

Financial Update for Old Mutual

In recent weeks, along with many in the financial services industry, we have been beset by challenging news and been witness to a series of unprecedented events – events that have wrecked havoc on some of the most established and recognized financial services brands in the world. During this period, many of you have reached out to us to determine where we stand relative to all of the downturns. Now it's time for us to reach out to you.

First, as many are aware, our Group Chief Executive – Jim Sutcliffe, tendered his resignation on September 10, 2008. Jim had personally committed to resolving the issues we face in our US Life business and felt that under the circumstances, he was not able to honour that commitment. While that was surely distressing news, he was quickly replaced by one of our senior leaders, Julian Roberts. Roberts had been Chief Executive of Skandia (one of Old Mutual's subsidiary companies) since February 2006 and before that Group Finance Director of Old Mutual plc. Given Roberts' knowledge of the Old Mutual group, we're confident his broad experience will be an asset to the group moving forward.

Also on September 10, 2008, we announced that due to continuing market volatility and a significant strengthening of the US dollar, we witnessed further increases in the costs associated with the guaranteed benefits on our offshore (Old Mutual Bermuda) variable annuity contracts. As a group, we therefore recognized additional guarantee reserves of \$155 million. Should market conditions remain adverse, it is likely that further reserve strengthening will be required. Therefore, it was decided to set aside a further \$250 million of capital to support the ongoing capital needs of the Bermuda business. Our Board expects to inject some or all of this capital by the end of the year, depending on business performance in the light of actual market conditions.

Separately, the announcement on September 7, 2008 that the US Government had placed Fannie Mae and Freddie Mac in conservatorship resulted in a sharp fall in the market value of the preferred stock of these companies. This led to a write down of around \$135 million in the value of the preferred stock in these companies held by the Old Mutual US Life business. Under the Old Mutual group accounting policy, this write down will be taken through adjusted operating profits over five years.

With respect to the emerging Lehman Brothers situation, we have counterparty exposure to Lehman through derivatives contracts and securities lending transactions. These exposures are either collateralized or on bankruptcy remote entities. The effect of unwinding these transactions is not expected to have a material impact on Old Mutual's earnings or capital position. As of 9/12/08, we had a total general account fixed income exposure of \$50 million senior unsecured debt exposure and \$5.7 million of collateralized derivatives exposure. Again, these exposures are not material within the context of the Old Mutual group.

Where AIG is concerned, we have exposure of \$76 million to senior debt, \$84 million to insurance policies and \$77 million to subordinated and hybrid debt. We have no derivative exposure and do not own any common equity.

In light of these events, our financial strength ratings have dipped slightly. However, we maintain strong ratings with our three core rating agencies including A (excellent financial strength) from A.M. Best, BBB (adequate financial strength) from Fitch, and Baa1 (adequate long-term financial strength) from Moody's.

It is surely difficult to predict when the current financial crisis will ease but please be assured that, in conjunction with our parent company – Old Mutual plc, we will continue to actively review options to ensure that the US Life business continues to be appropriately capitalized. We fully realize and recognize that the issues we're being confronted with are serious however we urge all that do business with us to remain confident in the strength and power of our business model, our leadership team, our investment and risk management approaches and – equally as important, our parent company's commitment to the US Life business strategy.

