

STOCK MARKET VOLATILITY AND CURRENT ECONOMIC TURMOIL – for internal use only

Question and Answer document - for use with the press, sales, customer services and public website.

BACKGROUND

1. What is currently happening in stock markets?

The period that the industry is currently going through, often referred to as the 'credit crunch', has caused high levels of volatility in various markets - causing the sudden fall in share prices of some companies. At its heart is the US sub-prime mortgages market – where those individuals who hold US mortgages and are due to make loan repayments are now thought to be increasingly likely to default. Those providing the mortgage loan – the banks – have typically borrowed money from other financial institutions to fund the loans, or have sold on the responsibility for the loan to other investment banks and insurance companies like AIG – thereby transferring the risk. This has led to the widening of the US sub-prime problem to these institutions, as their ability to cover those secondary obligations becomes challenged.

Stock markets around the world have reacted negatively to these events, within the wider context of economic uncertainty.

The recent extreme volatility in valuations for banks and financial services companies is related to their exposure to the loans and inter-institution contracts.

Skandia does not conduct business in these markets. We do not loan money to customers, and consequently we have no need for involvement in contracts to offset the risk of such loans.

What next for stock markets?

The uncertainty of interdependency amongst the various financial services institutions is still driving the volatility in the markets. The US Federal Reserve's intervention in AIG, ensuring their continued viability, is designed to ensure greater confidence in the strength of the links between those financial services companies. Restoring trust between those institutions is key to bringing the impact of the credit crunch to a conclusion.

WHAT ARE THE EFFECTS ON INDIVIDUAL INVESTORS?

2. How does this affect Skandia customers?

Recent events, coupled with a slowdown in the global economy, have resulted in a period of heightened stock market volatility which in the short term has adversely affected the value of many funds.

Investors have units in these funds, where the value is set day-to-day based on the market value of the underlying investments eg stocks and shares, property and bank deposits. The unit's value can go up or down. Any current investment loss is 'crystallised' only when an investor sells their stake in the funds when switching into alternative funds or turning their units into the cash value on the day of sale. Investors who are re-evaluating their fund holdings should seek investment advice from their financial advisers. Skandia cannot give investment advice.

Skandia's investment products offer a wide range of funds that investors can switch between, currently free of any charge by Skandia. The fund choice includes a wide range of funds that offer different exposure to equities (stocks and shares), bonds and government gilts, and cash. Investors and their financial advisers can switch between funds to match any change in an investor's own risk profile. Using this flexibility is a tool investors who are nervous in the current market conditions May use.

Skandia's customers benefit from the different investor protection schemes in the regulated areas in which we operate.

Generally for UK residents, Skandia's customers are protected against Skandia going into liquidation through the Financial Services Compensation Scheme (FSCS). This is an industry-funded organisation which provides customers of financial firms with a safety net should any regulated firm be unable to meet its financial obligations. Refer to the document entitled '**protecting your money**' for further details of the levels of security for different products.

Royal Skandia's customers are protected against Royal Skandia going into liquidation through the Isle of Man's Life Assurance (Compensation of Policyholders) Regulations 1991. This scheme covers all policies issued by Royal Skandia on or after 1 February 1991 and compensates eligible policyholders up to 90% of the amount owed to them. There was a voluntary policyholder protection arrangement set up on 5 April 1998 (by the Manx Insurance Association). Policies set up under this voluntary protection are covered by the 1991 regulations. Please speak with your financial adviser for further details. Refer to the documents entitled '**why choose Royal Skandia on the Isle of Man**' and '**policyholder protection – Isle of Man**' for further details.

3. What should Skandia customers do if they are worried about the current situation?

If customers are concerned about the impact of recent volatile market conditions on the performance of their portfolio they should contact their financial adviser in the first instance, and ensure the risk profile of their fund holdings matches their own risk profile. An investor's financial adviser can assess this for them. Skandia customers can use our secure client extranet at www.skandia.co.uk, www.royalskandia.com and www.skandia.ie to obtain an up-to-date policy valuation.

Skandia does not provide investment advice.

4. Should investors be more worried if they are heavily invested in the property or banking sector?

There are a number of reasons why an individual portfolio may have exposure to property or banking stocks, and such holdings may well still be appropriate. Skandia recommends that customers consult their financial adviser before making any decisions relating to the asset allocation of their portfolio.

5. If investors are approaching retirement, what should they do?

There are a number of options that are available to customers around how they can utilise their pension pot, including the option to defer taking pension benefits until a later date. At this time of increased market volatility customers will need to speak with their financial adviser to determine the best approach for their individual circumstances, ensuring the risk profile of their investments is appropriate to their own risk profile.

6. I'm a customer of the Protected Portfolio Investment (PPI) range. How are these products affected?

Skandia distributes a tranche based product – the PPI range – where at the end of the term the investor is protected to a certain extent from falls in the market at that time – the level of protection varies according to the specifics of the tranche purchased.

On all these tranches Morgan Stanley acts as ISA plan manager and custodian. The assets that PPI clients own via Morgan Stanley custodians are shares in a Guernsey based Investment company, Sienna. The shares provide contractual returns at the end of the term. Morgan Stanley acts as Investment Manager to Sienna and arranges contracts with counterparties

which are intended to deliver the protection and returns described in the tranche prospectus. At the time the tranche is launched those counterparties must be at least A rated by Standard and Poor's (or the equivalent rating by Moody's) and Morgan Stanley themselves can be one of those counterparties. As described in the literature any risk of the protection not delivering lies with the stability of the counterparties or Sienna itself.

The protected element of our PPI fund is provided by zero coupon bonds from a number of counterparties, one of which is AIG. The federal reserve has recently announces an \$85 billion rescue package for AIG.

Morgan Stanley will continue to monitor the financial strength and security of all parties involved in our PPI product as events unfold.

It should be noted that the protected element of the PPI only applies if customers hold their investments for the full term. If they cash their investment in early they will only receive the value of the Sienna shares at that time. Further details are provided in the client brochure.

HOW IS SKANDIA AFFECTED?

7. How is Skandia affected by the credit crunch?

Skandia's business model is almost exclusively built around providing investors access to a wide range of funds from third party fund managers.

As a result we do not rely heavily on borrowing or the use of derivatives like some more traditional insurance companies.

Skandia is not a bank, and makes no loans to customers. We therefore have no direct involvement with the primary driver of the credit crunch.

In addition, Skandia's minimal exposure to with-profit and guaranteed products removes solvency risk arising from market declines. Skandia remains profitable.

Skandia's robust business model and tight control on costs is evidenced by a 14% increase in profits (to £91 million) for the first half of 2008, despite falls in new business sales.

Skandia's customers benefit from the different investor protection schemes in the regulated areas in which we operate.

8. What about the solvency position of the insurance companies with the Skandia group?

Skandia has low financial leverage as a result of its exclusively unit-linked product portfolio. The group's minimal exposure to with-profit and guaranteed products removes solvency risk arising from market declines.

9. How has Skandia reacted to the economic slow-down in the past few months?

At the earliest signs of an economic slowdown in 2007, Skandia has placed a great deal of focus on controlling costs.

Strategically Skandia has made some changes to its market offering that give investors and their financial advisers greater flexibility to adapt portfolios to their individual needs.

- It has increased the competitiveness and transparency of its Investment Solutions platform by reducing the initial charges investors pay from 15 September 2008. This development has only been possible because of Skandia's scale and lower unit costs. We believe few, if any, competitors will have the financial muscle to follow our lead.
- It has launched a number of innovative investment solutions for volatile market conditions, including:
 - the risk-rated Spectrum Funds which aim to ensure a portfolio matches exactly the agreed risk profile and attitude to loss of the investor
 - the Skandia UK Strategic Best Ideas Fund, which has the potential to produce positive returns in all market conditions because it can benefit from falling as well as rising share prices.

10. How is the current situation affecting Skandia's investment management business?

The Skandia Investment Group (SIG) has a robust business with a well diversified investment range that caters for a wide range of investment needs. This robust business model puts SIG in a strong position to weather the storm.

We have quickly assessed SIG's exposure to Lehman Brothers and this is minimal within our funds. As always we are in close discussion with the underlying managers of our funds to ensure their holdings remain in line with our expectations.

SIML recently launched Skandia Alternative Investments Fund held the Lehman Commodity Plus Fund, but has moved quickly to sell that fund and is currently evaluating the funds on its reserve bench and will decide where to invest the proceeds based on the best interests of its clients.

11. Is Skandia going to make any staff redundant?

It is not anticipated that there will be any redundancies as a result of these recent developments within the global economy.

12. Does Skandia do business with AIG?

No. Skandia does not have any business affiliations with AIG.

STOCK MARKET VOLATILITY AND CURRENT ECONOMIC TURMOIL (Old Mutual)

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13. How is Old Mutual affected by the credit crunch?

Old Mutual is an international financial savings and wealth management Group with a wide range of businesses. Internationally its main operations cover asset management, banking, life assurance and general insurance. It is the parent company of the Skandia Group.

Each of the companies in the Group has investments on behalf of customers to meet the fund or savings objectives of customers. These will be affected by volatility in the markets depending on the asset type, sector, and any protection offered. Each company will be able to discuss any impact on these with their own customers.

The Old Mutual Group additionally makes wide ranging investments on its own behalf, with its own capital; these are distinct from the investments it makes on behalf of customers through the investment and savings managers of the Group companies. Old Mutual, through its US Life business has investments in Freddie Mac and Fannie Mae, for which it has already made a write down of around \$135 million in the value of the preferred stock in these companies. This was communicated to the market on 10 September 2008. Old Mutual also has exposure to Lehmans but this is not deemed to be significant to the financial strength of the Group as was announced on 17 September 2008.

14. Does any of the Old Mutual Group have exposure to Lehman?

Old Mutual owns no equity in Lehman.

Old Mutual US Life ('US Life') has some corporate bonds of Lehman, and very small amounts of counterparty exposure to derivative contracts. These exposures are not material within the context of Old Mutual.

15. Are Old Mutual's financial strength ratings affected?

The role of ratings agencies role is to evaluate the financial strength of companies to provide assurance to investors.

The recent events in the market have placed great focus on the financial sector, and the ratings agencies will be assessing ratings continuously.

The specific issues in Old Mutual's US Life operations have caused some re-assessment of that business.

Moody's

Moody's will downgrade Old Mutual's US Life operation by one notch and have said they will conduct a review of other Old Mutual and Skandia Group ratings in the next 30 days. That review may result in a downgrade. Old Mutual are working closely with Moody's during the review process and expect to provide a further update at the time of the Q3 trading results in November.

AM Best

AM Best has placed the Group's issuer credit ratings under review with negative implications. Old Mutual are working closely with AM Best over the coming weeks and expect to provide a further update at the time of the Q3 trading results in November 2008.

Fitch

Old Mutual expects Fitch to provide some public comment in due course and cannot provide any further information at this time.

These changes will have a very small impact on Old Mutual's ability to write new business in the US and no other immediate impact is foreseen.