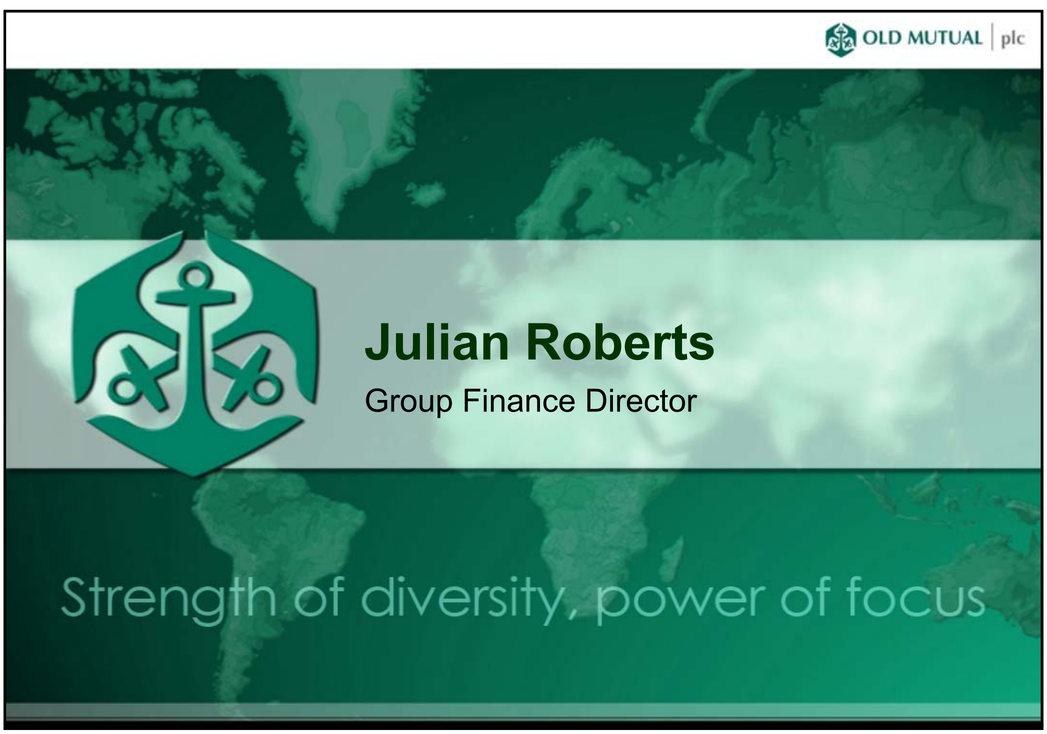

OLD MUTUAL | plc
European Embedded Value Principles (EEV)
Analyst and Investor Briefing
20 June 2005
Strength of diversity, power of focus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Julian Roberts
Group Finance Director
Strength of diversity, power of focus

Agenda

- Overview — Julian Roberts
- Key EEV Principles Impacting Old Mutual — Gary Palser
- Closing remarks — Julian Roberts
- Q&A

Overview

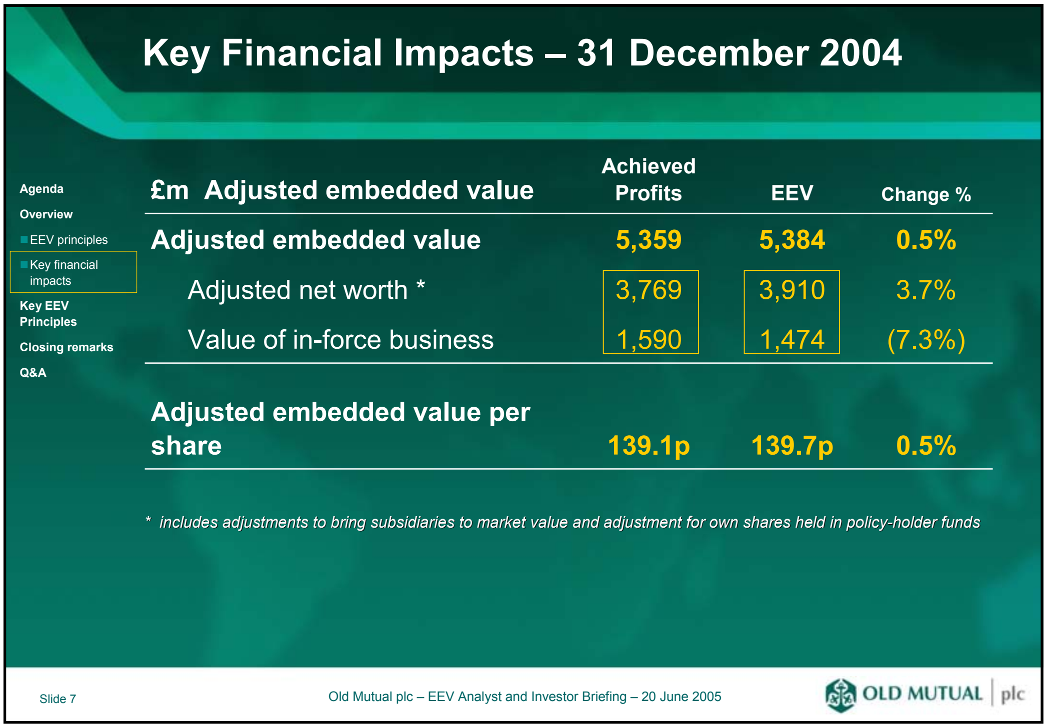
- Inclusion of an appropriate allowance for risk is a key requirement within the EEV Principles
  - We have adopted a 'bottom-up' market-consistent approach, based upon robust principles
  - We have worked with Tillinghast in developing the approach
- We will continue to use return on equity and embedded value as key performance measures for the business
- EEV impacts reduce the value of in-force business and the value of new business
- These are offset by IFRS impacts on shareholders equity
- Overall adjusted embedded value of the Group has increased marginally at 31 December 2004
- 31 December 2004 EEV results have been audited by KPMG

European Embedded Value (EEV) Principles

EEV PRINCIPLES		RELEVANCE TO OLD MUTUAL
1	Introduction – What is embedded value (EV)	
2	Covered business	✓
3	EV definitions	
4	Free surplus	
5	Required capital and the cost of holding that capital	✓
6	Value of the in-force business	
7	Financial options and guarantees	✓
8	New business and renewals	
9	Projection assumptions	✓
10	Economic assumptions	✓
11	Participating business	
12	Disclosure	✓

Components of Adjusted Embedded Value

				Geographic spread		
Component of embedded value	Basis of Valuation		Impacted by EEV	Africa	North America	UK & ROW
Life business	Adjusted net worth & VIF	66%	✓	✓	✓	✓
Asset Management	IFRS	18%	✗	✓	✓	✓
Banking	Market value	27%	✗	✓		
General Insurance	Market value	9%	✗	✓		
Less: Debt	IFRS	(20%)	✗			
Adjusted embedded value		£5,384m				



Key Financial Impacts – 31 December 2004

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£m Adjusted embedded value	Achieved Profits	EEV	Change %
Adjusted embedded value	5,359	5,384	0.5%
Adjusted net worth *	3,769	3,910	3.7%
Value of in-force business	1,590	1,474	(7.3%)
Adjusted embedded value per share	139.1p	139.7p	0.5%

* includes adjustments to bring subsidiaries to market value and adjustment for own shares held in policy-holder funds

Slide 7
Old Mutual plc – EEV Analyst and Investor Briefing – 20 June 2005
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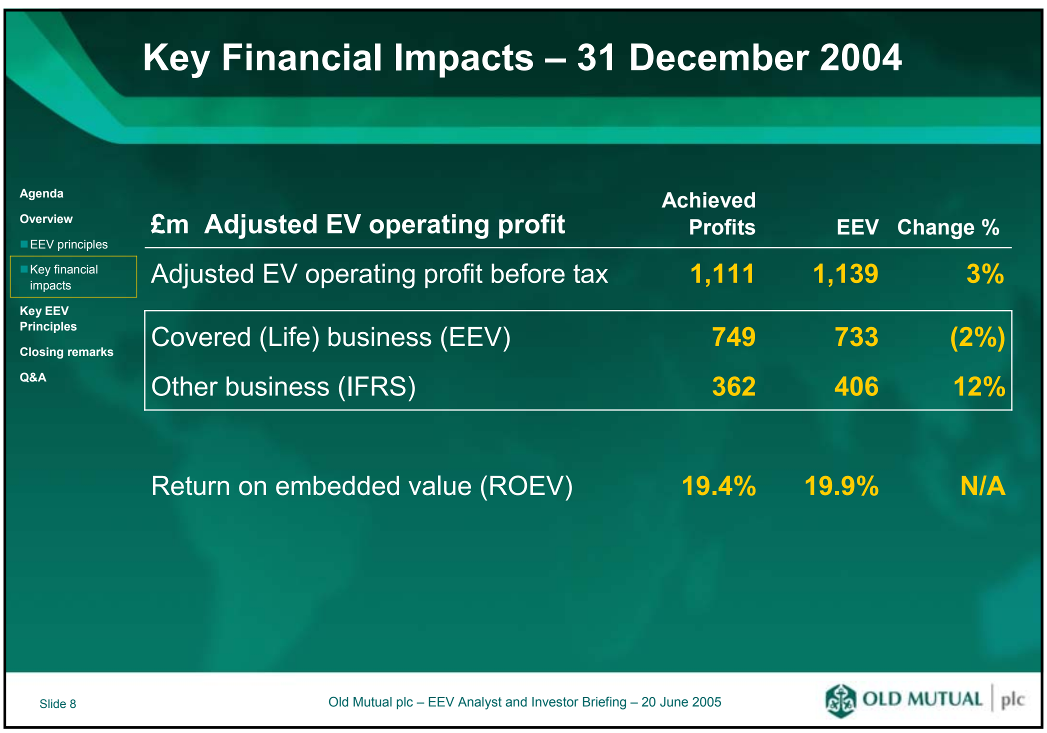

Key Financial Impacts – 31 December 2004

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£m Adjusted EV operating profit	Achieved Profits	EEV	Change %
Adjusted EV operating profit before tax	1,111	1,139	3%
Covered (Life) business (EEV)	749	733	(2%)
Other business (IFRS)	362	406	12%
Return on embedded value (ROEV)	19.4%	19.9%	N/A

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Key Financial Impacts – 31 December 2004

£m	Achieved Profits	EEV	Change %
Value of new business (after tax)	127	108	(15%)
New business margin (APE) %	23%	18%	(5%)
New business margin (PVNBP) %	N/A	2.4%	N/A

- Reduction in VNB, mainly as a result of the more specific allowance for risk
- New business margin nevertheless still within our target range

Key EEV Principles Impacting Old Mutual

Gary Palser
Group Actuary

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European Embedded Value (EEV) Principles

EEV PRINCIPLES		RELEVANCE TO OLD MUTUAL
1	Introduction – What is embedded value (EV)	
2	Covered business	✓
3	EV definitions	
4	Free surplus	
5	Required capital and the cost of holding that capital	✓
6	Value of the in-force business	
7	Financial options and guarantees	✓
8	New business and renewals	
9	Projection assumptions	✓
10	Economic assumptions	✓
11	Participating business	
12	Disclosure	✓

Allowance for Risk

- EEV Principles require a comprehensive allowance for risk:
  - level and cost of required capital
  - stochastic cost of financial options and guarantees
  - nature of projected profits (underlying liability valuation basis)
  - risk discount rate
- EEV Principles also require sufficient disclosure to enable users to understand the methods employed

Required Capital

- EEV Principles define required capital as the assets attributable to the covered business whose distribution to shareholders is restricted. We have based our required capital on:
  - minimum local and Group statutory requirements
  - capital allocated for internal capital management purposes
  - the % Risk Based Capital (RBC) required by rating agencies in our North American business to maintain our desired credit rating
- No change to amount of capital actually held

Required Capital

£m	Africa	North America
Required capital	1,595	451
Minimum statutory requirements	1,016	160
Required capital as a % of minimum statutory requirements	157%	282%

- Significant increase in capital included for EEV, and hence cost of holding that capital

Financial Options and Guarantees (FOGs)

- EEV Principles require stochastic allowance for the time-value of all financial options and guarantees

Allowance for FOGs	Africa	North America
Statutory reserves	■ Allow for intrinsic value ■ Some allowance for time-value	■ Allow for intrinsic value ■ No allowance for time-value
EEV	■ Allow fully for time-value	■ Allow fully for time-value

- The cost of FOGs is calculated on a real world basis

Risk Discount Rate (RDR)

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- Having determined:
  - required capital; and
  - shareholder cost of FOGs
- The Risk Discount Rate is the lever to ensure that appropriate total allowance is made for all the risks in the business

Risk Discount Rate (RDR)

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- We estimated the value of the in-force business using a “bottom up” market-consistent approach – advised by Tillinghast
- Each risk is allowed for in a way that is consistent with the way the market is expected to allow for such risks
- The risk discount rate is derived as the rate that would produce a similar value to the market-consistent value, using our EEV assumptions, allowing for the cost of financial options and guarantees and the cost of capital

Risk Discount Rate (RDR)

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Two possible approaches:

Bottom-up	Top-down
Look at risks within product lines / business units	WACC assess risks from consideration of the market price beta

Old Mutual has adopted the “bottom-up” approach

Risk Discount Rate (RDR)

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Reasons for choosing the "bottom-up" market-consistent approach

- Better link to risks associated with each business
- Better link to pricing and risk management in each business
- Unique risk discount rate for each geographic life business

Reasons for rejecting the WACC approach

- Old Mutual is a very diverse financial services business – adjustments to exclude the non-life businesses would be highly subjective
- Old Mutual has two very different life businesses: determining appropriate discount rates for the two businesses would also be subjective

Risk Discount Rate for In-force Business – South Africa

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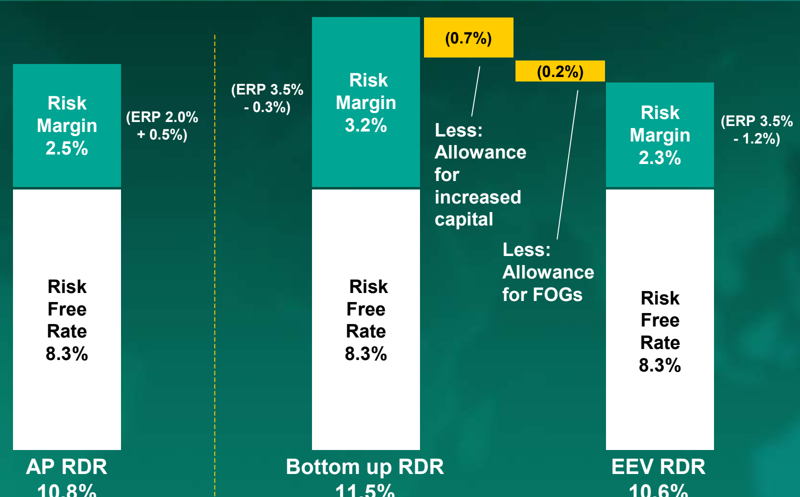

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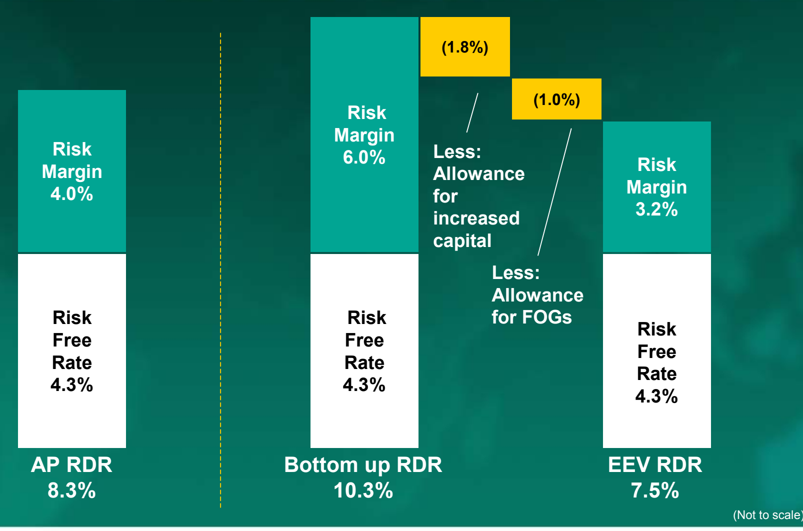
Insights – South Africa

- Profit stream generated by the South African life business is more stable than equity returns
  - premium and Rand based product charges
  - liability margins
  - product mix
- Main risks reflected in cost of capital and cost of financial options and guarantees
- Historical earnings volatility has been low

Risk Discount Rate for In-force Business – North America



Insights – North America

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- Allowance for risk greater than under Achieved Profits method
  - Profit stream generated by the US business includes investment (credit) risk margins which accrue to shareholders
  - Because of market-consistent calibration, these margins are not capitalised in our EEV
  - These margins will emerge over time when earned
  - Stochastic cost of policyholder options and guarantees greater than previous implicit allowance in Achieved Profits discount rate

Financial Impacts of the Allowance for Risk

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	Africa		North America	
£m	VIF	VNB	VIF	VNB
2004 AP	**1,050**	**66**	**512**	**62**
Capital	(113)	(7)	(49)	(15)
FOGs	(49)	(1)	(25)	(7)
RDR	138	3	24	4
2004 EEV	**1,026**	**61**	**462**	**44**
% change	**(2%)**	**(8%)**	**(10%)**	**(29%)**

Results shown after tax

Other Impacts – Business Coverage

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- EEV principles require that the business covered be clearly identified and disclosed
  – covered business has been defined to be consistent with the long-term business in the primary financial statements
  – this means that a VIF and VNB have now been calculated for Healthcare

Other Impacts – Experience Assumptions

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- EEV Principles require appropriate assumptions, as follows:
  – best estimate assumptions
  – consistency between assumptions
  – active review
  – allocation of holding company expenses to the covered business
  – "look through" to profits and losses incurred within service companies
- Allocation of £6.6m head-office expenses to the covered business
- Allocation of US expenses reviewed
- SA expenses now also include an annual allowance for one-off project expenses
- Any asset management profits in respect of life businesses continue to emerge in the asset management businesses

Other Impacts – Disclosure

- Reconciliation of embedded value of the long term covered business with the group adjusted embedded value
  - details the segmental adjusted net-worth by business
- Analysis of embedded value shows separately the sources of value in both adjusted net worth and value of in-force business
- More sensitivities
- New business margins additionally disclosed on the new basis
- Product analysis of new business premiums

Reconciliation of Geographic Value of In-force – 2004

£m	Africa	North America	Group*
As reported on an Achieved Profits basis	**1,050**	**512**	**1,590**
Adjustments for:			
Allowance for risk (see slide 24)	(24)	(50)	(77)
Impact of extending the covered business to include Healthcare	14	0	14
Expenses	(35)	(18)	(53)
As reported on an EEV basis	**1,005**	**444**	**1,474**
% change	**(4%)**	**(13%)**	**(7%)**

* Group also includes UK & ROW

Reconciliation of Geographic Value of New Business (after tax) – 2004

£m	Africa	North America	Group
As reported on an Achieved Profits basis	**66**	**62**	**127**
Adjustments for:			
Allowance for risk	(5)	(18)	(23)
Impact of extending the covered business to include Healthcare	4	-	4
Expenses	(1)	1	-
As reported on an EEV basis	**64**	**45**	**108**
% change	**(3%)**	**(27%)**	**(15%)**

* Group also includes UK & ROW

Reconciliation of Geographic Adjusted EEV Operating Profit (pre-tax) – 2004

£m	Africa	North America	Group*
As reported on an Achieved Profits basis	**640**	**104**	**749**
Adjustments to:			
Value of New Business	(3)	(24)	(27)
Operating assumption changes	16	-	16
Other	(1)	(3)	(5)
As reported on an EEV basis	**652**	**77**	**733**
% change	**2%**	**(26%)**	**(2%)**

* Group also includes UK & ROW

Key Financial Impacts – 31 December 2004

£m Adjusted embedded value	Achieved Profits	EEV	Change %
Adjusted embedded value	**5,359**	**5,384**	**0.5%**
Adjusted net worth *	3,769	3,910	3.7%
Value of in-force business	1,590	1,474	(7.3%)
Adjusted embedded value per share	**139.1p**	**139.7p**	**0.5%**

* *includes adjustments to bring subsidiaries to market value and adjustment for own shares held in policy-holder funds*

Closing Remarks

Julian Roberts
Group Finance Director

Strength of diversity, power of focus

Looking Forward

- We continue to embed EEV into the management of our covered business
  – product design and pricing
  – risk management
  – internal capital management
- Our 2005 interim results will comply with EEV Principles

Summary

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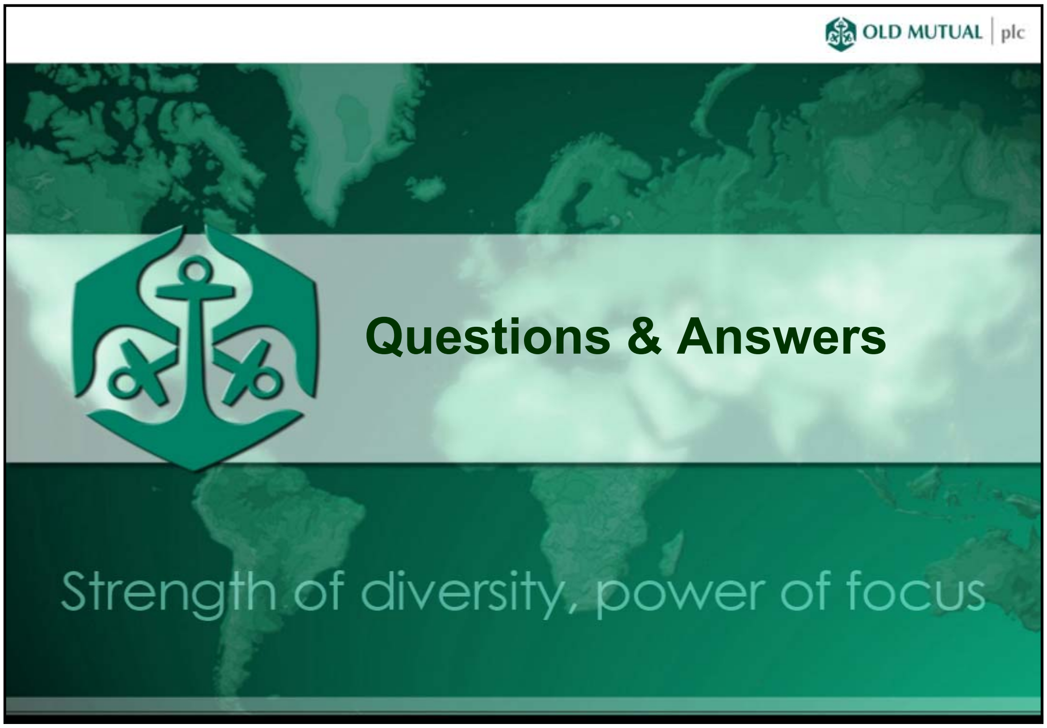
- The implementation of EEV and IFRS has been a major initiative for Old Mutual
- A robust approach to risk has allowed a better link to the risks associated with each business
- Minimal overall impact on embedded value per share
  – increase in adjusted net worth due to IFRS impacts
  – decrease in value of in-force due to EEV impacts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Questions & Answers
Strength of diversity, power of focus


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Appendix 1
EEV Analyst and Investor Briefing in SA Rand
Strength of diversity, power of focus

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Julian Roberts

Group Finance Director

Strength of diversity, power of focus

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Overview

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- Inclusion of an appropriate allowance for risk is a key requirement within the EEV Principles
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- We will continue to use return on equity and embedded value as key performance measures for the business
- EEV impacts reduce the value of in-force business and the value of new business
- These are offset by IFRS impacts on shareholders equity
- Overall adjusted embedded value of the Group has increased marginally at 31 December 2004
- 31 December 2004 EEV results have been audited by KPMG

European Embedded Value (EEV) Principles

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1	Introduction – What is embedded value (EV)	
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5	Required capital and the cost of holding that capital	✓
6	Value of the in-force business	
7	Financial options and guarantees	✓
8	New business and renewals	
9	Projection assumptions	✓
10	Economic assumptions	✓
11	Participating business	
12	Disclosure	✓

Components of Adjusted Embedded Value

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Component of embedded value	Basis of Valuation		Impacted by EEV	Geographic spread: Africa	North America	UK & ROW
Life business	Adjusted net worth & VIF	66%	✓	✓	✓	✓
Asset Management	IFRS	18%	✗	✓	✓	✓
Banking	Market value	27%	✗	✓		
General Insurance	Market value	9%	✗	✓		
Less: Debt	IFRS	(20%)	✗			
Adjusted embedded value		58,407Rm				

Key Financial Impacts – 31 December 2004

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Rm Adjusted embedded value	Achieved Profits	EEV	Change %
Adjusted embedded value	**58,134**	**58,407**	**0.5%**
Adjusted net worth *	40,887	42,417	3.7%
Value of in-force business	17,247	15,990	(7.3%)
Adjusted embedded value per share	**1,508c**	**1,516c**	**0.5%**

* *includes adjustments to bring subsidiaries to market value and adjustment for own shares held in policy-holder funds*

Key Financial Impacts – 31 December 2004

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Key EEV Principles
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Rm Adjusted EV operating profit	Achieved Profits	EEV	Change %
Adjusted EV operating profit before tax	13,129	13,439	3%
Covered (Life) business (EEV)	8,836	8,648	(2%)
Other business (IFRS)	4,293	4,791	12%
Return on embedded value (ROEV)	19.4%	19.9%	N/A

Key Financial Impacts – 31 December 2004

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Key EEV Principles
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Rm	Achieved Profits	EEV	Change %
Value of new business (after tax)	1,498	1,274	(15%)
New business margin (APE) %	23%	18%	(5%)
New business margin (PVNBP) %	N/A	2.4%	N/A

- Reduction in VNB, mainly as a result of the more specific allowance for risk
- New business margin nevertheless still within our target range

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Key EEV Principles Impacting Old Mutual

Gary Palser
Group Actuary

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9	Projection assumptions	✓
10	Economic assumptions	✓
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Allowance for Risk

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  - nature of projected profits (underlying liability valuation basis)
  - risk discount rate
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Required Capital

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  - minimum local and Group statutory requirements
  - capital allocated for internal capital management purposes
  - the % Risk Based Capital (RBC) required by rating agencies in our North American business to maintain our desired credit rating
- No change to amount of capital actually held

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Required Capital

Rm	Africa	North America
Required capital	17,303	4,893
Minimum statutory requirements	11,020	1,736
Required capital as a % of minimum statutory requirements	157%	282%

- Significant increase in capital included for EEV, and hence cost of holding that capital

Financial Options and Guarantees (FOGs)

- EEV Principles require stochastic allowance for the time-value of all financial options and guarantees

Allowance for FOGs	Africa	North America
Statutory reserves	Allow for intrinsic value Some allowance for time-value	Allow for intrinsic value No allowance for time-value
EEV	Allow fully for time-value	Allow fully for time-value

- The cost of FOGs is calculated on a real world basis

Risk Discount Rate (RDR)

- Having determined:
  – required capital; and
  – shareholder cost of FOGs
- The Risk Discount Rate is the lever to ensure that appropriate total allowance is made for all the risks in the business

Risk Discount Rate (RDR)

- We estimated the value of the in-force business using a "bottom up" market-consistent approach – advised by Tillinghast
- Each risk is allowed for in a way that is consistent with the way the market is expected to allow for such risks
- The risk discount rate is derived as the rate that would produce a similar value to the market-consistent value, using our EEV assumptions, allowing for the cost of financial options and guarantees and the cost of capital

Risk Discount Rate (RDR)

Two possible approaches:

Bottom-up

Look at risks within product lines / business units

Top-down

WACC assess risks from consideration of the market price beta

Old Mutual has adopted the "bottom-up" approach

Risk Discount Rate (RDR)

Reasons for choosing the "bottom-up" market-consistent approach

- Better link to risks associated with each business
- Better link to pricing and risk management in each business
- Unique risk discount rate for each geographic life business

Reasons for rejecting the WACC approach

- Old Mutual is a very diverse financial services business – adjustments to exclude the non-life businesses would be highly subjective
- Old Mutual has two very different life businesses: determining appropriate discount rates for the two businesses would also be subjective

Risk Discount Rate for In-force Business – South Africa

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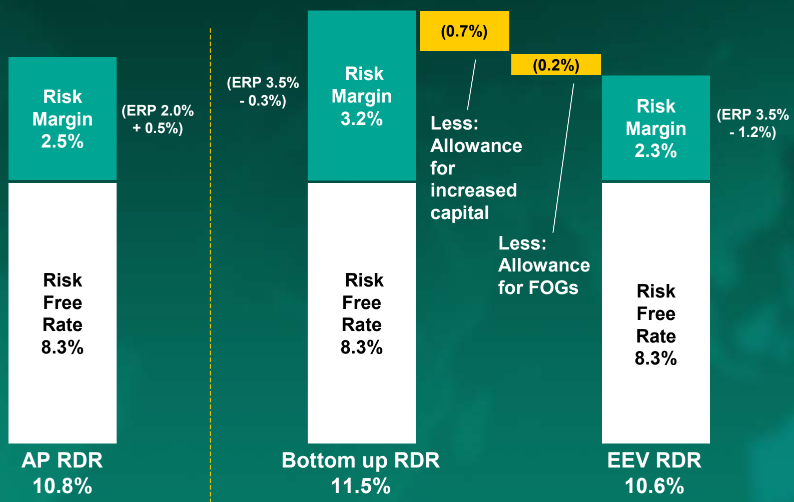

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- Profit stream generated by the South African life business is more stable than equity returns
  - premium and Rand based product charges
  - liability margins
  - product mix
- Main risks reflected in cost of capital and cost of financial options and guarantees
- Historical earnings volatility has been low

Risk Discount Rate for In-force Business – North America

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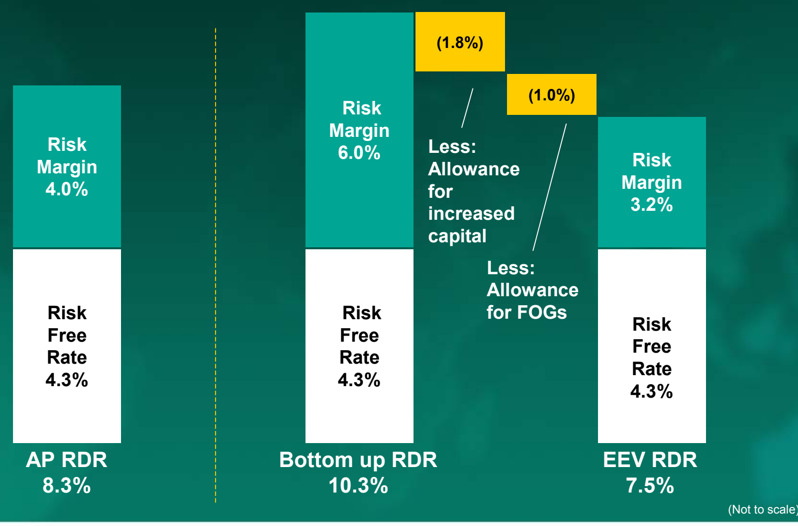

Insights – North America

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- Allowance for risk greater than under Achieved Profits method
  – Profit stream generated by the US business includes investment (credit) risk margins which accrue to shareholders
  – Because of market-consistent calibration, these margins are not capitalised in our EEV
  – These margins will emerge over time when earned
  – Stochastic cost of policyholder options and guarantees greater than previous implicit allowance in Achieved Profits discount rate

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	Africa		North America	
Rm	**VIF**	**VNB**	**VIF**	**VNB**
2004 AP	**11,391**	**779**	**5,554**	**732**
Capital	(1,226)	(82)	(531)	(177)
FOGs	(532)	(12)	(271)	(83)
RDR	1,497	35	260	47
2004 EEV	**11,130**	**720**	**5,012**	**519**
% change	**(2%)**	**(8%)**	**(10%)**	**(29%)**

Results shown after tax

Other Impacts – Business Coverage

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- EEV principles require that the business covered be clearly identified and disclosed
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  – this means that a VIF and VNB have now been calculated for Healthcare

Other Impacts – Experience Assumptions

- EEV Principles require appropriate assumptions, as follows:
  - best estimate assumptions
  - consistency between assumptions
  - active review
  - allocation of holding company expenses to the covered business
  - "look through" to profits and losses incurred within service companies
- Allocation of 78Rm head-office expenses to the covered business
- Allocation of US expenses reviewed
- SA expenses now also include an annual allowance for one-off project expenses
- Any asset management profits in respect of life businesses continue to emerge in the asset management businesses

Other Impacts – Disclosure

- Reconciliation of embedded value of the long term covered business with the group adjusted embedded value
  - details the segmental adjusted net-worth by business
- Analysis of embedded value shows separately the sources of value in both adjusted net worth and value of in-force business
- More sensitivities
- New business margins additionally disclosed on the new basis
- Product analysis of new business premiums

Reconciliation of Geographic Value of In-force – 2004

Rm	Africa	North America	Group*
As reported on an Achieved Profits basis	**11,391**	**5,554**	**17,247**
Adjustments for:			
Allowance for risk (see slide 59)	(261)	(542)	(835)
Impact of extending the covered business to include Healthcare	152	-	152
Expenses	(380)	(195)	(574)
As reported on an EEV basis	**10,902**	**4,817**	**15,990**
% change	**(4%)**	**(13%)**	**(7%)**

* Group also includes UK & ROW

Reconciliation of Geographic Value of New Business (after tax) – 2004

Rm	Africa	North America	Group
As reported on an Achieved Profits basis	**779**	**732**	**1,498**
Adjustments for:			
Allowance for risk	(59)	(213)	(271)
Impact of extending the covered business to include Healthcare	47	-	47
Expenses	(12)	12	-
As reported on an EEV basis	**755**	**531**	**1,274**
% change	**(3%)**	**(27%)**	**(15%)**

* Group also includes UK & ROW

Reconciliation of Geographic Adjusted EEV Operating Profit (pre-tax) – 2004

Agenda
Overview
Key EEV Principles
- Allowance for risk
- Required capital
- FOGs
- Risk discount rate
- Other impacts
- Reconciliations

Closing remarks
Q&A

Rm	Africa	North America	Group*
As reported on an Achieved Profits basis	**7,551**	**1,227**	**8,836**
Adjustments to:			
Value of New Business	(35)	(283)	(319)
Operating assumption changes	189	-	189
Other	(12)	(36)	(58)
As reported on an EEV basis	**7,693**	**908**	**8,648**
% change	**2%**	**(26%)**	**(2%)**

* Group also includes UK & ROW

Key Financial Impacts – 31 December 2004

Agenda
Overview
Key EEV Principles
- Allowance for risk
- Required capital
- FOGs
- Risk discount rate
- Other impacts
- Reconciliations

Closing remarks
Q&A

Rm Adjusted embedded value	Achieved Profits	EEV	Change %
Adjusted embedded value	**58,134**	**58,407**	**0.5%**
Adjusted net worth *	40,887	42,417	3.7%
Value of in-force business	17,247	15,990	(7.3%)
Adjusted embedded value per share	**1,508c**	**1,516c**	**0.5%**

* *includes adjustments to bring subsidiaries to market value and adjustment for own shares held in policy-holder funds*

Closing Remarks

Julian Roberts
Group Finance Director

Strength of diversity, power of focus

Looking Forward

- We continue to embed EEV into the management of our covered business
  - product design and pricing
  - risk management
  - internal capital management
- Our 2005 interim results will comply with EEV Principles

Summary

- The implementation of EEV and IFRS has been a major initiative for Old Mutual
- A robust approach to risk has allowed a better link to the risks associated with each business
- Minimal overall impact on embedded value per share
  - increase in adjusted net worth due to IFRS impacts
  - decrease in value of in-force due to EEV impacts

Questions & Answers

Strength of diversity, power of focus