

Embedded Value Market Comparison

31 December 2014

Definition of Embedded Value (EV)

$$EV = \text{Adjusted Net Worth} + \text{Value of In-force} - \text{Cost of Capital}$$

where:

- **Adjusted Net Worth (ANW)** is the excess of the market value of assets over the value of the statutory liabilities.
- **Value of In-force (VIF)** is the present value of the future profits that are expected to emerge from the insurer's books of business (net of tax). This is essentially the release of the margins of prudence (which are included in the statutory liabilities) as profit in future years.
- **Cost of Capital (CoC)** is the opportunity cost of holding the required capital.

Your company Economic Assumptions

	31 Dec 14	31 Dec 13
Gilt Yield (10 year term)	10%	10%
Equity Risk Premium	3%	3%
Inflation	5%	5%
Risk Discount Rate Premium	2%	2%

Your company Embedded Value Results

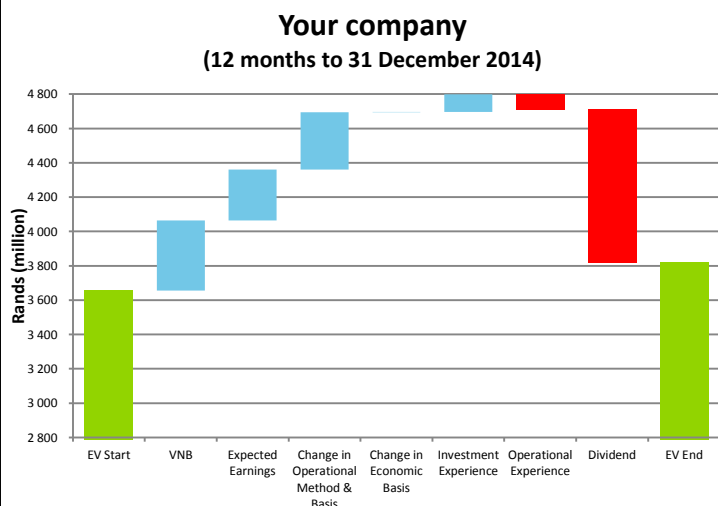
	31 Dec 14 Rm	31 Dec 13 Rm	Change
ANW	Xxxx	Xxxx	X%
VIF	Xxxx	Xxxx	X%
CoC	Xxxx	Xxxx	X%
Total EV	Xxxx	Xxxx	X%
Value of new business	Xxxx	Xxxx	X%

On a comparable basis and method the VNB decreased by Y%

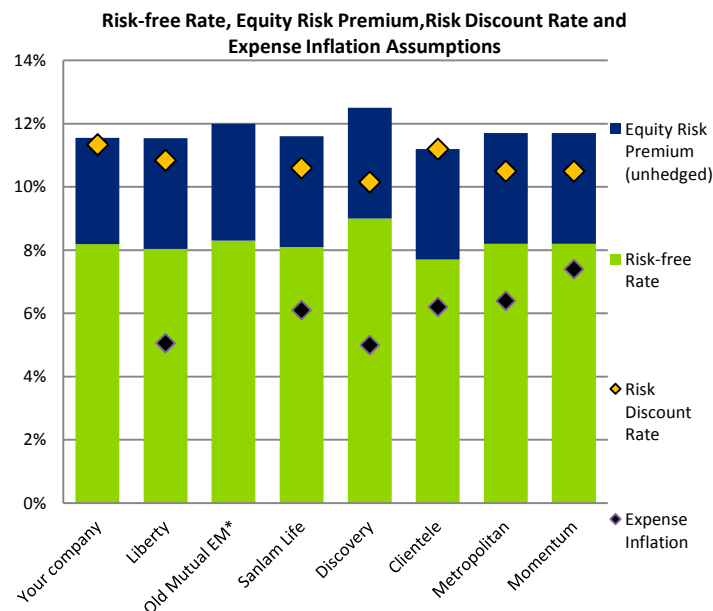
Product	VNB 31 Dec 14 Rm	VNB margin
Channel 1	Xxx	Y%
• Channel2	Xxx	Y%
• Channel3	Xxx	Y%
• Channel4	Xxx	Y%
• Channel5	XXX	Y%

Total	XXX	Z%
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Your company Embedded Value Earnings



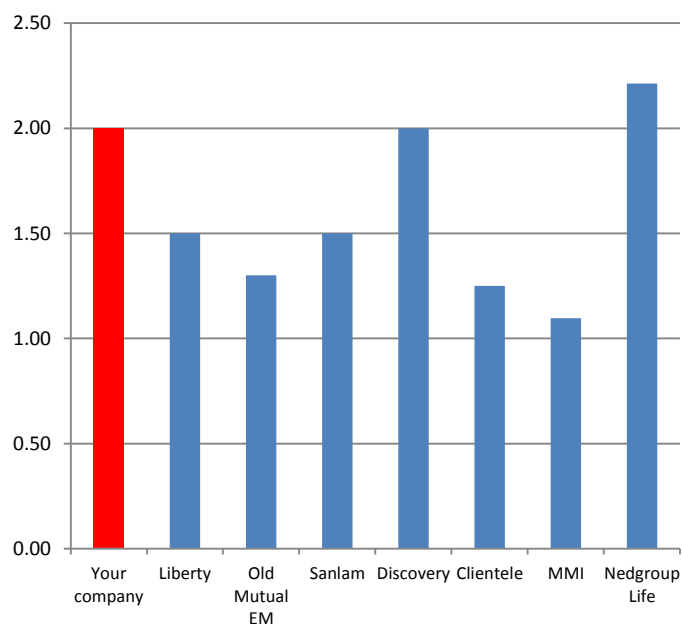
Comparison of Economic Assumptions



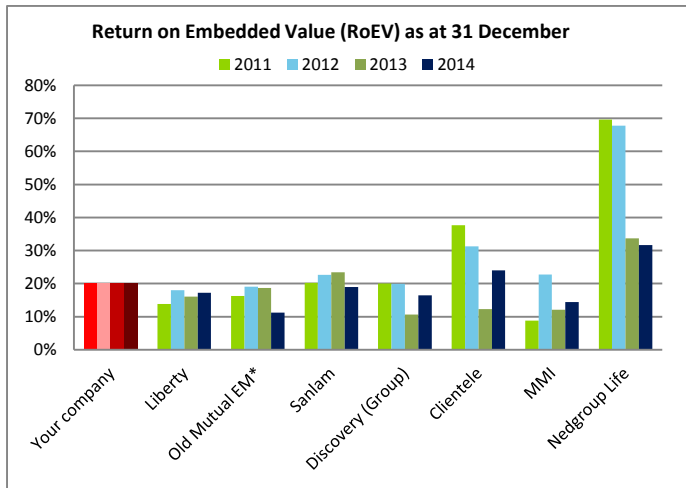
*10 year point on yield curve (Old Mutual uses MCEV approach)
Excludes Nedgroup Life as no information is disclosed in financials.

Comparison of Required Capital Ratio

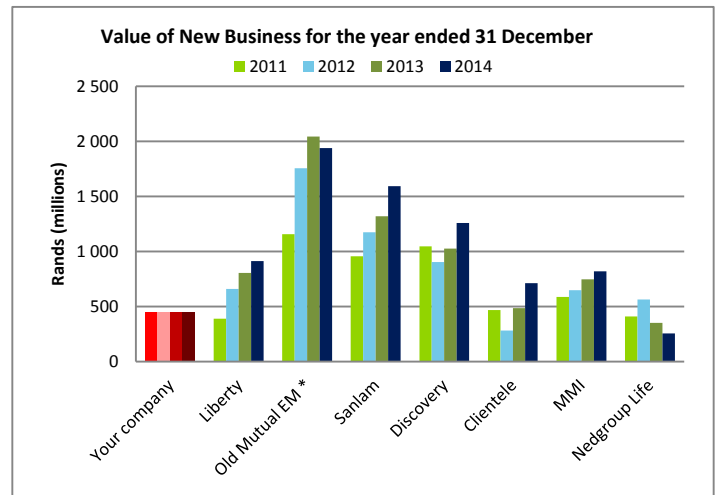
Ratio of Required Capital to Statutory capital as at 31 December 2014



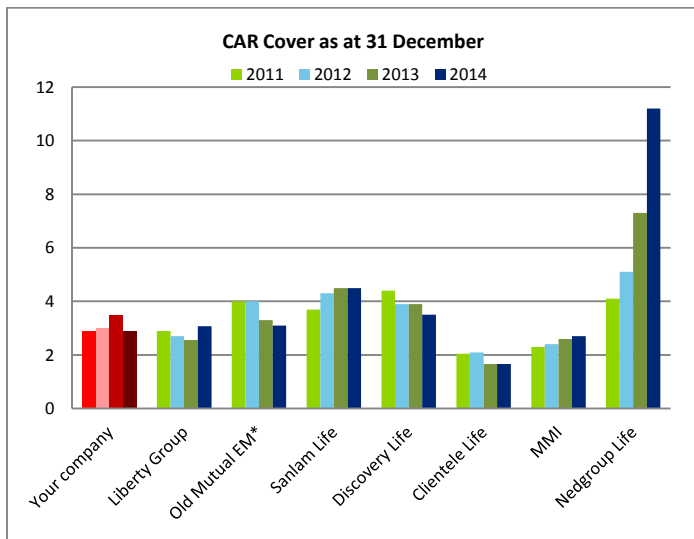
Market Comparison of Performance



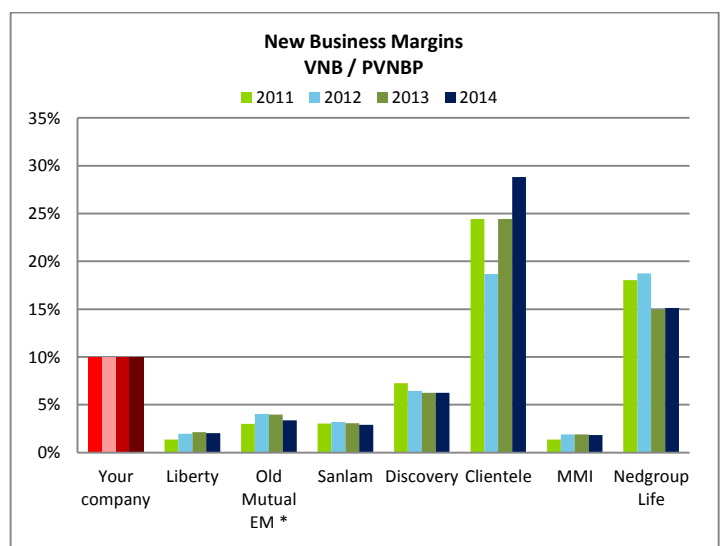
RoEV ratio = EV profits earned (adjusted for capital raised and dividends paid) / EV at the start of year.



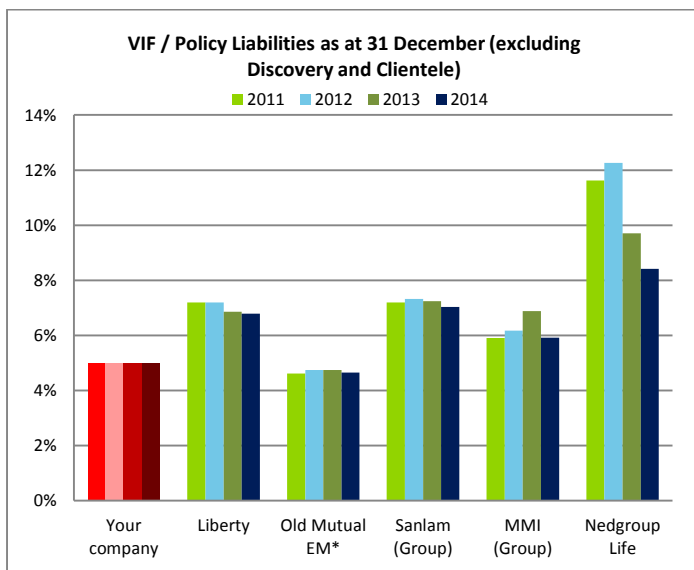
Value of New Business = present value of future profits on all new policies sold during the year.



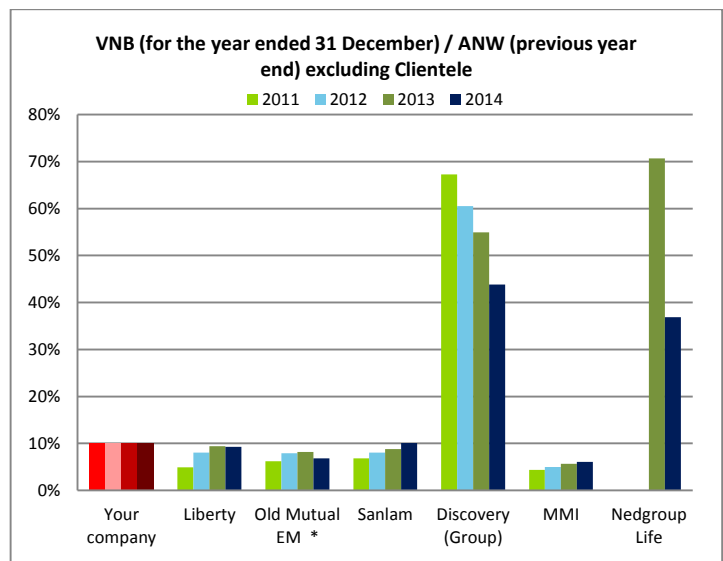
CAR cover = free assets (ANW) / capital requirement (CAR).



New Business Margin = Value of New Business / Present Value of New Business Premiums.



Discovery Life 67% (76% 2013) and Clientele 226% (170% 2013).



Clientele 151% (127% 2013), Nedgroup Life 127% for 2011 and 170% for 2012

* Old Mutual South Africa incorporated into Old Mutual Emerging Markets from 2009.

Comparison of Assumption Changes and Experience Variance Earnings Components

EV earnings components (12 months to 31 December 2014) expressed as % of opening EV and the primary driver of the earnings:

Company	Operating experience variance	Operating experience driver	Operating assumption changes	Operating assumption driver	Investment variance	Economic assumption changes
Your company	X%	YYY	Y%	YYY	Z%	YYY
Sanlam	+ 2.3%	Risk	+ 1.2%	Methodology changes	+ 4.3%	+ 0.2%
Discovery*	+ 3.1%	Persistency	- 2.2%	Methodology changes	+ 0.8%	+ 4.9%
MMI*	+ 1.4%	Risk	+ 1.6%	Expenses	+ 1.6%	+ 0.1%
Liberty	+ 2.5%	Risk	- 0.9%	Persistency	+ 4.0%	+ 0.2%
Clientele*	+ 0.6%	Persistency	- 1.8%	Persistency	+ 1.5%	- 0.7%
Old Mutual EM	- 1.6%	Risk	+ 1.7%	Risk		+ 1.0%
Nedgroup Life	+ 11.7%	Detail not available	- 3.1%	Detail not available		+ 3.8%

* Value calculated from previous financial statements

Comparison of Most Significant EV Sensitivities

Sensitivity which results in the greatest positive impact on the VIF and VNB EV components as at 31 December 2014):

Company	Component	Sensitivity	Impact
Your company	XXX	YYY	Y%
	XXX	XXX	Z%
Sanlam	VIF*	Mortality / Morbidity - 5%	5%
	VNB	Persistency - 10%	14%
Discovery	VIF	RDR - 1%	10%
	VNB	RDR - 1%	19%
MMI	VIF	RDR - 1%	9%
	VNB*	Persistency - 10%	20%
Liberty	VIF	Persistency - 10%	7%
	VNB	Persistency - 10%	21%
Old Mutual	VIF	Maintenance expenses - 10%	8%
	VNB	Persistency - 10%	22%
Nedgroup Life	VIF	Mortality / Morbidity - 5%	5%
	VNB	Maintenance expenses - 10%	5%

* Sensitivity for life policies only (i.e. not annuities).

** based on published information which was not directly comparable to other companies.

*** Clientele does not publish suitable EV sensitivity disclosures for comparison

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