# Conference Call transcript

31 August 2018

## INTERIM RESULTS

**Peter Moyo**

**Slide 2**

Good morning and welcome to Old Mutual Ltd's interim results presentation for the period ended 30th June 2018. Thank you for joining us in Johannesburg, by webcast and on the phone as we present our debut set of results as a standalone listed entity with our primary listing back home in Africa. I am Peter Moyo, the group CEO. Joining me today to present our results is Casper Troskie, our group CFO. I will provide you with an update on the strategic and operational progress we have made to date before Casper takes you through the detailed financial performance of the group. I will then provide closing remarks before asking members of our executive team to join us at the front to help answer questions.

**Slide 3**

Today I will focus on four key areas which clearly demonstrate the outcome of decisive management actions that we took for the business this year. Firstly I will talk about what we have achieved since our successful listing on the 26th June. I will then take you through how we plan to return capital to shareholders. I will move onto provide an update on the encouraging progress we have made on executing our strategy as set out in the eight battlegrounds which I've previously spoken to you about. Lastly I will talk about our pleasing financial delivery which reflects the good operational performance and the resilience of the group despite the tough market conditions under which we operate.

**Slide 4**

Our entire team across Old Mutual Ltd shared a deep sense of excitement when we started our new journey when we successfully listed on five exchanges. This together with a vibrant new branding has re-energised our business. What is most exciting about our listing is that it enables us to unlock shareholder value and create a business with a strong strategic focus on Sub-Saharan Africa. We are making strides towards simplifying the balance sheet to better support the operational business of Old Mutual Ltd. We have done this by accelerating the conversion of Plc net asset value to cash by reducing outstanding international debt and through the sale of Quilter shares. The sale of LATAM remains on track. Applications have been made and we await the necessary approvals.

**Slide 5**

Before we get into the details I would like to share with you how I think about the business, areas where we are working to crystallise value for our shareholders, and near-term expected distributions. The dark green box on the slide represents the operating segments of our business. This together with other group activities is the key driver of profit growth and generates cash to fund dividends. The blue box represents the areas where we are working on converting net asset value into cash. Lastly, we have the areas earmarked for distribution to shareholders in the near future, which includes dividends and the Nedbank unbundling.

**Slide 6**

The cash-generative nature of our business coupled with the strong and resilient balance sheet enables us to return capital to our shareholders. I'm very pleased to announce that the board has approved an interim dividend of 45 cents per share which is covered purely by operational cash. The dividend represents 40% of adjusted headline earnings per share which is fully in line with our dividend policy. We have identified excess capital following the considerations of our capital position at the end of June, as well as the capital and liquidity projections to the end of December 2018. We are therefore pleased to declare a special dividend of R1 per share. Both the interim and special dividends will be paid to our shareholders on the 16th October this year. Once we also take into account the unbundling of Nedbank the total distribution including the dividends equates to R46.8 billion which we will return to our shareholders. This is approximately a third of our market capitalisation at 30th June. I was saying to some people, when you actually start thinking about the actual value that is returned to shareholders by the end of this year it is actually the size of certain big institutions listed on our stock exchange. That is a big distribution to our shareholders.

**Slide 7**

Let me provide you more details regarding the Nedbank unbundling. The trading volumes on our share register appear to have stabilised and the register is increasingly reflecting the natural shareholders of Old Mutual Ltd. We have completed the capital review which has allows us to distribute 32% to our shareholders and we remain on track to unbundle our shareholding in Nedbank. We plan to distribute these shares in the fourth quarter of this year. For every one hundred Old Mutual Ltd shares at the point of distribution, shareholders will receive approximately three Nedbank shares. After the completion of the Nedbank unbundling we will remain with a 19.9% stake in Nedbank in our shareholders' funds. We view the remaining 19.9% as a long-term investment and this ownership underpins the significant commercial benefits we derive from the continued relationship with Nedbank.

**Slide 8**

We have made very good progress on our eight battlegrounds. Just to remind you, these are clustered into three. One, areas where we need to defend and consolidate our leadership position. Two, areas where we need to improve our performance. And lastly, areas that will help us build a long-term competitive advantage. I will provide you with an update on the first five battlegrounds in the slides that follow. On winning the war for talent we have a clear focus of attracting, motivating and retaining the best talent available in the market. We believe that having the right leadership in place is critical for the future growth and success of our business.

We see a new sense of optimism and excitement internally and we are beginning to attract more and more high-calibre external candidates into our business. Progress has been made in improving the underwriting talent at Old Mutual Insure. We are reinforcing our investment capability at Wealth and Investments, and we are finalising the operating model in East Africa. I'm glad to announce that yesterday our board approved the appointment of a permanent MD of our Old Mutual Insure business. He sent us a note this morning to say he has accepted, but we will make the announcement in due course after we have gone through the necessary arrangements including approvals from the regulators.

We continue to invest in our technology platforms to meet evolving needs of our customers whilst we drive business efficiencies. The primary focus of recent initiatives has been on building protection solutions for our Mass and Foundation Cluster and our Personal Finance segment. We expect these to come online sometime next year. We have made very good progress towards achieving our targeted R1 billion of cost savings by the end of 2019. To date we have delivered approximately R270 million of those savings.

**Slide 9**

I mentioned earlier that we delivered good financial performance under difficult market conditions. Our top line growth was strong, resulting in net client cash flows of R9.4 billion, showing a significant increase over the same period last year. This was driven by strong flows in our Wealth and Investments business and in our Corporate business. Our life APE sales are 13% up with strong contributions from the Mass and Foundation Cluster as well as Old Mutual Corporate. Our results from operations are 7% up on the prior year. This was driven by good operational performance on the back of deliberate management actions right across our eight battlegrounds.

Whilst we saw strong operational growth and benefitted from an increase in Nedbank's earnings, Adjusted Headline Earnings remained flat as a consequence of lower shareholder investment returns in South Africa and in Zimbabwe. Overall this has negatively impacted our return on net asset value, which reduced to 17.5% from 19.4% in the prior year, but it is important to note that this is still above our target of average cost of equity plus 4%.

**Slide 10**

Overall I'm pleased with the progress made in the first half of the year. We delivered a good set of results. This slide shows you how that has developed in the first half, delivering a 7% increase in results from operations notwithstanding a 34% decline in our Personal Finance business. The mere fact that we can deliver under these conditions 7% growth (with a decline of 34% in our Personal Finance business) talks to the resilience and strength of this group and the diversity of our earnings.

Let me now take you through the individual business segments. We will have the opportunity to drill down further when we take questions at the end.

**Slide 11**

In our Mass and Foundation Cluster we continue to lead and defend our position in that segment. Despite a poor economic environment and growing competitor activity we had excellent sales growth with life APE sales up 21%. We successfully implemented improvements in our funerals claims processes which resulted in much better customer experience. Today we are able to pay 99% of funeral benefits within four hours into our money market account. Nine branches were opened since the start of the year bringing the total number of branches to 332. The retail branch network contributes 30% of the life APE sales for the segment and continues to deliver better persistency and productivity experience than our other channels. The exceptional first half sales growth in life APE sales is expected to moderate somewhat in the second half of the year should the challenging market conditions persist. The segment delivered very strong half year results with profits 17% up, making this segment the largest contributor to the group's results from operations. Supporting the segment's performance was the growth in the loan book with improved productivity as a result of enhancements in the customer take-on process.

**Slide 12**

We continue to do very well in our Corporate segment, having almost doubled our umbrella sales compared to the prior period. We continue to build our pipeline of umbrella deals as this market continues to grow. The Corporate business had a strong growth of 25% in life APE sales, mainly due to large single premium sales in the SuperFund and Old Mutual Multi-Managers. I need to remind you that the sales in this business are very lumpy, but fortunately we have a very good team that is able to deal with the lumpiness in this business. The sales growth together with an improved termination experience contributed to a very strong improvement in net client cash flows. Corporate delivered good results from operations. We saw a 7% growth on the previous year driven mainly by better group life insurance underwriting experience, notwithstanding challenging group income protection experience.

**Slide 13**

Moving on to Personal Finance. Our second battleground is to defend and grow in the South African personal finance market. There is still a significant amount of work that we have to do in this segment. Competition remains very intense in this segment. We are however being disciplined rather than writing business at uneconomic margins. The weak economic environment has placed pressure on consumers' disposable income and had a negative impact on our top line. Life sales are slightly down compared to the prior year. Gross flows increased by 4% mainly due to higher single premium sales across life and non-life products. Personal Finance has a very strong distribution channel which increased its contribution to the APE of Wealth and Investments, Corporate and Old Mutual Insure.

The higher claims as well as higher disinvestment led to negative cash flows of R1.8 billion, R500 million down compared to the previous year. The higher than expected death and disability claims, which were uncorrelated and below our reinsurance cover largely contributed to the results from operations decreasing by 34%. A number of management actions are underway to improve underwriting outcome and profitability. Again it is important to note that as much as this is a difficult result for us and we are taking management action, ultimately that is what insurance companies are for. We have been able to pay the claims to our customers. Yes, we are going to deal with the financial effects and we will take the right management actions to deal with some of the things that we see. We continue to monitor the unusual claims experience very closely and this will provide deeper insight into the annual underwriting review. The outcomes of these actions are only likely to be seen in 2019.

**Slide 14**

On the Wealth and Investment space we are encouraged by the good progress that we are seeing in this segment. We have made a lot of progress on improving the competitiveness of this business. The segment delivered very good net customer cash flow growth with very high-quality flows driven by an improved wealth proposition and sustained investment performance. Growth in non-annuity revenue of 68% was due to higher origination income in Old Mutual Specialised Finance. Fair value gains and alternatives contributed to the profit growth of 23%. In addition the growth in results from operations was affected by the inclusion of the amortisation of intangibles in 2017 which was non-recurring. AUM was marginally up from December 2017 with the positive impact of strong inflows being largely offset by weak equity market performance.

**Slide 15**

Old Mutual Insure continues to grow in a very nice way. We have seen solid signs of improvement in the Old Mutual Insure business as we continue to focus on our remediation work. The segment delivered strong profit growth with results from operations up 85%. This is due to disciplined underwriting combined with improved contributions from the commercial and personal intermediated business as well as our iWYZE business. The market also experienced a benign claims environment with no catastrophic losses relative to the same period last year. We delivered an excellent underwriting margin of 6.4% which is slightly above the top end of our medium-term target range. We will only consider revising this target once we complete our remediation activities.

**Slide 16**

On the Rest of Africa this segment delivered a 30% increase in results from operations. We have made very good progress with our management actions to turn around the East Africa business. There are however still some challenges that require further resolution for us to achieve the desired performance in this region. During the first half of 2018 we completed a staff reorganisation to optimise our staffing levels and eliminate duplication. The restructure resulted in lower head count and the costs incurred to achieve this affected the reported profits. In fact before we take off the cost of reorganisation, this segment would actually have reported profits rising by 50%. So the 30% as reported, is after taking off those costs of reorganising the business.

We are seeing an improvement in the underwriting margin as a result of management actions taken to improve the claims process and the remediation of our book. Occupancy levels in some of our buildings are now beginning to improve. SADC continues to deliver very good performance despite very tough trading conditions in that region. We expect to see improvements in our West Africa operations following the approval of our bancassurance application in Nigeria in May 2018.

I now hand over to Casper to take you through our financial review. Over to you, Casper.

**Casper Troskie**

**Slide 17**

Thank you Peter and good morning to you all. It is a hugely important day as we stand before you with our first set of results after listing. As Peter mentioned the implications of the listing are pervasive, and as a result we will continue to focus on improving the transparency of our results as well as running the business for long-term sustainable returns. As you will appreciate, our IFRS results reflect the impact of the transaction as a result of managed separation and therefore require careful analysis to distinguish between continued and discontinued operations. I will show clearly today the operational and ongoing business reported as results from operations and how this builds into adjusted headline earnings, the group's primary profit measure. We will also cover headline earnings and IFRS profits.

**Slide 18**

Starting with equity markets on the left-hand side of this chart, SA markets rallied through the second half of 2017 but then had some significant declines during the period. This meant that earnings in our segments which depend directly on earning revenue from assets under management faced some significant headwinds. Zimbabwe equity markets continued to be volatile, and you will see later how this impacts investment returns in Zimbabwe. Interest rates have been pretty flat in 2018, but we are wary of the impacts of weaker exchange rates and SA government debt-driven increases that may be in the pipeline. The key currency rate that influences our reported results is the Rand Dollar exchange rate, specifically our earnings from Zimbabwe which has a Dollar peg.

In the near term the Rand Pound exchange rate affects Plc results and for 2018, the Quilter results. The Rand has fallen during the period under review following fears around economic growth and land reform, and recently post 30 June all emerging market currencies, including the Rand have weakened significantly. However the average exchange rate strengthened by 7% compared to the prior period, having an adverse effect on converted earnings from Zimbabwe, further impacted by the volatility of investment returns. Economic growth in South Africa has continued to be weak, with negative GDP growth in Q1 2018 and the GDP outlook weakening during the course of the period.

Inflation has been relatively subdued inside the SARB target range and this is important as the combination of the two is the benchmark for our results from operations target. The full year forecast for GDP growth is 1.2% and inflation forecast is currently at 4.8%. This translates to a nominal GDP growth of 6%. And if you add the 2% increment our target is clearly 8%. This target is actually set over a three-year period to 2020 and this is what we will manage the business against.

**Slide 19**

So now that we have spoken about the operating environment let me share with you how we have delivered on our results and against our targets, what our cash generation has been like and how we have progressed with the simplification of our balance sheet as we sift through the complexity of managed separation.

**Slide 20**
This slide shows that the IFRS results include the noise of Managed Separation accounting. Our adjusted headline earnings measure aims to adjust for this and show a view of our business that is comparable year over year and reflective of the long-term performance of the business. I will now walk you through how these profit measures interact. Results for operations include the operating results of our continuing segments and other group activities on a pre-tax basis. To get to adjusted headline earnings we then include the shareholder investment return, income from associates which includes the 19.9% of Nedbank, and we deduct finance costs, taxation and minorities. To get to IFRS profit we then include residual Plc, our discontinued operations, namely Nedbank, Quilter for the period to 25 June, Latin America and Bermuda.

**Slide 21**
Given the backdrop of lower investment markets which impact both the insurance book and assets under management, we are satisfied with the results from operations growth of 7% which has grown to R4.8 billion. Lower return from our shareholder investment portfolio, results in adjusted headline earnings which is marginally up by 1% to R5.4 billion: overall a satisfactory outcome. Our IFRS profit is up 42% reflecting mainly the gain on sale and distribution of Quilter shares, substantially lower costs in residual Plc, strong performance from Nedbank included in our discontinued operations, offset by higher restructuring costs.

**Slide 22**
The first building block of adjusted headline earnings is the results from operations with operating segment results of R4.9 billion and central expenses net of recoveries of R89 million which is a decrease on the prior period. The lower expenses are mainly the outcome of allocating more project costs to operating segments, reflecting a better view of true profitability of a segment and to help with our capital allocation processes. Actual project costs are lower than recoveries and this is expected to reverse in the second half. We have also increased expenses as a result of incremental standalone and listing cost, both one-off and recurring. And we expect full year expenses to stabilise in 2019 as the full staff complement to run the business will be in place by the third quarter of 2018. Correspondingly central costs in residual Plc are expected to reduce as processes transfer fully to Old Mutual Ltd.

As anticipated, the shareholder investment return has reduced compared to the prior period following lower returns in South Africa and particularly in the rest of Africa. SA equity markets were down 6.3% from December 2017 which negatively impacted investment returns. The impact was offset by returns on interest bearing assets resulting in an overall positive return on the shareholder portfolio in South Africa. Investment returns in Zimbabwe remain positive but lower than the prior period due to the impact of equity markets and exchange rates as discussed previously. Remember that these returns reflect actual returns during the period and continues to focus us on the management and allocation of capital.

Finance costs were up 18% to R337 million which reflects the issuance of R500 million of fresh debt in Old Mutual Insure in the second half of 2017. Income from associates is the earnings from the go-forward stake of Nedbank of 19.9% and small losses from our investments in China. The strong earnings growth of Nedbank was supported by a recovery of earnings in ETI. Finally, our minority interest reduce reflecting the change in mix of earnings and so overall our adjusted headline earnings post tax and minorities is up 1%.

**Slide 23**
The requirements of our expense allocation methodology is to ensure that segments are fully charged with their attributable costs, this has resulted in additional central costs of R414 million being allocated. These are project costs being charged to the segments. This has affected segment growth rates as comparatives were not

restated. The slide presents the impact of the revised cost allocation and shows the robust underlying growth of most of the segments. Other group activities have absorbed additional once-off and recurring standalone and listing costs, with central functions appropriate for a listed entity previously performed by Old Mutual plc now being performed by Old Mutual Limited. We are targeting to remain within the 2018 cost guidance of R280 million as previously communicated.

**Slide 24**

On this chart we show the key building blocks as to how adjusted headline earnings reconciled to IFRS profits. The first item corrects for the mismatch of investment return eliminating required by IFRS on Group instruments held in life funds. We then show the impact of restructuring relating to material transactions during the period. The largest item included here relates to the accelerated vesting of Quilter shares held in employee share schemes. Item three includes the earnings of discontinued operations of R4.5 billion which includes the full earnings of our shareholding in Nedbank. And we then deduct the earnings relating to the go-forward share of 19.9%. That is already included in the starting point on the left. We then reflect the loss of residual Plc which amounted to R901 million for the period. We expect the second half loss to increase following once-off costs of approximately R250 million already incurred in respect of the debt management actions taken during July 2018, with a substantial reduction in interest costs post 2018. Finally, we add the profit on disposal of subsidiaries of R2.8 billion and deduct other minor items. This results in our reported IFRS profit of R10.6 billion which is 42% up on the prior period. The profit on disposal of subsidiaries relates mainly to the sale and distribution of Quilter shares on 25 June 2018.

**Slide 25**

This slide reminds you of evolution of the income statement over time. Discontinued operations largely roll off during 2018 with Latin America still being showed as discontinued until finally disposed. We expect other residual Plc costs excluding debt servicing costs to reduce during 2018 with a sharp reduction in expenses in 2019. Expenses remaining will relate mainly to small residual staff complement, the board and external audit costs and is expected to be less than £6 million per annum. In addition there will be debt service costs which are expected to be £9 million per annum. These costs will remain until such time as the external debt is retired. We are therefore expecting a substantial reduction in the residual Plc loss from the R4.5 billion reported in 2017 to less than R270 million in 2019 assuming current exchange rates prevail. Other adjusting items relating mainly to group equity and debt instruments held in life funds will continue. Adjusting items, which are excluded from headline earnings in terms of JSE listing requirements, will continue as and when they occur.

**Slide 26**

One of the most important metrics that we disclose is our free surplus generation. The free surplus generation from our core business, excluding Zimbabwe, amounts to 72%, after removing amounts for capital requirements as well as 50% of Nedbank's earnings. The fungibility restriction relating to Zimbabwe has reduced mainly as a result of a reduction of investment returns in Zimbabwe. Our overall free surplus of R3.5 billion is therefore 64% of adjusted headline earnings and is well in excess of the interim dividend of R2.2 billion. The free surplus does not include additional dividends to be received on our 32% stake of Nedbank of just over R1.2 billion and the £145 million in respect of residual Plc that was distributable at 30 June 2018.

**Slide 27**

So now it is time to reflect on our balance sheet. Our return on net asset value as Peter mentioned has reduced to 17.5% largely as a result of the lower investment returns. It is still above our target range and above our cost of equity plus 4% at 17.4%. Our gearing has reduced to 12% from the 2017 year end given the increase in our equity, with no further subordinated debt being raised during the period and is well within our target range. Our Solvency ratio of 164% has reduced from 167% mainly as a result of the inclusion of both the interim and special dividends in the ratio. So both the interim and the special dividend that we have declared have been deducted in the ratio otherwise would be 169% if you add back the special dividend.

**Slide 28**

The group's solvency position reflected here is based on holding 19.9% of Nedbank post unbundling. The solvency position as disclosed is based on the assumption that certain regulatory approvals, as required in terms of the Insurance Act that became effective on 1 July, are obtained. If these are not obtained we remain well within our target range. Our group solvency position remains robust at 164%. The solvency position of OMLACSA remains strong at 240% and includes the 19.9% holding in Nedbank. This holding is removed as part of the consolidation adjustment to avoid double counting in the group calculation. Nedbank's contribution to own funds and a lower capital ratio are included in accordance with Basel III rules. The Plc residual is included at 100%, effectively treating the net asset value as non-fungible. Other includes our non-life entities and discontinued operations such as Latin America.

**Slide 29**

On this slide we show you how we have split our IFRS equity and our earnings into their component parts. This includes the split between covered and non-covered business. We provide this information so that shareholders can derive a value for the Group by placing multiples on the respective businesses. We will be building group equity value disclosures for the year end so that investors can use this for comparing to our peers. Our IFRS net asset value at 30 June equates to R104.6 billion. Our covered business has a net asset value of R31.5 billion and embedded value of R67.3 billion and contributed earnings of R3.2 billion. our 19.9% retained Nedbank stake had an IFRS net asset value of R16.3 billion, a market value of R24.8 billion and delivered earnings of R1.4 billion. The Nedbank portion to be distributed had an IFRS net asset value of R26.5 billion and a market value of R39.6 billion, delivering earnings of R2.3 billion. The residual Plc balance sheet amounted to R11.2 billion of IFRS NAV at 30 June. This equates to a realisable economic value at £400 million or approximately R7.2 billion at 30 June's exchange rate. This includes an estimate of future management costs and carry cost of servicing debt obligations. Latin America, classified as discontinued operations, contributes R3.7 billion to IFRS net asset value and you should value it based on the agreed selling price of $307.5 million, (approximately R4.2 billion converted at the 30 June exchange rate). Non-covered business comprises property and casualty, asset management and banking and lending, and has an IFRS net asset value of R16.1 billion. The earnings of our non-covered business for the period amounted to R984 million. By placing a multiple on these earnings investors can perform a sum of the parts valuation of Old Mutual.

**Slide 30**

So to close I bring together our scorecard for the financial targets we have set showing you our near-term guidance and how we have done in this first half. volatility in the return on net asset value is dependent largely on investment markets in South Africa and Zimbabwe, but results from operations is the crucial long-term driver of value and results from operations is in line with our target. We have made good progress on the cost management side with R270 million recurring cost savings already achieved at a once-off cost of R70 million, all expensed through results from operations. We remain on track to deliver this target. We are doing substantial work to improve the management of our balance sheet. Our capital ratios remain robust and include the impact of foreseeable dividends. And we expect further upside in due course from the management of residual Plc and the sale of our Latin American business. We will continue to effectively manage capital, maintain the requisite investment in the business, and we will continue to reference our capital position in line with the dividend policy and return excess capital either through share buybacks or additional dividends. We will take stock on how the Interims process has gone and take into account feedback from our stakeholders where we need to improve disclosures to help investors fully understand our business. So overall we are on track financially although we do expect a much tougher second half overall.

So thank you and I will hand over to Peter.

**Peter Moyo**
**Slide 32**
Thanks Casper. Overall we are pleased with the financial results. We are making significant returns for our shareholders and we continue to unlock shareholder value. The balance sheet will be materially simplified after the distribution of Nedbank. We are happy with the progress that was made on most of our eight battlegrounds and we are taking management actions in the others. In spite of the deteriorating local growth outlook and increased competitive pressures in our markets, we remain confident that we will deliver 2018 results in line with our communicated targets.

**Slide 33**
We will now take questions starting with the audience in the room followed by those listening on the conference call and lastly those on the webcast. Please give us your name and the organisation that you represent before you ask the question. Can I ask members of our executive team to come up front to help answer some of the questions?

**Mike Christelis**
Mike Christelis from UBS. Three questions if I can. Firstly on MFC the business is responsible for 60% or 70% of your VNB and I'm just wondering what your strategy is with respect to some of the new entrants that have come into that space particularly in the banking area where funeral policies are starting to be sold at significant discounts to the traditional insurers. Maybe just talk about what you're seeing firstly in terms of duration, persistency etc. there, and secondly your strategic response to some of the offerings that have been launched recently. The second question is around PF. Clearly quite a sharp reduction in earnings there. The mortality number looks to me like it is close to R200 million or R300 million. How much of that in your mind do you think is fair to assume is one-off versus recurring based on discussions you've got with reinsurers etc.? And then I'm interested in the special dividend. Firstly, to what extent have you used any of the Plc NAV to pay for that special dividend? In other words how should we be thinking about the Plc NAV post that special dividend? And secondly, was there any discussion at a board level as to rather do buybacks versus a special dividend and what the decision-making criteria was there. Thanks.

**Peter Moyo**
Before I ask Clarence and Karabo to come in on the MFC and PF question – firstly, when you look at our strategy in the Mass and Foundation Cluster, it is actually based on what we see happening in the market and how we want to position ourselves. What is important to us, is how we build on our unique competitive advantage. Yes, we actually see quite a lot of competition, but we actually have a unique competitive advantage and we are actually building on it. On us achieving the kinds of growth that we've seen, I was saying to Clarence I don't know whether he remembers him and I sitting last year and saying what does next year look like. And he said to me, Peter, with all the things that we have built we will start the year flying because we have actually thought about what we want to do. One has to understand the dynamics of that market. It is actually one of those things, particularly in the SADC region where burying your loved ones with dignity is a very important thing.

So one has actually got to think about all the things that go with it. And those are some of the things that we keep on thinking about. And it is also about the servicing. Like I said today we are able to pay 99% of our funeral claims, if you have got our money market account, within four hours. And you've got to remember that with a funeral benefit the time between death and the funeral for most people is finite. You actually have to act within a specified space of time. So you need the money as soon as you can. We are building some relationships and

Clarence will actually talk about that. We actually have done quite a lot of understanding of what is happening in our PF book. And I will ask Karabo to talk to that.

On the special dividend it will be wrong to just look at one or two items. We don't look at one or two items. We actually look at our entire capital in the Group and actually look at what we need and how we're actually going to move forward on our requirements and what we do. So yes, we took into account what we're doing with residual Plc, but that is actually not the only thing. We also took into account what we got from Nedbank and we also looked into what we actually have and what we will require going forward. So from time to time we will be guided by what we see. And if we actually believe we've got more capital than we need, we've actually been clear that we will return that to shareholders. And we did. When this new management team came in we actually said we are going to be disciplined about capital management. We are very disciplined about it.

On the question of whether we return money to shareholders or buy back the shares, that discussion is evolving. We actually had a discussion and our preference as a management team is that this time around it is actually better for us to return cash to shareholders. One of the things that we want to do is actually build in our minds our own views as to when and at what levels we buy back shares. So we've got to think carefully about it. So we are still developing that. But it is important to know that we are very serious about managing capital. Casper, do you want to add?

**Casper Troskie**
I think the other concern we had was the visibility of our earnings - the complexity of our earnings. And going a buyback route, we would have almost been betting against some of our shareholders. And we felt for the first round, until people get to know the results, understand the results, it would have been inappropriate to go the buyback route despite the higher costs. But certainly it will be a consideration going forward now that we've published our first set of results.

**Clarence Nethengwe**
So we are very much aware of competitor activity out there. And the most important thing for us is to always maintain our focus on the customer, understanding their needs as well as their preferences. So part and parcel of our strategy to respond to that competitor activity includes us improving our life insurance proposition which also includes extending our participation in the whole funeral value chain. We also need to take the fire to them in terms of attacking what is core to them. Some of those players are very strong in the unsecured lending space as well as a transactional proposition. So we have to improve and expand our lending as well as transactional capability. What is also important for us is to always make sure that our multi-channel strategy which is underpinned by advice as well as financial education is quite strong, because most of those competitors don't have that advantage that Peter spoke about when it comes to distribution of financial products. But the most important thing for us – and I always say this – is, too much focus on what the Jones are doing will always render the Khumalos very weak. The most important thing is to keep our eye on what we are doing and continue to do it to our exceptional best.

**Peter Moyo**
You can figure out whether we are the Joneses or the Khumalos here.

**Karabo Morule**
Michael, on the experience that we saw on Personal Finance on the mortality side was due to a higher number of death claims which were below our reinsurance limit. And on the disability side, also higher volumes that we saw there. There wasn't a discernible pattern in terms of the incidence of those claims. We actually then got a reinsurer to come in and look at our underwriting practises, and their assessment was actually very positive. And

we saw no evidence of anti-selection risk or non-disclosure risk coming through in terms of the mortality claims. So the reinsurers, when we have spoken to them, they said that they are seeing losses from other insurers over a number of years and you have seen the public disclosures around that. And this is the first time that they are seeing these losses coming from Old Mutual. So that gives us a sense of that.

**Ruby Rosenberg**
Mr Moyo, allow me please to congratulate all at Old Mutual on what can only be termed as sparkling results. The profit before tax for the six months is not far short of what was achieved for the 12 months in 2017. I think that's a notable achievement. [Applause]. I have two questions please that I'm taking from the consolidated income statement. The first one is the line item named "change in investment contract liabilities". I'm puzzled as to the volatility of the revaluations at the three dates given. It is standing at June at R2.9 billion. Six months ago it was R30 billion. A year ago it was R10 billion. Why has it moved to such a degree during the last 12 months? And my second question refers to the item "claims and benefits". The R37 billion for the six months to June is not far different to the R38 billion for the six months to June 2017. But for the period June to December 2017 it is about 45% higher. Why are the claims that much higher in the second half of 2017?

**Peter Moyo**
Casper, do you want to answer?

**Casper Troskie**
I will answer. So those investment contract liabilities, most of those are linked to underlying assets. And so when the assets would go up and correspondingly the liability that we've disclosed, which is the return to the policyholder, also goes up. So if you go up a few lines on that same page and you look at the investment returns you can see that you've got that similar volatility. And it is clearly dependent on two things, the new business we've put on the books versus what has gone off, but then also what happened to market in the period. So those are directly linked to the market values of the underlying assets. So the liabilities and the assets move in tandem.

Similarly if you look at where a contract is classified as either an insurance policy that is linked to the underlying market value where you see markets increase you would pay out higher claims in that period. So if an investor had R10, 000 at the beginning of the year the market doubled and we then paid out that policy, it would be a much higher value. So you can see that the claims are also moving in line with how markets are moving.

**Ruby Rosenberg**
Both are correlated to market value.

**Casper Troskie**
Yes.

**Casper Troskie**
Not all of them, but certainly these claims that relate to underlying investments business.
**Peter Moyo**
I love it when you call me Mr Moyo, Ruby. Any other questions?

**Male speaker**
Can we check on the conference call if there are any questions?

**Peter Moyo**
And then on webcast, anything on webcast.

**Operator**
We have some questions on the conference call. The first one is from Andrew Sinclair of Bank of America. Please go ahead.

**Andrew Sinclair**
Hi. Morning everyone and apologies I can't be in the room with you today. Three from me as usual if that's okay. Firstly on Personal Finance just on the timeframe for mortality and morbidity experience to normalise. If this was just bad luck why shouldn't we see a recovery in H2 and why would it take a little bit longer till 2019 as you say to make the underwriting changes which you have in process? Secondly, your free surplus and cash generation improved slightly year on year. If I look at the operating segments before fungibility restrictions I think that was 79% as a result before capital requirements. I just wondered how you would expect that to evolve over time. Would that remain around 79% or could that increase? And thirdly, could you give us a bit more colour on the cost savings that you've been able to achieve so far? Are there any particular easy wins? I'm just looking for a bit more colour on those. Thanks.

**Peter Moyo**
Do you want to go first, Karabo?

**Karabo Morule**
Thanks, Andy, for the question. I guess in terms of whether the mortality will normalise in some cases your guess is as good as mine. But in terms of the actions that we're taking it is about observing those trends to see whether they will persist or not. Then in terms of the actions, that's related to some of the changes that we will see next year. Some of them relate to the new protection product which will also give us a wider range in terms of the diversity of business that we will sign on. So I think that's maybe that.

**Casper Troskie**
To talk about the strong cash generation, if we look at the capital requirements line in that line there is an additional requirement for capital in this particular six months because we implemented SAM at the end of last year, SAM allocated capital. We refined some of those estimates during the period and that resulted in about R100 million of extra capital requirement which we almost see as not being normal. So we would expect the capital generation to be around about 80% and above, all things being equal. So I hope that answers the question. And then, Andy, on the cost savings the two biggest areas where are targeting savings are in our capability cluster and then in rest of Africa. You've seen the charge that we've take in rest of Africa in the first half. None of the benefits have yet come through so we hope to see that come through in the second half.

In the Capability Cluster, Iain is doing a huge amount of work on improving our efficiencies. I won't go into the detail, but it is in the information technology, and our operations. Improvement of efficiencies in those areas is going to deliver a large part of the savings. And then each business unit and each CEO has committed to savings. The reason we're not giving you the detail is we've reallocated cost between segments and it will become very difficult to keep track of that over time. We have a few more reallocations at year end. So we are going to track this and we will give you a reconciliation on our overall IFRS cost base.

The other point I wanted to make, what we are looking at is consulting costs. We are looking at contractors. We are looking at office rationalisation. So we are moving in due course quite a lot of people out of external buildings into our big premises in Jo'burg and in Cape Town. So we are expecting to see office rationalisation in that regard. And we are also looking at procurement and other initiatives to improve that. So those are the high level categories. A lot of work has been done to identify. It takes a bit of time to get the actual savings through. But as I said, we remain on track. We are going into our business planning process right now and we are going to be using that to firm up on the cost saving for the end of next year. I hope that answers the question.

**Andrew Sinclair**
Very helpful. I appreciate it. Thank you.

**Operator**
Thank you. The next question is from Musa Malwandla of Standard Bank Securities.

**Musa Ma**lwandla
Hi everyone. Just a few questions from my side. The first one is one the Mass and Foundation business. Clarence highlighted some of the work you are doing with funeral parlours and you're trying to integrate. Are you in a position to add more colour? I think you have previously mentioned that before. Then on a related note, what is the sense so far from the new insurance regulation? Are you seeing any threat so far from the micro insurance? I know you rely on underwriting a number of funeral parlours around the country. Are you seeing any impact from those following that change? And then in the Personal Finance space just a follow-up on some of the questions that were asked before. Will you be making any basis changes? I know you don't necessarily make them at half year, but at year end should we be expecting any basis changes and have you made or will you be making any pricing changes? I know you said it's not necessarily selective but are you taking any steps to correct that, and what impact might that have on competitiveness?

And the final piece is just a quick one on the Old Mutual Finance. I notice that the provisions, the impairments are still fairly similar to the ones before. There is no change. I'm just wondering whether you are calculating these on an IFRS 9 basis or if you are still using IAS 39, if this doesn't apply. I'm not quite sure if you touched on that. And then the final point related to that is I see a regression in the NIR number for OMF. I'm just wondering what might be driving that. Thanks.

**Peter Moyo**
Karabo will maybe just deal with that one.

**Karabo Morule**
Okay sure. Like we mentioned in terms of the experience we are going to carry on watching it because of what we had seen in the trends in the first half of the year. We are still undergoing an experience analysis at the moment. Thereafter we will assess exactly what pricing changes will be made and the basis changes, if any. We also want to make sure that we're not taking premature action. As I mentioned before one of the reinsurers said this is the first time they have seen this type of experience from us in some time. So we also want to make sure we're not acting prematurely.

**Clarence Nethengwe**
So Musa, the last time we spoke we said we are going to test something around our participation in the funeral value chain. So what we have done is around the 6$^{th}$ August we started a pilot. And it is still very early for me to give you full details around it, but what I can tell you is that what we are testing is not only the burial side of the full funeral value chain, but it is our whole integrated financial services strategy in funeral parlours and the like. So we are testing whether we will be in a position to provide unsecured lending in that space, transactional capability as well as the burial of people as part and parcel of the value chain. But it is still very early for me to

give you more detail around how it is progressing. So probably by the time we come with our full year end results we will be able to give more colour to that.

In terms of what we are seeing around the changes from the micro insurance regulations, it is still very early days. We are not seeing anything significant in that space. We are monitoring it. But over time we would be able to communicate if ever there are any changes. I think you also asked a question around NIR regression. Remember there were changes in regulation in that space last year, and that had an impact in terms of the pricing of credit life and the like. But we believe it will normalise in H2 and you will see that number starting to go up as a result of the volumes that are coming through as part and parcel of our loan sales. I will hand over to Casper to talk about the OMF impairment provision and the technicalities around it.

**Casper Troskie**
So we have implemented IFRS 9. We split the impact between our continuing book and our discontinued book. The impact at the beginning of the year on shareholders' equity for our continuing book was just over R1.1 billion. And on the discontinued book, which largely includes Nedbank, was R2.978 billion. So just to reconfirm, we are applying IFRS 9. The impact on the income statement in MFC, I don't have the detail but I have a rough estimate of about R40 million for the period under review increase. But the large impact goes through retained earnings on 1 January. We have set that out on page 108 in the results announcement. So you can go and look at the impacts there.

**Musa Malwandla**
All right. Thank you. That's very useful.

**Female speaker**
We've got questions on the webcast. The first one is from Munyaradzi Chawana from Oasis Group Holdings. Please can you give us some colour on how you are thinking about capital allocation amongst the segments and what metrics should we be looking at to measure progress in segments from a capital employed basis?

**Peter Moyo**
Firstly, again we need to look at our capital at a Group basis. When we allocate capital to new projects in the segments we actually set the targets aligned to the group target as far as our return on capital - what we require from that segment. But we also look at where each of those segments are in terms of the business that they already have. So for some of the segments we actually require a much higher number than others. We don't report our capital on a per segment basis. But when we allocate capital at a segment basis we are actually very disciplined. We actually look at what we expect from each of those segments. But don't try and measure it at this point in time on a segment-by-segment basis.

**Casper Troskie**
If you take OMLACSA, it's very difficult to get an accurate number for a segment when you've got a whole lot of diversification benefits from the different products. So you have to look, as Peter said, at the product. You've got to look at the capital position of OMLACSA and the diversification that you're getting in OMLACSA to make sure that you're maximising your capital profile of those products.

**Peter Moyo**
And also our business I've always said that there is actually a benefit in us looking at it as one business. I said earlier on, for example, that a lot of the distribution that ends up in our Wealth and Investment business sits in our PF segment. Some of the sales that we actually have in Corporate actually come from PF. So one has got to

start understanding this as one business that actually gives us quite a lot of advantage and benefit. And amongst it is also the diversification at the capital level.

**Casper Troskie**
We have provided more disclosure on return on net asset value in the various geographies. You can see that in the booklet on page 116. You have to remind yourself that we actually manage capital on both return on net asset value and a SAM basis. So we have to take both those metrics into account in deciding how we allocate capital.

**Female speaker**
The next one is from Warwick Bam of Avior Capital. The question reads, what is driving the growth in retail wealth net client cash flows in Wealth and Investments? The second one is on CABS. CABS performed very well - with growth in loans and advances up 26% year on year. Are you expecting continued growth in H2 2018?

**Peter Moyo**
That's for you, Dave and Jonas.

**Dave Macready**
Yes, thank you very much. There has been a substantive increase in terms of net client cash flows in the Wealth segment. On page 120 you will see the momentum that has continued from H2 (2017) into H1. So that momentum continues. Two main reasons. One is that we put a lot of investment into our wealth proposition including the platform. And that really has enhanced both the client experience as well as the intermediary experience. And the second is that we've got sustained investment performance coming through particularly in our retail core funds in the areas which are gaining flows particularly multi-asset and global. That together with our focus from a strategic point of view on the retail segment has really resulted in that major turnaround.

**Peter Moyo**
Jonas, do you want to talk about CABS?

**Jonas Mushosho**
Yes. The growth in CABS loans and advances came largely from three sources. One was that we reopened lending to civil servants. Initially we had been worried whether government would be able to continue paying civil servants because the deductions come directly from salaries. Last year we had reduced lending to civil servants. Government revenue collections seem to have increased, and we opened that pipeline and we saw growth. The second source of that growth came from tobacco buyers who wanted more funding for increased productivity in tobacco. And the third came from retailers where they wanted funding for retail purchases. So we don't expect the growth to be at the same level. It will taper because the tobacco season is by and large gone. But certain of those opportunities are still available.

**Female speaker**
The last two questions are from Nic Krige. The first one reads, several AM holding companies on the JSE are currently trading at large discounts to their net asset values. I'm concerned that the 20% holding in Nedbank will result in Old Mutual trading at a discount to its valuation. And I'm not convinced that the economic benefits from retaining the Nedbank stake can make up for this loss in value. Please comment on retaining the 20% in Nedbank. The other one reads, please comment on the recent trends in persistency. Are they improving or deteriorating? The last one: how has the poor mortality claims tracked since year end? Those are all the questions.

**Peter Moyo**

Let me talk about our shareholding in Nedbank and Karabo can also then talk about the mortality issues. I don't know whether between the two of you, you want to talk about the persistency side. On our shareholding in Nedbank, we communicated towards the end of last year that we had taken a decision to hold a 19.9% stake in Nedbank. Like we said, this was a result of a negotiated settlement partly with the regulators at the time when we announced Managed Separation. Two, we entered into a new relationship agreement with Nedbank which actually improved the economics for both entities, and the size and value of the stake that we have in Nedbank is not so big to create a very big drag on our returns. Yet it is big enough for us to actually worry about it. So Mike and I meet regularly to make sure that the things that we agreed on still happen. Mike and I talk about areas where we can actually create more value. So we actually see quite a lot of value in that relationship, and we will continue to try and drive much more value for that. So one has to understand the stake in Nedbank as being a result of a whole lot of things, actually starting off with making sure that we could actually move with managed separation. Like I'm saying from our point of view we actually see value in that relationship.

**Karabo Morule**

So on the mortality trends, I think since year end we are actually just referring to the experience that we've seen in the first half of the year. That is where we've seen higher than expected mortality claims. So you do sometimes see those types of variabilities year on year. From a persistency trend perspective I guess the economic environment does always challenge for customers, so that is something which is a consideration. What we have been doing is actually being deliberate about introducing tools for affordability to make sure that we are getting good quality business on book, to manage the short-term persistency. We are also tracking, for example with distributors and are very deliberate about which brokers we will accept business from in terms of supporting higher persistency. Understanding what the key customer segments are as well is quite important in terms of how we determine that and in terms of how we manage persistency.

**Clarence Nethengwe**

Persistency is in line with our expectations off the back of a lot of work that we did over the past two years to manage it. And the focus has always been on getting good quality customers on book, providing suitable advice to customers, and driving more and more of our customers to take our money account because we have seen a lot of good persistency on people who use money account as their primary account and we are able to collect premiums regularly from there. Persistency is quite stable. It is something that we have worked on over the past two years. But we will keep on watching it because as the environment deteriorates you would expect that people would start having pressure in terms of their disposable income. And the first thing that they would look at disposing of is their insurance premiums compared to buying food.

**Casper Troskie**

Sorry, and then the negative persistency you're seeing is being driven by two sources, one being Corporate and then our Rest of Africa. Clement, if you can just comment on that.

**Clement Chinaka**

I just need to highlight that with the tough economic environment that we saw we saw quite a lot of retrenchments in the first half. And that has got an impact on the level of benefit that we pay out of Corporate. And that comes in through the variable analysis, the persistency variance.

**Peter Moyo**

Okay. I think that's it. I take it that there are no more questions. Thank you for joining us today. To those who joined us on webcast and over the phones, have a good day further. Those who are here in this auditorium please join us for some refreshments outside. I want to stress on this that we don’t always have refreshments. We have that for the investor community. Thank you.

END OF TRANSCRIPT