H1 2015 INTERIMS
TRANSCRIPT

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Julian Roberts: So, good afternoon everyone. Welcome to our interim results presentation. I think for some of you here in London this is the third presentation you've sat through today. I don't think in my years I've ever actually done a results presentation starting at 12.30pm. And so what we're going to do is to try and make it a wee bit briefer than we normally will and therefore try and also be a bit more concise with our insights on the results. But before I go any further, let me check the connection to Johannesburg is working. Welcome, Ralph. Can you hear us?

Ralph Mupita: Julian, I can hear you loud and clear

Julian Roberts: Good. I can see some of your audience are still taking their seats but I'm going to press on as always. So we do have the connection to Johannesburg. We have some of my colleagues in Johannesburg. We have Ingrid Johnson, our CFO next to me and other colleagues in the front row here and also elsewhere in the room. So in our presentation today, I will talk about the Group and business performance before handing over to Ingrid to review the financial results in more detail. I'll then draw some conclusions before opening the session to questions. And then after the Q&A I would just like to make a few closing remarks. So let me start.

At the preliminary results in February I said that this year was all about operational execution. That is precisely what we've been doing and this is reflected in the results that we have published today. Underlying financial performance was excellent, with constant currency growth of 20% in adjusted operating profit and 18% in adjusted earnings per share. Net Client Cash Flows were positive in all Business Units with the exception of the non-US affiliate. Excluding that outflow, overall Net Client Cash Flow was £4.2 billion positive up on the same period of 2014. Group Funds under management increased by 7% in the half year. In line with our dividend policy, the board has declared an interim dividend equivalent to 30% of the prior year total at 2.65 pence per share up 8% on the 2014 interim. Local profit growth in our individual

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businesses was strong and we're making progress on our strategic priorities. So overall, a good, possibly an exceptional half.

Let me now analyse the Group headline numbers, starting with Old Mutual Emerging Markets. Adjusted operating profit was up 16% at 6 billion Rand. Benefitting from higher asset based fees, good mortality experience, improving persistency, the consolidation of Old Mutual Finance and a turnaround in underwriting profit in Mutual and Federal. Gross sales were up by 23% driven by two large non-life deals in Corporate, strong flows into Old Mutual Investment Group and a growing contribution from the rest of Africa. Return on embedded value improved at 12.3% with higher operating earnings and higher margins whilst at the same time we continued to invest in product innovation and our expansion in the rest of Africa.

So let me now pick out a few points from the individual businesses. Operating profit in mass foundation was up by 60% or 30% excluding the impact of the OMF consolidation. The growth is due to an improved new business result and improved persistency. I was particularly encouraged by the increased sales momentum in the second quarter. Excluding OMF and the revised sales recognition methodology which we discussed at the first quarter, like for like APE sales in H1 were up by 9%. This was driven in part by good sales in the 2-in-ONE savings product and the enhanced funeral range, as well as improved productivity following the completion of training in the first quarter.

Retail affluent profit was up by 1%. The benefits of higher market levels and improved risk experience were partially offset by our lowering of administration fees on the new wealth offering as well as ongoing investment in our distribution capability from which we should see higher growth coming through in the future. Gross sales were up by 13% boosted by Xtramax, the new wealth products and unit trusts. In March, we launched our tax free savings account which generated 177 million rand of APE sales to the end of June. Going forward, we expect to see some margin compression in retail affluent as a result of the ongoing shift in sales mix from risk to savings.

In Old Mutual Investment Group, AOP was down by 14% following a deliberate shift from performance fees to fixed fees on some retail funds as well as lower than previous mark-to-market gains. Investment performance remains good across key equity and multi-asset funds and a continuing business improvement enabled OMIG to secure a number of large deals in the first half, generating a 27% increase in gross sales.

In line with our strategy to build an African financial services champion, it is particularly pleasing to see that gross sales from the rest of Africa are up 19%, operating profit growth was 18% and an impressive 31% when we take account of the LTIR and central costs.

Towards the end of the half, we completed the acquisition of UAP and are in the process of integrating the business into our existing Kenyan operations. We have confirmed the senior leadership structure and both the new executive team and an East African Holding Company board are in place. The merger of our operations should be completed by the year end and we are beginning to implement appropriate product, governance, finance and actuarial processes as well as develop distribution capabilities for this enlarged footprint.

With the acquisitions we have made, we are pleased with what we now have in East and West Africa. UAP has given us an East African business of scale and in West Africa our businesses in Ghana and Nigeria are growing steadily, and we will increasingly look to leverage our relationship with ETI.

Let me now turn to Nedbank. You will have seen these results a couple of days ago. Adjusted operating profit was up by 14% due to strong growth in non-interest revenue, disciplined expenses growth, and continued improvement in the credit loss ratio and also the associate income from the ETI shareholding. Excluding ETI, AOP was up 12%. Non-interest revenue growth of 10% was principally due to higher commission and fee income as well as higher trading income driven by strong performance in the global markets business. Average interest earning assets grew by 10% and overall net interest income was up by 4%.

The narrowing of the net interest margin is a result of the changes in the advances mix, the effect of holding higher levels of low yielding, high quality liquid assets in line with the regulatory requirements, the oncoming Basel III, and the cost of funding the ETI transaction. These were partially off-set by higher endowment income and improved asset pricing.

The improvement in the credit loss ratio is largely due to retail and business banking where the ratio remains below the through the cycle target range as a result of previous actions taken to increase asset quality and strong collections management. So, a good first half from Nedbank.

With a weakening macro background in South Africa, the second half will clearly be more challenging for all our South African operations. But Nedbank you'll have seen a couple of days ago has not changed its full year guidance.

Let me now move further North, moving on to Old Mutual Wealth. Adjusted operating profit was up 26% at £151 million. Taking out the four month contribution from Quilter Cheviot as well as the effect of the European business disposals, AOP was up 33% with strong performance in the core growth

businesses. Profit from the Heritage book has been overtaken substantially by the growing profit from our “new world” business. Let me pick out a few points.

Profit on the UK platform was up by 30% at £13 million. Strong revenue growth was boosted by our new flexi-access drawdown facility on the pension products and WealthSelect, which attracted half a billion pounds of new flows in H1. In terms of profit, this was partially offset by restructured platform pricing.

Profit in Old Mutual Global Investors, the asset management side, was up by 88% at £30 million with net client cash inflows of £1 billion due to good flows into a number of key strategies and also in the Cirilium fund range which we acquired at the end of 2014. Later this year, we will strengthen further our asset management capability with a fixed income absolute return fund and a global equity income fund.

Our vertical integration strategy is performing extremely well. 11% of platform sales were delivered by Intrinsic restricted advisors. Old Mutual Global Investors now manages some 13% of platform funds up from 9% at the same point in 2014. And there were £1.2 billion of gross flows from the platform into Old Mutual Global Investors.

In May, we said that it had been a difficult first quarter for the industry. The Investment Association reported last week that although there was some recovery in the second quarter, net retail sales continued to track well below 2014. Against this background, I am really pleased with the performance of Old Mutual Wealth in the first half good sales and flows illustrate the attractiveness to customers of our products and our brand. The business remains on track to achieve its AOP target for the full year excluding Quilter Cheviot of £270 million, assuming no significant deterioration in equity markets in the second half. This is an important period for Old Mutual Wealth and its journey to become the leading retail investment business in the UK.

I want to now just cover a couple of important steps in that journey. Over the last eighteen months, we have made important strategic acquisitions in Wealth. Intrinsic, which included the multi-asset fund range Cirilium and Quilter Cheviot. We are delighted with what we are seeing from both of these acquisitions. Intrinsic is now fully integrated into Old Mutual Wealth and has given us a high performing advice and distribution capability which we see as a fundamental part of the model for the new financial services world. We are growing the advisor network, and in the period 24% of platform NCCF was delivered by the Intrinsic restricted advisors.

Cirilium has been fully embedded into Old Mutual Global Investors, delivering over £400 million of net flows in the first half and funds under management of £2.5 billion at 30th June.

In February, we completed the acquisition of Quilter Cheviot and the integration programme is on track. We've implemented a centralised support service which will generate cost synergies. We are initiating further synergies in both cost and revenue, and we are confident that we will achieve the £15 million of synergies that was in our acquisition plan.

Quilter Cheviot has given us access to the high net worth sector of the market which we were not previously addressing. The business has contributed over £800 million of gross sales in the four months since completion and £17 million of adjusted operating profit.

So, as you can see, these acquisitions are right on plan and are delivering value to our business.

The second point I want to raise is we are well underway with our project to build a new best-in-class platform and outsource various administrative functions. We are now over halfway through the system build for the Heritage books and nearly halfway through for the Open books. We like what we are seeing and are confident in the quality of the system we will get and the substantial benefits it will give us.

We originally estimated that the project would cost £160 million. Following more detailed planning and taking into account the biggest change for many generations in the pensions regime, the further nitty gritty of regulatory change and also the fact that we have acquired businesses, our revised view is that the cost of the project will be £210 million. Implementation is likely to be a few months later than planned at the beginning of 2017. The expected benefits of the project remain unchanged.

We have also now made the decision that as part of the project we will scope an additional piece of work to build a new digital interface that will link together all of our operating systems. This will enable the way in which customers and intermediaries are able to access our business, allowing us to extend the service we offer to them and will improve efficiency through straight through processing. The development costs of the new interface will be around £40 million. At the end of the project, we will have a robust and scalable system with a modern front end which will enable us to interface with customers in the way that suits their needs. The system will enable us to add new products and new asset classes and add new functionality to existing products. It will support future growth of the UK business.

Let me now turn to OM Asset Management which separately publishes its second quarter results today in the US. The business has continued to perform well in 2015. AOP was up by 38% at $128 million but this includes a $19 million impact of exceptional performance fees in the first half which will not be repeated. We would like them to be but we don't think they will be. Excluding that, AOP was up by 17%, principally due to the positive impact of high margin, Net Client Cash Flows, delivered in previous periods. The operating margin is up slightly on the comparative period. Higher revenues were partially offset by additional expense incurred as a result of being a public company around $4.7 million in the first half.

Against the backdrop of a flat market in the US, investment performance was strong. And Net Client Cash Flow remained positive. Gross inflows were concentrated in higher fee non-US and emerging market products whilst outflows were driven by lower margin US value equity and some global equity products. Half a billion dollars of outflows related to investment driven hard asset disposals by Heitman.

OMAM's growth strategy is based on both organic and inorganic activity and they continue to pursue both. We now own 65.8% of the company following the successful secondary public offering in June. We remain a supportive shareholder and I am delighted to see the business performing so well.

So, as you've seen, we have delivered strong financial results and made continued progress on our strategy. The one element of the strategy I haven't yet covered is our aim to become recognised as the financial services leader in responsible business. We believe that our future success depends on showing by our actions as well as our words that we are committed to creating a positive future for our customers and the communities within which we operate. We have increased our focus in two areas – financial wellbeing and responsible investment – the areas where we believe we can have the greatest impact through the core of our business operations. This means helping customers to thrive financially whilst ensuring that the money they have entrusted to us is invested responsibly. We are in the process of setting specific stretch goals for achievement by 2020 and I expect you will hear more of this in the coming months.

That concludes my review of performance around the Group. So I will now hand over to Ingrid to go through the Group financials in more detail.

Ingrid Johnson: Thank you, Julian, and good afternoon. Today, I will start with the macro environment to set some context for the results. Our presentation will then go

through Group profit, the generation and deployment of cash, liquidity, debt, capital development and finally some concluding remarks.

Let me begin with the macro. As always, a mixed picture across our markets. Firstly, equity markets. The JSE, FTSE100 and Russell 1000 value indices were on average higher than they were at the first half of 2014 though at the end of the June were little changed to the beginning of the year, having fallen back from the highs expected midway through the period. Market levels contributed roughly £5.3 billion to our 30th June funds under management of £335.7 billion.

Next, in terms of currency. The rand weakened by 6% over the half and was on average 2% weaker than in half one 2014. The US dollar also weakened slightly towards the end of the half. The overall effect of currency translation on funds under management at the end of the period was £5.8 billion negative.

Turning now to the economy. The World Economic Forum has lowered its forecast of global GDP growth for 2015 and now predicts growth marginally lower than in 2014. In our main market, South Africa, the economic environment remains fragile. Pressure on inflation, wage growth and lower commodity prices have seen the reserve bank raise interest rates earlier than anticipated. And continuing effects from the power outages will lead to a likely 2% growth in GDP at best. Nonetheless, against a challenging macro background, we delivered a good performance.

Turning to our financial results and starting with simplified P&L. Julian has already talked through the Business Unit profits which were driven by both organic and corporate activity. So let me follow on from the top of the line on the table that shows Business Unit AOP of £971 million. Finance costs are £42 million and other central activities of £25 million are broadly unchanged.

Note that for the full year we expect other central activities to be around £20 million higher than in 2014, of which around half is due to the costs of Solvency II implementation. Our costs of implementing Solvency 2 are all taken within AOP and are not unreasonable in the context of the scale of the change that it brings for our industry and the complexity of the challenge.

Taxation at £235 million represents an effective tax rate of 26% which is broadly in line with the prior year and within our guidance of 25 – 28%.

The increase in non-controlling interests compared with half one 2014 reflects the initial and secondary public offerings of the Group's shares in OMAM as

well as the increased ownership of Old Mutual Finance. The outcome of all of this is that AOP post-tax and non-controlling interests' was up 19% at £502 million.

Moving now below AOP to IFRS, here are some additional items which I wish to highlight. Firstly, a £40 million cost in Old Mutual Wealth in relation to the IT transformation. We expect this to be in the region of £90 million for the full year. And secondly additional separation costs following the court ruling in March and our subsequent settlement of litigation with the buyer of our US life business. The total cost of this was £40 million, of which £19 million had already been provided for.

Moving on now to the conversion of Business Unit profits to cash at PLC. The outline of this slide will be familiar to you and although we have made one or two changes this time, I hope it will be helpful in explaining how cash arising from Business Unit profits converts into PLC remittances.

For Old Mutual Emerging Markets, the methodology for calculating the free surplus remains unchanged from previous reporting periods. For Old Mutual Wealth which is no longer a traditional insurance business, and consequently no longer reports full MCEV disclosure, free surplus generation is calculated on a local statutory basis. This is not substantially different to an MCEV calculation.

For Nedbank and Institutional Asset Management, which includes the listed entity OMAM, free surplus reflects the AOP, post-tax and non-controlling interests.

In total, our businesses generated £508 million of free surplus equivalent to 90% of AOP. Within the dotted box, the first column shows the amounts that have been deployed or committed by the Business Units on inorganic investment and for Old Mutual Wealth this includes the cost of the IT transformation project. The other column shows the remittances from free surplus to the PLC and excludes any proceeds from disposals. For Nedbank, the remittance represents the amount paid to us in line with the declared dividend policy. The remittance from Institutional Asset Management reflects our share of the OMAM dividend paid in accordance with their declared dividend policy. As well as payments received in respect of the Group's Deferred Tax Asset. In the comparative period, this business remitted 100% of the cash generated in the period. In total, £288 million was remitted to the PLC, higher than in half one 2014 but a similar percentage of AOP. And this is despite higher levels of cash deployment by the Business Units.

You can already see a shift in the mix of remittances with Old Mutual Wealth contributing an increased proportion. As we flagged at the preliminary results,

going forward the African businesses will retain more of this surplus for investment and Wealth will contribute more as the business completes its investment phase and delivers growth, generating higher levels of return and then cash.

Now to look at how cash has been deployed at the PLC. Total Business Unit remittances of £288 million are made up of £203 million of rand remittances and £85 million in hard currency. The remittances are used to pay dividends to ordinary shareholders, meet interest payments including dividends to preference shareholders and pay Group costs.

You will, I am sure, remember that in the normal course of our remittances and dividend cycle the half year version of this chart is likely to show a net outflow on a cash basis. As you see here, in the first half of this year, Business Unit remittances of £288 million were lower than the £297 million paid in respect of the 2014 final ordinary dividend. The balance of the dividend as well as other Group costs including interest was paid from PLC cash. During this investment phase of our transformation, this is likely to be the case at the full year as well. Bringing all this together, the PLC closing cash balance at 30th June was £550 million.

Moving now to liquidity and debt. Including the cash balance and the Group's revolving credit facility, which is undrawn, liquidity at 30th June was £1.4 billion. The movement from the 2014 year end reflects the cash used to settle the acquisition of Quilter Cheviot partly offset by cash received from the further sale of shares in OM Asset Management. Remember that the UAP acquisition was funded locally by Old Mutual Emerging Markets as was the Old Mutual Finance transaction in 2014. And the planned increase in shareholding in CGIC later this year. At 30th June, on an IFRS basis, the Group had £1.6 billion of gross debt excluding banking related debt and gross gearing of 14%. The increase from the prior year end reflects debt insurance by Old Mutual Emerging Markets. Normal course debt management remains important to us in terms of both our liquidity and solvency positions.

Turning now to capital and let me start with FGD. You will be familiar with the calculation of FGD so let me pick out two areas to speak to you. Firstly, the £418 million impact shown for net corporate activity. As guided in our preliminary results, this includes acquisitions of Quilter Cheviot and UAP which have been partly offset by the proceeds of the secondary offering of Old Mutual Asset Management as well as the impact of the maturity of the BEE deal in OMEM.

Secondly, the £151 million positive impact of financing activities. This reflects the new debt capital raised within OMEM and Nedbank.

Here, I will pause a moment to clarify a point on dividends. The FGD rules require that dividends are deducted from our surplus at the point at which they are declared, not when they are paid. So our prior year final dividend comes out of our FGD in quarter one and similarly our interim dividend comes out of our FGD in quarter three.

Moving on, the FGD surplus at 30th June was £1.7 billion, equivalent to a coverage ratio of 151% and our surplus continues to be resilient to FX movements. Each of our businesses retains strong and resilient local statutory cover.

Now, a few moments on Solvency 2. The application of the rules will not be clarified until later in the fourth quarter, and we detail on this slide some of the key approval or clarification points that remain. It is clear that as we transition to a new regulatory world, comparability between the industry participants will become more of a challenge for the market. The new regime is risk-based and inherently conservative and we retain the view that this is likely to result in lower yet more resilient levels of surplus capital and coverage ratios than under FGD. We are confident that we remain appropriately yet not excessively capitalised under both FGD and Solvency 2.

To summarise. Overall, pre-text AOP was up 20%. We delivered good profit growth across our Business Units, driven by both organic growth and corporate activity. Note however that the comparative for half two will be much tougher than half one.

Cash generation remains strong with £508 million of free surplus generated. We are funding investment in growth which will underpin future profit growth and in due course higher amounts of cash remitted to the PLC. We will remain keenly focussed on cost effectiveness throughout the Group as we target higher returns in our business and for the Group overall.

Given economic and regulatory uncertainties, we continue to maintain appropriate levels of capital, liquidity and gearing across the Group. Adjusted Net Asset Value at 30th June was 210.9 pence per share, down from the 2014 year end, due to currency movements and a lower Nedbank closing share price. Earnings in the period and the uplift in the OMAM closing share price were offset by the final 2014 dividend. Our dividend policy is unchanged and in line with that policy a declared interim dividend of 2.65 pence per share is equivalent to 30% of the prior year total. We continue to target dividend cover in the range of 2 to 2 and a quarter times AOP earnings.

Before I hand back to Julian, I wish to say a few words to acknowledge what will be his final results presentation for Old Mutual. Under his leadership, the Group has successfully navigated some extremely choppy waters and is in a much stronger position today than when he began his tenure as Group chief executive. I would also like to extend my personal appreciation to him for all the support he has given to me over the years. Thank you, Julian, and back to you.

Julian Roberts: That's very kind, Ingrid, thank you. At the Prelims in February I talked about Old Mutual's transformation journey. For me, there are three main factors that have formed the backdrop to this journey that we have been on: The uncertainties in the global markets; the increased regulatory burden and the changing relationship between companies and their customers. As Ingrid has just commented, and I've been hearing all day today, this is my final results presentation, so I hope you don't mind me spending a few moments just reflecting on the impact of Old Mutual on these three things I have listed, rather than I would normally do, talk about the forward looking strategy for the Group.

Firstly, across the globe, the financial services industry has been and continues to be in a tough place. Economic uncertainties, market volatility, historically low interest rates in many markets and new monetary policies such as quantitative easing have made it difficult for companies to identify appropriate and affordable sources of value for their customers. Against this background, companies have needed to make difficult choices and decisions, and certainly at Old Mutual we have had to do that. We are now a much more streamlined Group, in fewer territories, focussed on sectors where we believe we really can produce real value.

Secondly, we have seen an exponential increase in the regulatory burden. Waves of changes have impacted all areas of our business. New governance requirements, new financial reporting, new solvency rules coming into play in both Europe and South Africa. In Banking, Basel 1, Basel 2, Basel 2.5, now Basel 3. Twin Peaks. Retail Distribution Review in the UK and similar coming in South Africa. To quote, I'm afraid, just a few. And we are unlikely to see any lessening of the regulatory burden anytime soon. This has all had a huge impact on business models. Sadly, the eight years of prudential regulation which focussed on capital requirements and also liquidity has now been overtaken by conduct authorities, changing the rules on how businesses operate, often through looking through a rear view mirror.

At Old Mutual, we have adapted our business model. We now have greater visibility of our risks and have implemented processes and governance to ensure that those risks are actively managed. We regularly do robust stress tests and we know we can withstand the most severe events across the Group. Regulation though has imposed a substantial cost on all financial services

businesses and this is likely to continue. Some of the changes have been positive for customers. Greater transparency of charging, for example. But not all of it has been positive. In the UK whilst Old Mutual is a beneficiary from the new pensions freedoms I personally disagree with the concept of allowing people to take their long-term pension savings in order to boost theirs and the country's consumption. Ultimately I fear that many of those customers who take the short-term option will come back to the state for support, and I'm sure that companies will be forced in due course to take some of that burden.

So the third of my macro points is the customer. Today, there is increased recognition by companies that creating value for customers also creates value for shareholders. Looking after the interests of shareholders is our fiduciary duty. But I believe those interests are best served by a company that has intimacy with its customers and acts responsibly, which is why this has been such an important and recurring theme for me over the last number of years. I believe that in our industry there is now greater though not universal emphasis on understanding customer needs and delivering solutions that meet those needs rather than simply pushing off the shelf products.

A new breed of company, and Old Mutual is one of them, is taking over the more established and more inflexible companies. At the same time, technology has become more accessible, almost irrespective of income group, and has changed fundamentally the way in which customers want and expect to interact with companies.

Sub-Saharan Africa is now the world's second largest mobile technology market and on average over 40% of mobile phone users in the region are using their phones to access the internet, which is both an opportunity and a game changer. At Old Mutual, we have put customers right at the heart of our vision and indeed at the heart of our business. It takes time. It takes commitment. And, of course, it takes money to make this a reality rather than simply words. We are investing, as you have seen, substantial amounts across the Group, particularly in IT systems and processes to help us serve our customers better. I thought I would give you some examples: Nedbank, for instance, has implemented changes that has revolutionised the speed with which people are able to open a bank account or are able to gain credit approval. We have embraced technology: around 15% of the sales of the new tax-free savings account in South Africa have come from the digital channel. And all of our businesses are expanding the breadth of facilities and information available to customers online. We still have some distance to go to truly excel at this but I believe we are doing better than many of our peers in adapting our business model.

So let me conclude: As you've seen, we are a strong company in robust health. We have a clear and appropriate strategy in our chosen markets. We have four strong businesses making good returns in markets with attractive

opportunities. I believe we are in the right places in Africa, we have got the right model for the UK and we are growing in the US.

I know though that some of you expressed concerns about Africa and in particular South Africa. Yes, our reported financial results are affected by the depreciating rand. Not so much in the first half, but if the rand stays where it is more significantly in the second half. Yes, South African GDP [growth] is low compared with other emerging markets – unsurprising given multi-year lows in commodity prices. And, yes, the country does have challenges but there is really nothing new about any of this. Over the years, against this background, our South African businesses have produced excellent results and they have done that because they are quality businesses focussed on doing the right things for customers. It may be hard to replicate their half one growth in the second half but I am confident that the profile of our South African businesses can sustain solid growth into the future.

In the UK, Old Mutual wealth is in the right place in the market. It is a good business and is doing absolutely the right things. It is focussed on understanding its customers and delivering solutions that meet their needs. Its transformation activity will ensure that it can grow substantially in the future, generating both profits and importantly cash.

In the US, the market opportunities are vast and we have created a business that has the financial strength and flexibility to be able to capitalise on those opportunities. In all our markets, our businesses are well managed with good people and are well positioned for growth. The results we are reporting today are of course just for one half year but it was a very good half year.

Profit from Emerging Markets up 14%, in South Africa, 31% in the rest of Africa, Nedbank up 14%, Old Mutual Wealth up 26% and OM Asset Management up 38%.

At the end of October I'll hand over to my successor a business that is focussed on operational execution, driving returns from the investments that have been made and delivering value to shareholders.

So, ladies and gentlemen, that concludes the presentation from Ingrid and myself. I am now going to open the questions and just to be difficult and to change things I am going to start with South Africa this time. So, Ralph, are you ready to handle questions from Johannesburg?

Ralph Mupita: Julian, we are ready and we've got the first question from Michael Christelis.

Michael Christelis: Hi, Julian. Mike Christelis from UBS. Three questions, if I can. If I remember correctly, when you set out your wealth management target, one of the targets was to have 20% of platform funds managed by OMGI. Now, given that it looks fairly likely you will achieve your earnings target, the fact that you are only sitting at 13% does that imply significant upside to earnings if you are able to get to the 20% some time beyond the end of this year? The second question is really around the debt maturity you have got in H2 this year. Comments certainly from Ingrid seem to suggest you are happy with the level of gearing in the business as a whole. Can we infer from that that you are likely to roll that debt or re-issue it in order to replace the maturing debt that matures this year? And then the third question is for Ralph here. Just talking about the Mass Foundation capacity in South Africa, given the challenges around particularly mining sector jobs and the fact that you've got a key competitor who has a stated ambition of growing their market share 20% in the entry level market, how realistic is your longer-term new business growth number of 10 to 15% that you have always alluded to? Thank you.

Ralph Mupita: Julian, shall I answer the third question first and then pass the other two to you?

Julian Roberts: That's exactly what I was going to suggest.

Ralph Mupita: Michael, obviously the South African environment is facing some challenges but we are cautiously optimistic that we have got a good and a strong franchise that can actually navigate through some of the challenges we are facing. Firstly, this question around what is happening with the mining environment and the job losses there, we have always said previously that we have a low proportion of our customers actually coming out of the mining belt. The majority of our customers are teachers, nurses, policemen, largely the civil service, and if you look at the wage bill increases in the civil service we think that the real growth in wages is about 10.8% rather than the 7.7% that has been quoted publically. So there is firstly in the public sector a meaningful gap between wage increments and actually what is happening in the rest of the market. We do think we continuously are innovating in the mass market, we are bringing new products that allow us to be a lot more competitive, and we have just launched our money account again in response to customers saying they want a product from us, and finding ways to get those customers a lot more sticky. And specific to your point about our guidance, and certainly as you see it our growth is 9% up on prior, our point is that our performance is close to the 10 to 15% but we're probably going to be at the lower end of this range for this year certainly. So we will be pretty happy to end up 10% at that lower end provided that we have maintained the good persistency that we've seen in the first half. Julian, can I pass the other questions to you?

Julian Roberts: Thank you, Ralph. May I give a slightly cheeky answer to your first question? Yes, of course, if the assets managed by OMGI go up then that's good for our

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profitability. I think we are really quite comfortable with the way that Old Mutual Global Investors is growing. I announced two further fund launches we are most excited about the fixed interest absolute return fund that will start probably in the fourth quarter of this year. And over time as those build we believe we will move towards that 20% target and, of course, that is good for a further profitability boost for Old Mutual Wealth. On the debt maturing, I think the only comment I would make is as we look at debt, yes, we are comfortable with the level of debt but we will also go as you have seen over the last year or so we won't necessarily refinance everything in the UK and we are looking at where the most appropriate place is to refinance debt. Broadly, we are comfortable with the level of debt we have got. Back to you, Ralph.

Larissa v d Venter: Thank you. Ralph, two questions on Emerging Markets please. And the first one, on your APE sales recurring premium growth of 23% which was quite impressive but on the present value number it was only up one. Are you saying a change in product mix that is resulting in shorter duration contracts? If you can help us understand that. And then in the embedded value experience there was quite a substantial expense and development costs. If you could give us a better sense of what that was for.

Ralph Mupita: I'll give the second question to Gary, Gary Palser, and the first question to Iain Williamson do you want to pick that up?

Iain Williamson: The natural answer is, yes it relates to mix issues. Obviously if your APE growth is higher than your PVNBP then the P implies your mean term of your contract is shorter. That's the simple answer. I think it's primarily a risk and savings mix issue so slightly less risk business and more savings business leading to a different platform of growth across the two metrics.

Gary Palser: I think the key thing is there is a lot of money being spent on expanding in Africa and growing in Africa so clearly there's a cost associated with that. And then in South Africa a big investment being made in IT, particularly gearing ourselves up for the future.

Ralph Mupita: Questions in Johannesburg? Julian, no questions for the meantime.

Julian Roberts: Okay. Well, Ralph, I have got a question for you that has come over the wires so I will pose the question to you. There are two. South African National Treasury released draft proposals to change the way pension funds are regulated, performance fees are not permitted in default investment portfolios. How will the change impact your strategy of deploying long-term savings into alternative investments where performance fees are a significant part of fee revenue? And, secondly, your plan to launch a transactional

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banking account and encourage customers to transfer bank accounts to the Old Mutual money market account, how will this not cannibalise your non-interest revenue from Nedbank?

Ralph Mupita: Okay. Yes, there have been draft proposals on default regulations for annuities and preservation funds for investment options. I think the first thing is that the National Treasury has accepted that smoothed bonus funds, which is the vehicle through which we deploy most of our investments into the unlisted space, so those particular investment options are actually acceptable as default option. The issue that we are discussing with the Treasury as part of this consultation is some issues they have raised around how do individuals exit. There should be no penalties in terms of how people –choose the reason for exit out of this. We think that that can actually be mitigated. We can debate and discuss with them and ultimately get results. I'm not actually concerned about that. I think the authorities are aware that if there is a call nationally to support more deployment of pension funds to support infrastructure investments it would be appropriate to continue to allow these products or investment options to be available. So I think the first response there is we don't think at the moment there is a significant impact in terms of our smooth bonus portfolios and how we invest them. And then on the issue of the my money account, we are just responding to a customer need which gives us transactional capability given that through Old Mutual Finance in particular you are extending loans to these customers. We have spoken to Nedbank and Mike and I have had several chats about that particular initiative. It didn't make quite economic sense for Nedbank to take that product on our behalf. But for us certainly we would be hoping that our own customers do put more of the salary dropping into these accounts and the reality is actually the bulk of our customers don't overlap in terms of customers between ourselves and Nedbank because actually we're relatively small, under 15%. So there is a big base out there of customers who we get deposits from, who we collect from, who actually aren't Nedbank clients. It does actually bring more clients to the Group. We see it in that positive light.

Julian Roberts: Thanks, Ralph. There were two other things that came over the wire that I have asked Ingrid to read out. To make a change, we haven't got three questions from Greig Paterson, we have only got one.

Ingrid Johnson: Thank you, Julian. So the first one from Greig Paterson. If your Solvency II coverage ratio is guided to below your 1.5 times FGD ratio then it is also likely to be distinctly below likely peers average of 1.7x to 1.8x. Will this impact on your dividend policy?

I think first and foremost we don't actually comment on our dividend policy at half year, so if you can set that aside. But equally if you actually look at the underlying calculation of your FGD, or in the new regime for Solvency 2 you need to really understand the nature of the calculation, and the fact that we

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are not a pure insurance Group and also will be on the standard formula which is inherently more conservative, as well as not relying on any transitional or matching adjustments. So as I have mentioned in the presentation, I think comparability is going to be increasingly more complicated for people to be able to assess our industry.

The second question then is from Jacques Plaut. In the results commentary you say profits are slightly down in LATAM and in Asia, top of page 9. In the supplement, it seems like profits from LATAM and in Asia are 32%, have I misread? That's all currency, which we can take you through in more detail if you wish. [Editors correction: Profits in LATAM and Asia were up in reported Rand terms but there is a significant impact of currencies on the reported results]

Julian Roberts: Okay, let's move back to London. Any questions from the audience in London? A few hands go up. Have we got a roving mike?

Lance Burbidge: Thanks. It's Lance Burbidge from Autonomous. Firstly on the additional expenditure into the platform in Old Mutual Wealth. There is obviously further changes yet to come which we don't know what the government was going to propose on pensions. How solid is that new estimate? Is it more like a building contract that you keep having to revise and go up again? And then on the rest of Africa outside Namibia and Zimbabwe, I wonder if you could give me any kind of idea as to the growth that you might have achieved since you've taken out some of those businesses.

Julian Roberts: Okay, I'll come back to Ralph to make a comment on the rest of Africa. Look, at the end of the day we are building this platform. We are over 50% complete. We have told you that we hope to implement in 2017. We are fairly confident of what we have asked them to build and what is going through. But we still have another 15 or so months and you know what generally happens with IT contracts over the period of time. What I can absolutely say to you is when we get this new system in it is going to be, I believe, transformational in what we are able to do. Most IT systems when you do bring them in take a little bit longer and cost more. But this is going to be significantly beneficial for this business and the value of this business. Ralph, any comment on rest of Africa?

Ralph Mupita: Yes, I'm going to maybe start with West Africa and I think just to remind the audience the businesses that we've bought are pretty small, particularly in Nigeria, we basically acquired a license. What we've been doing working with ETI is get as much product both life and non-life product through the bank channels. Group life, individual life and our short-term insurance business is what we currently offer. So, on those numbers, in a place like Nigeria although the numbers are still small we've got really a good growth relative to the prior

year. But there has been some slowdown in Nigeria particularly with elections coming through and the slow decision about the regulators on the bancassurance regulations which have now come through and our submission to get all of the bank distribution to move forward. So we are pretty pleased relative to the macro that we see in Nigeria. But, again, those businesses we are certainly looking to grow them over a three to five year period. Ghana is a similar state. The numbers are still small but we are very pleased with the traction there. And then coming to East Africa, UAP we've just got control of the business. And as Julian has said what we've been focussing on is getting the management teams in place, the governance in place, enough of our own directors, the chair of Africa Holdings and of OMLACSA. So people, governance and setting our businesses up for the merger – we still need to merge our life business with the UAP business and our asset management businesses which we will do in the second half. But we are pretty pleased with the progress we are making in those markets.

Andy Sinclair: Thanks. Good morning. This is Andy Sinclair from Bank of America, Merrill Lynch. Firstly, just on the retail affluent business in South Africa, I just wanted to understand a bit more about the investment in distribution there. I just wondered if you could give us some more detail on what has been spent and what step up there could be on the back of that going forward. Secondly, you said you are happy with what you have in East and West Africa. Does that mean any change of a rhetoric with respect to further acquisitions there or are you still interested or are things done in East and West Africa from an acquisitions point of view? And then finally on Quilter Cheviot, is £17 million a reasonable run rate from what we have had so far? Is there anything positive or negative going on here? Thanks.

Julian Roberts: Paul, you haven't said anything and you always say something. Come and comment on Quilter Cheviot.

Paul Feeney: Thanks, Andrew. Yes, we are delighted with Quilter Cheviot and £17 million is for four months and it also includes a couple of million pounds of take on acquisition costs if you will. So they are trading incredibly well. Very well. Assets under management ahead of where we had planned. Profits actually ahead of where we planned. That trading whilst we don't talk about the second half is continuing. Synergies are coming through and we are delighted. So I think whilst I can't tell you what it will be for the full year it's on a good track.

Julian Roberts: Ralph, do you want to cover retail affluent and East and West Africa?

Ralph Mupita: Yes. I'll ask Iain to talk about retail affluent. In East and West Africa, and as Julian said, in East Africa we think we're principally done. We have deployed 3 billion rand on the UAP acquisition. We are very focussed now in bringing those businesses together and actually building them up. So we are pretty done there in terms of mergers and acquisition activity. In West Africa, as I said earlier on, we still have got very small franchises that we would like to grow and in particular Nigeria we think the capability that we don't have right now is a pension fund administration business which we think is given the pension fund reforms in Nigeria is something that we would like to have. We are either going to build it or we're going to include something that we need to add to our portfolio of businesses there. So we are not in any rush. We take the time to get there because we are focused on the execution in East Africa. Iain, retail affluent investment distribution.

Iain Williamson: So there's a couple of factors to that. The main one is that in our PFA business in South Africa our head count at the end of H1 was 13% higher than last year. A lot of the head count increase was due to recently hired advisors who were obviously untrained. So that pay back will come later. We've also invested in, let me call it a marketing support infrastructure at the distribution level of the wealth business to take our life product out to market primarily into the wealth segment. Those are the two main incremental investments.

Julian Roberts: Thank you. Any further questions? Yes.

Will Elderkin: Thanks. It's Will Elderkin from Goldmans. Three questions: First of all on the mass foundation, the earnings there were a lot stronger than we expected. How far can we regard that first half as sustainable and the extent to which it benefitted, if you like, favourable mortality variances or otherwise good luck? Secondly, just on the heritage business, just in terms of thinking about forward forecast, what was the contribution in the first half from the Swiss operation which has been sold? And then, thirdly, just to understand the impact of the cost-saving effects from the new IT platform. Effectively once that comes on stream I guess at the beginning of 2017 will that act as a 30 million increment to profit from, if you like, the current run rate? Or do we need to be a little bit more sophisticated in terms of thinking of how that benefit flows through?

Julian Roberts: We have our finance director for Old Mutual Wealth. You never say anything, Mark. Here is your opportunity.

Mark Satchel: Thanks, Julian. Switzerland is ticking along on about £1 million a month in terms of profit contribution, so £6 million for the half year and depending on when we sell it obviously it will influence where it is on the full-year results.

Will Elderkin: One million sterling?

Mark Satchel: One million sterling, yes. In terms of the overall costs, you need to be more sophisticated I suppose is the short answer. You're not going to see an immediate decrease in say costs on day one. To a certain extent we will renew benefits from having a reduced run rate on our development costs at present and that is already reflected in some of the results from a development expense perspective, but from an ongoing run rate in respect of what IFDS brings us is a more steady state and in terms of that cost base rather than a continuing increase in operational costs associated with it.

Will Elderkin: So effective from 2017 we should see significantly better operational leverage from that time on?

Mark Satchel: Correct. But you won't see a step down of £30 million in operational costs.

Julian Roberts: Ralph, I was reminded today when I was interviewed by a journalist she said, 'I can't finish this conversation without asking you the question that I ask you every time. So is Nedbank core?' And we had a laugh about that. I think your perennial question is always, 'Is MFC sustainable?' So do you want to make a comment?

Ralph Mupita: Well, Julian, my short answer is H1 was an exceptional performance and I think we also need to take into consideration that in the second half of last year, in Q4, we were consolidating all of Old Mutual Finance so I think if you are looking at a run rate be mindful in thinking about the second half. We did have 75% consolidation of Old Mutual Finance. I think the reality is what will draw out the profit result is do we continue to have good persistency experiences as we had in the first half? Managing our growth, as I said at the lower end of our range, so we focussed towards managing persistency and we do get further mortality positive experience going through and does our loan book continue to be as strong as it was in the first half in Old Mutual Finance? Those will be the main drivers of the profit result in MFC.

Julian Roberts: Any further questions? Okay, let me just make some comments. I have spent pretty well twenty years doing presentations like this. I am quite pleased that I am finishing with not all of my hair grey. But I would just like to say to all of you in Johannesburg and here that I have really enjoyed talking to the buy and sell side in one to ones and together. I know at times I have been grumpy. I know at times I have had difficult roles to explain and, as I said, it's delightful for me to actually finish with a set of such good results that we've had this time. I thank you for that dialogue and I thank you for what you all do to help understand Old Mutual and then promote Old Mutual. And I think finally I just want to say to our employees I know a lot of our employees are either watching this or will watch it, and I want to say thank you to all of them for the

commitment that you have shown me and the hard work and support. I think it's really our employees that deserve the credit for the results that we've had today. And I can honestly say I will miss you all. So, thank you very much all of you for joining us in the presentation today.

Blair Stewart: It is traditional for someone to say a few words from the other side of the floor and I hope this is the last Old Mutual eulogy I have to give. So, 15 years, Julian, on the board of directors is a great achievement and probably a record in this industry, and I think by all means you deserve a break now. Since September 08 of course as CEO. You might have picked your entry point well, sorry, your exit point well but I'm not sure you picked your entry point that well. I think six months after joining Lehman went bust and the share price was below 40 pence. And that was a very difficult period. If I can cast your mind a bit further back, back to 2006, I think you were the architect of the Skandia acquisition and you went on to be the CEO of that business. And Skandia I remember was a real troubled business at that time and it had been really suffering from the fallout of the dot com boom. It was a business in a lot of turmoil and that couldn't have been an easy job. I know the market was very sceptical about the deal and I'm sure you got a lot of stick from me and others. So apologies for that. I think your fifteen years more or less coincides with the amount of time I've been at Merrill Lynch and I often get asked what do you view as the best deal you have ever seen. And I have to say, Old Mutual's disposal of the Nordic business is the best deal I have ever seen by far. And I remember going back to a cold morning in December 2011, 15th December, having a late night with clients the night before and I got a phone call at home on my mobile to tell me that the transaction had happened and the poor person on the other end of the phone had to tell me four times. I genuinely thought they'd got the currency of the deal wrong. I was sure they were talking about Swedish and actually they were talking about pounds. And since then the company has really never looked back. From a low point, the shares have gone up six fold at their peak and I think you take a lot of credit for that. I know it was a team effort but you do take a lot of credit for that. Of course you were educated in Scotland and anyone who has spent time in Scotland knows and learns that you need to keep the faith and you also need a sense of humour. I think you've done both of those things and you've certainly kept the faith and you've kept your nerve which has been important over the years. And you've done it all with a great sense of humour. So a good CEO but I think a great person to deal with. And on behalf of everyone I would just like to wish you all the very best. Thanks.

Julian: Thank you very much for those very kind words. Thanks a lot everyone.