# Conference Call transcript

11 March 2019

## ANNUAL RESULTS PRESENTATION

**Health & Safety Manager**
Good morning ladies and gentlemen. My name is Siza Khoza I'm the Health and Safety Manager for Number 1 Mutual Place. Kindly allow me to brief you on our health and safety measures. Should an emergency situation arise, please remain calm and take instructions from our marshals. Please exit through the two main doors in the auditorium. One is on the left and one is on the right. Walk towards the main entrance of the building, proceed down the staircase onto West Street then proceed to Stella Road which is our assembling area. Please remain at this point until everyone will be accounted for by means of a roll call.

Our staff is trained in dealing with onsite emergencies. Kindly give them your full co-operation so they can ensure your safety and the safety of others. Toilet or bathroom facilities are available on the ground floor. Kindly ask security officials or the concierge staff to assist you. Smoking facilities are available outside the building. Smoking is not permitted in any parts of the building. Kindly ask security officials to direct you to the nearest smoking facility. Thank you.

**Peter Moyo**
**Slide 2**
Good morning everyone, and welcome to Old Mutual Ltd's annual results presentation for the year ended 31st December 2018. Thank you for joining us in Jo'burg, by webcast and on the phone as we present our very first set of annual results as a standalone listed entity. I am Peter Moyo, the group CEO of Old Mutual Ltd. Joining me today to present our results is Casper Troskie, our group CFO.

Before we get started I'm very pleased to introduce two new members who joined our executive team since the last update, Garth Napier and Khaya Gobodo. Garth and Khaya, please stand up. *[Applause]*. Garth was appointed Managing Director of Old Mutual Insure in November 2018. Khaya took over from Dave Macready as Managing Director of Wealth & Investment effective 1st January 2019, having joined the group at the beginning of 2018. The rest of our executive team is also here with us today. I'm also pleased to see that our Chairman Trevor Manuel is here. I was going to ask him to stand up, but he's on crutches, welcome, Trevor.

Today I will provide you with an overview of the strategic and operational progress we made in 2018. Casper will then take you through the detailed financial performance of the group. I will then provide closing remarks before asking members of our executive team to help answer any questions you may have.

**Slide 3**

2018 was characterised by delivery and execution. We delivered in line with our targets except on the results from operations. We made very good progress on seven of our eight battlegrounds and slower progress on the one. We are building a group fit for our desired future. We have momentum in driving deep cultural change in our human capital. There have been significant improvements in our customer experience and propositions. Our technology upgrade is going on very well, with the protection proposition being launched in the next few months. We have taken out costs and are rebasing the cost structure of our group.

Our managed separation was completed on time, with the main highlight being our successful listing, the efficient unbundling of Nedbank and the repatriation of significant capital from Residual Plc. All this was done in a responsible way and under very challenging macroeconomic and political conditions. We are by and large on track to deliver on our medium-term targets.

**Slide 4**

Before we get to the detailed operating business performance allow me to provide you with a picture of the macroeconomic environment under which our group operated. There was volatility in global equity, currency and bond markets due to escalating global trade tensions. Both equity and debt markets pulled back sharply in the second half of the year. These global dynamics in addition to low GDP growth negatively affected the South African economic landscape. In 2018 the country faced high unemployment rates, a VAT rate increase and fuel hikes. These factors contributed to lower real disposable incomes for our customers. This adversely affected our customer acquisition and strained our persistence levels, especially in the middle income market where customer sentiment is still very fragile.

**Slide 5**

Moving on to the rest of the continent, in Zimbabwe there was continued political instability and economic uncertainty. This contributed to the volatility experienced in the Zimbabwean stock exchange. The investment returns were lower in the first half of the year relative to the prior year. The continued Dollar shortages in Zimbabwe led to the increased use of electronic money through the real time gross settlements or RTGS system, giving rise to parallel markets where bond notes and RTGS balances were traded at a discount to the official US dollar exchange rate. We led the move to adjust the functional reporting currency for Zimbabwean business. Casper will talk more about the impacts of this in his section.

Namibia's economy has been in recession since 2016. Botswana, Malawi and eSwatini however continue to enjoy a stable macroeconomic environment. In East Africa Kenya's inflation remained within their target range. The Nairobi All-Share Index ended the year 18% down following the highly contested 2017 elections. Moving over to West Africa, Nigeria and Ghana benefitted from rising oil prices which led to moderate economic recovery in the West African region.

**Slide 6**

Let us now look at how we performed relative to our medium-term targets. Our return on net asset value at 18.6% was above our target of average cost of equity plus 4% which stands at 17.4%. As I have already said our results from operations were down 4% at just under R10 billion. This was below our target of nominal GDP plus 2%. This was after the impact of the Zimbabwe adjustment. Then on our cost efficiency targets we achieved approximately R750 million of savings. This puts us in a very good position to meet our target of R1 billion of cost savings by the end of 2019.

Old Mutual Insure's underwriting margin of 5.3% was well maintained at the top end of our medium-term target range. The Old Mutual Ltd solvency ratio is at 170%. We are at the top end of our capital ratio target range and have fully funded the development capital we need in the group for the coming period. And finally, our dividend is well within our target pay-out ratio as you will see in the next slide.

**Slide 7**

I'm very pleased to announce that our board has approved a final dividend of 72 cents per share, which is covered purely by operational cash. This together with the interim dividend of 45 cents brings the ordinary dividend for 2018 to 117 cents per share. The full year ordinary dividend is covered 2.04x by adjusted headline earnings in line with our dividend policy. The final dividend will be paid on the 29th April.

Following the consideration of our capital position at the end of the year we are also pleased to announce that the board has approved a rolling share buyback of approximately R2 billion over the next 12 months. Once we take into account the planned value of the share buyback, the special dividend paid in October last year and the Nedbank unbundling the total distribution equates to R51.5 billion which we will return to shareholders. One has to look at that relative to our market capitalisation that stands at about R115 billion. We have managed our capital well and continue to be responsible to our shareholders in the way we deploy capital.

**Slide 8**

During the interims I focussed on the key areas of decisive management actions that we took for the business based on our eight battlegrounds. This slide shows how we've rated our progress over 2018 on each battleground. For the customer-facing segment the highlights for me included, the growth in the life and loan book in our Mass & Foundation cluster, the continued recovery in profits at Old Mutual Insure, the increasing umbrella sales in our Corporate segment, and investment performance at Wealth & Investment.

It is encouraging to note that our East African business produced an operating profit for the first time since we acquired EAP. In the past when we spoke about this business we talked about how we were going to reduce losses. Today we are talking about positive growth in this business. The trading conditions are very challenging for our Personal Finance segment but I'm comfortable with the management actions we are taking. These will take slightly longer than what we had originally envisaged, but I move forward understanding that the actions that we're taking are the right management actions for this segment.

Let me take you through some of the detail on each battleground.

**Slide 9**

On the Mass & Foundation cluster we have maintained our leading position. The segment's profits were up 3%. This was despite a poor economic environment, continued pressure on consumers and the growing competitor activity. Supporting the segment's performance was a 37% growth in our loan book following improved productivity as a result of process enhancement in the customer take-on process. The loan sales were responsibly issued to customers with lower risk profiles while keeping the interest rate consistent with prior years.

We also had excellent life AP sales which were 12% up on the prior year. Recognising that our customers are moving along on the digital front but still require face to face advice to complete their purchases we enhanced our offering and introduced an online funeral product. This together with 25 new branches helps us meet the evolving needs of our customers. We implemented improvements in our funeral claims process which resulted in improved customer experience. Today we are able to pay 99% of our claims into a money account within four hours. In some cases we have been able to pay claims into a money account within four minutes. As the MD of that business keeps on saying, you walk into the branch, you transact, and by the time you get out of the branch your money is in your account.

We continually review the value our customers derive from our products. We closed down one of our savings products during 2018 and introduced a new product called Future Invest which we believe delivers better value for our customers. Overall we are on track to grow and defend our share in the mass market, and we are comfortable in the way that we are moving on this battleground.

**Slide 10**

We continue to do very well in the Corporate segment. The segment achieved good sales growth across major product lines except on the annuity front. Life AP sales were up 15%. Despite the competitive environment, our super fund offering continues to attract good inflows including increased standalone umbrella conversion, and a growing pipeline. Our Corporate segment delivered good results from operations. We saw 8% growth mainly driven by better group underwriting experience, lower group life insurance claims volumes and improved income protection pricing. This was partly offset by the lower asset-based fees as a result of lower equity markets.

We still have some work to do to improve our risk underwriting results, but we are very pleased with the progress that we are making in this segment. We launched the On Track and Super Fund portals which make it easier to members to understand and manage their retirement information. I am pleased with this segment and its prospects to continue defending and growing our market share in the corporate space. Some of you will know that I am actually emotionally involved with this segment having personally run it many years back. So it is important that they keep on showing off that they can do much better than when I ran that segment.

**Slide 11**

There is still a significant amount of work that we have to do in the Personal Finance space. Competition remains very intense. However in the midst of that competition we were able to grow our life sales by 2% compared to the prior year. Our gross inflows increased by 5% mainly due to higher single premium sales across life and non-life products. For recurring premium products their sales were up and savings sales remained flat.

Personal Finance distribution channels contributed over R69 billion in gross inflows and R37 billion of this went towards our wealth segment. Digital channels are becoming increasingly important in this market and we continue to invest in the IT infrastructure required to meet customer needs. We expect to simplify processes for our intermediaries and our customers with the new protection proposition.

Results from operations decreased by 36%, negatively affected by the less positive year on year reserve releases. This was in addition to the poor mortality and morbidity experience especially in the first half of 2018 as you are probably aware. Karabo carried out a deep dive on the mortality and morbidity developments in this period. Average claims levels reduced in the second half of 2018 with actual experience in line with our long-term expectations. We believe there isn't a need for any morbidity and mortality assumption changes at this stage. We have prioritised the project to review premiums for specific cohorts of our book over the course of 2019 as one of the management actions to deal with the mortality and morbidity experience. I must actually say this is captured in our contracts. It is just that we never really activated some of these in the past. Overall there is still a lot to do to defend and grow our market share in the Personal Finance space. And like I said, I am comfortable with the actions that the team is taking on that front.

**Slide 12**

On the Wealth & Investment side we are making good progress on improving the competitiveness of the segment. We are encouraged by the good progress that we've made so far. The investment performance in most of our core funds was ahead of our peer group. We delivered high-quality flows driven by strong retail sales from our wealth platform and Old Mutual International. We are pleased with the growth in both annuity and non-annuity revenue in an environment which exhibited margin compression.

The segment delivered credible profit growth and operating margins due to the diversified asset base. This resulted in increased base fees despite the fall in equity markets. Overall I am impressed with the improvements made against the backdrop of tough trading conditions.

**Slide 13**

We continued to see a strong turnaround of our Old Mutual Insure segment and our efforts of our remediation work continue to bear fruit. The segment delivered strong profit growth with results from operations up 28% due to disciplined underwriting combined with a benign claims environment. In the second half of 2018 we experienced large property claims from the CGIC business as well as large fire-related claims on our commercial lines business.

I already mentioned, we delivered a good underwriting margin of 5.3%. This is up from 3.7% in the prior year and at the top end of our medium-term target range. I'm sure some of you are asking us when we are going to revise our target range. We will only consider revising this target once we complete our remediation work. I still believe we still need to do a bit more on that front.

We launched OM Insure, a digital platform for claims registering. We will continue to focus on first class service delivery to improve our customer experience. It has been great to see that the team has a great sense of excitement to move this business forward. Underwriting discipline and cost control are now becoming the norm in this segment, especially given the reinforced skills brought into the business over the past year and a half.

**Slide 14**

The rest of Africa segment delivered a commendable result with a 37% increase in profit. The segment's reported profit is 16% up on the prior year after allowing for a R223 million reduction as a result of the Zimbabwean adjustment. The Southern African region remains the largest contributor to our rest of Africa profit, despite tough trading and economic conditions in Zimbabwe and Namibia. Profits in Zimbabwe benefitted from the quality of the lending book at CABS and tight expense management. Malawi continues to do very well with an underlying improvement in life profits following strong group life assurance sales in the second half of the year.

We are making good progress with our management actions to turn around the East African business. As I already mentioned, it is pleasing that for the first time since our acquisition of UAP we have a positive result in East Africa. We have benefitted from the remediation of our short-term insurance book and the improvements in our business practises. We have seen significant improvement in the letting of our properties. We are focussing on strengthening our leadership team in East Africa and firming up our control and risk environment. Our relationship with our minority shareholders is good but we believe it can be further improved.

In West Africa we are clearly looking for marked improvement in our operations following poor operational results. The leadership team has been strengthened with the appointment of new management. We believe it is important to appoint people that understand the environment and can identify fully with our group values. We have asked Samuel Ogbu, our new Managing Director of West Africa, to come up with an executable and credible business plan that supports the capital that we are deploying in that business.

Let me now spend some time on the last three battlegrounds.

**Slide 15**

On winning the war for talent we have made significant progress. We are building teams that are delivery-oriented, customer-centric and externally competitive. We have experienced early signs of significant wins in this space. We embarked on a cultural transformation journey called "Pulse" to help us achieve this. The shoots are green. This is a project that will take time, and we will report on it as we move along. We engaged our people to find out what they are experiencing in the organisation. Through the results of our engagement survey we now know what the issues are in order to transform our organisation.

With the appointment of Garth and Khaya we have made significant progress in building our operational leadership team. It is also quite exciting to note that we are now attracting and retaining the people we want in the organisation. There was a point in time when we were told that there were some people that we tried to get who we couldn't, but today we are actually seeing some of those people that did not want to be associated with our organisation knocking on our doors to say they want to join the group. So we are happy with the way we are moving. We have also reinforced the skills in our compliance, IT security and data capabilities with new talent that we have brought in. So all in all the direction of travel is very encouraging for us.

**Slide 16**

We continue to invest in our technology platforms to meet the evolving needs of our customers. We have to do two things. We have to be digitally enabled and we have to upgrade the IT infrastructure. On the digital front in South Africa we have launched a self-service portal called My Old Mutual. You can now buy 34 products online including the life insurance and funeral products. In East Africa we launched Dream enabler, which is a mobile sales and servicing application with a single view of all the customer products.

On the IT infrastructure side I am excited about our progress. We have dedicated a large amount of effort towards automating some of our processes. To date we have 64 bots which have saved more than 1.4 million minutes of processing time. This has helped us deliver better customer experience and a better customer proposition reflected in our net promoter score and our call centre rankings.

As mentioned, I look forward to the planned launch of the protection solution for our Mass & Foundation cluster and our Personal Finance segment before the end of the first half of this year. Overall we are working better and this is allowing us to deliver cost efficiencies. We continue to do all of this in a very responsible way. We have actually moved to an extent of actually saying we will deliver, not in a particular period but on this particular date.

**Slide 17**

On the cost efficiency leadership side I'm glad that we've delivered R750 million of recurring cost savings and we are clearly on track to achieve our R1 billion cost savings target by the end of this year. We are going to do R1 billion by the end of 2019 and we have already banked R750 million. In fact our savings were more than that, but actually about R200 million of that was not recurring. So the cost savings culture is actually beginning to take firm root in the organisation. I will now hand over to Casper to take you through our financial review. Over to you, Cassie.

**Casper Troskie**

**Slide 18**

Thank you Peter and good morning to you all. We are proud to announce our first annual results after listing Old Mutual in June last year. We have enhanced various disclosures which include group equity value, sources of earning by segment, sales split by product and separate disclosures for Zimbabwe. This follows your valuable input, so thank you.

Peter has provided you with an overview of segmental business performance, and I will focus on our group and segment financial results.

**Slide 19**

In finalising our results we have made a number of key reporting judgements. Most significant of these have been the treatment of Zimbabwe. Peter spoke about the use of RTGS earlier and in line with industry consensus on this matter, we have applied a change in functional currency for our business from 1 October 2018. We have estimated RTGS rates of 3.3 to the US dollar as the exchange rate. Which has been used to translate the results and net asset of the business.

This change has reduced results from operations by R223 million, adjusted headline earnings by R1.5 billion, the IFRS net asset value reduced by R5.4 billion. It's important to understand that the Zimbabwe business had an excellent year with pre-adjusted Results From Operations R1 billion, up 22%, and R2.2 billion of net client cash flows, up 69%.

From 2019 onwards, we will manage Zimbabwe on a ring-fenced basis, which better matches the careful operational and capital management required, to ensure that both shareholder and customer value is preserved in this business. We are also reviewing the opportunities there may be for repatriating some of the trapped capital now that there is a floating exchange rate. We are also considering removing this business from Results From Operations and Adjusted Headline Earning for future periods to reflect its ring-fenced nature. We will update you on this decision in due course either at our AGM or at our interim results announcements.

Secondly, we have finalised the distributions of Nedbank and Quilter. These transactions have resulted in complex accounting outcomes. The application of predecessor accounting and the change in Zimbabwe's foreign currency added further complexity. We will be explaining the impact of these transactions in more detail later in the presentation. Our overall experience variances for the group were positive on both an IFRS and EV basis with positive expense and low risk experiences more than offsetting negative persistency variances. Overall group assumption changes were positive with expense assumption releases being offset by a large negative persistency charge in the Corporate book.

We have presented our solo capital ratio based on recent approvals received from the regulator whilst our group solvency ratio is presented on a pro forma basis in line with the basis set out in the pre-listing statement. We are waiting designation as an insurance group in terms of the Insurance Act and this could have a substantial impact on both group target and reported ratios. Despite these uncertainties the group remains strongly capitalised.

I will now talk you through our financial delivery.

**Slide 20**
Headline earnings were up 8% to R14.2 billion. The increase compared to the prior year is mainly due to substantially lower costs in Residual Plc with offsetting lower results from operations and higher restructuring cost. Our return on net asset value of 18.6% was above our target return of cost of equity plus 4%. And our free surplus generated of R6.6 billion was satisfactory and substantially exceeded normal dividends paid even after holding more capital at our operating businesses.

Our group solvency ratio remained robust at 170% and provides us with a solid platform to continue executing on our strategy. The strong earning diversification, free surplus generation and capital position of the group continue to support our returns to share-holders.

**Slide 21**
We summarise here the results from operations per segment. You will note that with the exception of Personal Finance all our segments showed good growth despite the tough economic condition. Peter has already taken you through the individual segments with the exception of central expenses. Central expenses were lower following a reallocation of project expenses to segments offset by higher once off and stand-alone and listing costs. The increase from half year follows the catch up of additional project costs relative to recoveries in the second half and additional standalone and listing costs incurred.

Our results from operations were down 4% and would have been down 2% absent the functional currency change.

**Slide 22**
This slide provides a detailed build-up of adjusted headline earnings, which is provided to give shareholders a sense of our sustainable earnings base and forms the reference for our dividend policy. The first building block of Adjusted Headline Earnings was is the Results From Operations from segments of R10.4 billion, less the central expenses, net of recoveries of R425 million. The shareholder invest return of R2.9 billion, has decreased relative to the prior year, given negative equity market returns in South Africa and lower market returns in the rest of Africa. The change in functional currency further reduced shareholder investment return by R1.5 billion.

The impact of equity losses in the South Africa shareholder portfolio was partly offset by the equity hedging strategy and fixed income returns being above their benchmark. We have outperformed the benchmark return in the majority of our asset classes which is a satisfactory result given the market condition. Finance costs were down 3% to R601 million. Increased interest costs in respect of debt issued by Old Mutual Insure in the second half of 2017 were more than offset by positive mark to market adjustment on interest rate swaps. 47% of our subordinated debt is issued in variable rate instruments and the rest is also swapped variable rate.

Income from associates represents the after tax earnings from an ongoing stake in Nedbank of 19.9% for the full 12 months and losses from our investment in China. The increase in income from associates is due to higher Nedbank earnings given a recovery of earnings in ETI and accelerated revenue growth in the second half of the year. Finally, our minority interests on an Adjusted Headline Earnings basis decreased by 23% mainly as a result of the change in functional currency in Zimbabwe and decrease in minority ownership in East Africa.
So, on a comparative basis, post-tax and minorities, our Adjusted Headline Earnings is down by 11% and would have up 1% absent the functional currency change.

**Slide 23**
On this chart we show the key building blocks as we move from an Adjusted Headline Earnings and how it builds to Headline Earnings and then to IFRS profits. The components remain consistent with those disclosed at the analyst presentation at our half year results. Key items to note are a reduction in Residual Plc costs to R2.4 billion from R4.9 billion in 2017. This cost has increased from the half year following additional liability management exercises undertaken at a cost of R466 million. The profit on distribution of Quilter and Nedbank of R23.2 billion, the impairment of the UAP related goodwill and intangibles of R627 million. This results in our reported IFRS profit of R36.6 billion, which is 154% up on the prior year.

**Slide 24**
One of the most important metrics that we disclose is our free surplus generation. Gross free surplus of R8.9 billion which represents 101% of adjusted headline earnings was generated by the operating segments showing strong cash conversion. We increased capital allocated to our Life and Savings businesses to ensure that each of our operating subsidiaries had appropriate levels of capital to support the risk undertaken. This is a once-off basis change that has reduced free surplus generated in 2018 which will not repeat in future years. We also saw an increase in capital allocated to our lending businesses following strong loan growth. We expect our cash conversion ratio to increase to above 60% going forward.

Our share in Nedbank generates free surplus of 50% of Adjusted Headline Earnings, in line with their dividend policy. Cash generated by our business in Zimbabwe is not recognised in our free surplus measure as it is not fungible, and as such the change in functional currency did not impact the free surplus generation in Rand terms. After taking capital requirements and fungibility restrictions into account the free surplus decreases to 57% of Adjusted Headline Earnings or R6.6 billion, which is well in excess of the full year ordinary dividend of R5.8 billion.

**Slide 25**

We are also making good progress in simplifying the balance sheet which creates further confidence in our capital plan. We are on track to complete the sale of Latin America for $308 million less estimated transaction, tax and other costs is $40 million. The biggest item relates to taxes of $18 million between accruals for CGT following tax changes in Columbia on 1 January 2019.

The wind-down of the operations of Residual Plc is nearly complete and following the liability management exercises undertaken in 2018, there is no outstanding international debt and the aggregate economic surplus as at 31 December was £221 million. Dividends of R4.7 billion were remitted to Old Mutual Ltd during 2018. Of this £98 million is the estimated remaining surplus available for distribution after allowing for approved risk buffers and contingency reserves.

The Residual Plc costs are expected to be substantially lower in 2019, as interest costs reduce to zero and as functions have been transferred to Old Mutual Ltd. Costs for 2019 are expected to be less than £10 million.

**Slide 26**

On this slide I show the group's regulatory capital position. We start off with the solvency position of OMLACSA which is strong at 225% compared to 229% in 2017. We have restated the capital ratio for OMLACSA to remove the use of iterative risk margin, which has not been approved by the regulator. The fall in the year was mainly due to tier two capital restrictions in OMLACSA in respect of our Nedbank stake given the additional shares transferred to OMLACSA as part of the Nedbank unbundling. For purposes of group solvency calculation we remove the Nedbank holding as part of consolidation adjustment to avoid double accounting and then include Nedbank's contribution to own funds in accordance with Basel III rules.

Old Mutual Insure is included using the standard formula under the prudential standards. Residual PLC and Zimbabwe is included at 100% of the capital requirement, effectively treating the net excess asset value as non-fungible.

Other includes our non-life entities and discontinued operations such as Latin America. OMLACSA, Old Mutual Insure and Nedbank subordinated debt are included as capital in the subsidiary calculations. Our pro forma group solvency position remains robust at 170% compared to 161% in 2017 and includes our remaining stake in Nedbank. We have also restated our prior year capital ratio removing the use of the interest of risk margin. The increase in the group's solvency ratio was largely due to; the remittance of dividends from Old Mutual Plc to Old Mutual Ltd, and the change in functional currency in Zimbabwe which has reduced the impact of the fungibility adjustment in respect of this business.

**Slide 27**

On this slide, my favourite slide, we show you our representation of group equity value. The group equity value excludes an allowance for future new business which should be added to get to fair market or appraisal value. We have split the core components of our group equity value into; covered business, non-covered business comprising our asset management, banking and lending, and P&C business. Nedbank, Residual Plc, Latin America and other. Other includes our holding company net asset value, a deduction for subordinated debt, and allowance for holding company costs. Our group equity value amounts to R124 billion equating to R25.75 per share.

**Slide 28**

Peter has taken you through how we have delivered against our 2018 targets. Let me share our outlook for 2019 with you. We believe that we are on track to meet our targets for 2019 despite continued market volatility. We expect our RoNAV to improve should the recovery in equity markets in early 2019 hold for the rest of the year. Results From Operations is the crucial long-term driver of value and whilst market conditions remain challenging, we expect positive growth going forward.

From an expense management perspective we remain on track to deliver our R1 billion target for the end of this year.

We expect further upside in due course from a capital perspective from the management of Residual Plc and the sale of our Latin America business. We are doing substantial further work to improve the management of our balance sheet and the measurement of returns which we will share with you at our capital markets event in Q4. We also hope to provide you with an update on the impact of being designated as an insurance group on our actual and target solvency ratios.

Thank you. I will now hand you back to Peter

**Peter Moyo**

Thanks Cassie

**Slide 30**

Having entered into a new phase of our journey as a listed entity, we continue to build a business with a conscience. We care about all our stakeholders across the spectrum. We continue to honour the commitments we make to our customers. In line with this, we paid R91.5 billion towards claims and benefits in 2018 and we enhanced our customer experience.

On the employee side I mentioned the work being done on the culture of the organisation. This is because the conscience of the group lives inside the people that work here at Old Mutual. We take an interest in how we impact the environment. In the second half of 2018, we commissioned a water filtration plant at Mutual Park that converts grey and dark water to potable water. This has enabled us to get off the municipal water grid and as such, save about 10 million litres of municipal water per month.

We are determined to reform our organisation to reflect the societies we operate in. Today I think I'm right in saying that the Old Mutual leadership team is the most transformed leadership team of any corporate of our size in this country. We committed to black ownership of 25% within three years of listing and being equal or better than the best in class within five years. Work is underway to ensure that we have the right structure to meet our commitments. We seek to uplift the communities we operate in. We allocated R500 million to support small and medium enterprises and black-owned businesses. This was also in line with the commitment ahead of our listing and we believe this will generate additional jobs in our ecosystem by the end of 2021. At the end of 2018, R50 million of this amount had been allocated. The fund has been set up in such a way that it is income statement neutral.

**Slide 31**

Having told you what we did in 2018, what is it that you can expect from us in 2019? We are still committed to meeting all the targets we promised over the medium term, noting that achieving the Results From Operations will be tough given where we ended 2018. We will continue to work on all our battlegrounds particularly growing our market share in the Personal Finance space. Our business will continue to operate in a sustainable way, geared to win in the future. We recognise that our achievements are only possible if we have the right talent aligned to our values. Hence the work we are doing on the people side.

Our expense growth will be managed below inflation as we look at further cost efficiency opportunities within the group. Our IT refreshed journey will deliver some exciting propositions this year. We will continue to simplify our balance sheet and capital allocations. We are working closely with the relevant stakeholders in Zimbabwe to manage the business under difficult conditions that we find ourselves in. Above all we will continue to run our business in an ethical and responsible manner and within our risk appetite.

**Slide 32**

Thank you for listening to us. We will now take questions, starting with the audience in this room, followed by those listening on the conference call line, and lastly those on webcast. Please give us your name and the organisation that you represent before you ask your questions.

**Michael Christelis**

Peter, Mike Christelis here from UBS. Three questions if I can. Firstly on your central cost line you explicitly guided in June to a number of R280 million for the full year. I'm just trying to understand why that number has deteriorated to the extent that it has to above R400 million. The second one, your mortality issue in PF. You went to great lengths to explain that there were no underwriting or anti-selection issues, yet I noticed a comment in the pack that you are reassessing all your medical testing practises. So I'm just trying to understand exactly what that relates to. If there isn't an issue with your underwriting why would you need to change your medical testing? Then just the last one on the BEE. Can you just clarify what your current direct BEE ownership is at the moment? Thanks.

**Peter Moyo**

Let me start off with the BEE question. We estimate that we are about 21.5% black owned. We are as we stand going through our BEE verification process. That is where we are right now. Going back to the mortality question in the PF space, the mere fact that we are looking at improvement is not of its own to say that we believe we inherently have a problem. We actually went through a process with a third party on our underwriting processes. Just like we are looking at re-pricing our book, which is something that we already have in our contracts. Maybe before Karabo comes in, Casper, do you want to take the question on the cost because I don't think what we talked about was understood in the way that we wanted.

**Casper Troskie**

If you go back to the pre-listing statement there is a recon statement that says additional costs that we will have to bring across from Plc is R280 million, not that total costs at the centre will be R280 million. You've got to take the savings of the project cost that we've allocated to segments and you've got to knock off that R280 million. We have provided the detailed reconciliation on page 137 which indicates that we had R195 million this year and the total amount is expected to be about R280 million next year when we have the full run rate in.

**Peter Moyo**

Karabo, do you want to add to add?

**Karabo Morule**

Like Peter said, it's not to say that we thought anything is wrong. It's an additional test that we've just put in for a particular cohort.

**Magdel Neale**

This is Magdel Neale from Ashburton. Further to Michael's question can you just provide more colour on the mortality and morbidity experience you saw in the Personal Finance business in the second half? Because in the first half there was a big impact. Did it continue in the second half or did you see an improvement? Can you just provide more details on the share buyback? And then thirdly, what is your estimate for Zimbabwe's net asset value before or after the updated exchange methodology?

**Peter Moyo**

You started off with the mortality levels. I will also ask Karabo to come in. I can't remember exactly what page it is, but we do show that the averages turned down a bit in the second half of the year and we actually saw a month on month level on where our mortality and morbidity levels were. So if you look at that like I said second half is actually lower than the first half. I will ask Casper to give you the exact detail of our levels of our NAV in our Zimbabwean business. The profit impact is actually slightly bigger than the impact on the NAV. I think I'm right on that. When you say give more colour on our share buyback please help me to understand the question. We said it is R2 billion over a 12 month period. So I just want to understand.

**Magdel Neale**
It was just a bit unclear from my side. I just wanted to understand.

**Peter Moyo**
Did we surprise on the positive side?

**Magdel Neale**
It surprised me, yes.

**Peter Moyo**
It actually talks to what we said as part of our investment case that we were going to be very good in the way that we manage capital. And in the event that we actually believed we had more capital than we require for our strategic direction we will return that to our shareholders. And we did that in the first half. We have done it now. But I must also say we are comfortable with the capital levels to take this group forward. We are not dropping the future for what we have to do. What we have done particularly on the IT side we have actually made sure that going forward we can actually transform this organisation. Cassie will answer that, and if Karabo also wants to add on anything.

**Casper Troskie**
The question was what the net asset value of Zimbabwe was. We wrote off R5.4 billion, when we converted from the US dollar to RTGS, that is a 76% write-off. That leaves you with just over R2.3 billion.

**Karabo Morule**
On the mortality side on page 42 in the disclosure you will see on the segment summary we have included month on month what you will see from a mortality experience perspective. You will see there that actually it was in a particular month in H1 where it was much higher. And you would have seen we've got a comparison in terms of H2 versus H1, and you will see that there was some improvement relative to H1. I think that broadly covers it in terms of the experiences.

**Musa Malwandla**
Hi. It's Musa from Standard Bank Securities. Just three quick questions from me. The first one is just on the R750 million to R1 billion cost savings. My fear there is what we've seen from other insurers is that they target some number and we eventually then see no impact. In fact what they save in one place ends up showing up elsewhere as an increase. So specifically how should we be looking at that number? Will it show up through experience variances for the life business or assumption changes? What specifically?
How will we see the impact? Then the second question is just on the low income market.

Obviously we know about the Capitec side. Just on the new developments around the launch of African Rainbow Life. How sensitive do you see your work side model? Is it predicated on relationships with employees? In other words is it an institutional asset or an asset that can flee when employees leave? Then the final one is just on the capital base. I think even after you account for the Zimbabwe adjustment it would be about R13 billion or so for the non-life business, and that seems a bit heavy. What is your sense of that? Obviously you are doing the work on the other side to distribute the LATAM and Plc. But on the remaining businesses how capital efficient do you think it is?

**Peter Moyo**
Let me start off with that, and I'll ask Casper to come in, and then I will comment briefly on MFC, but I will ask Clarence to talk about that. And then I will touch briefly on the costs and also ask Cassie to talk about it. As far as our capital efficiency is concerned I think we're really moving the group towards being very, very capital efficient. In fact, you will notice that even the way our management team is incentivised we are actually incentivised on return on net asset value. So it is not in our interest at all to actually keep lazy capital in the group. Let's look at the returns we are delivering. We are delivering very good returns not just against our targets but even against what one would expect in the market under these conditions. So I'm comfortable that we agree that we're doing the right thing.

If there was a suggestion that the shareholders should expect another big dividend or a special dividend maybe let me talk about that. We have been very clear what will trigger anything outside of our normal dividend. We will pay dividends within our communicated dividend policy. We are serious about doing that. Like I said we are serious about capital management. In the event that we actually feel we do have more capital than we require to run the business, you talk about this competition. It is not actually in our interests to distribute more than we need when we are facing the competition that we are facing. So we actually make sure that we've got enough of a provision. And the mere fact that we are announcing a special dividend under those conditions tells you how seriously we take capital efficiency.

On the MFC business, it is important to actually understand that what makes this business unique is not just the one thing. To talk about the relationships that we have in the work site, with the trade unions, that is actually one aspect of it. You also have to consider the spread of our face to face distribution. So it is just the number of agents on the ground and the way that we manage them and we incentivise them, it is actually different from everybody. I talked about it on the MFC side. We are enabling this business with technology. So it's much easier for our customers to do something online, but we believe that we still need the face to face to complete that sale and actually make sure that you actually have the branches. So our 348 branches all over the country help us to do all those things.

We are always improving our product offering. So it's actually a combination of a whole lot of things. And for you to do what I think we're doing you have to be very good at all of those things. We've seen people doing a few things and think they will actually beat us. So I'm not suggesting that we are invincible, but what actually makes us unique is a combination of a whole lot of things that on their own make a huge difference. If I ask Clarence to talk about this, prepare yourself for a 30 minute talk Clarence, do you want to?

**Clarence Nethengwe**
I think you have said almost the right things, Peter. [Laughter]. Just to answer your question Musa, it is institutional. And we have a very complex operation. A lot of people just see the sales agents with great productivity and everything. But it is a complex process that we have put together over a number of years. And some of the people who go to other organisations like that one which you mentioned, some of them were amongst us. But the thing that they don't get is it is not the one thing that makes it successful. Its multiple things including getting the advisors, the managers and everybody from the communities that we operate in. And there is also one crucial aspect that is lost in all this, our relationship with the corporate business that is run by Clement. Most of the customers that Clement has are institutions. And we sign agreements with them in order to market our products in those worksites. So it's not an easy thing.

**Peter Moyo**
The other thing Clarence that you and I did not talk about is the improvement on our customer servicing. Like I said, we are actually paying 99% of those claims within four hours if it is going into a money account, and in some cases we are paying within four minutes. And also particularly the funeral product. Our relationship is with the funeral parlours. So it is actually beginning to be a way of servicing the customer. So like I say it is a whole lot of things. Cassie, do you want to add anything?

**Casper Troskie**
On the expenses, Peter.

**Peter Moyo**
On the expenses.

**Casper Troskie**
So the expenses are split obviously between life and non-life. So quite a big portion of the savings is actually emerging in the Rest of Africa. That is according to our plan. We are showing in the pack big positive expense variances already. And I will let Nico and Wynand explain.

**Peter Moyo**
Nico is our Chief Actuary.

**Nico van der Colff**
Maybe on the life part where we use an embedded value we have not pre-empted future expense improvements in the embedded values already, which means when expense improvements happen in life it will appear initially as a positive expense variance, which may then result in expense improvements which you will have occasionally seen little pieces of in the past as well, and that will keep going as we make parts of the expense saving in life. If it happens in one of the other businesses you should see that it results in additional profits in those businesses, and you may see that can result in other parts of the group equity value calculation starting to show additional uplifts. That's the way you should see it coming through. The summary on page 137 is quite useful to show that this isn't just moving money around, because it does show the total expenses with a whole recon in between.

**Peter Moyo**
I believe there are questions on the calls and on webcast. I thought there was another question. If there isn't can we take those calls please?

**Operator**
Thank you. The first question comes from Andrew Sinclair of Bank of America Merrill Lynch.

**Andrew Sinclair**
Morning everyone. Three questions from me as usual if that's okay. The first one is on project expense reallocation. You gave a good slide in H1 explaining those cost reallocation between the different business units. I just wonder, Casper, if you could give us an update for the full year on how much project costs were allocated to each business unit. It would just be really helpful to better understand the underlying performance. Secondly, Karabo, I just wanted to look into Personal Finance a bit more. The legacy book's results seemed a bit weaker this time around. I think that's possibly to do with the reserve releases. I just wondered if you could give us a bit more colour on the moving parts here and what you expect in the future from the legacy book. And third, Khaya, I wondered if you could give us your thoughts. It is your first

time here as leader of the Wealth & Investments business. I just wondered if you could give us what you think the business is doing well in and where you see scope of improvements. Thanks.

**Peter Moyo**
Andrew was very specific on who should answer the questions. Cassie.

**Casper Troskie**
So Andy, we will provide that. I can't give it to you now. There were additional project expenses allocated to the businesses. But there are also expenses that went the other way. So we have to give you both to give you the right answer, and we are busy finalising that. Else you get a misleading picture of what has been allocated out of the centre to the segments because there were expenses that went the other way. And we will circulate that once we've completed it.

**Karabo Morule**
Thanks very much for that question, Andy. On the legacy book you are right in the sense that in 2017 there were some positive releases. A portion of that would have been in the legacy book, so the legacy book profits benefitted from that. In 2018 because that book contained some risk protection business that also would have been affected by some mortality and morbidity experience. But obviously as is the nature of the legacy book you will see a decrease in the profits year on year as that book rolls off. So that is also a combination of what you expect to see in any given year. I won't go into more details around that, but you would expect the profits to go down year on year.

**Peter Moyo**
I'm also interested.

**Khaya Gobodo**
I will rather focus on three areas that represent a real long-term opportunity. The one is if you look at our performance in the multi-asset space and our progression of market share in the unit trust space I would say there is a big opportunity there. We have gone from market share of probably 8% down to about 5% over the last ten years, and yet our performance is really competitive. And so if you look at the improvements in our distribution partner, and in PFA and BD, and you look at the work that Walter is doing increasing net client cash flows from a reasonably low level two years ago to R12 billion, there is a big opportunity there  I think over the next five years.

The other one is in our alternatives business. We are the largest alternatives business on the continent operating in infrastructure development as well as private equity. The two spaces I see are if you look at South Africa the typical pension fund has about 2% to 3% allocation to alternative assets. The global experience of pension funds is in the 10% to 15% range. It is not going to happen overnight, because if you look at the very large allocators they are really quite high. So it is finding solutions for the smaller and mid-size pension funds in an aggregated form to make significant changes in that allocation. So I think it is going to take time, but it's a big opportunity. And obviously the other piece is Africa.

The rest of Africa, when you look at the typical international allocator they are not keen on single country exposure. So as much as we think South Africa is interesting, they are really interested in a continental type of exposure where you manage the balance of risks. And we have the capability to do that. So that's another big opportunity for us.

**Peter Moyo**
I suspect one needs to keep on reminding people that the only country in the world with the name 'Africa' in it is South Africa. The only one in the whole world.

**Kholo Masenya**
There is a question from Mikhail Motala from PGS Asset Management. Can you split out the use of the R4.7 billion remitted from Residual Plc during the year?

**Peter Moyo**
Split out?

**Kholo Masenya**
The R4.7 billion remitted from Residual Plc during the year.

**Peter Moyo**
Split?

**Kholo Masenya**
Yes.

**Casper Troskie**
To come back to Peter's original point, we look at our overall capital position and we brought that into our overall capital position. And then assessing what payments we could make or what capital we could return because there is no specific use. It is part of the distributions that we have now made to the market. So we paid a special dividend of R1. We have announced the share buyback. We have announced the final dividend. We don't source it straight though from Plc. We bring it into the centre and then we decide what we can do based on our capital position, based on our available liquidity. So it is simple. It has come into the pot in the centre and then we've decided what to do with our capital. I hope that answers the question.

**Kholo Masenya**
Then there is one more from Patrice Moyal from Visio Capital. Good morning, Peter and team. It was mentioned in the presentation that the disclosure of the Zimbabwe ops might be reviewed in the context of overall disclosure. Could you please elaborate further on that point?

**Peter Moyo**
I will ask Casper to come in here. It is not about just the disclosure. It is the way that we think we've got to manage that business given our understanding. We might have to ring-fence Zimbabwe and actually start accounting for it differently given what the market and economic conditions of that business are. As we stand today we cannot take money out of Zimbabwe. So we've got to ask ourselves whether we can keep on accounting for it in the same way that we have done. Like I said, we were the first to lead the different accounting treatment.

I was actually warned by our finance team, and there was some direct feedback that as the CEO I shouldn't become an accountant. I had very strong views on how we should actually account for Zimbabwe. And I think throughout this year we are going to re-look at that and hopefully we will come to the market maybe by the end of the first half if we get to what we think it is. As far as we are right now, we are going to account for it in terms of the official exchange rate. Hopefully the RTGS is now being traded sufficiently for us to actually think there is an open market value for that. Casper, do you want to respond?

**Casper Troskie**
So we've agreed with the Zim team that we are managing this business completely differently to how we would traditionally manage an insurance business in terms of capital. And when you aggregate Zim now with the rest of your business you get the wrong answer. So we're managing our business in Zimbabwe for value. So we are trying to preserve value for policyholders and shareholders. Inflation in the last quarter was 42%. The industrial index last year was 50.4%. And the year before that it was 130%. So what we're saying is how do you do that in terms of the group target that you're trying to manage? So all we're saying is let's try and ring-fence it and manage it in the course of a proper mandate. Let's ring-fence it with the rest of the business. It is still a very important business, but our dilemma is the impact it has on SAM capital ratios, the impact it has on our RoNAV, the impact it has on Adjusted Headline Earnings because of the volatility. So once we have thought through it properly we will come back with some recommendations. But it will be part of our IFRS income statement. It will be part of our IFRS balance sheet.

**Peter Moyo**
Okay. We no longer have any questions. We have come to the end of our annual results presentation. We will publish our audited financial statements together with the integrated

report on the 29th March 2019. Our Annual General Meeting will be held on the 24th May this year.

I would like to extend my heartfelt gratitude to all the employees of Old Mutual, our executive management team and our board for their contribution to the delivery of our 2018 results. Thank you also to all of you for joining us. To those who joined us on the webcast and over the phones, have a very good day. Those who are here with us in the auditorium, please join us for some refreshments outside. This is catered for in our cost efficiency regime. Thank you.

END OF TRANSCRIPT