Webcast & Conference call transcript

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INVESTOR DAY

Trevor Manuel
Good morning and welcome to Old Mutual Limited's analyst presentation. I'm Trevor Manuel, the Chairman of Old Mutual Limited. I'm really sorry that I can't be with you in person today, but please allow me to introduce today's momentous event. Today you will hear from Peter Moyo, who is the Chief Executive of Old Mutual Limited, and from Casper Troskie, our Chief Financial Officer. In the room with them are the Old Mutual executive management team who help us deliver the full breadth and depth of the business to our customers. In addition they are the functional heads who ensure that we're able to deliver efficiency and change in our operations. I encourage you to engage with all of them today as this is the team who will be driving Old Mutual Limited forward in the future.

It goes without saying that anchoring Old Mutual in Africa is a very exciting and positive development. I am fortunate to be in a position to have seen this come full circle from the time the business was demutualised in 1999 and when I was in government and now for its anchoring in Africa again. Old Mutual has been part of Africa's financial and social fabric continually for 173 years. The brand is easily recognisable across all of our markets and has a compelling equity story which Peter will take you through today. During this time the business has been agile and innovative in providing customers with the services they require in a changing market environment. In South Africa we are proud to have a diverse and inclusive, experienced management team.

Throughout our years of operation we have ensured that we do not compromise on corporate ethics and governance and we will continue to do so going forward. We have an established board in place with deep insurance and banking experienced coupled with listed company experience which we believe will benefit us all in the long term. And now to bring you up to speed with the progress that we've made in terms of the listings in Johannesburg and London and the rollover of our existing listings in Malawi, Namibia and Zimbabwe, we have finalised regulatory arrangements with both the prudential regulatory authority at the South African Reserve Bank and with the Economic Development Department. We have also finalised agreements with Nedbank as to the future of our relationship. And we've completed our operational review and continue with the skills transfer process.

In the first quarter of this year we received competition tribunal's approval as well as numerous other financial and regulatory approvals to pave the way for our journey to anchor in Africa. We have now finalised public documents which you would have seen, and so are making excellent progress for the listing. On the 20th April this year we published our pre-listing statement in connection with the proposed admission of Old Mutual Ltd ordinary shares to a primary listing on the Johannesburg Stock Exchange. With a proposal to finalise the managed separation approved for every three Old Mutual Plc shares held you will receive one ordinary share in Quilter, which was formerly known as Old Mutual Wealth, three ordinary shares in Old Mutual Limited, and there will be a subsequent distribution of Nedbank shares. You will no longer hold any shares in Old Mutual Plc.

The completion of the process will require separation agreements and some final regulatory approvals. After the listing in June our next corporate activity will be the unbundling of Nedbank which we hope to achieve within six months of our listing to future Old Mutual Limited shareholders and former Old Mutual Plc shareholders who will then own shares in three independent, strong and well-positioned businesses. That is Old Mutual Limited, Quilter and Nedbank. We further expect that the sale of our LatAm businesses will be completed in the second half of this financial year. I will now hand you over to Peter to take you through the rest of the day. Thank you very much for being here and thanks for your patience in listening to me.

Peter Moyo
Good morning everyone and thank you for coming to spend time with us today. I hope those of you who went to the branch visit yesterday got a real taste of how we operate and the opportunities we have to do even better in the future. I'm very excited to be with you today to help you better understand Old Mutual Limited and its underlying businesses and how they have come together as we prepare for our listing on the JSE which we expect to be on the 26th June. My executive team joins us in the audience and I'm delighted to be presenting with our CFO, Casper Troskie, today. Casper joined us on the 27th March and provides crucial listed company and insurance and banking expertise. I will at a later time ask the other members of the executive team to join us for questions on stage so you will get a chance to put them through their paces as well.
What I would like to do today is to demonstrate to you that we have a compelling investment case, to firstly provide an update on the encouraging progress we have made on our eight battlegrounds, and secondly how our performance is building on what we have already achieved in the nearly one year I've been CEO of this business. Yesterday on the 16th May we published our supplementary pre-listing statement. In that we highlighted our trading update and details of the alignment of our management incentivisation to our performance targets. Casper will today outline our financial and capital position and help you model our business. Lastly I want us to talk about our KPIs and how those draw from the 2017 results. As I'm sure you will understand our presentation is restricted to what is in the pre-listing statement and the supplementary pre-listing statement.

Old Mutual Limited is a pan-African financial services group that is one of the most profitable amongst its traditional South African peers. Our breadth and depth of capabilities positions us for attractive growth prospects over the near and long term across all our market. The business is highly cash generative and it is well positioned in the right markets to extract value from our franchises, deliver sustainable long-term growth and returns for shareholders whilst creating economic value for all our stakeholders. We have R1.2 trillion in funds under management and last year we reported adjusted headline earnings of R13.4 billion which was generated from a customer base of over 12 million. We have a long history of operating on the African continent and have built a well-recognised and trusted brand with significant scale in key geographies. Our product offering and market exposure gives us confidence that we can grow our results from operations at nominal GDP plus 2% over the three years to 2020 and support a return on net asset value of average cost of equity plus 4%.

Our market leadership position and capital combined with the strength and breadth of our offerings we provide across the financial services spectrum ensure that we are positioned for longer term sustainable growth. We are well capitalised, operating within our targeted SAM ratio of 155% to 175% and we aim to ensure a dividend cover of between 1.75 and 2.25 times based on adjusted headline earnings. We will leverage our strong position in key geographies and segments and are focussed on delivering on substantial business improvement and cost efficiency opportunities. To this end we have identified potential cost savings of R1 billion across our operations by the end of 2019. All of these point to why we are confident that we are well positioned for sustainable and long-term growth. Old Mutual Limited does indeed offer a compelling investment proposition.

I'm confident that we will deliver on our promises because of the following key strengths. We have over 12 million customers across all our segments and we deliver multiple financial solutions to them. We will continue to adapt these offerings to capture future growth. We have the largest multi-channel distribution network including a large and productive agency force. Our customers currently prefer face to face contact, whether it be at home, in one of our branches or at work. As we look to the future we are increasingly focussed on growing our digital and direct channels. This will also allow us to streamline our own processes and drive efficiencies. The breadth and depth of our distribution reach gives us a distinct competitive advantage over our peers, both traditional and new. We have significant scale in our market leading Mass Foundation segment. We know how to meet the financial needs of the expanding middle income consumers, especially in relation to funeral and credit protection. This is a specific feature of the southern African markets. Our strong capital base in an environment of tougher capital requirements allows us to invest in our business strategy while ensuring that we maintain good returns to our shareholders. We have a strong management team to deliver on our strategy which is underpinned by one of the most valuable brands on the continent.

On this slide are the same eight battlegrounds which I introduced last year in my first presentation to the market as Chief Executive Officer. Just to remind you, they are broken into three groupings. Firstly, areas where we need to defend and consolidate our position, and next areas where we frankly need to improve our performance, and finally areas where we need to strengthen our competitiveness and productivity. Over the coming slides I will highlight the significant victories in most of these battlegrounds. We have made great strides in consolidating our leadership position in our large established businesses, MFC and Corporate. We still have more work to do in our Personal Finance business. We have seen strong signs of improvement in Wealth & Investment and Old Mutual Insure. There is still work to be done in East Africa, but I am confident we are showing a positive trajectory. We continue to advance initiatives that are building the long-term competitive advantage of Old Mutual Limited. I will discuss each of these in turn.

We said that we are going to consolidate and grow our leadership position in the Mass Foundation market and Corporate businesses in South Africa. In MFC we have maintained our leadership position by expanding our customer base to more than 3.3 million. We added 31 branches to our network last year and our aim is to continue to do that at the same pace this year. We are piloting Old Mutual Finance ATMs, one of which is outside of this building. This is an exciting addition to our transactional offerings which is now one of the most competitive in the country. We continue to focus on scaling up our integrated financial services strategy to meet the needs of our customers, and in doing so remain ahead of disruptors in our industry. In Corporate we achieved strong growth in super funds membership and assets under management. Umbrella funds are becoming increasingly important in this industry and we have the leading fund.

We recently celebrated the 50th anniversary of the successful smooth bonus product. The ability of Old Mutual smooth bonus fund to target real growth over the long term while smoothing out the volatility has been very exemplary. I consider that this is a crucial product for the future given the regulatory changes promoting preservation of pensions and long-term investments. We have a substantial position in the highly competitive personal finance market and a robust offering with which to defend our position and take advantage of growth opportunities. Crucially we are focussed on customer retention and as part of this we will launch innovative customer propositions including our rewards programme later this year. This is already being piloted amongst our staff. Digital channels are becoming increasingly important in this market and we have grown our sales from this channel. We launched iWyze Life this year to further support this strategy. Personal Finance is already leveraging our existing branch network and has access to select worksites.

There is a significant opportunity to continue to share the existing distribution infrastructure and generate further efficiencies. We see further opportunities to improve and offer holistic advice and investment solutions to our targeted middle income market. We also need to keep on top of pricing and risk experiences as mortality and mobility changes in South Africa.

As we defend our leading positions we are equally focussed on improving our businesses that have not been performing in the way that we have wanted. We continue to see progress on this front. On the Wealth & Investment side our funds have shown strong investment performance in crucial areas and we have significantly overhauled the client advice platform. Just last week at the Top 500 Awards Dave Macready, the Managing Director of this business, collected the awards we received for best managed company in the financial services sector as well as the headline award for the best managed company of the year, ahead of South Africa's most prestigious companies.

Nonetheless Wealth & Investment business does not occupy the market position we want it to. We will improve the competitiveness of this segment to build on the progress that has been achieved to date. This means delivering a great experience when we serve customers and strengthening our relationships with key distribution partners. The benefits of our remediation efforts continue to show in Old Mutual Insure's underwriting results. While the turnaround is taking hold we are reluctant to call it complete especially in relation to the commercial book. We remain confidently on track to deliver the underwriting margin with the near term target range of 4% to 6% given the restoration of the quality of the retail line, improving results and continued profitability of the iWyze book. Encouraging progress has been made in the East Africa P&C underwriting margin following management actions taken during the year. Group life assurance profitability has also improved with strong results across some of the areas in the rest of Africa.

Our talent and technology capabilities are key enablers to our success and competitiveness. We are proud to be certified top employer across all our 13 African countries and we will continue to improve on this through our accelerated talent development programmes. We have strengthened our leadership team with several key appointments, recent one being the appointment of our Human Capital Director, Celiwe Ross, who is currently my chief of staff and previously worked in an investment banking and executive recruitment positions. We also made key hires in the underwriting and claims departments of Old Mutual Insure. We are transitioning from a product focussed to a customer-led organisation and in doing that we are fostering a culture which is agile and execution focussed whilst ensuring diversity and inclusion across the workplace. What this means is that as our culture changes our teams will stop following competitors and rather focus on winning in the market. We will do away with the complicated process and implement processes that encourage speed, simplicity and cost effectiveness.

It is imperative that we continue to invest in technology without disrupting our business segments. We continue to undertake significant technology upgrades with an incremental and staged approach. We will innovate and adapt the development programme and then decommission old systems when ready. Importantly the straight through processing that will result from this upgrade allows us to reorganise our structure and drive efficiencies. Our investment in digital channels improves our customer analytics ability which is a strong focus for Raymond Berelowitz, our Customer Solutions Director. Overarching all our battleground is the need to execute in a cost efficient manner, what we call cost efficiency leadership. We have identified potential cost savings of R1 billion by the end of 2019 net of the cost to achieve this. In 2017 we generated cost efficiencies in a number of segments and I am confident that we will deliver our target.

We expect further strategic gains both in the near and medium term as we continue to progress on our eight battlegrounds. We need to continue to defend our market leading positions, and cost efficiency as an overarching theme will remain an ongoing focus area. We are already seeing success across Wealth & Investment, Old Mutual Insure and East Africa, but the benefits from scaling these businesses is something we expect to be only fully evident over the medium to longer term. If we are to achieve the targets that have been set out we must embed a high performance culture which attracts, develops and retains top talent. This will also help with our succession planning. This together with our investment in technology should be a multiplying factor to improve our overall performance.

Let me spend a moment discussing the Nedbank relationship and why it remains a key source of value for the group. On the 1st November we announced that Old Mutual Limited will retain a minority stake of 19.9% in Nedbank. This will underpin the ongoing commercial relationship between ourselves and Nedbank. We will retain nomination rights on the Nedbank board for one person. The 19.9% shareholding was negotiated with Nedbank together with the Reserve Bank and the then Financial Services Board in order to maintain stability for the broader South African financial system and the shareholder bases for both entities. The relationship provides continued opportunities for cost savings and will underpin services we share such as our outsourcing of our IT network to Nedbank. The operations of the two businesses will remain independent and will have little overlap. But the collaboration potential is already evident in the R1 billion synergies achieved to date as part of the group collaboration programme launched in 2014. Old Mutual Limited is a product provider to Nedbank on complex life and P&C business. Additionally we are Nedbank's largest transactional banking client. Fundamentally the relationship remains an arm's length commercial arrangement for both entities.

You will have seen at the results presentation in March that we have refreshed our KPIs as we have prepared for becoming a standalone business. Casper will go through the calculation bases and construction later, but I wanted to set the scene. These are the metrics that we will be using externally to report on, be paid on and use to manage the business. The key measure of our performance is results from operations which reflect the underlying performance of our segments as well as our central costs. In the coming slides I will discuss the results from operations and Casper will cover the rest of the KPIs in his section.

We told you in the supplementary PLS yesterday that the group's continuing operations have started the year on a very positive note and results from operations are trading in line with our expectations. I will not dwell too much on the 2015 and 2016 numbers, but have them as a gauge to emphasise the key drivers of our performance.

What is important is that as a group we have a balanced earnings stream with slightly more than half coming from our Mass Foundation cluster and our Personal Finance business, both of which are businesses that hold leading positions. We expect Wealth & Investment, Old Mutual Insure and the Rest of Africa to continue to grow. As you know we have announced the proposed sale of LatAm. This is due for completion later this year so we are only left with our small JV in China outside of our operating base of Africa. The diversity of our operations has been key to delivering robust and stable earnings growth over time. Now I would like to comment on the financial and strategic position of each of our segments. Following this you will have the opportunity to ask your questions of the management team directly as I promised.

So let me start with our Mass Foundation cluster. This business continues to perform well despite the challenging market and it increasingly absorbing a larger portion of our central costs. We believe our broad distribution footprint, customer focus and opportunity for cost efficiencies remain the key elements to the continued momentum of this business. We enhanced our distribution footprint in 2017 through investment in the branch network, enhancing our product offerings and improving the efficiency of our channels. We continue to focus on bringing the right quality of business, driving the right persistency and credit experience in our books, and we have continued to see better persistence experience and advisor productivity through our branch network. Specifically we enhanced the digital platform and now offer online lending while our money accounts continue to grow. We are reviewing the possibility of an online funeral proposition in addition to expanding our funeral value chain offering in response to customer demand for an integrated offering.

Excellent customer service remains a key differentiator and we continue to focus on improving the speed of our funeral cover claims which are already very competitive. You may recall from our full year results that is part of our commitment of delivering value to our customers. We allocated R470 million in additional funeral cover for existing MFC customers at no extra cost to them. Gross flows and loans and advances are the key top line growth levers for our life and savings and banking and lending businesses respectively. Both of these delivered greater than 10% underlying growth in 2017, demonstrating the sustainable momentum in the segment. We actively took steps to reduce our net loan book by 20%, writing off long outstanding loans and reviewing the credit quality assessment used for determining provisions. We are also now reflecting payment behaviours in line with IFRS 9. We aim to acquire the remaining 25% of the lending business during the second half of the year from our longstanding partner subject to terms that we hope to agree with them sometime this year.

Moving on to the Personal Finance business. Competition in this space remains intense and we are in a very tough operating environment, although our performance has been relatively good. Good progress has been made on delivering on its strategic growth drivers. We believe that we have the right strategy and opportunity to drive key performance metrics forward in the medium term. A key focus for the segment is to strengthen its position in its core customer market, the middle income market, particularly the black middle income market in Gauteng and drive growth through alternative channels and innovation. Personal Finance has a competitive advantage in it distribution footprint and as part of this it is advancing its digital offerings. The launch of iWyze Life is an example.

Advisor productivity is a key focus area to extract greater value from our network, and as part of this we continue to roll out personal finance advisors in branches as well as in corporate worksites. The personal finance segment represents a strong platform to support the growth per customer through collaboration with the rest of Old Mutual Limited. I have examples. R3.5 billion in annual premium equivalent for the Wealth & Investment business and R2.3 billion in premium flow for our corporate umbrella schemes. 50,000 Personal Finance customers took up money market accounts in 2017. The continued development of its online financial education tool, Moneyversity, and also making the PF financial wellbeing offer available for debt consolidation and personal loans. We are also very proud of her achievement, I know that Karabo will not be distracted from her recent World Economic Forum Young Global Leader award and continue to drive the strategy of this business going forward.

In our Wealth & Investment segment we are very proud of our improved investment performance with our funds rating top quartile in the crucial categories, especially in the multi-asset class which is key for retail wealth flows. We believe that investment performance is no longer a constrained in growing our flows. We are working hard to increase our annuity type revenue by driving investment performance and flows, and we have seen this becoming an increasingly larger share of total revenues in recent years. On the other hand some of our capabilities deliver non-annuity revenues. These are important products for our customers and differentiate us from our peers. The revenues generated from these are by definition very lumpy.

We are well positioned to leverage some of our unique and market-leading asset management capabilities that are becoming increasingly prominent in our industry. In addition to our passives offering, liability driven investments and smart beta we have the opportunity to build an African alternative mega manager in the unlisted space. We will continue to focus on the retail wealth and high net worth market. Retail wealth management continues to be dominated by independent advisors. Our enhanced platform is now used by both advisors and clients. This together with the momentum gained on the back of recent strong investment performance had a positive impact on retail flows in the second half of last year.

Our recent FLEXCUBE platform upgrade was completed on time and within budget and resulted in significant improvements to our administrative capability, which has enhanced advisor and customer experience and reporting. Our retail and institutional clients continue to demand global capabilities and we continue to advance our international offering in order to successfully deliver global mandates and associated margin.

Old Mutual Corporate remains well positioned to retain its leadership position in South Africa. Asset based fees are a key driver of this business performance and so while the net client cash outflows in 2017 could appear concerning this was largely due to the outflow of a significant piece of low-margin investment business in the fourth quarter of 2017. As you know this business is lumpy and is characterised by the annual tendering of mandates. Continued product innovation is fundamental to retaining market share in a competitive industry and some of our recent product launches are important milestones especially in the standalone umbrella market.

We launched the superFund DC annuity which is aimed at retaining assets in the fund and the Nucleus Index Fund to provide customers with increased investment choices. Clement and the team continue to demonstrate their ability to deliver on market leading customer solutions as evidenced by the many awards including several Imbasa Yegolide awards won by the business in 2017. We have significant scope to grow earnings as we focus on repricing and more efficiently managing our claims processes in the income protection market. Given the challenging market environment and the risk losses experienced the business repriced income protection benefits and implemented new income protection options aimed at providing more sustainable benefit structures. I spoke earlier about the collaboration between businesses and the benefit derived from this. The Corporate business is no different and continues to be a key source of future retail growth with very significant scope for further leveraging our worksite presence and to deliver retail customer solutions.

Now moving on to Old Mutual Insure. I'm extremely pleased with the results of Old Mutual Insure's turnaround strategy to date. We have largely delivered on the retail turnaround and commercial is progressing very well. We strengthened the leadership team at Old Mutual Insure and reinforced skills to support disciplined underwriting and claims management. Gross written premium growth has been low as we tightened underwriting controls and drove remediation of the loss-making business. The margin in the second half of 2017 was within our near term target range of 4% to 6%. Ongoing remediation will further drive earnings growth largely in the commercial lines portfolio, and we hope for further momentum now that iWyze is profitable.

The momentum built off our turnaround has increased the attractiveness of Old Mutual Insure as a place to work and we are already seeing this in our access to talent. Diversifying our business is another strategic priority. We see further earnings growth coming from increasing exposure to higher margin lines. Capital pressures and commoditisation of P&C may drive consolidation in the industry as it has done in other markets. Those players with entrenched brands and a strong balance sheet are especially well placed against this industry trend. We also see an opportunity for greater collaboration across Old Mutual Limited. While Old Mutual Insure supports the rest of Africa's P&C business we also see scope to serve PF's customer base. Our penetration rate amongst our PF customers only stands at 10%. This is below where we want it to be, and we intend to seize the opportunity to offer our existing customers a short-term tailored insurance solution.

Moving on to the Rest of Africa. Old Mutual Limited has operations in 12 countries across the three regions in the rest of the continent. The SADC region remains the largest contributor to the Rest of Africa profits, although we have continued to see improved performance in East Africa. Our West African operations remain small. Overall the team delivered an improved set of results and the ongoing turnaround is testament to their ability to operate in complex and diverse markets and manage the associated risks. In the SADC while a more established business than in East and West Africa we see further growth opportunities, for example the Malawi retail mass market, the Namibian wealth business and the life business in Botswana. In East Africa we continue to focus on the turnaround of the health business with a focus on continuing to underwrite more profitable business going forward across health, but also our other lines, life and P&C. Going forward we are continuing to focus on cost efficiencies as well as rationalising the property portfolio where occupancy rates remain below where we want them to be. While our rest of Africa business has great potential and the turnaround is encouraging there remains work to be done.

I now want to ask our Exco to join me on the stage so that you can ask questions of us as a team. And these are the people that drive the good performance that I have talked about on a day to day basis. I'm not going to introduce them. We've got their names and pictures at the top. We really just have the front line team together with our CFO. So we will take questions.

Larissa Van Deventer
Thank you. Good morning. It's Larissa van Deventer from Deutsche Bank. On the last slide, if you can start with Africa, you mention Malawi and Botswana but you don't speak about the elephant in the room which is Kenya. Can you tell us what your plans are to turn around profitability in UAP? And also on your capital light expansion model in West Africa can you tell us what the current working situation is in your collaboration with Ecobank is please?

Peter Moyo
I will also ask Jonas to add one or two things. In fact last night we received news that we think we've got the approval for our bancassurance in West Africa. So that's a bit of good news. Hopefully it will actually allow us to start really doing some work there. We actually received the news last night. But we remain on our capital light strategy in West Africa. We need to understand exactly how that market works. And our bancassurance is actually going to be building on some of the things we've been talking to Ecobank about. I mean it has actually taken a long time to get there. I did mention some of the things that are happening in East Africa and in Kenya particularly. We have actually seen a very good improvement in our health book. We are seeing improvement in our life book. The margins in our P&C business are improving. But the important thing is we need to ensure that this is actually firmly anchored in the business and we can continue to do that. We do have challenges in our property portfolio. We talked about the good aspect of it in Uganda.

Kenya we are very much concerned. I think as of this month we have actually moved the occupancy rate to 60% in Nairobi. We are actually hoping to do better than that. It's actually been a challenge. It's not an easy region. We do have a strong management team but the most important thing is for us to focus on very, very clear management actions and the team is doing exactly that. So we are reasonably happy with what we're seeing out there. I did say that we must expect to see the improvement in that part of the business in the medium to long term.

Larissa Van Deventer
Thank you very much.

Peter Moyo
Jonas, do you want to add anything?

Jonas Mushosho
No, Peter.

Peter Moyo
Michael, I thought we'd dealt with all your questions.

Mike Christelis
Mike Christelis from UBS. Just two questions if I can, firstly on Mass Foundation. The branch visit yesterday as quite interesting from the sense that you're looking more and more like a bank, and a particular bank, being Capitec I guess. I would like to understand how many money accounts you are opening on a monthly basis, how many of those are actively being used, and what the longer term strategy is with regards to banking in that space. That's the first question. And then a second question I think for Clement on Corporate. Just you mentioned re-pricing and we've been through a bit of a repricing cycle across Corporate in South Africa. If your repricing you've done this year was done a year ago on a like for like basis what delta would there be on your profitability? In other words how much on a like for like basis in 2017 would that profit uplift have been? Thank you.

Clarence Nethengwe
Right. Money accounts we are opening over 30,000 per month. We have opened over 400,000 since we started and about 145,000 of them are active accounts.

Clement Chinaka
Right. On the repricing we started the repricing programme at the beginning of last year and we saw the results at the end of 2017. What we are finding is that the risk is still developing and the outlook really is what we are all very interested in, because right now everybody is pricing up and we are still seeing all the challenges. Luckily for us we are not losing lots of business. We have lost just a few schemes. Less than 10% of the book has gone. So I think if you look at the outlook going forward what you will see is while we increase the pricing everybody will be trying to do that and trying to steal from the other people. However the actual solution I think is in the changing of the benefits because the benefits are rather too rich right now. And until we can sort that one out it's going to continue to be a challenge. However we have programmes that we have in place to change the benefit structure. Not too much take-up right now because the broker market will always take the path of least resistance, which is to see if somebody can offer the current benefits with a different pricing. So until that changes we will see more of the take-up of the benefit changes.

Peter Moyo
On where to on the banking our starting point is that we want to further strengthen our position in MFC both on the insurance side and on the lending side, which is actually going very well, and expand the money account proposition. We are not as yet looking at a banking license. In the event that we think about that we will advise the market.

Andy Sinclair
Thanks. It's Andy Sinclair from Bank of America Merrill Lynch. Three from me if that's okay. Firstly on Old Mutual Insure you mentioned looking to increase from serving 10% of PF at the moment to increasing at a higher number. Cross selling has typically been a hard thing to do in insurance. I just wondered how far do you think that can go and what is your mechanism for uplifting that. That's my first question. Second question. You mentioned about moving to 100% ownership of the loans business within MFC. What will that 100% ownership give you on top of what you've got at the moment other than just a higher share? Can you take more there? And thirdly and finally more of a higher level question really. Of your eight battlegrounds which one do you see as the most important and giving the most upside potential for Old Mutual Limited? Thanks.

Peter Moyo
Sorry, can you just repeat the last one.

Andy Sinclair
Just of the eight battlegrounds which one is your main focus? Which one is most important to you? Thanks.

Peter Moyo
Let me start off with that. I really believe that all of them are very, very important. This is a very big business and one of the things I've said is that my role as the Chief Executive of this business is to actually try and crank all those engines such that when this machine moves, it all moves in one powerful direction and we can actually do what we wanted to do. So all those things are very, very important. We actually can't succeed in this business without the right kinds of people. We can't succeed if we don't deal with our technology and platform issues. And as we run these businesses individually it's not as if it's one person worrying about all those eight. I mean we actually have noticed that they actually talk to just about each one of our businesses. So we actually have each of our executives focussed on those. So they are all equally important for us to achieve.

On taking up the remaining 25% we actually think it will be value accretive. We are wanting actually to take on that extra 25%. We think it's a very good business. We think we can actually drive it much further for the benefit of our shareholders.

And then on the cross sell between Old Mutual Insure and PF I will just say my little bit and then ask Hannes and Karabo to say something. I know actually it is a very difficult thing. It is actually not easy to sell across. But when you actually have very good offerings and you actually have advisors that actually understand the end game and are committed to it, it can actually be done. We have actually seen it in some of the businesses. We actually need to engage our advisors very well. And we must never forget that a big chunk of Old Mutual Insure's business was traditionally sold through individual advisors. So we can actually bring that to our own advisors. And already some of our advisors are doing that. Karabo, do you want to add something, and Hannes?

Karabo Morule
I think you said most of the points, Peter. I think what also talks to what will drive that is just a closer alignment between us around the focus areas, so creating the win-win between us. And also there are some regulatory developments that also talk to that. So retail distribution review and the fact that advisors are now needing to make sure that they diversify their earnings, and in particular earnings that are more recurring rather than upfront and commission based. So the short term insurance is a great way for them to actually diversify their portfolios and their competencies to also make their earnings more resilient.

Hannes Wilken
Perhaps in closing I fully agree with what Karabo shared. Part of the turnaround is also improving service levels, specifically on the claim side. So word of mouth is spreading and I'm pretty confident that our claims service levels are moving to market leading and that most definitely will assist in the cross sell.

Richard Treagus
Peter, if I may just add on that 25% thing. If you read the PLS you will see that we disclose a PUT option that can be triggered on the 25th. So you must take that into account.

Peter Moyo
Any other questions?

Musa Malwandla
It's Musa from Standard Bank Securities. Just one question on the low income market. I know we had an interesting conversation yesterday about this, but if we look at the… To my understanding at least part of the

growth in the low income market has largely been increased in not necessarily growth in the number of customers but rather the entrenchment of people taking on more products and so on. So now I ask this in a context of a situation where the market is becoming more competitive and it seems as though there isn't as much job creation in the low income segment. So I just want to understand given that this is clearly a large segment of your population, even if you look at the non-insurance side the lending franchise seems to rely heavily on cross selling to your existing clients. So if the market doesn't grow or if the market doesn't grow as fast as it has been, and there increased competition, and the runway in terms of entrenchment is running out, what sort of growth is there in the medium term? I'm sure things might unfold however they might over the next few years, but medium to long term where do you see the position of the Mass?

Clarence Nethengwe I think we spent 45 minutes yesterday in the car talking about the very same question that you are asking now. And I gave different scenarios, one including our participation in the integration of the full funeral value chain into what we do. Because what we have observed is that customers are not only looking for a cash pay-out. They are also looking for that full end to end service. And I think if you look at most of the mom and pop funeral parlours that are mushrooming in the townships as well we rural areas they are the ones who are cleaning up that space because they've got that model figured out. And I said to you yesterday that we are investigating different models in that space. We have narrowed it down to a few models. We are in a testing phase. And once we are clear in terms of which of the models we want to implement we will communicate with the market. But we believe that there is a lot of growth including from a [unclear] perspective also.

Peter Moyo
Are there no further questions? Well, as it turns out today we are 173 years old. So please join us for birthday cake outside. This is all included in our cost leadership initiative. We will take a break for 15 minutes before Casper takes you through the financial review. Thank you.

Casper Troskie
I would like to thank Peter for the first session and good morning to all of you. Firstly I want to thank Ingrid who has kept the ship moving forward and played a crucial role in getting me comfortable with the business. I'm very excited to be part of Old Mutual and the opportunity that the business presents going forward. The business is well positioned in each of the segments it operates in and has strong propositions in most of the key markets in South Africa as well as Sub-Saharan Africa. The business further provides a well balanced mix of life, asset management, lending and property and casualty earnings which should support diversified growth. Our business is well capitalised and the diversified sources of earnings should position us favourably to manage capital and dividend flows effectively going forward. I'm now going to take you through the financial review for today.

This morning I'm going to take you through our income statement and the path from results from operations to adjusted headline earnings. I will then help you move from the Plc balance sheet to our forward looking pro forma view and show you how the relevant parts fit together. I will review the key balance sheet items and how these have developed over time. Next I will show you how the SAM framework is applied to our balance sheet and explain our solvency calculation and how it behaves under stress scenarios. I will also explain the nature of our gearing and liquidity. This will complete the picture of the balance sheet and our regulatory capital readiness. I will then remind you how the residual Plc NAV may develop as we wind down the remaining contingent and actual liabilities including the Plc debt. Then I will link this to the KPIs that Peter has introduced you to. I will discuss the cash generation of the business and our approach to capital management, and how this interacts with our solvency and dividend policy. And I will conclude with the summary of the targets that we have set out before handing you back to Peter.

At our annual results presentation in mid-March Ingrid explained how Old Mutual Limited will now be reporting adjusted headline earnings and moving away from the Plc concept of adjusted operating profit. The fundamental difference is the reporting of actual shareholder investment returns rather than the use of the long-term investment return to report smooth earnings. This brings into sharp focus the actual performance of our shareholder investment portfolio and should lead to more active management of this portfolio. We are also including the amortisation in our results which is a more representative view of sustainable earnings.

On this slide I show you a bridge from results from operations to adjusted headline earnings, and then from adjusted headline earnings to headline earnings. Firstly looking at results from operations. These are the operating earnings of the segments which Peter discussed in detail as well as cost of the central functions and is the cleanest earnings measure to assess how our businesses are performing operationally. Results from operations have grown by 6.2% compounded over the last three years reflecting the tough operating conditions and low economic growth conditions. As you can see from the bottom chart we step towards the adjusted headline earnings by deducting finance costs, adding shareholder investment returns, adding the earnings for our 19.9% go forward stake in Nedbank, and finally taking off tax and minority interests. Adjusted headline earnings have grown by 16.9% compounded in the period reflecting the support to profitability from 2017's high investment returns. The investment return will create some volatility in this result going forward which I will take you through later.

To get to the JSE definition of headline earnings for 2017 we have to unpack some of the complex consolidation items of the previous Plc group structures given our predecessor's accounting. Firstly deducting the operating loss of residual Plc, specifically the Plc head office operating costs (some present here) and Plc debt financing charges. Adding back the other discontinued activities of Plc, made up of the 52% of Nedbank, OMAM and Quilter in the 2017 base. We then remove the double count of the Nedbank 19.9% since the whole stake is captured in discontinued operations for accounting purposes. Removing certain adjusting items including restructuring charges and the effect of the mismatch caused by policyholder investments in group instruments which are consolidated as treasury shares within headline earnings reporting. And thus you get the JSE headline earnings. These have only grown 2.4% compounded, partly reflecting a smaller contribution from OMAM, now known as BrightSphere Investment Group, as this was sold down. This more than offset the 2017 investment gains that boosted adjusted headline earnings growth.

That was quite enough complex accounting, so let me show you how this will develop over the near term as the accounting for the old Plc results fall out of the Old Mutual Limited financial track record.

This slide depicts how the structure of the income statement will develop over time. As you can see from this chart our cornerstone building blocks of results from operations and adjusted headline earnings are ongoing through 2017, 2018 and beyond. The residual Plc is non-core and has been excluded from our adjusted headline earnings as its performance will distort our sustainable results. The Plc will wind down substantially during 2018. However, this process will take time.

For example the final debt instrument with £61 million outstanding does not mature until 2025. We are however fully incentivised to efficiently manage the wind down costs of Plc including liabilities as the resulting net asset value will ultimately belong to us as surplus capital subject to any requirements of the UK court. The discontinued activities of the other Plc operations fall outside of the Old Mutual Limited group result during 2018, consistent with our material completion of managed separation. And the Nedbank shareholding above the 19.9% is expected to be unbundled around six months after the listing. So you will see there is significant noise in our external reported data, and we will be working with you to ensure that consensus and the statutory reporting outcomes can be modelled properly.

We can now look at the actual results for the three years to 2017 as set out in the pre-listing statement which details the historic year on year movements. The first line item is the results from operations which Peter has hopefully given you a good sense of with our forward looking target set at compounded annual growth rate of nominal GDP plus 2% over the three years to 2020. I will now unpack over the next few slides the key elements to help you model the highlighted items, being finance costs, shareholder investment returns and residual Plc. The other line items on the slide should now be more easily understood given what I have explained and the commentary on the right.

As I mentioned before Old Mutual Plc used as their primary profit measure adjusted operating profits which used a smoothed long-term investment return. Adjusted headline earnings includes the actual return, and this metric will therefore be a lot more volatile than adjusted operating profit was. We have identified the results from operations which should be less volatile as the key measure of operational performance. Adjusted headline earnings is a key measure of our overall performance and will ensure a focus on capital efficiency and appropriate return to shareholders, appropriate management of the balance sheet, and alignment with shareholders who are also exposed to this volatility. You can see this volatility in the bar chart on the bottom right with strong gains in the Rest of Africa, and in particular Zimbabwe driving exceptional investment returns in 2017.

As we have noted in the Plc AGM statement and the supplementary PLS we have seen a reduction in market levels in 2018 which will impact returns. For the period to 31 March the SWIX was down 8% and the Zimbabwe equity market was down 13%. We have included an estimate of our shareholders investment portfolio in the supplementary PLS as well as the asset allocation at 31 December 2017 which will help you model returns over the period. This is obviously based at a point in time and changes in asset allocation could affect final outcomes. Our South African equities are mostly invested in the form of protected equity which protects against material devaluation.

So having completed my review of the income statement we are now moving to the balance sheet. This slide demonstrates the bridge from our previous Plc reporting to the future Old Mutual Limited world, allowing for the transactions as described in our listing documents including the Quilter de-merger, the listing of Old Mutual Limited and the Nedbank unbundling all shown in the top figure. The true Old Mutual balance sheet will obviously only crystallise when the listing actually occurs. We can however provide the pro forma view to demonstrate how adjusted IFRS equity is calculated. The pro forma balance sheet reflects the full expected balance sheet of Old Mutual Limited after the Quilter de-merger.

I described earlier that the accounting treatment will be to recognise the full Nedbank stake as discontinued at the point of unbundling. This is the R45.4 billion number in the top waterfall diagram, being the Nedbank net asset value in our books at 31 December 2017. We would then have to recognise the market value of our retained stake at unbundling represented by an estimated R25.7 billion. This is despite the fact that we have held this asset for many years. This value will clearly only be known at the time of unbundling. The LatAm disposal will be a key further step in executing on our more focussed strategy. The increase in the top diagram is the expected increase in net asset value as a result of the transaction. We then remove this in the lower diagram so that we can reconcile back to our 31 December 2017 position.

We also remove residual Plc to ensure consistency with the adjusted headline earnings definition as well as the difference between the market value and our net asset value of Nedbank to arrive at adjusted IFRS equity. This is the R62.8 billion which we use as the denominator for our RONAV KPI. So our net asset value for measurement purposes would include the NAV of our segments previously known as Old Mutual Emerging Markets plus 19.9% of our Nedbank net asset value.

Getting your bearings right you will note that the shareholder equity of 46.39 rounds to the 46.4 that I have shown you in the previous slide. We can talk through some of the key line items to highlight some of the segmental performance Peter took you through earlier.

Starting from the top we have reduced the carrying value of our goodwill on our balance sheet in the past three years on some of our acquisitions mainly in East Africa. We earn our results from operations from revenues derived from loans, insurance assets and liabilities and reserves, as well as the funds under management. Banking loan growth has been muted partly given the stronger Rand as the rest of Africa book is of similar size to South Africa, but also since we have moderated our credit appetite whilst pricing this risk appropriately and focussing on the quality of the book in both South African and rest of African operations. This is evidenced by improved impairment charges despite the tougher economic conditions in the markets where we have operated.

Now moving to liabilities, this being the key driver for our insurance operations. Net outflows in the personal finance business have constrained the growth of the life insurance liabilities, a trend increased by the lower sales of traditional insurance business in the weak economy. We have however grown the open book with its new generation offerings which has driven up investment contract liabilities. We have also seen continued success in smooth bonus sales which we see as a key differentiator for us given our strong capital base and customer proposition combined with good technical skills in this high margin product. You can see this in the strong growth in investment contract liabilities with discretionary participating features. Growth in property and casualty liabilities has also been low as our businesses have focused on remediation more than growth. Finally from an operational perspective the growth in funds under management at the bottom of the page has been supported by more recent improvement in flows as highlighted in our wealth and investment segment discussions. The borrowed funds line includes both operational and subordinated capital debt which I will discuss as part of our financial gearing in the next slide.

Looking at the IFRS balance sheet approach we are conservatively positioned with 12% gross leverage with interest cover just below 30 times. These ratios exclude Plc debt which is fully matched by assets which I will discuss later. The weighted coupon is around 10%, and as mentioned earlier the Old Mutual Limited finance cost is only based on our capital or subordinated debt. Importantly our debt maturity profile shown here is staggered and gives us good intervals to plan and execute fresh issuances as necessary. We have a well-managed liquidity position which will be used to fund the growth in the business over the next few years. Our liquidity framework is built around the principal subsidiaries managing their own liquidity needs including stress scenarios with central liquidity being held to meet the demands of a listed company.

Let’s now set the scene on the SAM regime which – touch wood – is expected to be in force from 1 July 2018. Old Mutual Limited has been running SAM in parallel for the last few years and we have moved our capital management to the SAM basis with effect from December 2017. I demonstrate here our target solvency ratios on a group and solo basis and I will help explain the link between these different ratios in a few slides’ time. I leave the particulars of our SAM calculation basis for your detailed read and will now walk you through some of the observations.

For the techies amongst you I thought it useful to provide you with a detailed step through to reconcile the IFRS balance sheet that I discussed earlier with our SAM own funds calculation. This forms the numerator of the solvency capital ratio with required capital being the denominator. The key step up as per note six in the middle of the diagram is that we recognise a larger part of future profits under SAM and increasing the own funds. There will however be a corresponding increase in the capital requirement.

Now returning to our SAM solo and group solvency positions. This sets out the expected position post the unbundling of Nedbank. We have set the OMLACSA solvency ratio target as above 200% and the actual ratio was 243% for 2017. This however includes 19.9% of the Nedbank stake. We manage the solvency of our South African operations prudently by removing the Nedbank stake. We are assuming that the stake is not available to meet insurance solvency requirements. The R25 billion in strategic assets also includes intercompany loans which we remove given potential fungibility constraints. These should be neutralised post the Nedbank unbundling.

We then include Nedbank on a Basel III basis only, and it's not the market value. Whilst this increases our capital it reduces the overall ratio as bank solvency assessment is obviously performed in a different way to insurers. Residual Plc also reduces the group ratio as we assume no fungibility at this stage. We then add in the non-covered assets and deduct elimination and fungibility haircuts and add diversification benefits. These diversification benefits are a key competitive advantage for our business especially when compared with mono-line players, and we expect to see the benefits from this especially in Old Mutual Insure. The final column shows the Old Mutual Limited solvency ratio and the context for the targets. Effectively the group target is the weighted average of the underlying parts. Therefore any key changes in the composition of the group should result in a revision of the target ranges. At the end of 2017 the ratio of 167% is just above the midpoint of our target range.

Please note that we have three transactions or potential transactions which have been included in the PLS. these are the disposal of the LatAm business, the potential PUT option in respect of the Old Mutual finance business that Peter spoke to earlier, and the PUT option by minorities that requires us to buy an additional 6% in the UAP business in Kenya. The net effect of these three transactions if consummated is expected to have a small uplift in our overall capital ratios. The UAP PUT option will cost us around R400 million. Most of this was accounted for at the year end and is based on the terms agreed at the time of the original transaction.

With the high quality capital base, relatively low gearing, strong diversification and low risk investments our OMLACSA solvency is high. It is also resilient in stress scenarios due to the inherent nature of the products and the policyholder participation in investment movements. The outcome of the higher lapse rates is somewhat counterintuitive, but the fall in the quantum of shareholder assets in this stress is minimal and serves to improve the ratio. At an Old Mutual Limited level the solvency is further supported by the diversification benefit of the combination of Old Mutual Insure and Nedbank in the group, and is therefore less volatile than OMLACSA.

Ingrid provided a lot of detail regarding the development of the residual Plc NAV at the time of the full year results in March. The right-hand side of this slide shows you some of the key impacts on this net asset value over time. These include ongoing Plc debt costs and the remaining head office wind down and corporate costs. Overall the above costs remain within the guidance previously provided by Plc. Plc also paid a dividend post 31 December 2017 as depicted in the slide. There may also be valuation adjustments to the remaining assets and liabilities as described in the year-end disclosure, for example as a result of the intended secondary offering of the 9.6% of the Quilter shares which would realise additional cash, or the value of the remaining shares if the secondary offering is not pursued.

There may also be near-term movements within the balance sheet which will be clarified by the outcome of the UK court process. The UK court will need to be satisfied that Plc will continue to hold sufficient high-quality liquid assets to meet its liabilities and any contingencies together with adequate headroom taking into account relevant insurances. As I said the residual Plc surplus has not been treated as fungible in the assessment of the Old Mutual Limited solvency. Any surplus emerging could therefore be dealt with in accordance with the stated dividend policy and solvency target ratio subject to the requirements of the UK court. In addition, we are looking at how to best manage the Plc debt which will obviously be influenced by market conditions as well as other stakeholder considerations. You will recall that Old Mutual Ltd has provided a guarantee to Plc in relation to certain highly remote obligations arising from the Plc head office legacy item as disclosed in the PLS.

I now bring this all together, rounding off the KPIs that Peter discussed with you earlier. We have spent much time on the results from operations. I have already spoken to you about adjusted headline earnings, the RONAV and the SAM solvency cover, with each of the definitions cemented on this page. I will deal with free surplus generation shortly as a key driver for our dividend. These group KPIs taken together will ensure that there is an appropriate balance between our growth aspirations as embodied by the results from operations, management of the investment returns from our capital base, managing the efficiency of our capital base, focusing on the generation of cash earnings, whilst ensuring that we meet our regulatory capital requirements and the brand promise to our clients. Peter will touch on this soon, but it is important to note that the management targets approved by the board include a strong focus on three drivers being growth, capital efficiency and cost efficiency leadership. Our KPIs will ensure that we deliver these on a sustainable basis.

Focusing a bit more on returns, our strong performance in adjusted headline earnings has delivered high returns on net asset value, noting exceptional Zimbabwe shareholder returns in 2017. You will recall that Peter indicated our return on net asset value target as average cost of equity plus 4%. Our cost of equity is estimated at 13.4% for 2017 based on our recently approved methodology. More detail has been set out in the supplementary PLS. To ensure that returns and capital allocation continue to be a primary focus we are working on a number of medium-term projects which will allow us to better manage costs and capital returns at a segmental level. These are firstly refinement of the SAM capital allocation to segments and improvement of balance sheet and cash management at a segment level. Improving the return and risk profile of the IFRS versus SAM capital requirements. IFRS 17 will have a significant impact on the profile of IFRS profits recognised from 2021 onwards. Thirdly, refinement of cost allocation to segments. A clear distinction of central costs and those costs allocated to segment results and IFRS 17 will again limit which costs can be allocated to products and portfolios with the rest being treated as overhead costs. We will keep you up to speed with these developments and we would expect year on year comparability at a segment level to be affected by this work.

Looking more into costs this slide illustrates our cost efficiency target and the base we will measure ourselves against. As Peter mentioned at the 2017 results we see there are opportunities for aggressive cost management across the business and within each segment and central overheads. Consistent with this approach we have conducted a top down and bottom up review of costs across the whole business as well as a bottom up review by each business of their total cost base. The savings will predominantly be delivered across the following areas. More efficient operating models, additional oversight of IT spend and processes, minimising the use of consultants, improved procurement and better utilisation of the group's properties and facilities, and ensuring economies of scale across the group's distribution channels. The R1 billion target has been allocated to segments and central functions and is being tracked on a monthly basis. Looking at this slide, R18.8 billion is our underlying IFRS cost base that we as management can directly control. A full reconciliation is available in the appendix. After adjusting for once-off project costs and recurring expenses associated with our listing our underlying run rate cost base is R18.4 billion. We are therefore targeting R17.4 billion controllable cost base at the end of 2019 before the effects of inflation and foreign exchange. From 2020 we will target annual cost increases within inflation.

The group's free surplus was R8 billion in 2017 with a 60% conversion rate from adjusted headline earnings. This waterfall chart shows this is driven by three key factors. Firstly in 2017 approximately 15% of the ongoing cash generation was used to fund the net capital requirements of the business. This percentage can obviously change year on year. The majority of this was in South Africa and mostly related to life and savings, both of which are areas where we continue to generate healthy returns and robust new business margins. As we look forward to a SAM world we have allowed for fungibility constraints with Zimbabwe being the key one of these. This constrains the conversion rate by approximately 22% in 2017 with the level elevated by the strong investment returns in Zimbabwe. Finally, Nedbank creates an additional haircut as we only allow for cash dividends received. As mentioned the free surplus generation is a key input into our annual dividend conservation. Any remaining surplus or deficit will be assessed annually in determining an appropriate dividend whilst balancing capital efficiency with our prudential and business planning requirements.

Talking now to the actual dividend policy, we target full year ordinary dividends covered by adjusted headline earnings of between 1.75 and 2.25 times. Key is that we will use the full flexibility of the cover range. So you should not assume a progressive dividend policy but that an annual assessment will be made based on the cash and free surplus generation considering also fungibility constraints, liquidity considerations and the solvency requirements of the business, business strategy and market conditions. And as discussed before management is incentivised to manage capital effectively whilst ensuring that appropriately prudential margins are held. Interim dividends will be 40% of the first half adjusted headline earnings subject to the same considerations mentioned above.

You have heard today from Peter and the Exco how we run the business and how we are setting ourselves up with the ambition to deliver and exceed our targets shown here. The targets represent a comprehensive score sheet to ensure that management focuses on growth, profitability, capital efficiency and cash generation as I discussed before. These targets provide a strong underpin for a sustainable dividend. As mentioned earlier Peter will now detail how management will be incentivised to deliver these targets. However, before I hand over I want to remind you of a few points to help with modelling and understanding of our transformation.

The unbundling of Nedbank should take place within six months, which will allow the shareholders register to settle. But we will obviously list with the full 52% and receive the respective dividend. We will treat this dividend in accordance with our normal dividend policy. We also note that the standalone listing of Old Mutual Limited will result in incremental recurring costs of about R180 million per annum with about R142 million already in the 2017 run rate. Our transformation from a product to a customer-led organisation and the reassessment of our capital expense allocation process will be continued during the course of 2019 but will only be completed on the implementation of IFRS 17. We will keep you up to date on any changes in these allocations so that you are able to accurately model Old Mutual Limited and the segments. And that concludes my part of the presentation and now back to Peter to wrap up before we have some questions.

Peter Moyo
Thanks Cassie. We have come to the final part of today's presentations. But before I make my closing remarks let me share with you how we align what we have spoken about today with our remuneration. Our STIs and LTIs are crafted with a view to ensure delivery of our key KPIs, ensuring we deliver growth as well as strong returns for shareholders measured both as an internal and a market measure. We will also be held true to our promises made on cost targets. The detailed split is shown on the right-hand side. There is an overlap between the short term incentive plan and the long term incentive plan targets. All these details are in our supplementary PLS which was published yesterday.

I want to conclude by reminding you of the following key points we have heard today. Old Mutual is a very strong business with market leading positions. The business is positioned for longer term sustainable growth. We are a pan African financial services company with operations in markets with strong growth prospects. We have and will continue to deliver strong cash generation. Our earnings growth potential is further supported by the substantial business improvement and cost efficiency opportunities right across the group. As we have discussed today we have undertaken a thorough journey to become a standalone listed company, one that is well capitalised and more directly accessible to investors. The entire team across Old Mutual Limited shares a sense of excitement and opportunity as we enter into a new chapter, carrying the proud Old Mutual brand forward, and we look forward to sharing this with our shareholders both old and new. Thank you for joining us. We will now take further questions, and we will start off with the audience, those people listening on the conference call, and lastly those on webcast. I will ask again our executive management team to join me up front. Any questions?

Cornette Van Zyl
Just two questions for Casper please just on the financials. Casper, in that adjusted headline earnings number post the tax of R13.4 billion is LatAm included in that or is it excluded?

Casper Troskie
It's included.

Cornette Van Zyl
And if you sell LatAm at the end of the year more or less how much would come out of that?

Casper Troskie
Sorry, it's excluded in the pro forma. In the PLS there is a disclosure that takes LatAm out as a line if I remember correctly.

Cornette Van Zyl
It's slide 31. It just wasn't clear to me whether that R13.4 billion includes or excludes LatAm.

Casper Troskie
On page 459…

Cornette Van Zyl
Are you talking about the pre-listing statement?

Casper Troskie
Ja, the pre-listing.

Cornette Van Zyl
I don't have that in front of me.

Casper Troskie
You don't have it here. But I think if you go and look at that it will give you the detailed reconciliation. So in part two you can see it takes out the shareholder equity of about R452 million. That's on the balance sheet. And the income statement on a pro forma basis headline earnings of R27 million.

Cornette Van Zyl
Okay. Then the second question I just wanted to ask is because you mentioned that amortisation will be included in your measure for performance. Just in terms of goodwill and if there are any further goodwill impairments are those then coming in below the line, because it will impact your IFRS NAV?

Casper Troskie
By definition, those are a reconciliation between your headline earnings and your IFRS attributable profit. So those would be excluded.

Cornette Van Zyl
Okay, but in your measure of NAV then will that be taking a deduction?

Casper Troskie
Obviously your NAV will reduce if you write off the… So you will get a benefit if you write off goodwill.

Cornette Van Zyl
Okay.

Casper Troskie
As we all know.

Cornette Van Zyl
The outlook for further goodwill impairments, because you mentioned that they were for some of the African operations. And Uruguay would obviously be part of LatAm, so that's gone.

Casper Troskie
So obviously we are comfortable with what we have in the PLS. So I can't give any more information than that.

Ingrid Johnson
If you look again on the PLS on page 374 you will see a very detailed outline of all the different [reconciliations?] and you can form your own view.

Cornette Van Zyl
Okay. Perfect. Thank you.

Larissa Van Deventer
Larissa from Deutsche again. Casper, when you presented on the residual deliveries and NAV and cash generation you mentioned if you sell the 9.6% of Quilter… well, if you list the 9.6%. But you seem to imply that you may consider not doing a secondary offering.

Casper Troskie
No.

Larissa Van Deventer
Did I mishear, or what would your considerations be?

Casper Troskie
I was just saying that in the event that it didn't happen.

Larissa Van Deventer
What may cause such an event?

Casper Troskie
Well we've got to go through the court approval processes. So it's just a contingency, a contingent comment.

Larissa Van Deventer
Thank you.

Casper Troskie
It's not what we hope to happen.

Larissa Van Deventer
I think we can say that we share your sentiment.

Male speaker
Hi Peter, just one question from myself. Is it on, the mic? Just with regards to the fungibility of earnings and capital from Zimbabwe just in terms of the technical requirements of SAM is that something that will be indefinite in the SAM regime or is that something that is just an issue at the moment given the liquidity and concerns around the trapped capital in Zimbabwe?

Casper Troskie
We don't actually know the answer as to whether it will be indefinite or not. It is definitely in place for now. And I think until there is certainty about being able to get dividends out of Zimbabwe we would continue to regard capital as non-fungible.

Peter Moyo
And again I think one needs to keep on stressing this – and Jonas touched on it. Our inability to take money out of Zimbabwe is not a function of any regulation. It's actually just the sheer market condition in Zimbabwe that cash is very, very scarce.

Mike Christelis
Hi. Mike again from UBS. Just four questions if I can. Firstly just some clarification on the first dividend we should expect. Is that the interim 2018 dividend to be paid during H2? Is that right?

Casper Troskie
Ja.

Mike Christelis
Okay. Then you mentioned the residual Plc NAV is sitting outside of what you would consider own funds or outside of your capital regime. What isn't clear to me is if that is all resolved does that then go into your capital and then you will decide what to do with it, or should we expect whatever is left there to be paid as a special dividend and ignore that for the rest of your dividend discussion?

Casper Troskie
I think you should see the rule test as the consistent message. The fact that this is not in our target range will obviously help us in that thinking within the overall assessment.

Mike Christelis
Okay. So once it is all resolved we should assume this is part of your normal capital and you will decide what to do with it at that point. Then the protected equity on the SA shareholder capital, I'm trying to understand exactly how that works. Is that a monthly rolling structure? Should we be modelling a smooth return on that number? And how does that comes through in terms of your equity sensitivity on your stress test? Is that treated as protected under that or is that treated as a 50% haircut?

Casper Troskie
There is a protection structure about it with the equity which effectively limits the downside and provides some level of smoothing. And we do allow for that in our stress testing.

Mike Christelis
So does that mimic a smooth, cash-like return?

Casper Troskie
Not particularly cash but not a lot of volatility in it.

Mike Christelis
And then maybe just a last question, Peter, possibly for you. When the board was looking at the dividend policy specifically I'm curious as to the decision not to go with an operating earnings metric and a progressive policy rather than something that looks will certainly be more volatile with a much wider range. Once you include investment returns clearly that number can be all over the place and maybe makes the visibility a little less clear. Can you just talk about some of the discussion that was had around that, and why the decision to use something that includes a more volatile earnings metric?

Peter Moyo
Well, let's actually go back to the structure of our adjusted headline earnings. At a very simple level you have got to look at the results from operations which is essentially what drives the business. And we must also accept that in that there can be quite a lot of investment earnings. And then we've got what we get out of our shareholders investment portfolio. There is an element of protection in that which we have actually just said. Yes, there will be some volatility, but our view is that's actually a true measure of returns to shareholders. That is actually what we really considered. So as you already just said a big chunk of our shareholder investment portfolio is in protected equity.

Mike Christelis
Great. Thanks.

Peter Moyo
And by the way you will also have noticed that when it comes to our own targets we've got a clear target on results from operations. And then we will bring in the adjusted headline earnings in our return on our net asset value.

Andy Sinclair
Thanks. It's Andy Sinclair from Bank of America Merrill Lynch again. Three from me as usual, if that's okay. Firstly on subsidiary liquidity, Casper, you mentioned that subsidiaries will be deciding their own liquidity needs. Historically if we look at other geographies where subsidiaries have decided on their own liquidity needs that has tended to lead to far more liquidity being held in subsidiaries than perhaps was needed. I just wonder how

much scrutiny you're going to be placing on these subsidiaries to make sure they are giving sufficient remittance back to the holding company.

Casper Troskie
I think I mentioned it in the work that we're doing around the balance sheet and segmental balance sheets in particular. So we will be running quite a lot of work around cash management, working capital management as a group project to make sure we're comfortable firstly with how that is being managed, secondly that deals with what liquidity the business needs, but also ensures that we're not trapping excess levels of liquidity or capital in those underlying businesses.

Andy Sinclair
Thanks. And second just on liquidity. On the haircut earnings of 22% from fungibility I just wondered how much of that is related to South African business units, or is it all related to overseas business units?

Casper Troskie
It is mainly related to the Zimbabwe and African business. And there is a little bit for LatAm. But if you look at the investment returns we generated you can see it on that slide I've got with the asset allocation. We've got 8% of our shareholder funds invested in Africa. Yet if you look at the return it's a substantial number. So that's driving that number. So the number is volatile. It was really elevated in 2017.

Andy Sinclair
Understood, but hopefully we can see a slight move closer to cash when LatAm goes then as well. And third from me just on the capital framework again, I just wondered how should we think about it when you move above the top end of your group capital range? Should we just look at that as being a trigger, or would you wait to see more before you return anything to shareholders?

Casper Troskie
I think if we were above the top end of our target range obviously we will have to take it through the board process. But we would look at recommending returning capital to shareholders. It's completely in line with what we're trying to manage as a management team. We need to manage the efficiency and the return on net asset value. And holding on to capital that is not required will impact that.

Andy Sinclair
Good. Thank you very much.

Peter Moyo
You will also notice that our dividend policy does have those qualitative factors around it. If there are no questions, are there questions on the webcast…?

Female speaker
No questions on the line.

Peter Moyo
Okay. If there are no questions I would like to take the opportunity to thank you all for your attention. And I hope you agree that Old Mutual Limited does offer a compelling investment proposition. Please join us for lunch outside the auditorium. Thanks very much.

END OF TRANSCRIPT