each of our businesses. When you do the analysis and you come through, there are more and more efficiencies that we are looking to get in each of our businesses. So it's not just a case of 'keep the expenses where they are and get additional growth', there is operational performance of where we're looking to save. I think moving forward IT is going to be more and more significant for any financial services group and when you have an ongoing basis of developing that, for instance, you will get other benefits coming through. But no, we will continue in each of our businesses to look at the cost base we've got to make sure that we're efficient.

Philip Broadley: Good morning everyone. £1.4 billion of cash at 30th June… Just doing a little calculation here. £450 million to go to meet the £1.5 billion debt reduction target by the end of the year, £200 million of debt to repay at a yet to be determined date consistent with the Circular. And at previous meetings I've guided to the fact that we regard £100 million as our minimum float level at the holding company. So if I'm right adding all of that up, that's 750, which leaves us £650 million not spoken for, if you will. And clearly between now and March, in the context of our business plans and thinking about our final dividend, we will need to consider what use we want to make of that money over the medium term and what other uses there might be for it, such as the demands of shareholders and debt holders.

Julian Roberts: And the final one. We're not going to go through the analysis today on Wealth Management. What we are considering doing is having a session later on in the year, in the autumn, when we will go and spend a bit more time going into detail on Wealth Management. We've outlined the strategy for you here today. We need to conclude that strategy and then we'll come back with more detail in due course. Any other questions from here?

Colin Simpson: It's Colin Simpson from Goldman Sachs. Just three questions on South Africa, please. Why was retention worse than expected in Mass Foundation and could you just clarify which of the reduction in profit is a one off or maybe a more sustained reduction because the experience is now worse? The second question is, if I read your slide in your appendix correctly, Old Mutual Finance profit I think doubled or thereabouts. Was there any adjustment to credit provision or was this just an underlying growth of the business? And thirdly, your LTIR is now your, I think, second biggest profit centre in South Africa. Did you reduce the assumptions in light of the low interest rates and should we expect that going forward?

Julian Roberts: Now, for your benefit, we pay an exorbitant cost of money to have a satellite link through to Johannesburg, so hopefully Ralph, you jotted down those questions.

Morning to you. We can see you here now in London. Would you like to answer those questions for us?

Ralph Mupita: Julian, thanks very much. And Colin, if you look at the Mass Foundation cluster as a business, I'd just like to start off by saying that I think we've got a very good business. And if you look at planned margins and expected profits coming through that business, those are in line with what we'd have assumed. So that profit emergence from plan margins is strong. If you look at the moving parts and the profits, as Julian has explained, the big change is around tax, so I think there's a recalibration there in terms of profits with the tax changes that came through. And then the second big impact would have been the interest rate change. Long bond yields have come down in South Africa and with that it's had a R130 million impact just on Mass Foundation, the risk book. Our policy in South Africa is we've been hedging interest rate movements where we believe we're going to have an economic loss. And so for our immediate annuities and our investment guarantee reserves we have hedges, but for our risk book we haven't done that, because as you can imagine, the impact of the interest rate movements would have increased the reserves and been negative for IFRS profits, but on an MCEV basis on aggregate would have been positive. So to your point about the once offs... the once offs would be around tax. The issue around where long bond yields will end, my guess is we will have to continuously review whether we think it will be lower. What has driven those long bond yields to be where they are right now, we think, is really about yield differential between South Africa and developed markets. And you'd have to take a view that that will continue with bond yields falling for that to have a worsening IFRS impact. That was the scenario that we saw. I think what we will certainly be doing is having a re-look at what we do around the risk books, both in MFC as well as in the Retail Affluent business. On your point around Old Mutual Finance, we've been growing that business, obviously with branch rollouts, as you can see in the data pack, over the last three years. So that profit growth is really a function of how we've rolled it out. And we've been quite prudent about how we've selected customers and with our application scorecards, but it's basically a function of the growth and expansion of our footprint. And your third question, and I think Katie, you have an answer to the third question.

Katie Murray: Sure, thanks Ralph. In terms of the LTIR, we set the LTIR rate annually, so you wouldn't expect there to be any reduction in that rate in this year. We will re-look at the rate depending on where the long term government yield is at the end of this year. And I'm sure Philip will share the new rate with you next year. But certainly, given where the rate is sitting at the moment, I would anticipate there to be a slight fall from the current 9% as we move into next year.

Julian Roberts: Okay, we've got a couple of questions that I think have come over the telephones or the webcasts but I've got them both. One from somebody who we are missing in the audience today, Greig Patterson. Greig, morning. Will the new US 250 million loan notes issue to Bermuda operations not increase the net debt repayment targets outstanding? And secondly, from Patrice in Visio in South Africa, could share buybacks feature as a means to returning further value to shareholders in light of the current significant discount the share price is at relative to EV per share and in the light of the group's strong capital position? I think, Philip, you are going to answer them.

Philip Broadley: On the first question, the debt target has been set in the context of external debt, bearing in mind the objective of the exercise is ultimately to improve hard interest cover and therefore improve the Group's position both in terms of operational resilience but also, at least in theory, from a ratings perspective. So, on one hand we claim no credit for the repayment of internal debt that took place between the Plc and South Africa in the first half of the year, so the other side of the coin, other forms of internal debt obligation would not be included. So far as share buybacks are concerned, I had a number of conversations, as did Julian, with shareholders, principally in South Africa, in the third quarter of last year, after last year's half year results, where that suggestion around share buybacks as a way of closing the discount was put forward. And I know there is some empirical evidence that was shared with us but I remain unconvinced by it, I have to say, in terms of the company's own experience. And also had we followed the course of action that was advocated in the third or fourth quarter of last year, it would, as I argued at the time, have been at the wrong price, if one considers where we are now. The other factor I take into account, which again I've said in conversation before is, we have 500,000 shareholders in South Africa, principally retail shareholders, with a median holding of 300 shares. They are in the main, if not in the entirety, customers and in many cases employees. I think of them as a class and as a class they represent our second largest shareholder. And they would not be able to participate effectively, cost effectively, in a share buyback. So that was, again, as you may recall, a significant factor we took into account in electing to go down the route of the special dividend rather than the share buyback earlier this year, and that remains my view. But when we are in South Africa, I think in the first week of September, I'm very happy to continue that discussion.

Julian Roberts: Ralph, shall we move over to see if you've got questions in the room? I don't know how full your room is. I gather you had snow yesterday, didn't you? Is that why you're in that rather smart waistcoat today? [Laughter]

Ralph Mupita: It is freezing here, Julian [laughter]. No, we do have questions here in Johannesburg. Larissa?

Larissa van-Deventer: Good morning. Your margins in your Emerging Market business were impressive coming up from 2.3% to 3.5%. Within the Mass Foundation, you still hover around the 8% mark, and a nice improvement in Retail Affluent. Considering the impact of the FSB exams, can we consider 2H11 as a normalised base or do you expect further impact? And do you consider the margins sustainable at these levels or what are the items that could provide downside risk?

Ralph Mupita: Our margins, as you say, have been very strong in the first half of this year and the drivers of that would have been strengthening of, or at least the changes we made to persistency assumptions at the end of last year, and obviously the tax changes all added to improved margins at the base. But we've also had a much more favourable mix and we've had a lot more productivity and operational leverage in our retail businesses. So where the margins are as we speak, obviously there's always competition, which challenges your margins, but I think this is where we would like to see margins overall in the businesses. With regards to the question around advisor exams, I mean, we feel quite confident that we have sufficiently de-risked our SA businesses, both the Retail Affluent and the Retail Mass business. And in the Mass Foundation cluster, prior to the special dispensation, we had made very good progress around getting our Mass Foundation advisors through their exams. So in spite of the actual special dispensation, we're in a very strong position. We spent… pretty much the second quarter, you'd have seen a slowdown in our second quarter sales relative to the first quarter because we've taken quite a lot of our productive advisors, making sure that they would have got through the FAIS exams, and the majority of them actually are through. So we feel that the slowdown you'll have seen in the second half is behind us. Advisors' numbers are up and productivity, particularly in Mass Foundation Cluster, continues to be on the up.

Larissa: Thank you.

David Danilowitz: Julian, two questions if I may. The first question takes Oliver's questions and tries to expand on it a little bit. In terms of the cash sitting at the centre, Philip did comment in terms of what you see as sustainable levels of cash. You continue to take capital out of the South African business in terms of the R1.1 billion out of Zimbabwe or the repatriation of that money to the centre, there's a comment around reviewing dividend policy… Well, you didn't mention that but maybe I'm trying to read too much into that. If I take the view that currencies are very volatile right now, would it not make sense to possibly hold off in terms of shifting capital back to the centre? I fully appreciate the need to set the right base in terms of financial leverage within that business, but really just in the current environment of currency volatility, would you reconsider that repatriation? That's the first question. In terms of the second question, I'm referring to the outlook statement on the US Asset Management business where you refer to the operating margin target of 25% to 30%, although obviously on a pre-minorities basis you're within that target at 26% currently. Should we read into that a revised target, that you're reconsidering this number at a pre-minorities basis?

Julian Roberts: I think the first one is… Any movement of capital that we're doing at the moment is part of the restructuring of the Group. So we have decided, as you know, that the Emerging Markets business will all be centred from South African ownership. That's what regulators want. Regulators want to know that the ownership comes in line with where businesses are managed. So it's not so much about the movement of capital, it's a case of getting the Group into the right shape that we want. We're not doing, nor do we plan to do, any additional movements of capital from one part of the Group to the other. And let me mention the thing about the dividend policy. Our dividend policy is set at the end of the year. We've given a good uplift in dividend now. We will look at that as a Board at the end of the year. We will take into account the operational cash flow that we've got. We will take into account the market conditions we believe moving forward and then we will come up with a recommendation. We're on a route at the moment to get to the two and a half times cover, so I'm afraid one will have to wait to see at the end of the year what the full year dividend is. If you look on margins on US Asset Management, we actually thought 25 to 30… [on a pre NCI basis]. Remember this business, the margins were very low a couple of years ago and we thought it would be quite tough to get into that 25% to 30% range. I want to make sure that we're there by the end of the year and then we will have further discussions with Peter Bain over whether that target needs to be increased. But right now let's make sure that we carry on doing what we're doing and end the year within that range of 25 to 30 and then we'll look at it again. Greig has another question on scrip dividend, Philip.

Philip Broadley: You need to read the question out. Only the two of us know what it is [laughter].

Julian Roberts: Sorry. Scrip dividend in the future, question mark.

Philip Broadley: The scrip dividend alternative obviously saves cash. It also, by retaining earnings, boosts the FGD position. That is why we have used it in the past and why we have it available as a tool. Having regard to the current cash position which I talked about earlier and the FGD ratio at 168%, I think you can draw your own conclusion, or I will leave it to you to infer whether we are likely to use it. But as Julian's already said, the conditions in Europe are uncertain. We could see volatile markets again and therefore one wouldn't rule out offering the election again at some point in the future.

Julian Roberts: Ralph, I think I cut you short. Did you have another question?

Ralph Mupita: Yes, we have another question. Michael.

Michael Christelis: Hi Julian. It's Michael Christelis from UBS. Three questions if I can. First, following on David's question around US Asset Management, I wonder if you can talk a little bit to the environment in which that business operates. With the increased regulatory uncertainty there, is Peter looking to do possible acquisitions in order to diversify that business, put that business into a better space? And given your lack of commentary around an IPO, would you be prepared to allocate capital to Peter to give him the flexibility to do that? The second question really around the South African business, the recurring premium new business volumes surprised my numbers. Are you getting the sense that in South Africa you're gaining market share or do you think the market's actually growing perhaps faster than myself and other analysts may have anticipated? And then the third question around your FGD, in the past we have seen commentary around a targeted level of FGD surplus. Given the restructured business and the nature of the business now, what sort of level of FGD do you think is an appropriate long term buffer to have? Thanks.

Julian Roberts: Ralph, do you want to take the South African question first and then I will come back to the others?

Ralph Mupita: Okay. Michael, I think from a South African perspective, as you can see in the results, we had very good recurring premium sales and I think it's a function of both… If you look at the retail businesses where we've got very good advisor productivity and growth, in particular in the Mass Foundation Cluster, the public sector has been an area where we've seen good employment prospects. Unemployment isn't an issue there. We've seen wages settlements recently at 7%, so way above inflation. So we see that market is growing and we have a good market and brand position. In the affluent space, our advisor footprint is such that it is pretty much in the heartland where we get quite a lot of the recurring premium sales. And that's been driven also by growth in advisor numbers and productivity. In the Corporate business we had a very strong first half, some very good risk sales coming through. And so when you asked that question about market share, I mean, we haven't seen all the results coming through but our sense is we certainly should have picked up market share specifically in recurring premium markets.

Julian Roberts: Do you want to make any comment on FGD?

Philip Broadley: Well, FGD, I think, Michael, the right level of FGD capital is a function of two things. First, what we as a management team think is sufficient to ensure that we can maintain a surplus at all times whatever the market might throw at us. And secondly, what market commentary judges an acceptable level for the industry in Europe as a whole. And those two things are quite different and arguably quite a long way apart. We spoke some years ago about a £1 billion surplus as being sufficient. Since then US Life has gone, Nordic's gone, the liabilities in Bermuda, as you've heard earlier, have reduced significantly as the fifth anniversary has come along. So a £1 billion surplus at an operational level would be arguably more than enough. However, if you do the arithmetic and work out what that would be as a percentage, that would be a very much lower number than the European peer group generally and, rightly or wrongly, would I think give rise to wider concerns about our level of capital. So where does that put us in terms of a target level? I don't really have one that I would want to disclose. We take account, if you like, of market expectations, market sentiment about the level we have at the moment. And also we do have an eye forward to Solvency II, which one still assumes will be implemented at some point. We still work towards the current timetable as we understand it. So at some point within the next couple of years the FGD calculation falls away in any case and we operate to a different standard, one that, as you know, in many ways we can't wait to see arrive. Because actually it's much more of an economic capital based model; it will enable us, I think, more clearly to demonstrate our relative capital insensitivity compared to many others because we don't have a substantial amount of insurance credit risk-driven assets or mortality-driven liabilities or whatever.

Julian Roberts: On asset management, I think what we are actually seeing is that the companies that are doing the best are those that have got quite strong brands. So it's no surprise to us that some of the smaller affiliates that we've got that haven't built up that brand equity have been struggling but some of the bigger ones that we've got have been doing particularly well. So Peter, as part of the work that we're doing, is to see whether there is more that we can do to leverage off the bigger brands of our companies. But Philip runs a capital management committee, a Group capital management committee. Any business that is within the group has the ability to come with an idea of what they need capital for, whether it's the organic growth or whether it's an external growth. And I have no issue with any of our Group businesses coming forward with an idea but they will have to go through substantial scrutiny. So there's no point picking out US Asset Management but if Peter does come with a view that there is a particular style that is missing and that he believes would fit into the group, we could leverage it, we could move it forward, then it is no different from any other business moving forward. Whether there is an IPO or not is irrelevant. Each of our businesses gets the capital support from the parent company moving forward. Yes, sorry, you've been waiting patiently.

Marcus Barnard: Morning, Marcus Barnard from Oriel Securities. I'm just interested in your comments about looking at options in Nigeria and Ghana, further expansion in Kenya and expanding further into sub-Saharan Africa. Just what can we expect there, what sort of timetable, what sort of amounts, whether there'll be JVs, bolt-ons, organic growth, and what sort of returns and payback we might expect to see on those acquisitions? And what controls are you going to put in place as well?

Julian Roberts: Very good questions. The first thing I would turn round and say is, we are keen, as you can see, to expand north from the SADC region into East and West Africa. Again, we will put money behind that expansion. But it is quite clear insurance penetration is really quite low in many of those countries so there aren't many acquisition targets and if there were they're very small and don't cost a great deal of money. So we haven't put sums of money on it. And it will be a combination between organic growth and purchasing things. I'm not going to go into more detail because again, the more I flag to you where we're interested and what we're interested in, the harder it is for us to achieve that and therefore make a decent ROE. These are generally… The things that we are looking at because insurance penetration is low, means that they are acquisitions that we're making now that will show the benefit, I think, in five, 10, 15 years' time. So quite clearly they're not driven in the short term by short term ROE, they are strategic moves that we're making. Any others in this room? Okay, we've got one on the telephone, I gather.

Operator: Our first question from the telephone comes from the line of Blair Stewart of Bank of America and Merrill Lynch. Before we go to Blair Stewart, I'll just remind all telephone participants, if you would like to ask a question, please press 01 on your telephone keypads. You can cancel your question by pressing 02 to cancel. So, as I say, our first question comes from the line of Blair Stewart. Please go ahead, your line is now open.

Blair Stewart: Thanks very much. Good morning everyone. A couple of questions, firstly on Bermuda. If your current experience continues then that book I guess is going to be less than half the size of its current size after the five year anniversary period rolls through. How confident are you in getting some of that capital back that you've just had to put in? So how often will that be reviewed? If you don't get it back would you consider moving that business back onshore, because there seems to be some reverse regulatory arbitrage in the US, given what's happened? And then the second question is on capital. The FGD number is interesting. I think the volatility of that number is also very important in assessing how big the buffer needs to be. And in that respect, you talked about economic capital. Some of your peer group are giving quite detailed economic capital numbers. At what point do you think you'll feel comfortable in doing that, because I sense that there's a good news story there? I can't see the reason not to. And finally, on the dividend, can you just remind us what science or otherwise lies behind two and a half times cover and what would be the constraints for you moving that coverage ratio down? Thank you.

Julian Roberts: Let me deal with Bermuda and then can you pick up the other two, Philip? On Bermuda, it's clear that the BMA have wanted to get into the Solvency II equivalent type structure. During our discussions, we have been clear that we would like to, if there is excess capital at some time in the future, be able to reduce the amount of capital. That is understood fully with the regulator and we hope, as that does happen, as the surrenders carry on on that level, that our relationship with that regulator will allow us to do so. So I'm fairly confident at the moment. I keep my fingers crossed that the five year UGOs will carry on surrendering at this rate, so it would be a nice problem for us to have. Philip, do you want to cover the other two?

Philip Broadley: Yes. Economic capital, I note that a number of people are disclosing it. It is something we could do. At at a very high level, I agree with you Blair, with inverted commas, would be seen perhaps as a good news story. The timing of disclosure and what we disclose in terms of alternative views of capital is in some way linked also to Solvency II and when it arrives and how many capital measures one wishes to then report. So it is something we can think about in the context of the full year when, again, one lives in hope and we might have a clearer idea of the Solvency II timetable by that time. The art of dividend setting is an art, not a science. Two and a half times cover is a function of a number of things and Blair and I have discussed that in the past. I guess principally amongst them is the ability to maintain that level of cover in sterling terms, so thinking about the rand-related risk in terms of the source of that part of our dividend. But also the continuing economic uncertainties in which we operate. If you have time to get past the Olympic coverage in the FT this morning, read the article about the constitutional court's deliberations in Germany. If you can tell me whether the constitutional court will rule for or rule out the entire fabric on which the Euro rescue mechanism has been put together, then that would help provide some underpin to a dividend policy going forward. But those challenges around the potential volatility of earnings for all insurance groups, sudden shocks to capital from significant corrections in equity markets, all of the things we've seen in the past four years, to my mind they're still there. And that will no doubt be an important factor that the Board takes into account next February/March when we're thinking about not only the dividend for the full year but also whether it's the right time to review the dividend policy.

Julian Roberts: I'm going to take one more question over the telephones and then come back to you Ralph if there's any final question from South Africa.

Operator: Yes, we have a question now from the line of Francois du Toit from JP Morgan. Please go ahead, your line is now open.

Francois du Toit: Hi. I've just got two questions about Bermuda as well. So you've now need to hold around $700 million of capital in Bermuda. And the previous question was a good one as well, but maybe you could just give me an idea of the run off characteristics of that capital so I can work out the cost of capital for that business. I know obviously it's dependent also on… especially very dependent on market performance over the next few months, given that the top ups are taking place at the moment. Secondly, also how much has already been spent on top ups? You gave us a prospective provision for future top ups but the top ups started in January already. And then third question relates to the LTIR in South Africa. I had expected, given our strong markets, both bond market and equity market, that actually investment return in South Africa would get quite close to the LTIR rate. That hasn't been the case. It seems like you've got a lot of exposure to resources maybe in your equity portfolios but otherwise I can't reconcile the very weak investment return in South Africa. Operationally it looked like it went very well but it's just investment return that was weak. Hopefully that's once-off. And then, yeah, maybe just on the surrender rates in Bermuda, if you can just explain to us what your long term actual average lapse rate is that you're using in your modelling, more or less, is it 5%, is it 10%? I know the surrenders at the moment are faster than normal because of the five year anniversary having been reached, but what is your long term assumption after the anniversary period?

Julian Roberts: Ralph, do you want to answer the non-Bermuda question on LTIR?

Ralph Mupita: I'll pass it onto Katie. Katie?

Katie Murray: Thanks very much, Ralph. Within the LTIR, we set it so that it reflects our investment profile, which is 75% cash and 25% equities. And you're absolutely right, when you look in the detail of the statement, I think it's on page 71, you can see that our actual return within this six month period, compared with the long term rate of return, is running a little bit below that. And that would be due to some fluctuations within the valuations of the equities that underlie the shareholder portfolio. However if you look at the long term return and the returns that we've gained over time, you will see that actually our rate matches very well with the cumulative returns that we've received to date. Thank you.

Philip Broadley: You had quite a number of questions about the detail mechanism of Bermuda. And I have to say, as I was trying to gather answers for some of them, I didn't hear necessarily all of the sub ones. So if I can just make a couple of points about Bermuda and then perhaps we will follow up with you directly later in the day. Just first of all to be clear, when we talk about, for example, on page 35 of the release there's a table that shows the estimated top up payments of meeting the fifth anniversary guarantees, that is the total. So it includes amounts that have been paid as well as amounts yet to be paid. It's also a gross figure so it's not moving up and down… It's a gross figure moving up and down with equity markets. It's not being offset, for example, by the gains arising from the options that we took out in March. So within that number, but it's not one we have disclosed, it's actually what cash has been paid thus far. In terms of long term surrender rates, once the fifth anniversary period is through, we would assume that customers then have made a rational decision and that they wish to hold onto the contract that they have got for the value that they perceive that comes at the tenth anniversary date. So we will, I think, need to reset, recalibrate our assumptions really 12 months from now, once the fifth anniversary period is completely through, but our expectation clearly would be that once people have had that trigger event, that one would assume that if they haven't surrendered their contract then they see value in staying in until the tenth year and surrender rates will then slow down. We will still continue to see some surrenders, as we did in years one to four, simply because people's circumstances change, they need access to cash and so they will surrender the policy. But I think there's a period of time for 12 months, after which we'll reset rates for the longer term.

Julian Roberts: Ralph, do you have any final question in Johannesburg?

Ralph Mupita: No final questions in Johannesburg, Julian.

Julian Roberts: Any final questions here? Okay, could I say thank you to everybody for joining us in Johannesburg. Thank you for everybody joining us here and Philip, thank you for coming in and joining us today, and I'm sure everybody joins me in offering our condolences to you and your family. Thank you everyone.

[End of Transcript]