

# Analyst Presentation

Interim results for the  
half year to 30 June 2002

**Jim Sutcliffe**  
**Chief Executive**  
Introduction



# Solid progress... challenging environment

- Group return on equity 17%
- Record Life sales
- Operations performing to target:
  - SA underlying results strong; Nedcor acquires BoE
  - US Life new business up 107%; asset management net inflow \$1.5bn
  - UK Gerrard profitable in H1
- Balance sheet further strengthened by eurobond and equity placings

**Benefiting from internationalisation**



# Key financial highlights - Sterling

	2002 interim	2001 interim	% change
Operating profit (smoothed)	£381m	£455m	-16
Operating EPS	5.8p	*7.2p	-19
Dividend per share	1.7p	1.7p	0
Embedded value @ 30/6	£3,775m	**£3,522m	+7
Life new business***	£288m	£132m	+118
Value of new business	£58m	£28m	+107

\* Restated from 7.8p on adoption of FRS 19

\*\* 31 December 2001 \*\*\* Annual premium equivalent

# Key financial highlights - Rand

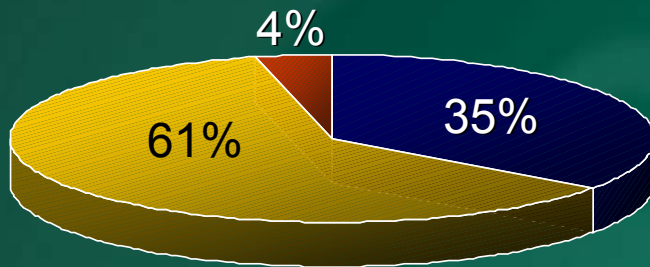
	2002 interim	2001 interim	% change
Operating profit (smoothed)	R6,059m	R5,195m	+17
Operating EPS	92.9c	*82.4c	+13
Dividend per share	****26.9c	22.2c	+21
Embedded value @ 30/6	R59,814m	**R61,364m	-3
Life new business***	R4,571m	R1,498m	+205
Value of new business	R927m	R319m	+191

\* Restated from 89.3c on adoption of FRS 19

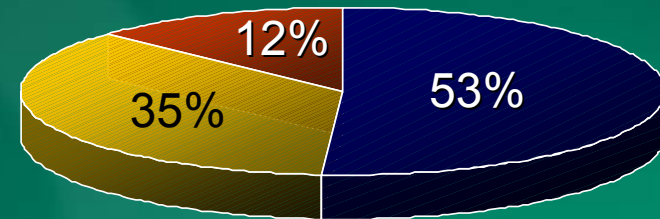
\*\* 31 December 2001 \*\*\* Annual premium equivalent \*\*\*\* Indicative only

# Progress on internationalisation

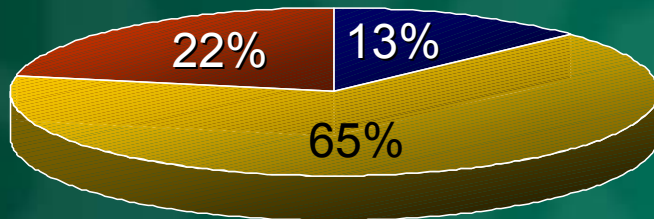
Life new business (APE)



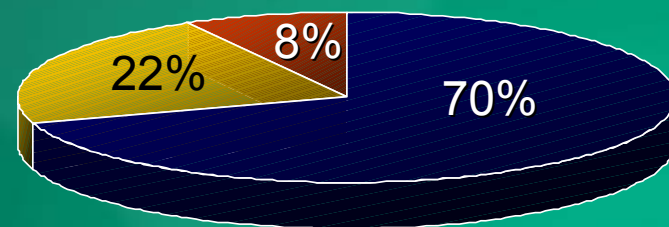
Embedded value (pre-debt)



Funds under management



Operating profit



**Julian Roberts**  
**Group Finance Director**  
Finance and operating review



# A challenging environment

		% change H1 2002	% change one year
S&P 500		-14	-19
NASDAQ		-25	-34
JSE		+2	+18
FTSE 100		-11	-17
Rand / £	- Spot	+10	-28
	- Average		-28
US\$ / £	- Spot	-5	-8
	- Average		0

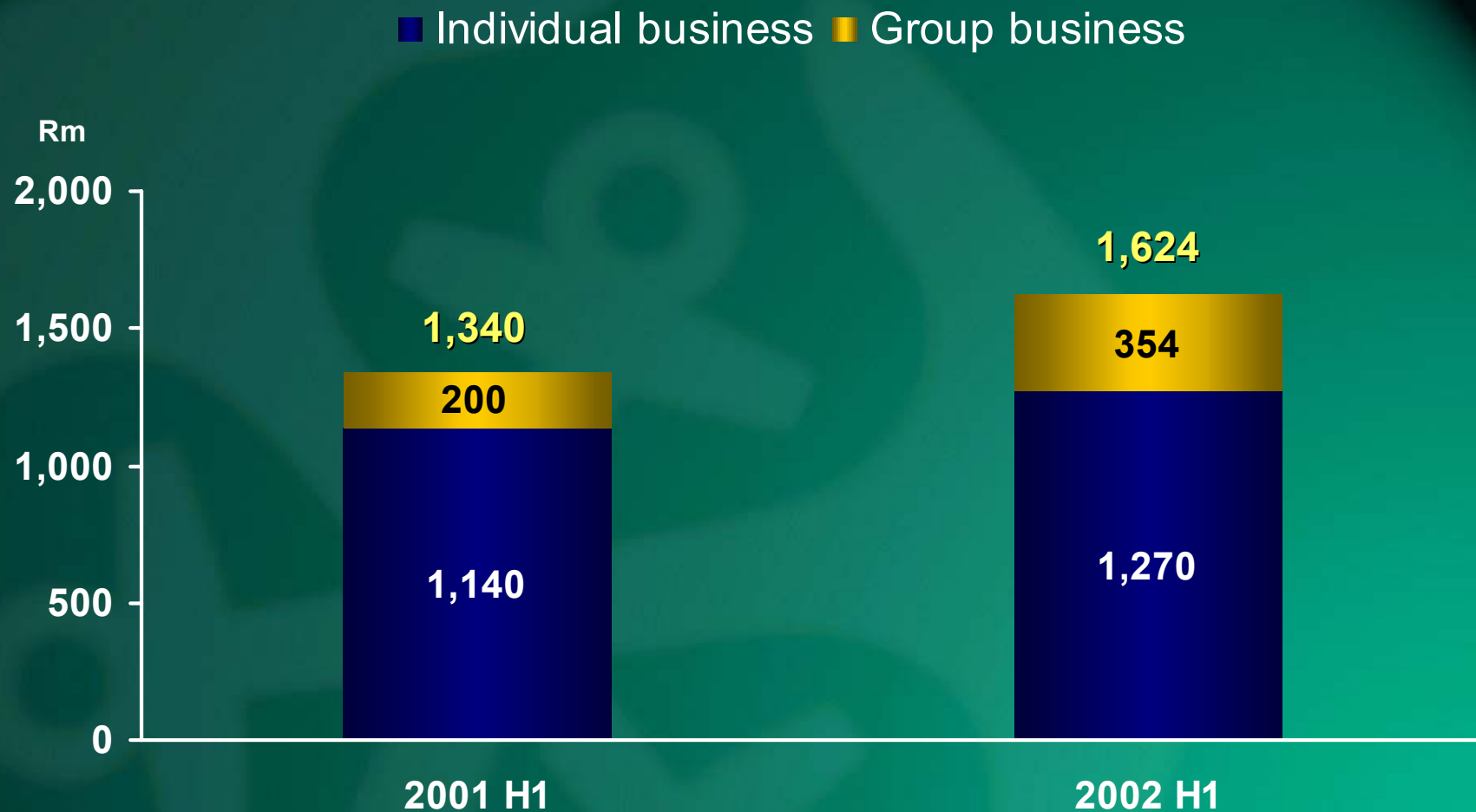


# South Africa

# South Africa - Operating profit

Rm	2002 interim	2001 interim	% change
Life assurance	2,541	2,456	+3
Asset management	207	206	0
Banking	1,579	1,525	+4
General insurance	308	274	+12
<b>Operating profit</b>	<b>4,635</b>	<b>4,461</b>	<b>+4</b>

# South Africa - Life new business\*



\* Annual premium equivalent

# South Africa - Life operating review

Rm	2002 interim	2001 interim	% change
New business margins	25%	22%	
Value of new business	403	296	+36
Life assurance profit	2,541	2,456	+3
LTIR	1,000	891	+12
Operating profit	1,541	1,565	-2
Return on capital	21%	24%	

# OMLAC(SA) - Capital strength

Rbn	June 2002	*Dec 2001
Assets (net of provisions and current liabilities)	244.0	250.3
Policy liabilities	(210.2)	(216.1)
<b>Excess assets</b>	<b>33.8</b>	<b>34.2</b>
Statutory capital adequacy requirement	13.2	12.7
Multiple	2.6x	2.7x
Allocated Capital	21.8	20.6

\* Restated to exclude Guernsey branch

# Nedcor - Operating review

	2002 interim	2001 interim	% change
Headline earnings (Rm)	1,524	1,485	+3
Core earnings (Rm)	1,560	1,317	+18
Total assets (Rm)	200,727	173,012	+16
Return on average equity (based on headline earnings)	20.9%	21.5%	
Efficiency ratio	53.4%	51.9%	
Capital adequacy ratio	11.2%	11.1%	

# Nedcor - BoE integration

## Rationale

- Opportunity to consolidate domestic banking market
- Geographic coverage enhanced
- Build private client wealth management
- Strengthen domestic merchant banking

Capital structure optimised with issue of Tier 2 capital

Expense reduction a focus

EPS accretive in 2002 for Old Mutual





# General insurance - Operating review

	2002 interim	2001 interim	% change
Net premiums (Rm)	2,338	2,151	+9
Operating income (Rm)	308	274	+12
Net insurance reserves (Rm)	2,130	2,011	+6
Operating ratio	97.7%	98.7%	
Solvency ratio	71%	74%	

# United States

# US - Operating profit

\$m	2002 interim	2001 interim	% change
Life assurance*	48	-	
Asset management	88	92	-4
<b>Operating profit</b>	<b>136</b>	<b>92</b>	<b>+48</b>
Operating profit (£m)	93	64	+45

\* Consolidated from 1 July 2001

# US asset management - Key drivers

- Net funds inflow
  - 1% of FUM
  - \$1.3bn inflow through PBA sub-advisory channel
- Strong investment performance
  - 65% of US Morningstar rated funds achieved 4 or 5 Star ratings
  - Approximately 85% of US managed funds outperform respective benchmarks
- Head office costs
  - \$11m reduction compared with H1 2001 (44% annualised)

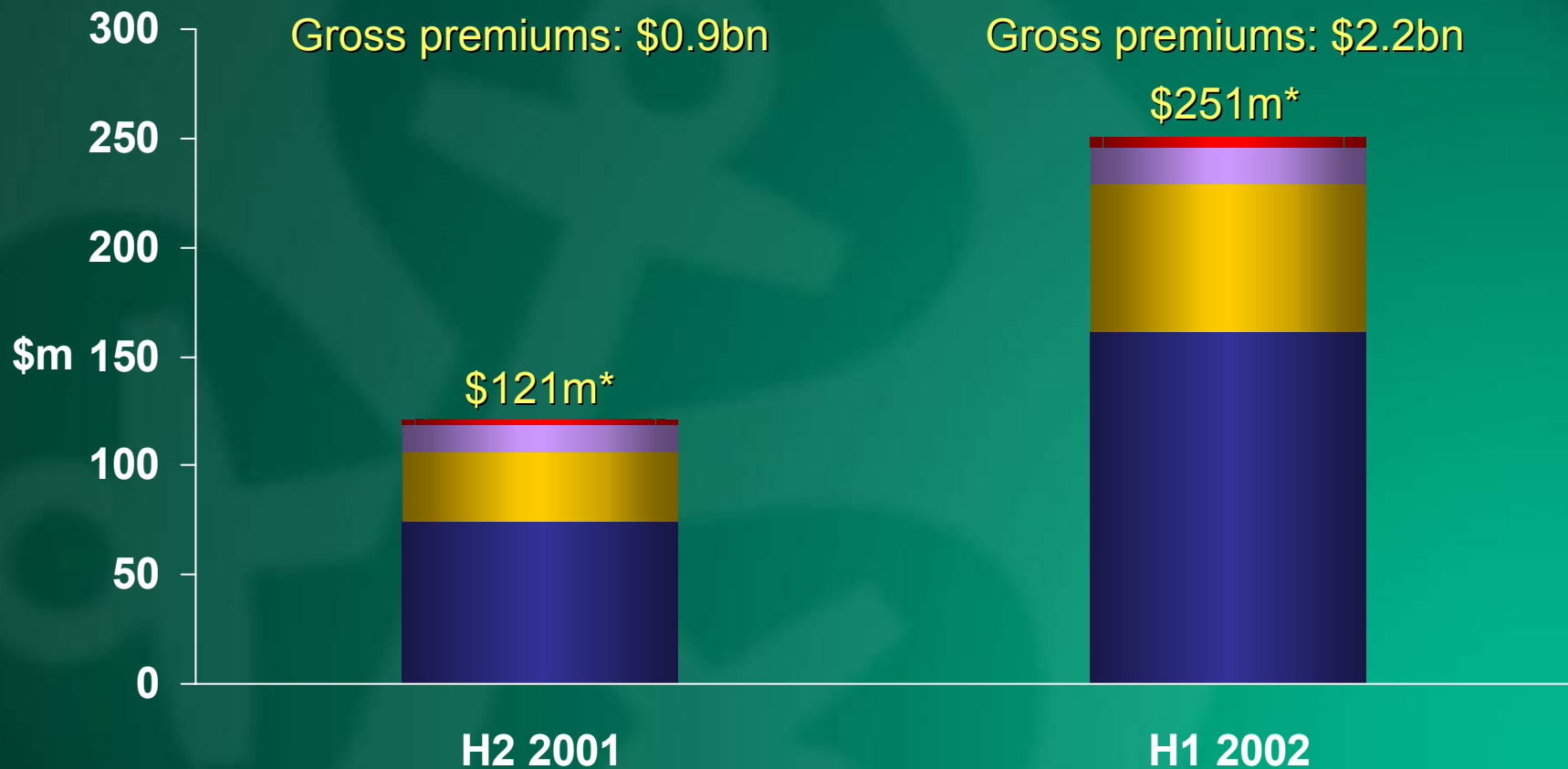
# US funds under management

\$bn	31 Dec 2001	Divested/ transferred	Net cash flows	Market movement	30 June 2002
OMAM(US)*	76.7	-	3.1	-1.7	78.1
PBA	12.6	-	- 1.2	- 2.5	8.9
OMA - Strategic	37.5	- 0.1	- 0.9	0.1	36.6
<b>Sub Total</b>	<b>126.8</b>	<b>- 0.1</b>	<b>1.0</b>	<b>- 4.1</b>	<b>123.6</b>
OMA - Financial	23.1	- 5.3	0.5	- 0.7	17.6
<b>Total</b>	<b>149.9</b>	<b>- 5.4</b>	<b>1.5</b>	<b>- 4.8</b>	<b>141.2</b>

\* Includes assets managed by Dwight on behalf of US Life

# US Life - New business\*

- MGA
- Banks/institutions
- Structured settlement brokers
- Direct writing agents



\* Annual premium equivalent

# US Life - Operating review

	2002 interim	2001 H2	% change
New business margin	18%	15%	
Value of new business (\$m)	45	19	+137
Return on capital	9%	10%	
Embedded value @ 30/6 (\$m)**	912	*803	
Investment to date (\$m)	828	763	

\* 31 December 2001

\*\* Includes new capital

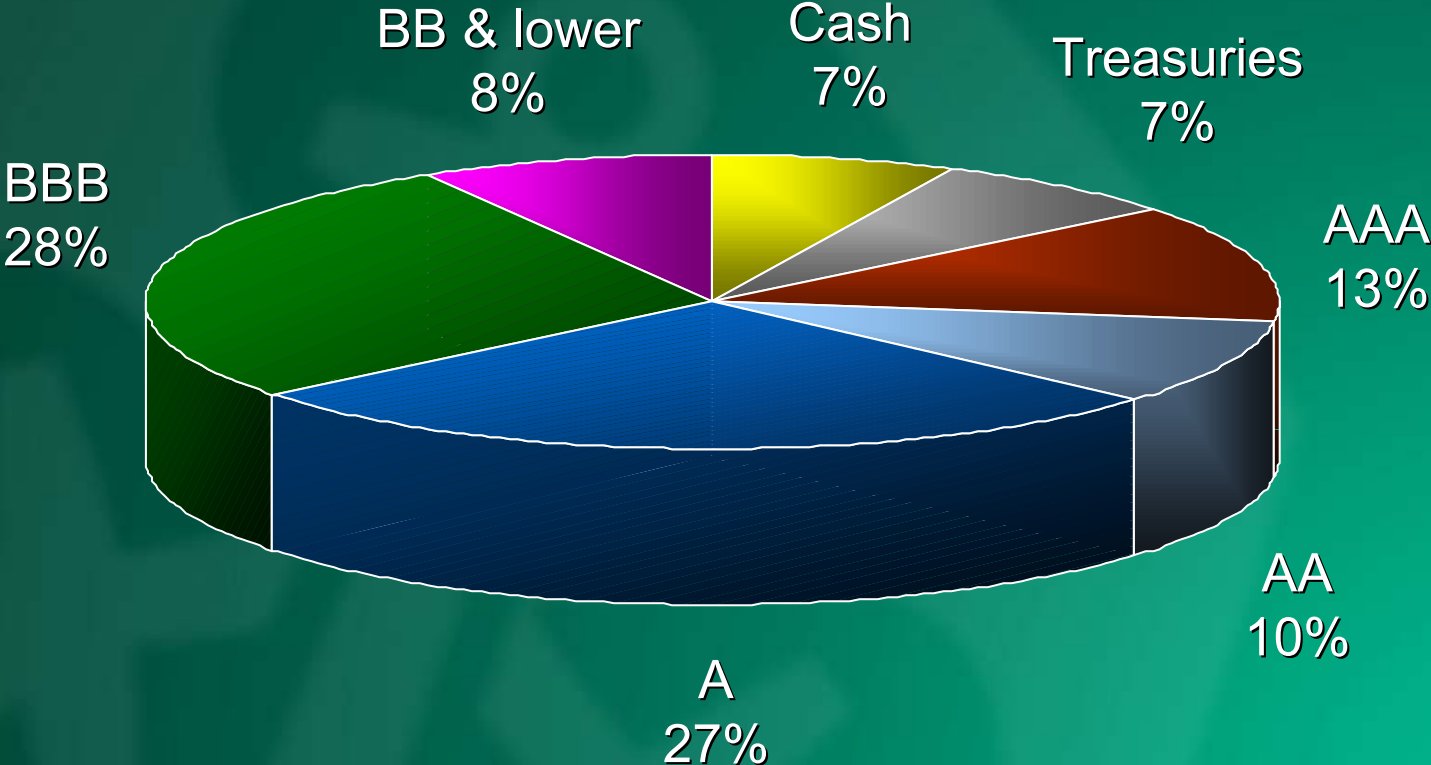


# US Life - Financial strength

	June 2002	Dec 2001
A.M. Best rating (F&G)	A	A
Portfolio average credit quality	A2	A2
Investment portfolio (\$bn)	8.3	6.4
GAAP Investment variance (\$m)*	(7)	7
Defaults/impairments	(32)	(12)
Realised gains	25	19

\* Gross of smoothing over 5 years as per UK GAAP

# US Life - Bond portfolio

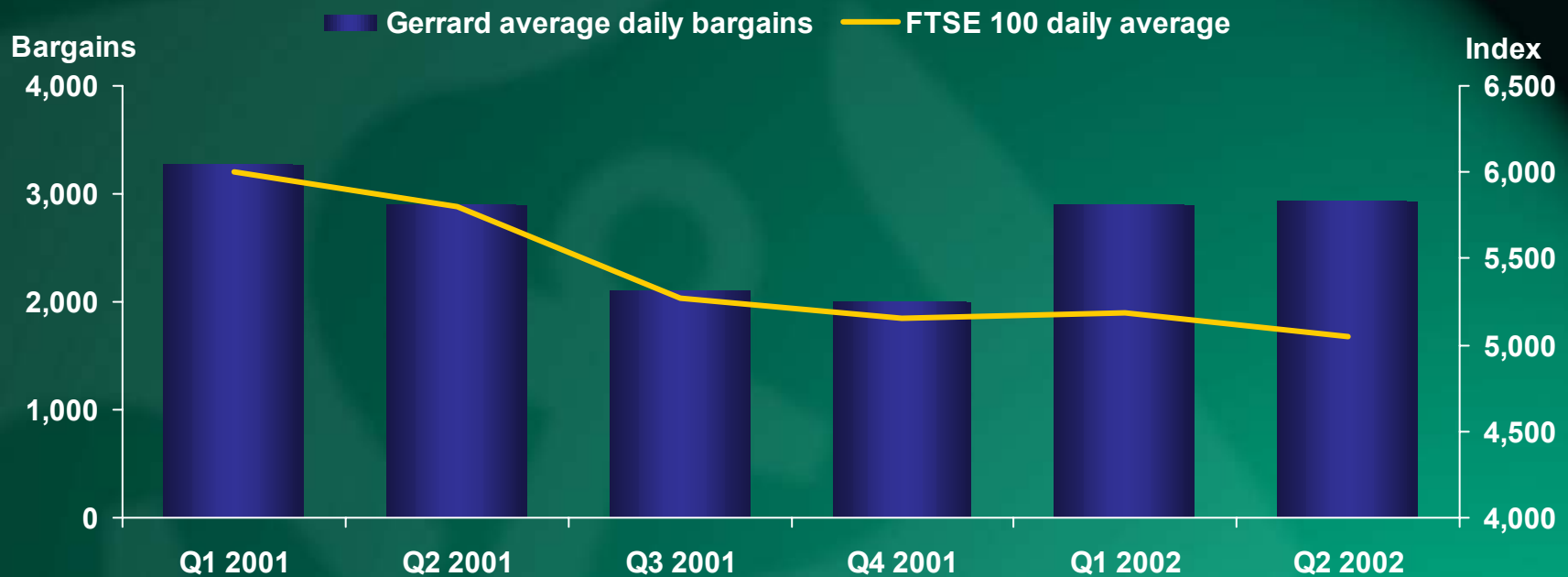


# United Kingdom and Rest of World

# UK and Rest of World - Operating profit

£m	2002 interim	2001 interim
Life assurance	(3)	3
Asset management	5	8
Gerrard	3	10
Gerrard integration costs	0	(6)
OMAM	3	1
GNI	5	6
Other financial services	(6)	(3)
Banking – Nedcor / GPB	29	33
<b>Operating profit</b>	<b>31</b>	<b>44</b>

# Gerrard - Operating background



£m	2002 interim	*2001 interim	% change
Fees	24	28	-14
Commissions	39	42	-7
<b>Total revenue</b>	<b>63</b>	<b>70</b>	<b>-10</b>
Operating expenses	(60)		
<b>Operating profit</b>	<b>3</b>		

Source: Old Mutual, Bloomberg;  
\* Restated for the transfer of GIF to OMAM (UK)

# Overview of Group finances

# Group operating profit

£m	2002 interim	2001 interim	% change
South Africa	291	392	-26
USA	93	64	+45
UK & Rest of World	31	44	-30
Shareholder income/(expense)			
Other	7	8	-13
Head office expenses	(16)	(18)	+11
Debt servicing costs	(25)	(35)	+29
<b>Operating profit before tax</b>	<b>381</b>	<b>455</b>	<b>-16</b>



# Group operating profit (continued)

£m	2002 interim	2001 interim	% change
Operating profit before tax	<b>381</b>	<b>455</b>	<b>-16</b>
Tax	(106)	(107)	+1
FRS 19 tax adjustment	-	(21)	
Minorities	(62)	(78)	+21
<b>Smoothed post tax operating profit</b>	<b>213</b>	<b>249</b>	<b>-14</b>
<b>EPS (p)</b>	<b>5.8</b>	<b>*7.2</b>	<b>-19</b>

\* Restated from 7.8p on adoption of FRS 19

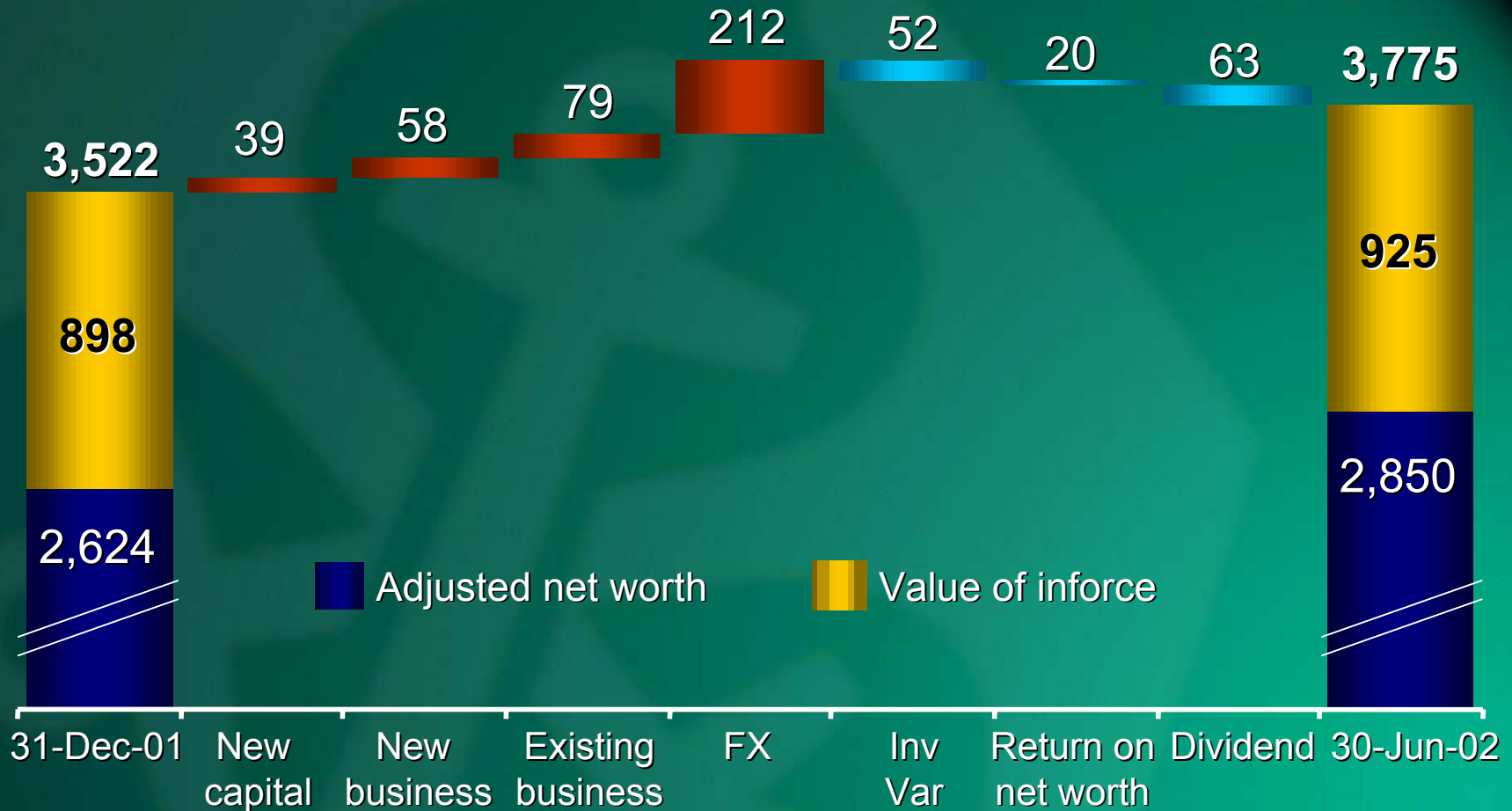
# Capital management - Debt

- €400m Eurobond issue
- Gearing (net) 33%
- Interest cover of 16.2x
  - Interest cover excluding South African earnings 3.3x
- Average cost of debt 3.8%

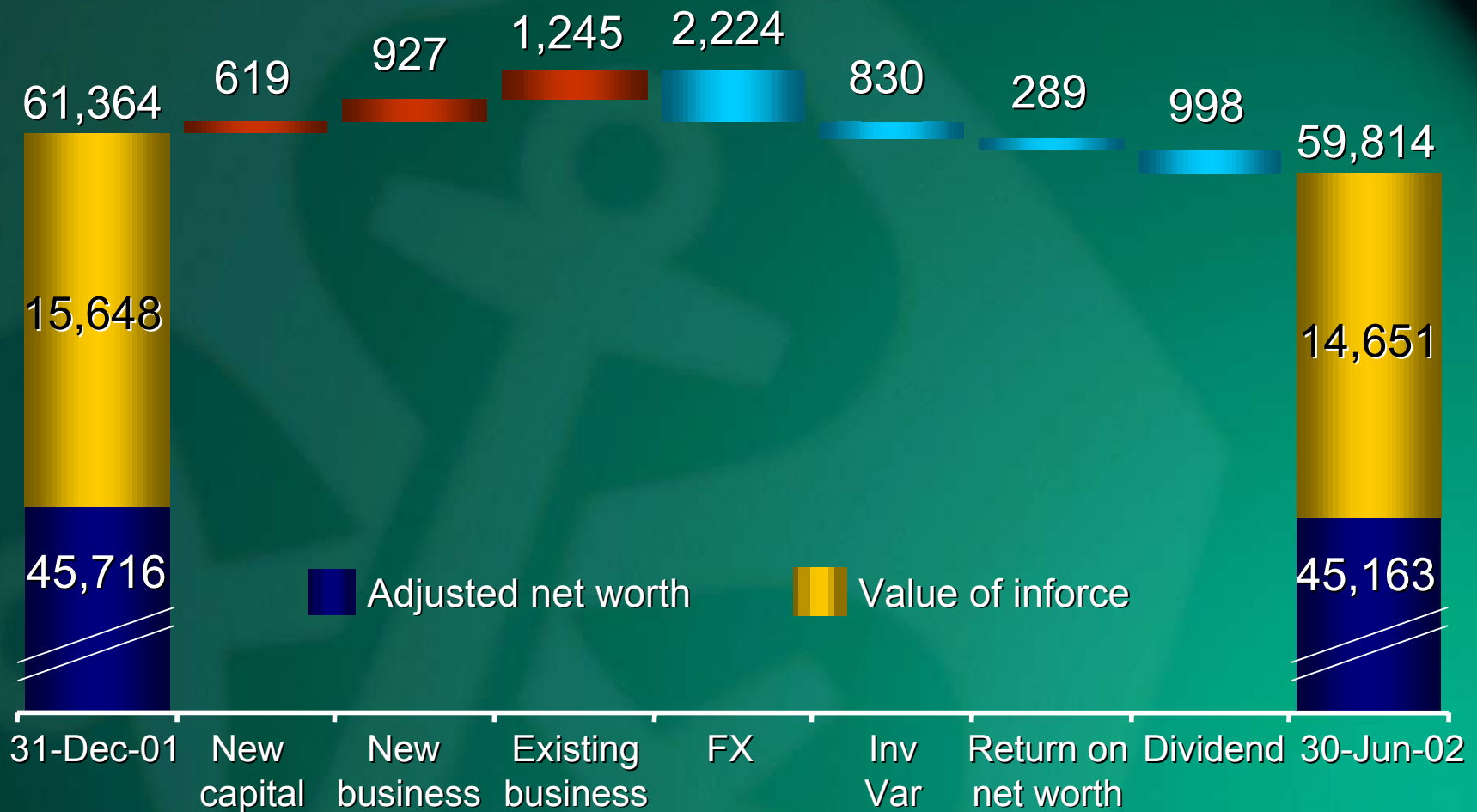
# Capital management - Equity

- Placement of St Paul's holding of 190m shares
  - Over-subscription issue of 38m shares
- Group return on average equity 17%

# Embedded value £m



# Embedded value Rm



# July update

- Equity markets in July
  - S&P 500 down 8%
  - NASDAQ down 9%
  - JSE down 13%
  - FTSE down 9%
- Embedded value estimate for end of July based on market movements only
  - £3.6bn / R57.3bn (down 5% from June)

# Summary

- South Africa
  - Strong new business growth
  - Profit as expected
- US
  - Very good life sales
  - Good investment performance
  - Positive cash flow for asset management
- Gerrard expense reduction delivered
- Strong capital position across the Group

**Jim Sutcliffe**  
**Chief Executive**





# South Africa - What we said...

- World class products and profitability
- Dominant distribution
  - Number 1 in each customer segment
- Bancassurance
- Cross-border servicing
- Targets - 2004
  - Real profits growth of 2-3x real GDP
  - ROC of 20% - 25%

# ...We have achieved

- VNB growth 36%, VNB margin 25%,  
“International” range of products
- Distribution
  - BoE makes Nedcor number 1 in many sectors
  - Life sales force grown
- Bancassurance
  - Premium (APE) growth of 35%
- Swisscard contract signed and systems in place
- Against targets
  - Profit growth of 4%
    - > New business (APE) growth of 21%
    - > Asset growth at Nedcor 16%
  - ROC of 21%



# US - What we said...

- Asset management

- Multi-style specialist asset managers
- Central and local distribution capability and mutual funds
- Targets - 2004
  - > \$5bn p.a. of net client inflows
  - > 10% ROI

- Life

- Focused on fixed annuities and term life
- Distributed by MGAs, banks and independent agents
- Targets - 2004
  - > Grow net cash inflow to \$1bn p.a.
  - > 12% ROI



# ...We have achieved

- Asset management

- Strong investment performance
- \$1.3bn of total sub-advised asset through PBA
- Against targets
  - > \$1.5bn of net inflows in six months
  - > 7% ROI

- Life

- Against targets
  - > \$2.2bn of inflows in six months
  - > 9% ROI



# UK - What we said...

- Focus on HNW asset management
- Build reinvigorated Gerrard base
  - Tighten expenses
  - Move towards 50% discretionary management
- Targets - 2004 (all UK businesses combined)
  - £1bn of net client inflow p.a.
  - £40m of operating profit after tax

# ...We have achieved

- Finalisation of Gerrard strategy

- Add private banking product via GPB
- Integrate financial planning
- Improve delivery and clarity of investment model

- Gerrard expenses reduced

- OMAM (UK) net inflow of £35m to third party funds

- Against targets

- £0.3bn of net client outflow in six months
- £2m of operating profit after tax in six months



# What we said...

Demutualisation  
& listing July 1999

Phase I

**Establish credible  
international presence**

Phase II

**Drive value from  
acquisitions & grow in SA**

Phase III

**Synergy & organic growth &  
complementary international  
acquisitions**

# Steady progress... solid platform

- Strong business platforms and balance sheet
- Solid earnings achieved in difficult markets
- Continuing organic development
- Internationalising of the Group continues

**Well placed for growth opportunities**





# Analyst Presentation

Interim results for the  
half year to 30 June 2002

# Appendix

# Life – Value of new business

£m	2002 interim	Margin	2001 interim	Margin
Individual	16	21%	19	19%
Group	9	40%	7	39%
<b>Total SA life</b>	<b>25</b>	<b>25%</b>	<b>26</b>	<b>22%</b>
United States	31	18%	-	-
Rest of World	2	14%	2	14%
<b>Total</b>	<b>58</b>	<b>20%</b>	<b>28</b>	<b>21%</b>

# OMLAC(SA)\* net cash flow

Rm	Individual business	Group business	Total	Interim 2001
Single premiums	5,770	3,686	9,456	8,110
Recurring premiums	4,912	1,842	6,754	6,274
<b>Total premiums</b>	<b>10,682</b>	<b>5,528</b>	<b>16,210</b>	<b>14,384</b>
Maturities	4,435	-	4,435	3,571
Annuities	1,621	1,039	2,660	2,579
Death & disability	1,049	591	1,640	1,401
Fund benefits	-	761	761	838
Surrenders/terminations	2,638	5,386	8,024	6,654
<b>Total claims</b>	<b>9,743</b>	<b>7,777</b>	<b>17,520</b>	<b>15,043</b>
<b>Net cash flow</b>	<b>939</b>	<b>(2,249)</b>	<b>(1,310)</b>	<b>(659)</b>

\* Including Guernsey business

# Adjusted net worth

£m	June 2002	Dec 2001
<b>South Africa</b>		
Nedcor	939	902
M&F	134	112
Portfolio investments - SA	639	548
Portfolio investments - international	112	126
Portfolio investments - dual listed	172	187
SA asset management	65	55
Cash and other	69	(9)
<b>US</b>		
US asset management (incl. goodwill)	1,184	1,275
US life (incl. goodwill)	314	281
<b>UK and Rest of World</b>		
UK asset management (incl. goodwill)	418	440
Portfolio investments	102	65
<b>Gross debt</b>		
US	(1,205)	(1,245)
UK and other	(93)	(113)
<b>Adjusted net worth</b>	<b>2,850</b>	<b>2,624</b>

# Tax

	June 2002			June 2001		
	Op profit	Tax	Effective rate	Op profit	Tax	Effective rate
<b>South Africa</b>						
Life assurance & asset management	173	52	30%	233	71	30%
Banking (100% Nedcor, incl. OM Bank)	128	25	20%	168	35	21%
General insurance	19	4	21%	24	8	33%
	<b>320</b>	<b>81</b>	<b>25%</b>	<b>425</b>	<b>114</b>	<b>27%</b>
<b>United States</b>						
Asset management	60	9	15%	64	10	16%
Life	33	10	30%	-	-	-
	<b>93</b>	<b>19</b>	<b>20%</b>	<b>64</b>	<b>10</b>	<b>16%</b>
<b>United Kingdom &amp; Rest of World</b>	(32)	6	-	(34)	5	-
<b>Total Group</b>	<b>381</b>	<b>106</b>	<b>28%</b>	<b>455</b>	<b>128</b>	<b>28%</b>