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Ratings

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Old Mutual Ltd.

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Credit Highlights

Overview	
Key strengths	**Key risks**
Leading life, savings, and property/casualty (P/C) insurance provider in South Africa.	Macroeconomic challenges, such as unemployment and inflation, could slow growth and profitability in 2022.
A sound balance sheet, thanks to prudent capitalization, reserve buffers, and product structures.	Weak asset quality of balance sheet, given that the majority of assets are locally denominated and South Africa's economic conditions.
Healthy financial leverage and fixed-charge coverage metrics.	Potential exposure to capital and earnings volatility, such as financial risks related to with-profits operations.

Macroeconomic pressures could challenge growth and profitability ambitions. Old Mutual Ltd. (OML) and the sector as a whole continue to face above-average mortality and persistency experience compared with pre-pandemic levels. While OML's half-year 2022 results showed an improvement in sales and capital stability, uncertainty around future macroeconomic challenges such as unemployment and inflation could slow recovery in 2022. The company has set clear targets for capital and earnings, and we expect that it will take actions to maintain results at least in line with the sector and protect the strength of its balance sheet.

We think that a key credit strength is OML's sound balance sheet, thanks to prudent capitalization, reserve buffers, and product structures. OML is well capitalized, both according to our risk-based capital model ('AA' level benchmark) and on a regulatory basis (184% for year-end 2021, 187% as of half-year 2022), and is a key supporting factor for its creditworthiness. We note the company's earnings-based dividend policy and expect that OML will maintain a disciplined capital management approach, particularly with potential pressures on earnings generation. The significant exposure to lower-rated assets ultimately constrains our assessment of its financial risk profile.

We expect OML's financial leverage and fixed-charge coverage will support its rating level. At end-2021, OML's leverage was about 20% and we anticipate that it may increase over the next year, largely due to potential earnings suppression as a result of economic or market pressures. That said, we expect that the company will largely maintain its debt stack over the next 12 months.

Outlook

The positive outlook reflects our positive outlook on the sovereign.

Downside scenario

An outlook revision to stable over the next 12 months would be driven by a similar action on the sovereign.

Upside scenario

Over the next 12 months, the most likely trigger for an upgrade would be a similar action on the sovereign.

Key Assumptions

- South African real GDP will grow by 2.2% in 2022, then by 1.5% in 2023, and 1.7% in 2024.
- Inflation of 6.1% for 2022 before declining to 5.0% in 2023, and 4.6% in 2024.
- Unemployment, which stood at 34.3% at end-2021, will remain between 34%-36% through 2024.
- Please refer to Credit Conditions Emerging Markets Q3 2022: Risks Accumulate As Conflict Lingers, June 28, 2022.

Old Mutual Ltd.--Key Metrics

(Mil. ZAR)	2017	2018	2019	2020	2021	2022f	2023f
S&P Global Ratings capital adequacy	Strong	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
EBITDA fixed charge coverage (x)	5.3	11.7	13.3	0.1	14.7	3x-4x	3x-4x
Financial leverage (%)	10.9	11.4	13.5	15.4	19.6	~20	~20

ZAR--South African rand. f--Forecast data reflects S&P Global Ratings' base-case assumption. Figures relate to Old Mutual Limited, data not available prior to 2017. EBITDA fixed charge coverage is calculated excluding collateral held. 2018 and prior capital adequacy nomenclature is based on old criteria.

Business Risk Profile

OML, through its 100% ownership of OMLACSA, is the leading player in the life and savings insurance industry in South Africa. It reported consolidated gross premiums earned of South African rand (ZAR) 83.8 billion (about $5.3 billion using the Dec. 31, 2021, exchange rate) and assets under management of ZAR350.9 million in the personal finance/wealth division and ZAR809.1 million under Old Mutual Investments at year-end 2021. OMLACSA holds a leading position in both the retail (mass and foundation cluster) and corporate segments. The company is looking to regain its competitive edge in the mass and corporate segments, which have recently shown improvements but are somewhat more exposed to macroeconomic headwinds. The personal finance segment, which faced material COVID-19 related losses, and the investment divisions are working on strategies to improve performance and distribution arrangements.

In addition to South Africa's main life insurer, OMLACSA, OML also owns a number of African insurance operations across East/West Africa and the Southern African Development Community region, albeit these are small in both absolute and relative terms for OML. OML also owns 100% of Old Mutual Insure, a South African P/C insurer. OML's key peers are Liberty, Discovery, MMI, and Sanlam in the life and savings market and Santam in the P/C sector.

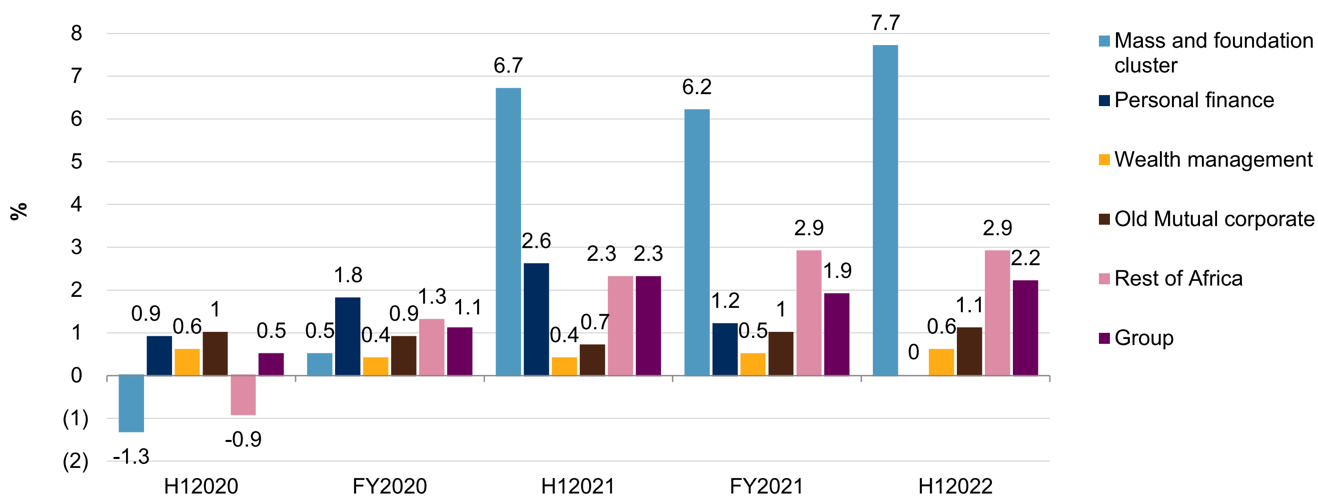
OML's operating performance has demonstrated the expected recovery in sales with overall sound margins, as economies eased away from lockdowns and pandemic-related restrictions, along with a better-than-anticipated operating performance during the rise of the omicron variant. For the six months ending June 30, 2022, Life APE's sales improved by 15% to ZAR6.2 billion and results from operations improved to ZAR4.1 billion from ZAR2.2 billion over the same period last year (ZAR1.5 billion for first half 2020). The company recorded growth in value of new business (VNB) for the mass and corporate divisions, which was more than offset by a VNB reduction in personal finance on the back of volume and sales mix strain. This resulted in VNB for the period of ZAR708 million, down 4% when compared with the prior period. New business margins were largely stable at 2.2%, for half-year 2022, compared with 2.3% for the same period last year. Funds under management reduced by 7% to ZAR1.2 trillion on account of weaker financial markets.

We anticipate that OML's top line will grow largely in line with GDP. However, we remain cautious about the dampening effects of macroeconomic factors, such as rising unemployment and lower disposable income, which could feed through to retail and corporate customers. We believe that the company will undertake initiatives to manage its cost structure and maintain its underwriting discipline in response. In our base case, we expect that OML will be able to maintain a sound operating performance and its leading market position over the next two years. We also expect that OML will continue to execute on initiatives to progress on its stated financial targets and strategic actions to defend its market leading positions, which provides it with scale and diversity.

Chart 1

New Business Margins

VNB margins have improved with recovery in sales volumes in H12022

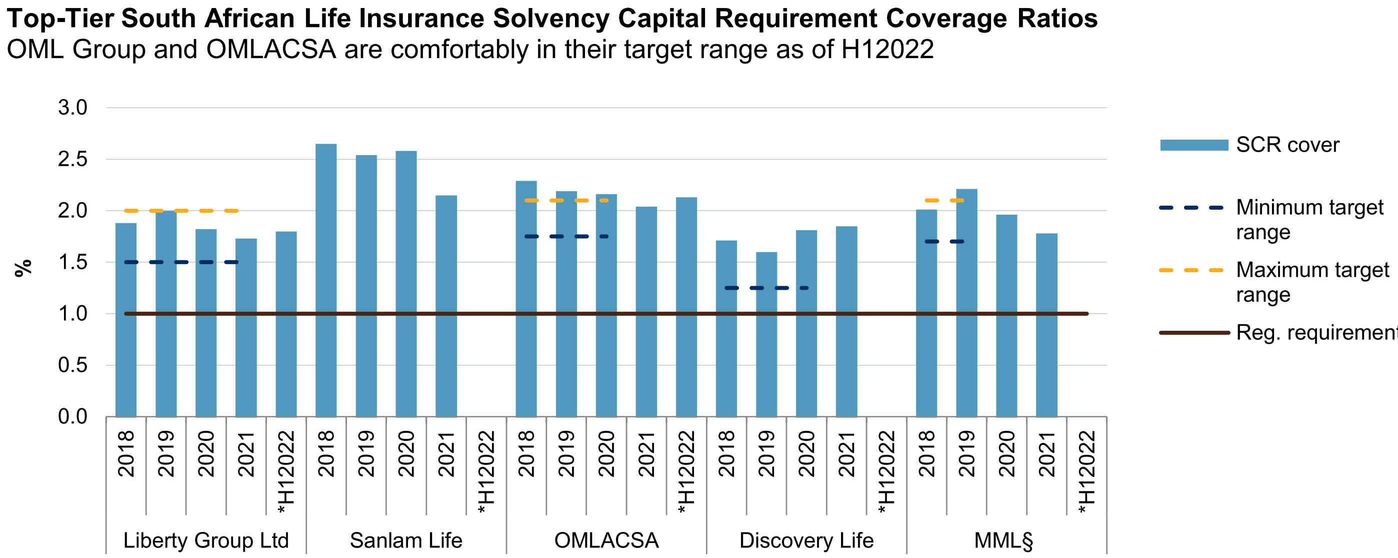


VNB--Value of new business. FY--Financial year. H1--First half. Source: S&P Global Ratings.

Financial Risk Profile

At half-year 2022, OML reported a net profit excluding non-controlling interests of ZAR5,222 million (ZAR2,984 million for first-half 2021). Old Mutual declared an interim dividend of 25 cents per share, in line with the prior year interim dividend. Given OML's large balance sheet, pandemic-related losses over recent months and ongoing financial market turmoil have not materially weakened its capital adequacy thus far. We note that OML continues to face uncertainties such as potential exposures from asset and investment risk. Our current assumption is that management will continue to maintain a disciplined approach to capital management and maintain its sound balance sheet over the next 12 months.

Chart 2



SCR--Solvency capital requirement. *H12022 data as of June 30, 2022; MML year-end is June 30 (SCR as per December end for 2018-2021).

Source: S&P Global Ratings and Audited Financial Statements.

The resilience of OML's balance sheet to market volatility is supported by substantial buffers within OMLACSA's with-profit policyholder funds (WPF). Such buffers, in particular the bonus-smoothing reserves and the nonvested part of the bonuses, could offset the potentially high volatility due to substantial investment in equities within the WPF. The investment guarantee reserves are dynamically hedged and backed with discretionary margins to buffer against any residual market risk.

This liability profile, which includes significant mechanisms for sharing profits and losses with policyholders (including the ability to make negative bonus declarations, as well as market risk hedging programs), contributes to our view of the balance sheet's resilience to investment market volatility. In addition, most products pay market value on termination. The loss-sharing feature was seen in action when OML declared a minus 5% bonus in 2020 in its absolute growth portfolio, demonstrating the capital levers to absorb unprecedented market volatility. That said, we continue to believe that the highly competitive nature of the savings market and high policyholder expectations might discourage OML from making full use of the loss-sharing mechanisms in less extreme stress events.

OML's capital adequacy is constrained by its low asset quality. The average credit quality of OML's asset portfolio is within the 'BB' rating because the significant majority of its assets are held as bank deposits (in local banks) and local currency sovereign bonds. OML also maintains substantial asset exposure to what we refer to as high-risk assets, such as equities, properties, loans, and speculative-grade and unrated bonds, although the profit-and-loss sharing mechanisms described above also mitigate this. On a regulatory basis, at half-year 2022, OML reported a group solvency ratio of 187% (184% at year-end 2021) and OMLACSA reported 212% (203% at year-end 2021). OML therefore sits comfortably within its target ranges of 170%-200% for OML and 175%-210% for OMLACSA.

The modest financial leverage of about 20% for year-end 2021 supports the balance sheet's strength. We expect that leverage could increase if earnings are suppressed as a result of weaker macroeconomic or financial markets, but the company will maintain a largely stable debt stack. We also expect that EBITDA financial coverage will remain solid, although we note that it has been volatile over the last few years due to COVID-19 and investment losses.

Other Key Credit Considerations

Governance

We believe that OML benefits from sound governance and risk management. We note the focus on developing a strong IT infrastructure and an agile operating model, which could enable OML to become more cost efficient and maintain its market position.

Liquidity

OMLACSA's liability bias toward smoothed with-profit business and the related heavy exposure to equities lead to heavy charges under our liquidity analysis, compared with insurers with asset allocations mostly geared toward investment-grade bonds. Still, OMLACSA and OML maintain exceptional liquidity thanks to the liquid nature of investments backing liabilities and their ability to apply market value adjustments in case of a lapse surge in a stressed market.

Ratings above the sovereign

We cap our global scale ratings at the long-term local currency rating on South Africa. This is because, in our view, OML's asset and liability concentration in the domestic economy makes it susceptible to the financial and macroeconomic stresses associated with a local currency sovereign default.

Factors specific to the holding company

We base our ratings on OML on the overall creditworthiness of the OML group and OML's structural subordination as a nonoperating holding company.

Group support

OMLACSA is, and will likely remain, by far the largest subsidiary of OML, representing approximately 79% of OML's total assets and 67% of its gross earned premiums at year-end 2021. We therefore assess OMLACSA as core to the group.

Accounting considerations

OML reports under International Financial Reporting Standards (IFRS), and will therefore be required to implement IFRS 17 in due course regarding the valuation of its insurance liabilities.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of OML.

Rating Score Snapshot

Ratings Score Snapshot	
Business risk profile	**Satisfactory**
Competitive position	Strong
IICRA	Moderately high
Financial risk profile	Fair
Capital and earnings	Satisfactory
Risk exposure	Moderately high
Funding structure	Neutral
Anchor*	bbb-
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial strength rating§	BB

*This is influenced by our view of Old Mutual's capital levels and underwriting margins compared with most of its similarly rated peers. §Note that the financial strength rating applies to the main operating company, OMLACSA.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

Old Mutual Ltd.--Credit Metrics History

Ratio/Metric (Mil. ZAR)	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy*	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Strong
Total invested assets	998,041.0	881,677.0	865,184.0	829,814.0	814,964.0
Total shareholder equity	65,301.0	69,323.0	77,925.0	81,420.0	183,445.0
Gross premiums written	83,841.0	81,571.0	80,758.0	78,729.0	72,323.0
Net premiums written	72,551.0	72,462.0	72,760.0	72,046.0	65,630.0
Net premiums earned	72,551.0	72,462.0	72,760.0	72,046.0	65,630.0
Reinsurance utilization (%)	13.5	11.2	9.9	8.5	9.3
Net income (attributable to all shareholders)	7,463.0	(5,348.0)	9,655.0	42,708.0	20,364.0
Return on revenue (%)	(78.7)	(15.8)	(22.0)	51.7	N.A.
Return on assets (excluding investment gains/losses) (%)	(10.5)	(2.2)	(3.3)	3.4	N.A.
Return on shareholders' equity (reported) (%)	11.1	(7.3)	12.1	32.3	N.A.
P/C: Net combined ratio (%)	110.4	114.6	109.0	104.7	N.A.
P/C: Net expense ratio (%)	51.1	47.9	44.9	43.9	N.A.
EBITDA fixed-charge coverage (x)	14.7	0.1	13.3	11.7	5.3
Financial obligations / EBITDA adjusted	0.9	116.7	0.8	0.9	2.0
Financial leverage including pension deficit as debt (%)	19.6	15.4	13.5	11.4	10.9
Net investment yield (%)	4.2	4.5	5.1	4.8	N.A.
Net investment yield including investment gains/(losses) (%)	16.7	6.5	10.2	2.5	N.A.

*Note that the financial strength rating applies to the main operating company, OMLACSA. 2018 and prior capital adequacy nomenclature is based on old criteria. ZAR--South African rand. P/C--Property/casualty. N.A.--Not available.

Ratings Detail (As Of November 10, 2022)*

Operating Companies Covered By This Report	
Old Mutual Ltd.	
Issuer Credit Rating	
South Africa National Scale	zaA+/--/zaA-1
Old Mutual Life Assurance Co. (South Africa) Ltd.	
Financial Strength Rating	
Local Currency	BB/Positive/--
Issuer Credit Rating	
Local Currency	BB/Positive/--
South Africa National Scale	zaAAA/--/zaA-1+
Subordinated	
South Africa National Scale	zaA+
Domicile	South Africa

Ratings Detail (As Of November 10, 2022)*(cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.