OLD MUTUAL EMERGING MARKETS AFRICA UPDATE

TRANSCRIPT

19 November 2014

Ralph Mupita: Good afternoon. I'm pleased to see some very familiar faces, but for those of you who have not met me, my name is Ralph Mupita, I'm responsible for the Old Mutual Emerging Markets businesses, namely all the Life and Savings businesses, asset management, property and casualty businesses in Africa – including South Africa – Latin America, and in Asia. I know that some of you came to our event in Cape Town last year, so good to see all of you and your faces here, but perhaps for those who didn't meet me, I hope that you would have been able to view our webcast.

What we're planning to do in the next 45 minutes or so is to give you an update on our rest of Africa business. Some of the slides that you'll see will have been updated, but we're trying not to repeat too much of what we said last year. Let me move swiftly over the usual disclaimer and onto our agenda for today. Here's what we're aiming to cover. I'll give you an overview of the shape and size of our businesses in Old Mutual Emerging Markets, in order to give you some context around the conversation we'll have. I'll then go on to talk about our strategy for expansion, and also give you an update on progress. Katie will then talk to you about the very important matters of our financials, and I'll then make a few concluding remarks before we open the floor to questions.

Let me start with an overview of the Old Mutual Emerging Markets business. We now run all our life and savings and asset management business, property and casualty under one single executive committee structure. This means that we can develop and execute integrated plans for each of our geographies across product lines, including the credit businesses that we have. We're breaking down silos, creating value through removal of duplication, and we're working closely with our colleagues in Nedbank to make sure that we've identified and achieved all of the collaboration benefits that exist.

One way of thinking about our business is to look at the way the assets that we have are managed, and where the customers are. So on the slide, you will see we have around nine million customers in emerging markets, and manage just short of 900 billion rand of assets. Unsurprisingly, the bulk of these assets are in South Africa; that's where we started our business, and it remains our heartland.

But our rest of Africa businesses, the subject of today's presentation, are growing rapidly, not only in Southern Africa, which is where we have been operating for the longest period, but also increasingly in the target markets of East and West Africa. Overall we have about 2.8 million customers in the rest of Africa, and manage about 58 billion rand of assets.

Just to complete the picture that you see here, we also have growing businesses in Asia. In India and China we're actually in joint venture businesses, and we're in three countries in Latin America: Columbia, Mexico and Uruguay. These are all markets where we see long-term structural growth prospects, and we've talked about this before in previous presentations so I'm not going to go through it again given the short time we have today.

So those are the markets we're in, but as we look at assets and customers, it's obviously also important to look in the region in terms of the profit contribution and profit growth potential. What you see in the slide is on the y axis the profit contribution of the businesses in 2013, and on the x axis we have a five-figure compounded average growth rate to the end of 2013. The size of the bubble represents the overall amount of profits generated by each business.

So let me pull just out two of the bubbles to illustrate an important point. What you see is the South African retail affluent business, a core business that we've managed for a really long time, represented by the dark green bubble, generates about 35% of all our profits in Old Mutual Emerging Markets. And this has a compounded growth rate of about 9% of growth. At the extreme, you can see the rest of Africa business making a smaller contribution, but growing very, very fast. Nearly 50% compounded annual growth rates over the last five years.

If we were to look at a 2020 view of this, I would expect the size of the rest of Africa business bubble to increase quite significantly as it moves up the y axis, but it's CAGR will fall to perhaps mid-twenties off the higher base, so representing very acceptable rates of growth.

So moving onto how we're going to make this happen, our strategy for growth in the rest of Africa, our vision is to build an African financial services champion business by 2020. What this means to us is that we want to be number one or number two long-term savings and insurance business in our chosen markets. We want to also have an excess of 10 million customers in Africa, outside of South Africa. The rest of Africa will have an increasing percentage profit contribution, and we'll be wanting to achieve ROEs within our range of 20–25%. We do however expect that in the short-term, particularly through our investment period, our ROEs will be lower, and Katie will talk to us more about this in her section.

We have a disciplined approach to growth. There are perhaps five key points that I would like to illustrate today. The first of them, we take the regional approach: different approaches to different markets as appropriate, within the overall umbrella of operating under one business. We're using similar products, IT and processes, specifically leveraging the skills and expertise that we have within our South African business. This improves our speed to market, creates economy of scale, de risks operations, particularly with these small markets that we operate in. Just to answer a question that I've been asked several times, it's not in terms of us taking a product from South Africa and taking it to, say, Ghana, in its existing form. We'll take the basic product structure as well as the actuarial and process learnings from other markets, but we'll understand that there are local nuances that we need to accommodate depending on the culture, what customers want, and of course what they can afford. Many potential competitors simply don't have this inherent product advantage, we believe.

It's also important for us to create strategic partnerships and alliances, not least because it will give us local people with local knowledge, people who can help us with understanding the local microeconomic environment and the cultures. Strategic partnerships are important; as we have known from working with Nedbank in South Africa, parts of banks are very important, particularly building distribution capabilities. I think in the future, and maybe not so far away, parts of mobile telephone companies will also be increasingly important.

We also recognise that growing Africa isn't just about organic growth, but we also need to be able to do M&A activity in order to be able to scale rapidly. As ever, acquisitions will only be pursued where they meet strict investment criteria, and can be achieved with our capital and risk disciplines. We're specifically focusing our M&A activity in East and West Africa, and you have already seen our acquisition of life and P&C businesses of Oceanic Life in Nigeria, a majority stake in Faulu Kenya, and the Provident Life Business in Ghana.

And finally, good governance, risk management, capital allocation disciplines are absolutely vital. We make sure that we have the Boards in country at a regional level that allows us to ensure that our companies are well-run, that they align to our group operating model which defines how these businesses are run, and what risk management parameters and approaches will be taken.

Before I want to talk about what our focus is, I just want to show this chart, which illustrates our African footprint today in terms of countries, lines of business, and it also shows our current market share position as measured by market share. You'll also see clearly that in many markets we already have a number one or number two position across all our lines of business. In Ghana, Kenya and Botswana, we are well-positioned to achieve a market-leading position. In Nigeria we only just entered the market, so naturally we have a lower market share position and we're growing fast, and I'm confident that we'll achieve our aims within the time scale that we set ourselves.

This next slide shows how we categorise the African market for our strategic purposes. Firstly, we have what we call established markets – that is Namibia, Zimbabwe, Malawi, Botswana and Swaziland. These are relatively mature markets and we have well-established businesses there. Not everybody realises that, but we've been operating in Zimbabwe for over 100 years and in Namibia for over 90 years. In these established markets, our focus is to maintain our market-leading position, to add digital distribution, and really integrate our property and casualty and banking businesses with our life operations. We'll also use our expertise in this market to support growth elsewhere.

Our core growth markets are Kenya in the east, Nigeria, and Ghana in the west. These are fast-growing economies where the demographics support financial services growth potential, and in what we view as must-win markets. We'll offer integrated financial services, and we aim to be one of the top two players by 2020. We recognise that in these markets we may have to pay a premium to acquire the right assets to allow us to build scale more rapidly. We'll use our position as established in core growth markets to enter what we call network markets, which include Angola, Zambia, Uganda and Tanzania. This is very much a phase two approach; we can't do everything at once, and therefore we'll only target those markets when we have a strong position to build off within our core growth markets. Our current intention is that in the network markets, we'll adopt a capital-light approach, and we'll focus on specific sectors and niche opportunities.

Finally, there are what we term exposure markets; Morocco, Algeria and Egypt are examples. These are not priorities for us at the moment. They require different products, different language and cultures, but we will consider establishing a foothold in these markets over the longer-term. It is likely that we'll enter these markets through minority stakes in existing players, and as you know, we've allocated 5 billion rand for expansion in the rest of Africa in addition to the capital set aside by Nedbank for the same purpose. To date, OMEM has spent around 700 million rand; we'll continue to explore opportunities in East and West Africa, but we're not in a rush to spend this capital. Notwithstanding the comments I made earlier about paying a strategic premium, we'll only invest where the opportunity complements our strategy and meets our investment criteria and risk hurdles.

Moving on to progress, we've made some progress in executing our strategy in our core growth markets. In Nigeria we acquired the life business in quarter one 2013, and the property and casualty business in quarter four 2013. We're making good progress in integrating these businesses, which have now been rebranded Old Mutual Nigeria. We're building a strong distribution network; in the retail mass market we've launched the worksite model, which is a model that has worked very successfully for us in South Africa, and are in the process of training client advisors.. We're piloting bancassurance in about 20 Ecobank branches. In terms of products we're ready to launch, subject to regulatory approval, a new risk and savings product in the retail mass market and an advance on group life products that we distribute through the Ecobank network. We now have over 600,000 customers in Nigeria, of which about 300,000 were gained from a group life scheme we secured from the Nigerian armed forces. And we have around 45 agents now that we've trained, ready to sell our new products. Our priorities going forward are to expand our product range, expand distribution, build the brand, invest in financial education, and M&A opportunities where are appropriate.

In Ghana, we've acquired Provident Life and integration is going very well. We're in the process of rebranding the business to Old Mutual, and we've completed the upgrade of our branches which we believe will increase our brand visibility and improve access to customers. We have significantly increased the number of advisors from just over 100 to close on to 300, and plan to further expand our distribution network substantially over the next three years. Again, we've got a bancassurance agreement with Ecobank, and we're running a pilot currently through selling four products that are live in eight Ecobank branches. Product development, including enhancement to the funeral and credit line products, has been ongoing, and our priorities going forward are the same as our priorities in Nigeria.

In Kenya we've completed the acquisition of Faulu, and again integration work is going well. We're growing the number of tied agents from 137 to 488, and are improving the productivity through basic advisor training and self-management techniques. We've got a strong product pipeline, we're developing a new retail savings product, and group risk products for distribution via the bancassurance channel, and a funeral product through Faulu, the deposit taking life insurance business that we acquired. We're also expanding the products which we call i-Invest, which allows customers to use a mobile phone to invest in our unit trusts, and we have over 40,000 customers that are registered, using this product today in Kenya.

Following the acquisition of Faulu we now have 519,000 customers in Kenya, and as for Nigeria and Ghana our future priorities are product development, distribution, building our brand, financial education, and opportunities to build scale more rapidly.

Now, let me talk a bit more about distribution. Over many years we've learnt that it is essential to have a flexible distribution strategy. Different channels work better than others in some areas, for some types of customers, and some types of products. Bancassurance is absolutely crucial in Africa. People in Africa trust banks, something you may find hard to believe here in the UK. In fact, they trust them more than they trust insurance companies, given the legacy of the past where insurance companies used to collect premiums and not pay out any claims. So to some extent, the image of insurance in the past was damaged. We do, however, have the advantage of our brand, our size and our image, and our stake as a highly regulated responsible business to improve the image in these markets. And we're in a very good position to build trust with our customers with a lot of experience of successfully building large, high-quality agency forces, using both commissions and salary-based models as is appropriate for the market. This channel has always been very successful in South Africa through outside marketing, and for example we're also now using it through the Old Mutual Finance network. It has been successful also in our other established markets, and we're now taking our experience into our core growth markets of Nigeria, Ghana and Kenya.

In Kenya, Nigeria and Namibia, we also have commission-based independent advisors. We call them brokers, and they also are an effective distribution system. And we're now also innovating to complement these additional distribution channels with new world distribution such as mobile phones. As many of you know, mobile penetration across our core growth markets is very high, over 60%, and smartphone penetration is growing very fast, particularly in a place like Nigeria and Kenya. We believe that this gives us a fighting opportunity to use mobile phones for us to drive our products into the mass market, where traditional distribution may be more challenging.

I've already referred to the mobile product we've launched in Kenya. We're also trialling a mobile-enabled offering in Swaziland in partnership with MTN, Africa's largest mobile network operator, and in Zimbabwe CABS is offering a mobile money product called textacash. Our acquisition of Faulu, our partnership with Ecobanks, and our ownership of CABS are fundamental to our distribution strategy, giving us access to customers. Although digital is still nascent and may become increasingly important, there's still no substitute in our minds for bricks and mortar presence for accessing customers at scale, especially where trust is still yet to be built.

Our strategic approach is to start with simple products, for example credit line, and then begin to do other retail offers, for example predominantly mass market products in Kenya, but in Nigeria also retail affluence products, asset management and property and casualty positions.

I just want to say a few words about asset management in Africa. It's something we don't talk about often or enough, and I think it's important to be aware that we have existing and strong asset management business and skills in South Africa, Zimbabwe, Kenya and Namibia, to name those countries. And we have a top three position that's measured by funds under management in most of these markets. As we develop our business life and P&C, we need to be able to invest those premiums into local investment pools. We're actively working with the countries in which we operate to develop the local capital markets for both debt and equity]. This is part of the wider participation and partnership we're building with governments in these markets and regulators for the longer-term benefit of our stakeholders.

As South African nations develop there are a lot of opportunities to invest in infrastructure products both in country and pan African. We've built up a lot of experience in capabilities, and we're very active on the African continent in this regard. You can see on the slide some of the more significant fundings that we've made this year, particularly in energy and infrastructure, and we'll continue to review suitable opportunities going forward.

Now, I'm sure you're thinking that this all sounds fine, but what does this tell us financially? So I think it's time to hand over to Katie to talk more about the numbers.

Katie Murray: Thanks very much Ralph. Good afternoon everybody. It's nice to see some familiar faces. Before I delve into the numbers I thought I would say a few words about macroeconomic environment in the areas in which we operate. The graph on the slide shows the movement in currency in our core growth markets: the Nigerian naira, the Kenyan shilling and the Ghanaian cedi, as well as for comparison the South African rand. You can see that the naira and the shilling have been relatively stable over a long period, but the cedi has weakened significantly from the end of 2011, driven principally by inflationary pressures, so it's pleasing to see it recover a little as well. However, if you were to look at the naira against the rand

and other currencies in the last few weeks, we've seen some weakness being experienced, with a 5% fall against the rand due to the reduction in oil prices.

In terms of GDP, growth forecasts have been revised downwards slightly in the Nigerian naira – sorry, in Nigeria and Ghana, forgive me. But growth still remains relatively high compared to most developed nations, which continues to support our view of the growth opportunities within these countries.

Let me move to the financials, and starting with an overview of the key metrics from Old Mutual Emerging Markets. It's quite a busy slide, and I'm not going to talk through all of the numbers, as again, they'll be quite familiar to you. You can see however the growing importance of our rest of Africa business in terms of profits, contributing to the diversification of our earnings away from South Africa. This has grown from 6% in 2010 to 11% in 2013. There has been strong growth across all the businesses, across all metrics, for example if you look at the compound annual growth of 14% in gross sales. Let me remind you that gross sales represents new and recurring business, so it's an important measure for us of all cash inflows that are coming into the business.

Moving on to look at funds under management, here again we see the greater significance of our rest of Africa franchise. In 2010 this represented only 1% of our funds under management, and is currently around 6.5%. This is a particularly good growth picture, given the very strong bull market that we've experienced in South Africa over the last few years.

Pausing a little bit on our way, I wanted to say a few words about our debt raising programme. I have long been of the view that the open balance sheet was not as effectively structured as it might be. We have taken – we haven't taken advantage of the debt market in the last ten years, and as a result our gearing has been low at around 4%. Many of you will be aware that we have a 3 billion hybrid instrument with a first call date in 2015, and as we alluded to at the interim, we've launched a debt issue last week of approximately 1 billion rand. This is expected to be concluded on Monday, and will take our issued debt to 4 billion of the 10 billion rand capacity that exists within our programme. This will certainly help to improve our balance sheet structuring a little.

Closing on ROE, our guidance to the markets has always been in the range of 20–25% and we remain at the upper end of that range, though of course those of you who are familiar with investment in the rest of Africa will appreciate the ROE in some of our investment destinations will take some time to get to those of the developed markets in South Africa.

So having set the scene a little for emerging markets as a whole, let's move on and look at Africa in a little bit more detail. I'll start with a high level view of sales. Here, all the figures are shown on a reported basis. We often talked about the rest of Africa as being a building site. In 2012 we brought our Zimbabwe business into our reporting results of the group for the first time since hyperinflation, and in 2013 we added Nigeria Life and P&C business. In 2014 we added Faulu and Provident Life in Ghana, and as we move forward we will consolidate more countries into these results as we expand through acquisition.

However, despite the lack of direct comparability, what is very important is the strong sales growth that you can see in both our life and non-life sales, as well as our growth rate in premiums over the period. The chart I want to spend a little more time on is the one on the bottom left, and here there are two important points to explain. Firstly, the drop in PVNB margin from 2010 to 2011 was principally due to some very high-margin business that came in in Namibia in 2010 which did not repeat in the following year. And secondly, and this is the year we are – in 2013 in the PVVNB margin we have two opposite impacts that were happening within our numbers. When we reported our 2013 results we showed that we had very strong growth in Namibia as a result of the very high margin AGP business. But for the very first time we also consolidated the VNB of all of the African countries, which went in the opposite direction from the Namibian high growth, and previously we had only included Namibia. We are building an expense base which supports us being a substantial entity across multiple products, and for VNB and margin, excluding Namibia and Zimbabwe, is likely to remain modest in the coming years. Given the rest of these businesses are sub scale, you would expect margins to be low or even possibly negative in the early years. Going forward, as we look at our VNB margins we would expect our margin for the region to be in the range of 45% as we reach scale. This is still very strong in northern hemisphere terms, but not what we'd expect in the South African business where we do earn our margins up to 9% in our retail mass business.

On this slide we're focusing on profits, and specifically at where these profits come from, first by line of business, the chart on the top half of your slide. Investment returns is included in the life insurance bars, and accounts for about 50% of the reported profits. You can see that we have a changing shape of our business. In 2009, 84% of our profits came from life insurance. By 2013 we have a far more diverse source of earnings. You can see the increased importance of banking and lending, and also of asset management. You will recall I referred to – a few moments ago to consolidation in Zimbabwe from 2012 of our existing business in that year. In our 2014 results, you will see additional banking profits arising from the acquisition of Faulu in Kenya. We would expect the proportions in this graph to move around a little as we expand the business, depending on our acquisition profile and also importantly on our product rollout. What is clear is that we are building an African financial services champion.

The table at the bottom of the chart shows the profit we make by country. These numbers exclude both LTIR and central costs. Unsurprisingly, the bulk of the profits continue to come from Namibia and Zimbabwe, which are well-established operations. The other countries contribute less as we are still building scale, and our businesses are currently below critical mass. It is satisfying to note that Kenya moved into profit in H1 2014, when the Faulu profits came online following that acquisition.

I know that Patrick has said we weren't really allowed to say when I met last time and to repeat my slides, but I hope he allows me this one because I think it's an important slide for me to finish on. Old Mutual Emerging Markets has a strong capital position. The FSB, the South African local regulator, requires us to undertake several stress tests as part of our annual returns to them, and we continue to be resilient across all of these tests. We have carried out stress testing looking at scenarios on the SAM solvency model, the equivalent of Solvency II in South Africa, and we are in a comfortable position across all of these as well.

The strength of position gives us capital that we're able to deploy to support our growth in the rest of Africa. So looking at the slide, which illustrates where the free surplus or available capital is generated within the group, where we spend it, and what returns are received to date. Future capital will emerge from the generation of free surplus, from the true excess capital already within the business, and the new debt issuance that I've already mentioned. At present, the free surplus comes predominantly from South Africa, with nominal amounts being generated in Latin America, Asia, and the rest of Africa.

In general, of the available capital we invest 10% in our South African business. However, this year of course we purchased an additional 25% of the Old Mutual Finance business, so they got a larger share than they would normally receive. We invest around 10% in Latin America and Asia. Our operations in Columbia and Mexico are together self-funding. We don't need any more capital within our Indian joint venture at this stage, but we do still need some capital to inject into China while that business is growing.

So as you can see on the slide, most of the available capital is then invested for expansion into Africa, approximately 30%, and finally about 50% of our generated capital is paid to the group to support dividends for the shareholders. As we've said a couple of times within this presentation, we have an ROE target range of between 20–25%. South Africa is above this range, at 30% in H1 2014. Latin America and Asia are around the mid-teens. The rest of Africa business, as you would imagine, is something of a blend; some businesses are within the range, while new acquisitions are outside the range as we invest in building scale. Over time as we do regain scale the ROE will improve and in the medium-to-longer-term you would expect all of our businesses to be within our target range.

In summary, our capital allocation is very much aligned to our business practice. It's about maintaining our strong South African franchise, expanding and growing elsewhere in Africa, growing in selected other emerging markets, and importantly earning sustainable ROEs of between 20 and 25% across the portfolio, and continuing to make payments to the Plc to support the shareholder dividends. Now I'll just hand back to Ralph.

Ralph Mupita: Thank you Katie. So, before I make my closing points, I want to just begin and thank Katie for taking us through the financials, and I do want to remind us of the targets that you had – that we set ourselves for Old Mutual Emerging Markets. In 2015 we aim to have nine million customers. We want to continue to deliver on our return of equity in the range that Katie talked about, which is 20–25%, and we want to make sure that our profit contribution for the rest of Africa gets to 15% by the end of 2015. We have said that in the past that this achievement, this target, has always been dependent on acquisitions and bringing in our key earnings. Those are the targets that we've spoken to the market about, and these are targets that we are sticking to as we speak right now.

So in summary, I've talked about the great contribution of the rest of Africa to the rest of the emerging markets business. I've talked about our vision of building an African financial services champion business, and I've talked about our strategy about how we will actually get there and meet that aspiration. We are very well-positioned for growth in Africa, and we have a number of competitive advantages including our brand equity, our understanding of markets, building our distribution, skills and experience that we have in South Africa, that we believe we can leverage at low cost. We're also focusing on core growth markets in East and West Africa, Nigeria and Kenya specifically, because this is where we see growth going forward. We have an expanding distribution network, a flexible distribution strategy that will suit markets as needed around customers and products, and we're delivering and will continue to deliver strong financial results.

Ladies and gentlemen, thank you very much for paying attention. Katie and I will now take any questions that you may have.

[BREAK IN AUDIO]

Andrew Crean: – How much competition is there in the market in terms of numbers of insurers, and you know, are there many opportunities to buy and what's the competition like for purchase?

Ralph Mupita: Yes, that's a very good question. I mean, obviously we've been – on the last two years, been looking at markets, particularly in our core growth markets, and looking to expand our businesses there. The markets are fragmented, so if you look at Nigeria for example, if you were to go back five or so years ago there were hundreds of insurers. There's been a market consolidation that has taken place, and right now I would guess a number of probably one or two, but you've still got a further, you know, 40-odd insurers in the market. And if you speak to the regulator, the regulator would like to see a much smaller number of operators, as you can imagine, because this reduces the regulatory burden.

So it is still fragmented. Opportunities for consolidation exist, and some of the local players are very strong. And so in a market like Nigeria, the top four are very good businesses, they're all kind of locally-owned and, you know, they're very competitive. But the market itself is very nascent, so it doesn't mean that there isn't opportunity for us to grow.

If you move across to Kenya, there's less level of fragmentation – the market is a bit more developed than in Nigeria – but there's still opportunity for some level of consolidation, and people coming in and reducing, for the same reasons as you see in Nigeria, the number of operators in the marketplace. And so what that means when we're looking from an M&A point of view is that we certainly believe that there are – although there are a long tail of operators, there are very few high quality assets or high quality businesses that we would consider strong businesses. So there isn't like a surplus of opportunities in those key markets.

Andrew Crean: Just to develop that a bit further, I mean, are you really saying there's only one or two key targets in each market, which you – would make sense for you to merge with? And what stopped those mergers? I mean, what would force more – make them choose to sell?

Ralph Mupita: I wouldn't go to the extent of saying there's one or two. But I think there isn't a – you know, we're not talking about tens of businesses, so there are a few of these opportunities. And for us, our decision criteria has been, as I said earlier on, much neater strategic – our strategic rationale. What are the capabilities that we want to build into our business? So, for example, if you look in Kenya, looking at the property and casualty business as an example – so, the first thing is: does it meet the strategic rationale? Secondly, do we see that as a platform for growth? We believe that we can combine our businesses, and the business is now growing – and start making – giving us a bit more scale. And thirdly and importantly, that the culture and the management team that are in those businesses are ones that are compatible to our culture and our approach to risk management and governance.

So through that lens and through those filters, you know, there aren't many, many opportunities. There are some opportunities, and that's why we're continuing to look in the marketplace, to see where are the right opportunities, particularly in those core growth markets of Nigeria and Kenya. A question at the back there?

Speaker: Hi, I'm Veronica Kalema. I'm just wondering about your strategy for, like, the overall East Africa, because you talked about Uganda and Tanzania as well. And I know with the banking sector, the banks don't have an effect on strategy, they don't feel like they can be competitive in just Kenya. They've got to be in Uganda, Tanzania, you know, and South Sudan and – you know, they're all trying to, sort of, you know, gain a competitive advantage by being kind of regional, and I'm wondering if that's the kind of approach you're using for the insurance – or moving into the insurance market in East Africa.

Ralph Mupita: You're absolutely right there. East Africa other than SADC and West Africa is a much more integrated community, and often the players have big franchises in Kenya and that allows them to move into adjacent markets, the network of markets we spoke about, either Southern Sudan, Tanzania, Rwanda, Burundi, those countries that form the East African Community.

So obviously for us in the medium-term we want to be in a similar position because of the integration and the ability to leverage off our primary resources that are based in East Africa, in Kenya, and specifically Nairobi where our business are headquartered into these markets, and it absolutely makes a lot of sense.

If you move to the West, there isn't that level of integration into those markets, and even in the southern hemisphere – or the southern parts of Africa there isn't that level of integration. So you're absolutely right. Our approach would be, you know, once we've got some scale in our operations in Kenya, to look much more broadly across the East African community. It absolutely makes a lot of sense.

Questions on the internet, yeah – on the phone.

Operator: Yes, we have one question on the phone. This is from [Inaudible] of Investec Asset Management. Go ahead madam, your line is open

Speaker: Hi, it's [Inaudible], Investec Asset Management. I have a couple of questions. One is how do you anticipate the split of your earnings over – between the four segments to change, as you execute your strategy? And the other question is around the asset management business and how you expand – expect that to evolve over time.

Ralph Mupita: So let me take your last question on asset management, and I'll ask Katie to talk about the changing shape of our earnings. But I guess we look at asset management from two contexts. The first route to look at asset management is the kind of in-country asset management. The point I raised earlier on is as we collect premiums, we need be deploying them into investment pools, and what we need to see develop is the local debt and equity markets. And part of the drive that we see happen in some of these markets is the desire by regulators to see companies being listed; the high levels of equitisation of markets; and also the development of kind of debt markets. So that development, it naturally feeds off the growth of our savings business. We have in-country asset management businesses that do that; that development becomes highly important for the growth of our businesses.

The other lens we look at asset management is the point I raised about our alternative assets. As you're aware, we're in a joint venture – or you may not be aware – we're in a joint venture with Macquarie, where we deployed policyholder funding into our alternative assets, and some of these become infrastructure or what we call impact opportunities – investment impact opportunities. And that is about investing in real hard assets; property is an example, renewable energy, agrifunds in markets like Nigeria will be critical. So we look at that asset management opportunity both with a domestic lens, as well as a more pan-African lens of our alternative assets.

Katie, you want to talk about the changing shape of our earnings, over the future?

Katie Murray: Yes, certainly Ralph. Thanks very much. I think if you – when you look at the slide on slide 21, what you can see obviously is the growing banking business, and then with the addition of Faulu, as we've moved into this year as well, that will obviously have a further growth and, clearly we're looking to grow that business as well after acquisition. I think though that with all of these acquisitions, the banking acquisitions particularly are there to help us aid our distribution in the life business.

Now, those of you who know the life business well will know that it's an – it's a longer tail from when you write the business to when it turns into meaningful profit, particularly when you're in the initial set-up stage because your new business costs are quite significant. So if I was to sort of say in the short-term that what you would probably expect to see is the banking proportion becoming a little bit larger than it is today; P&C business growing a little bit as well, as we use that as one of our main entries into markets as well, and that has a – generally has a faster turnaround of profits; and the life business growing a little bit slower than the others, just given the lag of that. So you would see that kind of shape developing.

If I look at the asset management business, what's quite interesting is in these markets, particularly if I look at Kenya and Nigeria, there aren't as well-developed asset management businesses there, and I think one of the brilliant things that's a by-product of building a large life business is that you also energise the local market because you are very much looking for investment needs, and you have a tremendous amount of bond and stock kind of needs as well to do the asset liability management.

So I think by entering within life, you grow the asset management business. But a lot of our asset management business that we've talked around, particularly around infrastructure development, is actually done out of our South African business. The profits that are there are small, so I would say, if you look at the shape, I wouldn't see the asset management shape growing dramatically in the next short while. Thank you Ralph.

Speaker: Thank you.

Ralph Mupita: Oh, Katie, while you're in the room, answer a question. There's a question here from Johnny Lambridis

Katie Murray: Okay.

Ralph Mupita: – from Cape Town talking about the market consolidation. I'll let you read it –

Katie Murray: Thank you.

Ralph Mupita: – and you can respond to Johnny, who's on the phone.

Katie Murray: Oh gosh. He's on the web.

Ralph Mupita: Really? Okay

Katie Murray: Thanks, thanks very much. So, Johny: 'You talk about consolidating Zimbabwe in 2012 but was it not consolidated at the time of listing in 1999?' That's part one. Part two: 'What was Zimbabwe's contribution prior to hyper-inflation, and does Zimbabwe contribute more now in profit than prior to hyperinflation?'

So, on the first one, Johnny, you are, of course, absolutely correct; we did consolidate Zimbabwe at the time of acquisition, and then we wrote it off I think somewhere around 2004 or 2003, as hyperinflation was really starting to kick in, and we basically took the value of Zimbabwe down to zero. You will recall, last year, or even in fact the year before, that that asset was then transferred to South Africa for significantly above that number, which was a very good sign of Zimbabwe's turnaround.

In terms of the Zimbabwe contribution, I'll get Patrick to send you the exact details and we can show that, but I think that what we used to think of the Zimbabwe business historically is that it used to by itself deliver 10% of the old mutual South African business. So, I mean, it was a significant contributor at that point. It's hard to say in a post-dollarisation world, and pre-hyperinflation, what the numbers are but happily Johnny, we'll get that down to you this afternoon.

Ralph Mupita: Katie, while you're answering questions, one from Greg Sampson here, and I'll read it out because it's really short: 'The ROE calculations include the client goodwill in the denominator?'

Katie Murray: It does. So Greg, I can almost see you smiling at me. We do include it. I dare say what generally happens with goodwill is that four or five years post-acquisition, as things have changed dramatically, it starts to become less of a component part. So we'll more than likely, give you both pre- and post- – pre- and post- in terms of goodwill. But no, absolutely, it's certainly in there. And I think from our return on investment, it's very important not to lose the focus on the goodwill that you've paid.

Ralph Mupita: Let me answer one more from Johnny and let me come back to the floor here. Johnny's asked another question: 'How competitive is the market for buying businesses in the rest of Africa?'

I mean, Johnny, I think it is really competitive. I think what we see on the continent are largely the SA peer group, so your – you know, you have your Sanlam, Liberty etc. on the continent, but we also see an increasing number of international players, and I think you'll have seen Swiss Re made an acquisition in Kenya and the Prudential made acquisitions in Ghana and Nigeria, as examples of international players.

So there are – there is a rising level of competition. But I think from our perspective there are two things. One is these markets are under-penetrated and they're developing, so there are opportunities for all of us to grow. The second is the more the international players come into these markets, I think the faster you are going to see these markets develop from a regulatory and market kind of conduct perspective, which is a big positive.

And I think from an Old Mutual perspective, for us, you know, we're comfortable to see the competition come in. We've been on the continent operating on the ground for over 100 years, and we certainly believe that we've got skill and competence to allow us to be successful in some of these markets where people may find them, as frontier markets, very challenging to operate. But Katie has just explained, you know, we've been operating in Zimbabwe for a very long time and we think we have the skill and experience to operate in some of these markets.

Ralph Mupita: Shall we take some more questions from the room?

Minal Shah: When you're thinking about which markets to enter, what are the key factors you look at? Is it a certain threshold level of GDP per capita, is it population size? And also, within markets, what is like the true addressable customer bases? Are your products applicable to a wide segment of the population, or are you really looking at like a small, affluent segment of that population?

Ralph Mupita: Yeah, I mean, I think when you have a multi-faceted approach of looking at the attractiveness of markets, I guess the first thing, most importantly, is to, you know – are – what is happening with the demographics of this market? You know, are we seeing disposable income rising and the ability of people to have discretionary disposable income, at the end of the day? And we generally have a view that says that once you've seen markets grow above, you know, disposable – so the total income comes in about US$5,000 a day, these markets are now – sorry, per annum these markets are now becoming, you know, sizeable. So that's the first thing.

The second thing that we look at obviously is the nascency of the market. Is there, you know, a major market with the minimum level of infrastructure, before – you know, our business depends largely, on there being a banking system that works because we ideally want to collect most of our premiums electronically, although, you know, sometimes we have to make sure that we put a premium on a fortnightly or a bi-weekly basis where possible, and on] a monthly basis.

We need to see some basic infrastructure being there, and then we need to see the appetite from the customer point of view of what we provide. So, in certain markets, there is no social security net? People need to look after themselves, and in good markets we have the appetite. And we also look at just the regulatory framework: Can we actually build the business, is there a minimum level of the regulatory framework for our business to be able to implement the kind of operating models that we have?

So these are some of the examples or the factors that we look at. As I said – as you saw in our kind of strategic review of the African continent, there are some markets that we prefer. We want to spend a lot more of our investments and skillsets on the continent in those core growth markets I spoke about, Nigeria and Kenya specifically.

Minal Shah: Within Nigeria and Kenya, is it just certain elements of the population that you could realistically address with your hypothetical –?

Ralph Mupita: Yes. There's always been a visible market issue – so you look at 170-odd million people in Nigeria, the visible market, where the market is today, I mean, you're talking about 25 million people. You can't be talking about from a retail perspective, you know, that's the market that we think we can reach with your product and make a large economics for yourselves, and give the customer value. So, it's not that you will sell to all 170, so we think the market could be about 25 million today.

Minal Shah: That's true. And then finally, a lot – sorry – a lot of the countries within your established market footprint have demographic challenges in terms of quite a high HIV infection rate in the adult population. I was just wondering what impact that has on how you operate the business?

Ralph Mupita: I mean, I'm not sure that you're actually correct on the HIV infection rates in some of these markets we're talking about, but I think the first thing is that data has not been collected very robustly. But to give you first an example of the anti-retroviral treatment that was rolled out in SA, so in the 90s there was almost a doomsday scenario about HIV from Africa. Anti-retroviral got rolled out and, actually, you know, that, sort of, stabilised and it's not – it's still a concern obviously but it isn't the kind of concern that South Africa had probably 20 years ago. So we're not particularly perturbed by those kind of issues, but we think that, you know, as long as there's a need for the kind of products that we provide customers and we can get to them in a cost-effective way, those markets will have challenges from time to time but we will be able to operate in those markets and grow the sustainable business. But that is not an issue of concern for us.

Minal Shah: Thank you.

Ralph Mupita: Got a couple more questions from the internet. Let's take one on the floor.

Andrew Crean: Yeah, I was just looking – I'm just looking at this size of your established market, and I think – 36 million people across five markets, so 7 million people a market. Three markets you're trying to go into have 255 million people, 85 million per market, and they are obviously a very different scale. And you've got other entrants coming in here, who have got quite established skillsets in building very large sales forces in very large markets in Asia; Pru has built a 70,000 sales force in Indonesia. What is – can you talk a bit about your skillset in building and managing very large sales forces in order to sort of penetrate these markets, when you've got competitors like that?

Ralph Mupita: Well, I think the first thing is that we have the largest sales forces of the pan-African or the African peer group. So, within the rest of Africa, I can say quite confidently we have the largest tied agency force. So we do have the skills and talent. With South Africa, we've got 8,000 in total. Prospective market in Zimbabwe – you know, we're rebuilding our agency force. We had – we used to have the largest agency force in Zimbabwe until hyperinflation, and we closed down our retail business, so we're rebuilding that. So – and again, in a place like Namibia, we have the largest tied agency force. So tied agency, and the productivity of tied agency, as well as making sure that these sales forces are viable on the African continent, is a skill that we have.

Now, the issue of other competitors having, you know, the need to build the same, I think it's fine. All I can say is that it is critical to understand the cultural niche, you know, of the market you're trying to address, as well as have an appreciation and understanding of, you know, the issues and the motivation factors, as in any sales force, that you'll find that there are differences nationally. The ability to build a tied agency force in one country to the other, there are some common things that you can take across. But that local nuance and understanding of some of the market sectors is critical to viability, and we think we have that. So, you know, the ability to, you know, to build 7,000 agents is something that we – you know, is something that we already have in our South African business, and we are deploying those skillsets, people who build those sales forces, as we move into Ghana. As I said, we've pretty much more than trebled our advisor force in Ghana within a year, and we think we can get that, you know, easily to 1,000 advisors in the not too distant future. But the competition is there, as I said. You know, the issue is that we think the markets are nascent and there's a lot of opportunity for everybody.

We've got another question from Greig – or can I take one from Vishal? Vishal asked the question, 'You're making a strong case for organic and inorganic expansion for the rest of Africa business. Are there any markets where the group has a presence now and does not see the rationale continuing at present? In other words, are there rest of Africa markets which the group would now want to classify as non-core?' I mean, I guess at this stage of our development, there aren't any markets that we currently are in in the rest of Africa that we don't see as core. As I've established, the framework we see is kind of four categories of market. The established market, where we've been, we've maintained our number one position – number one and two. We've made good – you know, good profit and good margins in those markets, and we're not looking to exit any of those markets.

Katie, this one from Greg, for you or for me?

Katie Murray: For you.

Ralph Mupita: Oh, for me.

Katie Murray: Quite similar to one you've answered already.

Ralph Mupita: Okay. 'Can you discuss distribution and servicing via mobile phone? How important is this to your strategy? How much of a profit do the mobile network operators get as they own the clients?' I think this is a nascency, Greg, in terms of actually saying, you know, what is a sustainable model for this kind of distribution? I think what is important is that we are now piloting exploring these and trying to see how these things get to scale. We have a product called – a product in Swaziland, you know, which we have now piloted for about four to five months. And on the back of that, we – you know, if it's as successful as the one in Swaziland. So we can't say that now because I wouldn't be conclusive yet to say, you know, how this will work out. But I think if you're looking at the market in Kenya or in a place like Nigeria there are similar paths of experimentation around on the mobile side.

Other questions over the phone or on the web? Don't seem to be any other questions, and if there are no other questions thank you very much for taking the time to be with us, and again all this material is going to be recorded and will be available. And again, you know, we wish to see you at the prelims and all the best. Thank you.