

# PRELIMINARY RESULTS 2008

4 March 2009

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# Agenda

Business Review

Julian Roberts  
Chief Executive

Financial Review

Philip Broadley  
Group Finance Director

Priorities

Julian Roberts

Summary and Q&A

# Business Review

# Group financial headlines

	2008	2007
FGD at 31 Dec	£0.7bn	£1.7bn
Net Client Cash Flows	(£1.2bn)	£23.4bn
Funds under Management at 31 Dec	£264.8bn	£278.9bn
Adjusted operating profit <sup>1</sup> (IFRS)	£999m	£1,624m
Adjusted operating EPS (IFRS)	12.2p	16.9p
Return on Equity	9.0%	13.2%
Adjusted EV per share <sup>2</sup>	117.6p	166.3p

1 Pre-tax and MI

2 2007 restated for MCEV

# Europe

- NCCF strongly positive at £3.2bn
- AOP broadly unchanged on 2007 at £266m
- UK sales impacted by decision to stay away from with-profits business
- Growing importance of platform in the UK
- Nordic sales and market share on positive trends
- ELAM performance reflects lack of scale benefits

# Africa

- Significant contribution to Group result
- Nedbank performed well and is strongly capitalised
- Solid underwriting result in M&F
- OMSA very strong
  - Life and unit trust sales up on 2007 (14% and 33% respectively)
  - AOP up 14%
  - NCCF improved on 2007: (R5.5bn) vs (R18.7bn)
- South Africa is an attractive place for us to do business
  - Forecast GDP growth of 1.2%
  - Strong banking system
  - Expanding market for financial products

# North America

- US Life
  - Firm actions taken on US Life
- US Asset Management
  - NCCF strong (ex. securities lending)
  - Good long term investment performance
  - Reduction in performance and management fees
  - Focus on cost reduction
  - Evolution of product development and distribution
  - Boutiques well positioned for a market recovery



# Actions taken in 2008

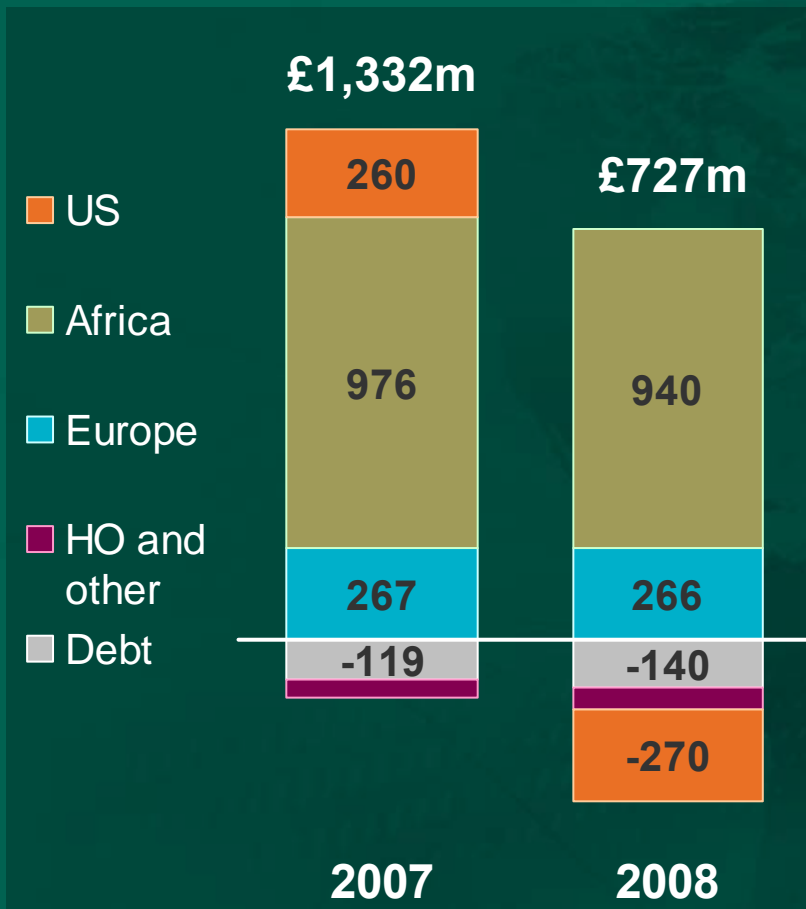
- Internal weaknesses identified and addressed
  - Business on a sounder footing
  - Bermuda hedging much improved
- Risk and governance processes strengthened
  - Specialist resources
  - Group Risk and Capital Committee
  - Global risk appetite framework
  - Comprehensive, focussed risk reporting
  - Escalation policy
- Capital and liquidity managed

# Financial Review

# Agenda

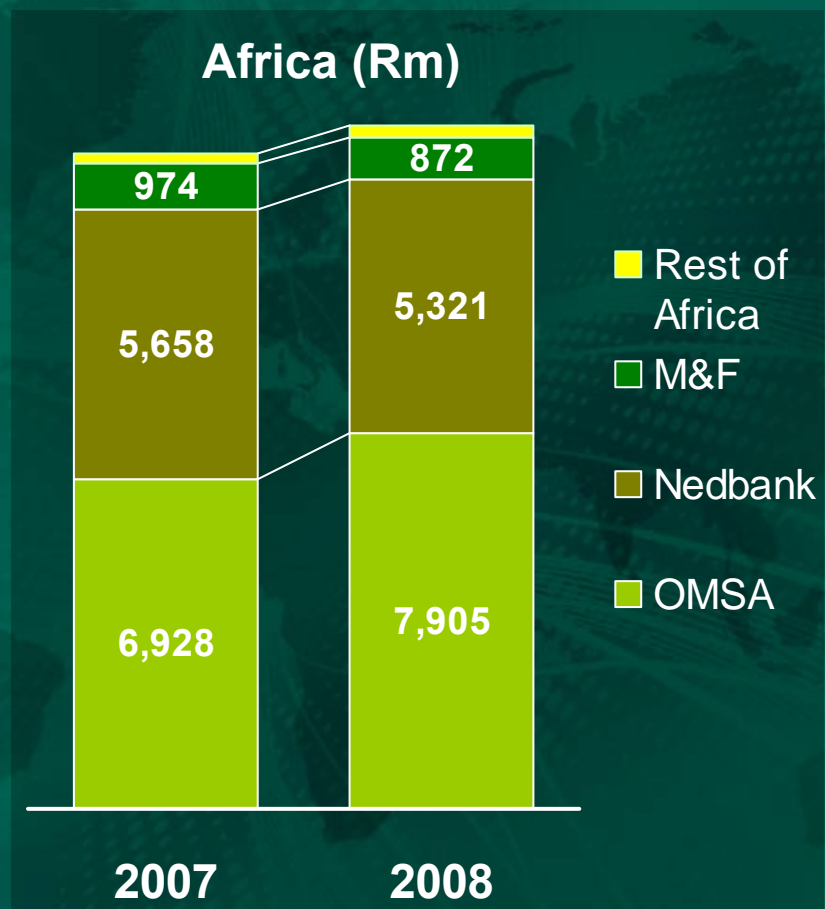
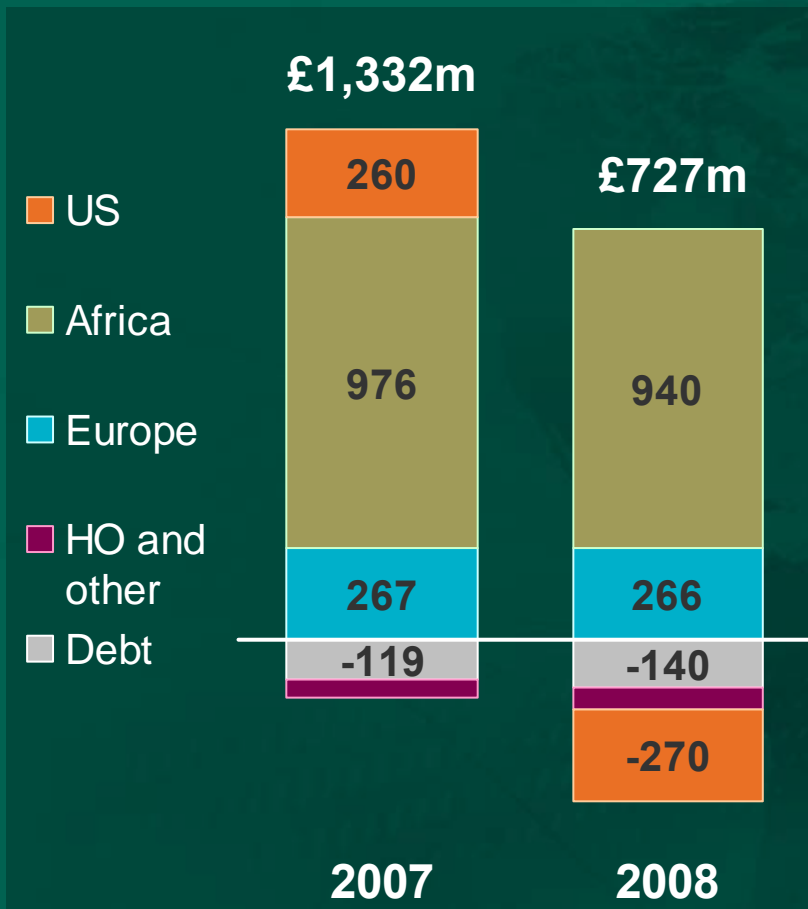
- Group Profit and Loss
- US Life
  - Onshore
  - Bermuda
- MCEV
- Capital & Liquidity

# Adjusted operating profit<sup>1</sup>



<sup>1</sup> Adjusted operating profit is IFRS pre-tax and net of minority interests

# Adjusted operating profit<sup>1</sup>



<sup>1</sup> Adjusted operating profit is IFRS pre-tax and net of minority interests

# Group P&L analysis

£m (IFRS basis)	2008	2007
BU adjusted operating profit	1,170	1,784
Other shareholders' income/expenses	(31)	(41)
Finance costs	(140)	(119)
Adjusted operating profit	999	1,624
Tax	(86)	(418)
Minorities	(272)	(292)
Adjusted operating profit after tax & MI	641	914
EPS	12.2p	16.9p

# AOP: high level adjustments

31 December 2008 (£m)	Above the line	Below the line
US Life DAC unlocking	(159)	
<i>Onshore</i>	(67)	
<i>Offshore</i>	(92)	
US Life goodwill impairment		(62)
US Life SPIA (onshore)	(235)	
US Life investment impairment	(28)	(386)
Bermuda – hedge losses	(68)	(206)
Nedbank profit on sale of VISA shares	47	
Assore/Oresteel transaction		168
Nordic Skandia Liv arbitration		(67)
Fair value gains on Group debt		489

# US Life onshore - bond portfolio

Corporate bond portfolio <sup>1</sup>		
Rating	FY'08	H1'08
AAA	23%	26%
AA	4%	8%
A	28%	23%
BBB	35%	35%
BB	3%	3%
B	0%	1%
Treasury/Agency	1%	1%
Cash/Short Term	6%	3%
Not rated	0%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>

- 97% of portfolio is cash, government or investment grade
- Concentration risk low
- Portfolio is well matched
  - Asset duration 6.0 yrs
  - Liability duration 5.9 yrs
- Increased cash holdings
- Investment strategy is hold-to-maturity, facilitated by liquidity

<sup>1</sup> Onshore portfolio on a statutory basis; table includes CMBS / RMBS / ABS in relevant rating category



# US Life – impairments

- Investment impairments in 2008: £414m
  - Q3'08: £195m, Q4'08: £128m
  - Includes total defaults of £85m
- DAC unlocking
  - Onshore: £67m (revised lapse assumptions)
  - Offshore: £92m (hedge cost & earned rate assumptions)
- Goodwill impairment in 2008: £62m

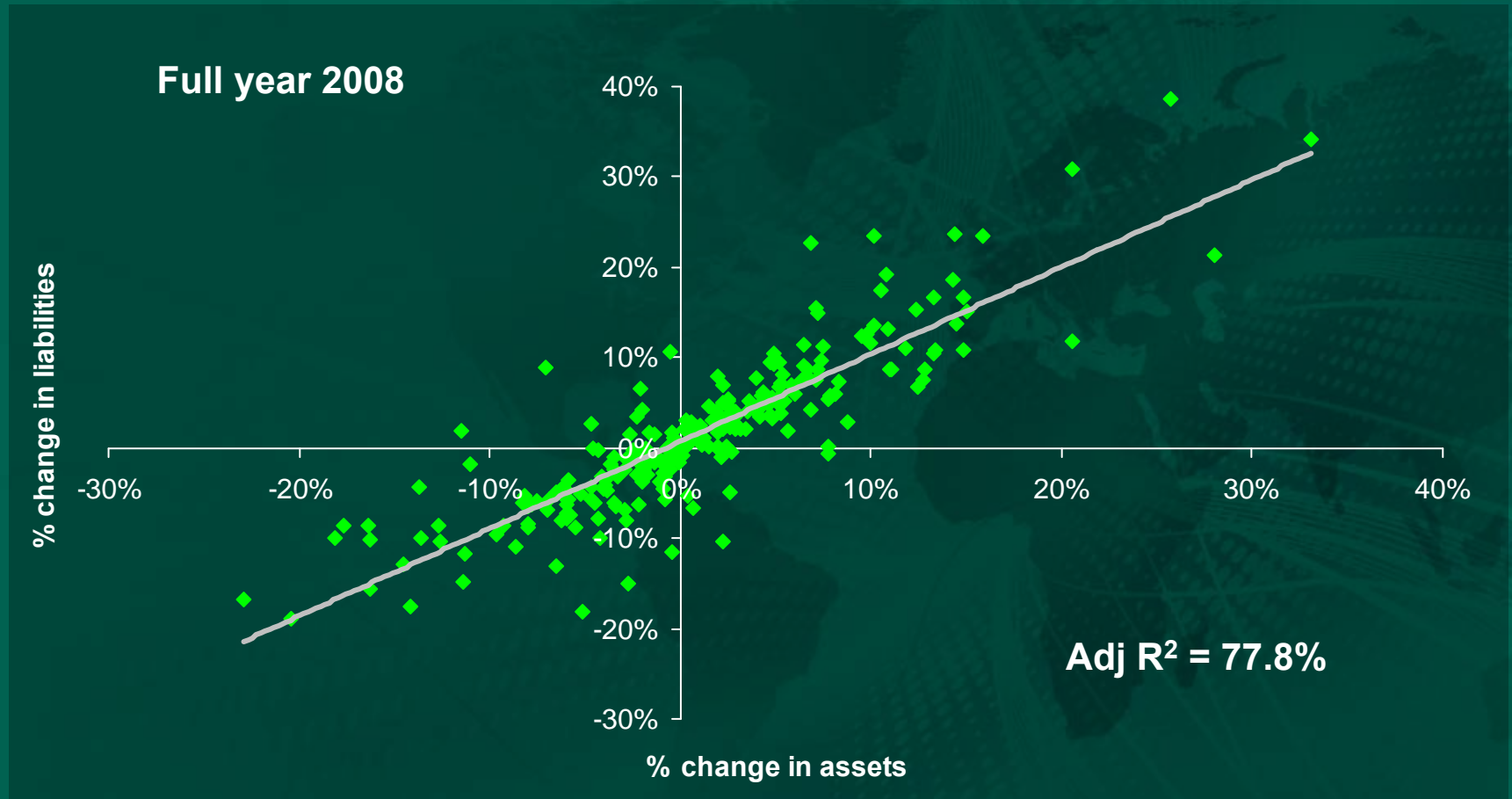
# US Life – onshore

- RBC at 305% following capital injections
- Operating loss £230m
- SPIA
  - Life contingent business no longer written
  - Adjusted substandard life expectancy (2007 IFRS adjustment in respect of large cases)
  - Recognised loss provision in IFRS of £235m, EV of £151m (2007 EV adjustment of £99m)
  - Attained age of 82 years, life expectancy increased by 3 years from 90 to 93 years
- Actions taken to transform the business

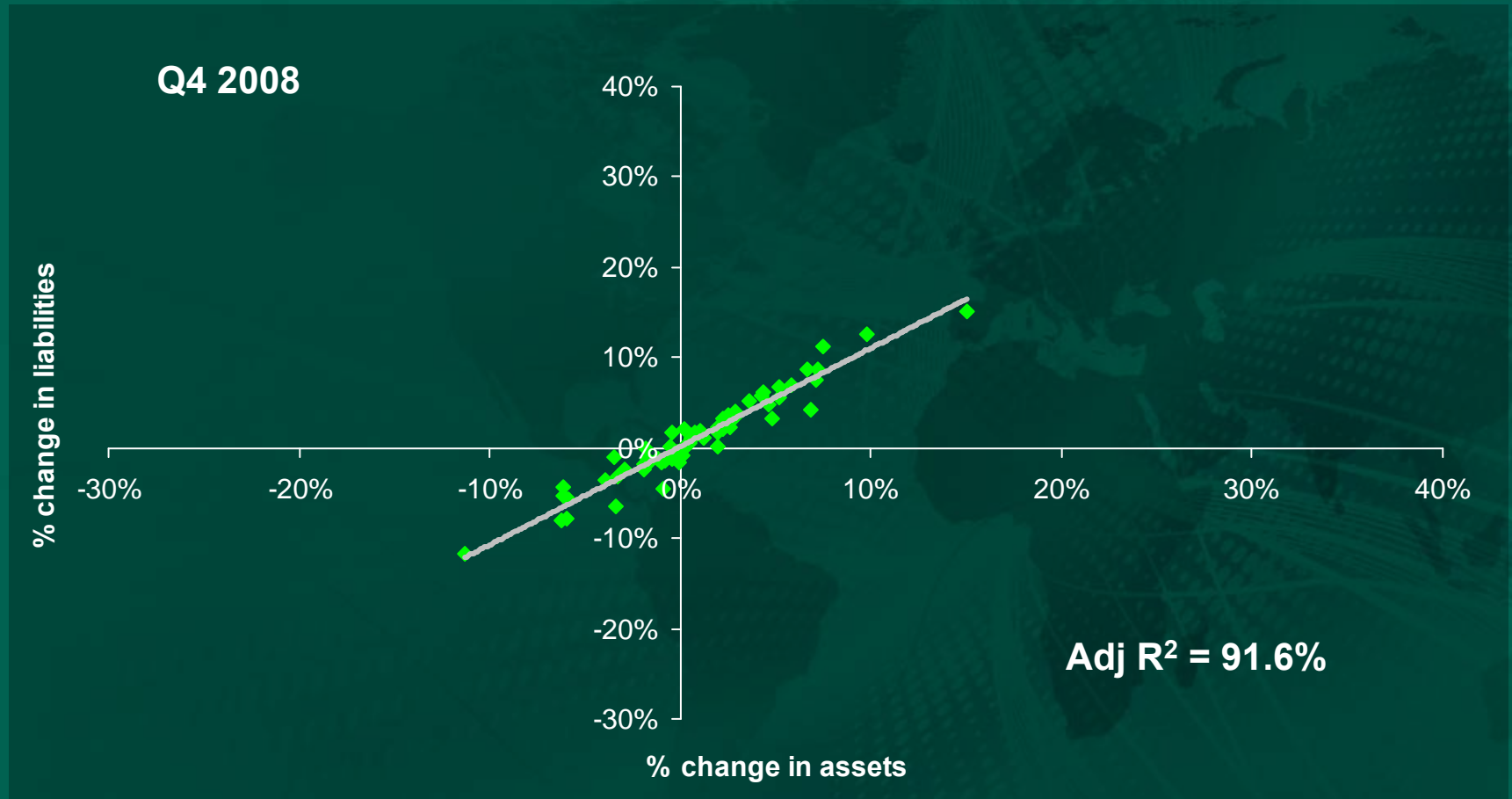
# Bermuda

- Actions to limit exposure on the guarantees and de-risk the Bermuda book
  - Withdrew guarantee products
  - Currency hedging
  - Improved fund mapping
  - Accelerated Universal Guarantee Option
  - AOP charge of £18m in Q4'08

# Bermuda – hedge performance



# Bermuda – hedge performance



# MCEV: high level Group impact

31 December 2007	Published EEV
Group adjusted EV per share	173.3p
EV EPS	17.2p
ROEV %	13.2%
PVNBP margin %	1.9%
APE margin %	15%

# MCEV: high level Group impact

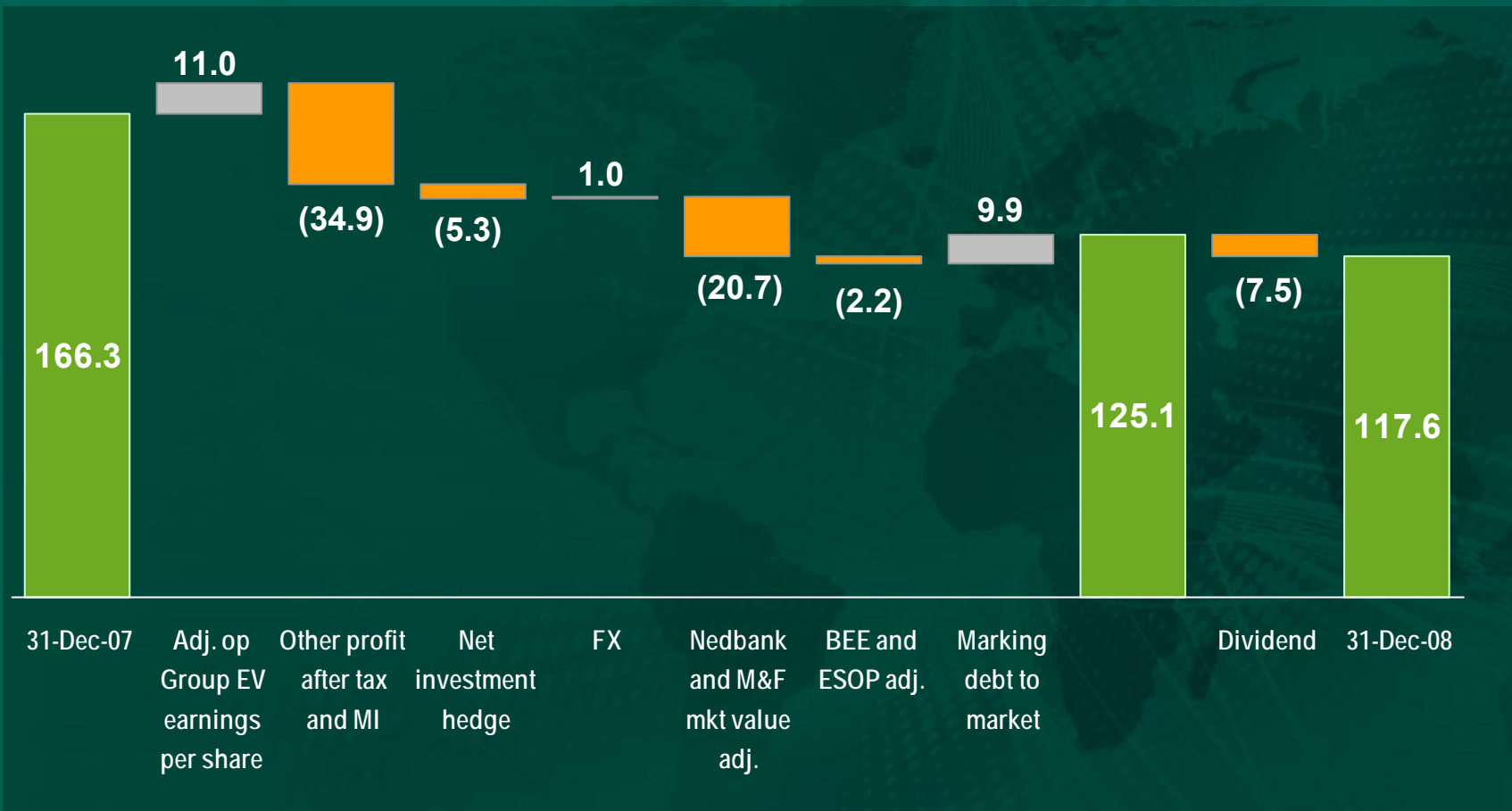
31 December 2007	Published EEV	Restated MCEV	Δ
Group adjusted EV per share	173.3p	<b>166.3p</b>	(7.0p)
EV EPS	17.2p	<b>17.0p</b>	(0.2p)
ROEV %	13.2%	<b>13.7%</b>	0.5ppts
PVNBP margin %	1.9%	<b>1.7%</b>	(0.2ppts)
APE margin %	15%	<b>13%</b>	(2ppts)

# MCEV results

MCEV	2008	2007	Δ
Group adjusted EV per share	<b>117.6p</b>	166.3p	(29%)
EV EPS	<b>11.0p</b>	17.0p	(35%)
ROEV %	<b>7.8%</b>	13.7%	(5.9ppts)
PVNBP margin %	<b>0.8%</b>	1.7%	(0.9ppts)
APE margin %	<b>6%</b>	13%	(7ppts)

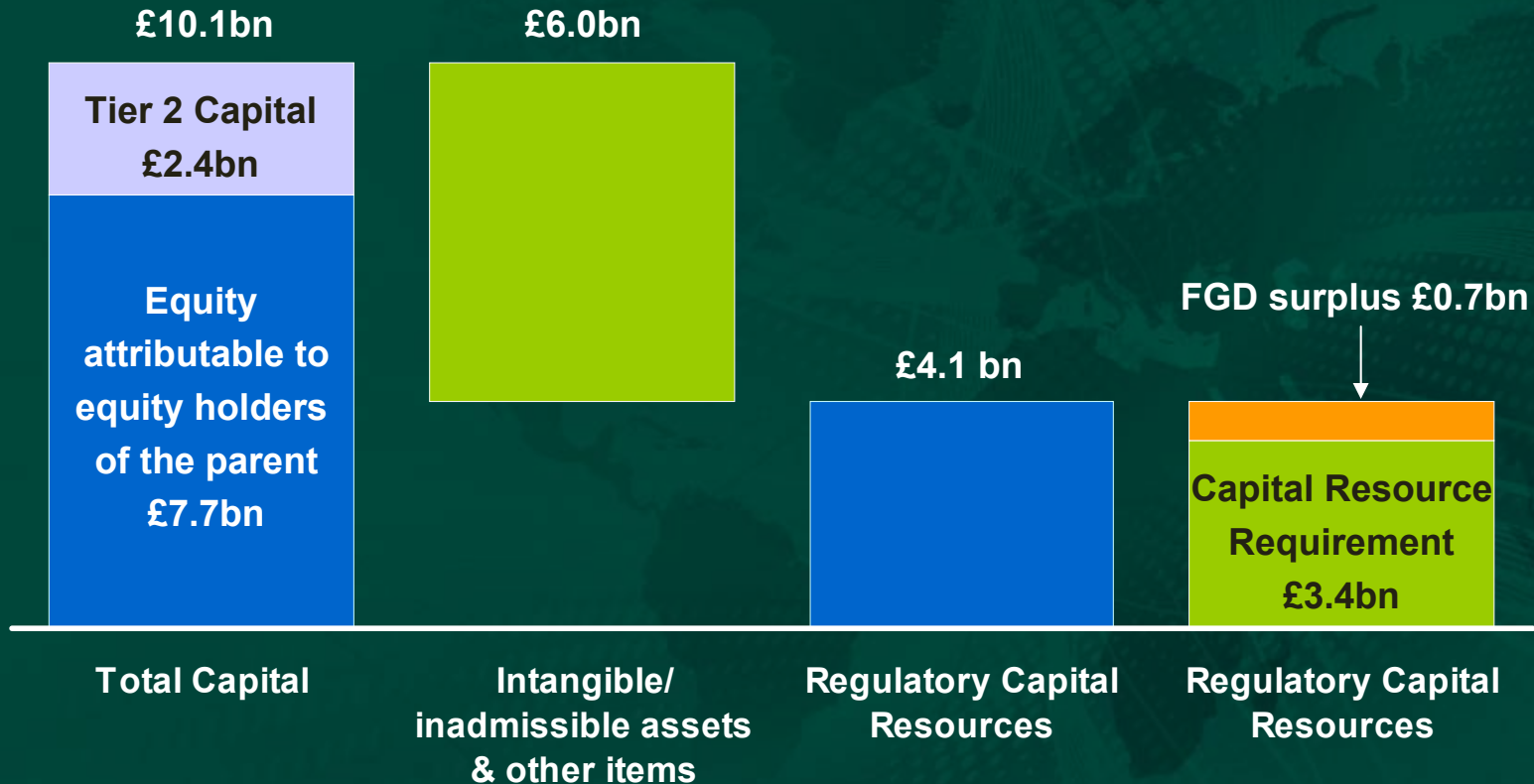


# MCEV per share<sup>1</sup>

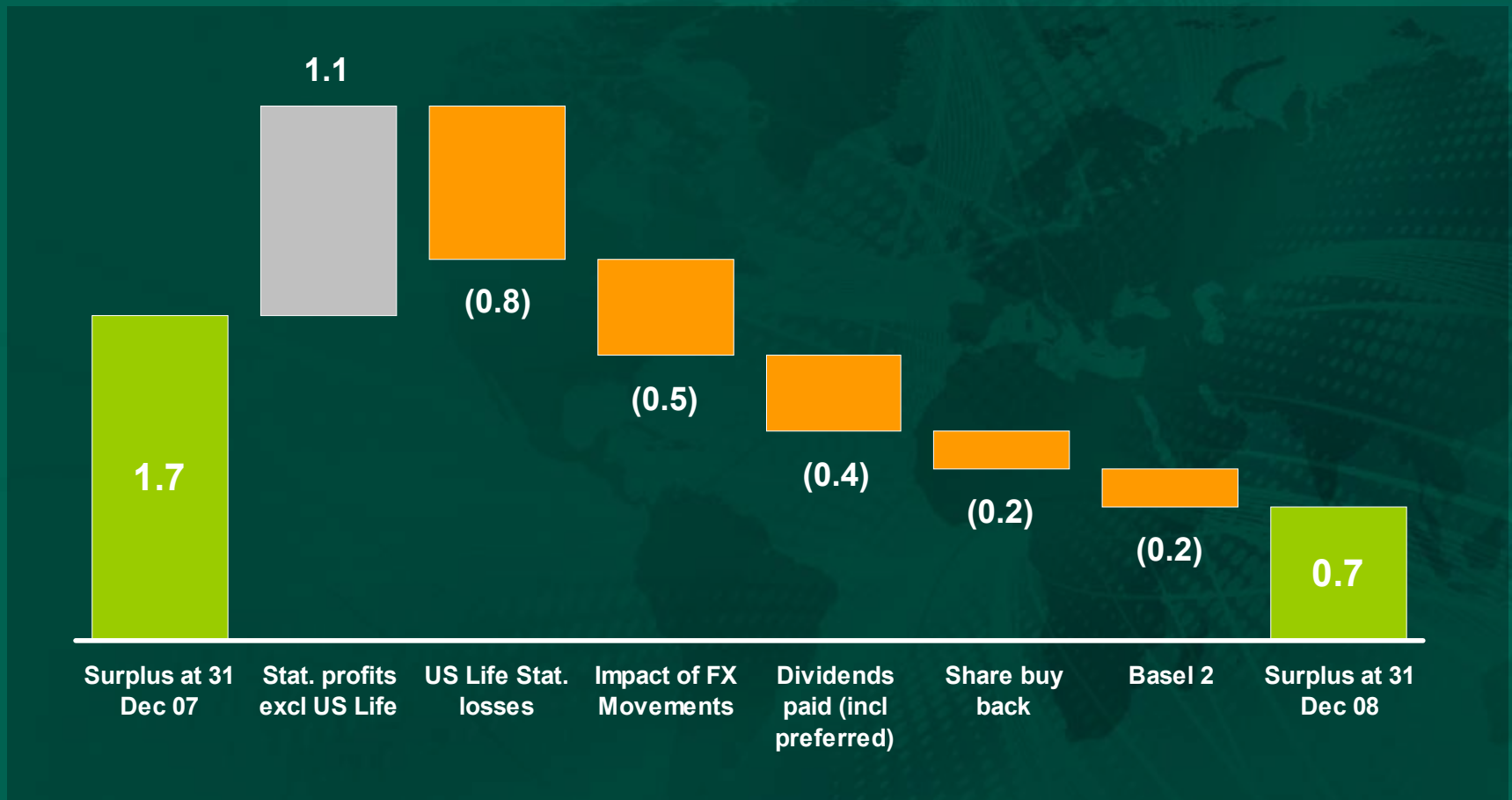


<sup>1</sup> 2007 EV restated to reflect MCEV

# Analysis of regulatory capital surplus at 31 December 2008



# Movement of regulatory capital surplus 2008 (£bn)



# FGD

<b>Group FGD (£bn)</b>	<b>31 Dec 2008</b>
Capital resources	£4.1bn
Capital requirement	£3.4bn
Surplus / (Deficit)	£0.7bn
<b>Ratio</b>	<b>1.2 x</b>

<b>Sensitivities<sup>1</sup></b>	<b>Movement</b>	<b>Impact</b>
rand / sterling exchange rate	1% decrease	(£14m)
dollar / sterling exchange rate	1% increase	(£4m)
movement in the JSE	1% decrease	(£4m)

<sup>1</sup> Sensitivities not linear

# Bond portfolio defaults<sup>1</sup>

\$m	Investment grade	Non investment grade	TOTAL
Treasury / Agency	\$114m		\$114m
Cash / Short Term	\$950m		\$950m
CMBS / RMBS / ABS	\$4,079m	\$85m	\$4,164m
Corporate bonds	\$11,582m	\$534m	\$12,116m
Not rated	\$41m		\$41m
<b>Total investments and securities</b>	<b>\$16,766m</b>	<b>\$619m</b>	<b>\$17,385m</b>
Default rate (stress test)	1.6%	25.0%	
<b>Expected Defaults</b>	<b>\$251m</b>	<b>\$155m</b>	
Recoverability assumption	20%	20%	
Total potential defaults	\$201m	\$124m	<b>\$325m</b>
Impairment on investments & securities @ stress test			1.9%

<sup>1</sup> Onshore portfolio on a statutory basis

# Business unit capitalisation

Business unit	Ratio
OMLAC(SA)	3.8x
M&F	130%
US Life - Onshore	305%
Nordic	9.9x
UK	2.6x
Nedbank	Core Tier 1: 8.2% Tier 1: 9.6% Total: 12.4%

# Net debt<sup>1</sup>

£m	2008	2007
Net debt at start of year	(2,420)	(2,407)
Inflows from businesses	1,138	937
Outflows to businesses + expenses	(756)	(509)
Debt and equity movements		
Dividends paid	(353)	(333)
Share repurchase	(175)	(177)
Equity issuance	5	12
Other non-cash movements	298	57
Net debt at end of year	(2,263)	(2,420)
Net decrease / (increase) in debt for the year	157	(13)

<sup>1</sup> Holding company perspective

# Gearing & liquidity

- Gearing 26.7%: within target range
- Liquidity: available headroom on current facilities
  - Main bank facilities in place until 2012
  - No first call date on step up hybrid capital until 2011
  - Available facility headroom of £600m
  - No significant refinancing needs in 2009 or 2010
- To conserve capital and liquidity, no dividends will be paid in 2009



# Financial Review

# Priorities

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- Conserve capital and liquidity
- Streamline the portfolio over time
- Leverage scale in our long term savings businesses
- Drive value creation within and between our South African businesses
- Increase operational efficiency and strengthen governance and risk management

# Streamline the portfolio over time

- Need for simplification of the portfolio
- Execution difficult in current environment
- Actions already taken or underway
  - Sale of Australian business
  - Exited Portugal
  - Refocussing business in continental Europe
  - Scale back aspirations in the Far East
- Streamlining is for efficiency and focus, not capital

# Long term savings

- Leverage capabilities
- More effective deployment of technology and platform
- Creation of a long term savings division headed by Paul Hanratty
- Potential for value to be unlocked

# South Africa

- Over R1bn annual pre-tax savings already delivered
- Tom Boardman and Paul Hanratty tasked with achieving further savings
- New bancassurance targets to be agreed and delivered
- Greater co-operation between OMSA, Nedbank and M&F

# Operational efficiency, governance and risk management

- Paul Maddox appointed to drive the change programme
- Cost and performance efficiencies to be achieved
- Integrated capital, risk and financial transformation programme
- Bringing together risk and actuarial functions under Andrew Birrell who is appointed to the Executive Committee
- Embedding risk & governance processes

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# Summary

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- Capital and liquidity positions strong
- Businesses trading well in difficult markets
- Progress in tightening controls
- Clear on priorities
- The right management team to make the changes

# Q&A

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