Y 2017 Earnings Call

Company Participants

- Anton Gildenhuys, Chief Actuary and Chief Risk Officer
- Heinie Werth, Financial Director
- Ian Kirk, Chief Executive Officer
- Junior John Ngulube, Chief Executive Officer of Sanlam Emerging Markets
- Jurie Strydom, Chief Executive, Sanlam Personal Finance

Other Participants

- Unidentified Participant

Presentation

Ian Kirk {BIO 1778703 <GO>}

Ladies and gentlemen, thanks very much for coming down to listen to our 2017 Annual Results. I feel a bit like the referee, and I have to wait for the signal. So we've got the signal we're live now. Well, thank you very much, I know there's one or two other companies that are presenting today, so thank you for coming down and listening to our results. I've got here with me Heinie Werth, who you know well, FD, he will be presenting the numbers with me; Junior Ngulube, who runs the emerging market business, is here; Mark Murning and Tony Gouveia are here from Capital Markets; Jurie Strydom is here, so I've got lots of people around me, who can answer the questions if there are questions at the end.

So what we'll do, we'll just -- I'll give a review of the strategy, just the environment that we find ourselves in 2017, Heinie will then do the financial review, we will talk about the transaction, the third phase of the Saham transaction, which we announced this morning, Hernie will deal with that. I will come back then and deal with the strategic priorities and a bit of an outlook, which I think is particularly important at the time we face here.

So let me tell you this is our 100 years. 8th of June is the date, and we all very proud and it gives me a great pleasure to present these results. These are another very, very solid set of results from Sanlam Group across the board. Obviously, the Group is a very, very different one than we've had even 10 years, 15 years, 20 years ago; far more diverse, far larger, far more complex. So to be able to announce these results, which my colleague Anton Gildenhuys who has checked it all against the competitors, is a very, very strong set on a relative basis and strong on absolute basis. It's a real pleasure, and of course, it can only be delivered from the results of -- from the hard work. So thank you to the people. Thank you to our partners right around, whether it's the brokers in South Africa, whether it's our partners around the world, whether it's the banks, the telcos, whatever be the philosophy of putting the client first and evolving.

I mean, if I look back and think about what it is that's got this Group to where it is from a sort of Afrikaan's middle-income base to a base that's known in 42 countries delivering products to all various segments, institutional market, retail market, I think it's that ability to evolve. I mean, I looked yesterday at some of the positions that we've got in the affluent market in South Africa and it's absolutely extraordinary. It's kind of you'd never have thought that Sanlam could dominate in that segment of the market, where we've done it. And it's that ability to evolve that's really been a massive thing. And of course, one has to give back, but and we do that we're doing a lot in business, in the organized business, we are giving back a lot. But it's just really very, very proud in the 100 years.

So the strategy; you've seen this before and it doesn't change and I'm not embarrassed, it shouldn't change, we've obviously evolved the strategy. But let me start at the bottom, actually, which is the strategic pillars, and we've had these largely in place for a number of years and it's around that topline growth, around focused on clients and we can write the volumes, but if we can write the volumes of the margin, it's really a waste of time. You are Just getting on that treadmill and your writing and writing and there is no margin. And those of you who analyze and see some of the results will understand that. So we've really grown the business on a profitable basis, right across the segments and that's important.

Diversification is absolutely clear, we are getting more and more business from the diversified base, particularly Sanlam Emerging Markets, but even on the investment side, we diversify it. Responsible capital allocation and innovation and efficiencies on the annuities business, SPF. We've launched a number of new things; you've seen BrightRock is one, Indie is one, Go Cover is one that bringing in MiWay into the life business is another. And all these very, very important new initiatives to ensure that we're broadening the distribution base, we're attracting new clients in new segments, younger people, not like Ian, and the whole transformation in the broadest context. Obviously, in South Africa, we've had to transform the workforce, but also in the broader context how we are transforming the business add to the sort of middle-income Afrikaans based right across all the other segments.

And then, our core strategic value creation and then when we have -- where we have done a bit of work is around the vision, so we say, that over the 3-year to 5-year period we aspired to lead. Now certainly we lead in many segments, in many of the product lines, like Santam, like a Glacier and whatever, but, and we lead in the mass affluent, in the life insurance, but we don't lead in enough segments to call ourselves the clear leader, and that's what we aspire to for South Africa, that will remain the core of the business. And then, of course, to get to a leading position on the continent with that diversification in India and Malaysia and to support that by the business in the UK. So no real change there, but of course, it's all around the execution. The strategy formulation is one thing, but it's around the execution.

So when I look at that, look at the strong relative performance and I think I would say to you that we know where we're strong and we know why we are strong and we're determined to remain strong in the areas where we lead at the moment. And we have a real passionate desire to lead in more areas and we understand what we have to do, be it in the corporate market, be in the entry level life insurance market, we have a clear game plan there and we support that, of course, through this allocation and this discipline around return on Group embedded value and making sure that we get cash from the investments to fund the dividend. And this creates a very, very sustainable, resilient group in Sanlam and that's really the message there.

So it's all in the numbers, we had the Board yesterday, and the Board say, yeah, well done Ian and the team, you did great, now what about this year, and that's how it is, history is history, but you can look back now to the listing data and it's also 20 years, by the way, since the listing of Sanlam, come August, it's also around about the same time since the demutualization. So if you look over that entire period, bit of a small dips or in the early years, where they wobbled a little bit, 2002-2003 when the business was struggling, not achieving. But if you look since then the business has really taken off on a cumulative basis. So we've achieved and overachieved substantially on the nine-year risk-free rate plus 4%, which is the hurdle for the Group. Obviously, we break that down into hurdles for the individual clusters, and it's been a consistent performance there.

And very, very important is the dividend. Now, we do pay a dividend, you will be pleased to know, those of you who watch these things, we pay a dividend and we do pay an increased dividend and that's certainly our plan. And so I mean, this is nothing new. We've said this all along. It's covered by our cash operating earnings and you can see that that is funding the increased dividend. So the investments that we make have got to achieve the target hurdle rate and they do that, and then they've got to turn those investments back into cash, which drives up. Now, as you know, we've been busy building the Sanlam Emerging Markets business and Heinie will show you later how that's beginning to translate back into cash. So it's not acquisitions that we just do that don't end up in cash. And those of you will focus on that, I've got no doubt. So this is a consistent long-term execution on the plan.

So just looking a little bit to 2017. I have to be careful here, Heinie always tells me that I tell all the story before he gets to speak, so I have to be really careful what I say here. I'll just pick up one or two highlights on the profitable topline growth. You'll see what we've done is we've looked at our progress and just summarized it across those five strategic pillars.

So the net result, up 10% in constant currency, 7% in absolute, because the strength of the currency have come the end of the year. VNB is a real standout performance at 17%. I mean, it's a standout performance from a Group like Sanlam with the base that we've got. So I mean, we have a margin, nearly 3%, which is truly an outstanding achievement and it's just fantastic.

And the volumes this year on single premium were down, but the margin up, I mean, that's really says that the guys are fighting hard in the trenches and it's very, very important. Sanlam Sky, a big contribution there. Some of the acquisitions that we've made have also helped obviously Saham, some of the -- the PineBridge investment business in East Africa, that's obviously helped. But third-party institutional flows up and right across the board, this solid market share gains, but at the proper margin. It's not selling two (inaudible) ice creams for one (inaudible) I've said that for years, and if you all can do that and some try and do it, but Sanlam doesn't do that. So it's growth, it's market share gains and it's at the right margin. And then the diversification, obviously Saham and we will talk about that later, the third phase of that, that's a significant thing.

Enterprise, let's just spend a bit of time on enterprise, it was in Ghana. Our partners felt that -- seeing as we've had Saham that represented a conflict, and they wanted to move forward and they wanted to regionalize, which is difficult for us. So it was not our plan to sell enterprise in Ghana at all, but now we have to rebuild on Saham, but when we did so, we had a book embedded value of $45 million, we got paid $132 million, so we went out on good terms and obviously the best of luck to the business and we will be there with the Saham business in Ghana, which is important territory for us. So it just goes to show that you can get the value even if you exit the business.

Some broader partnerships, we've done lots of work through banks, we have now done -- doing work now, it's Capitec, which is a nice opportunity for us in South Africa in the entry-level market. BrightRock came on board last year, EasyEquities also, these are all good diversifiers for us. And then of course, the stuff we start ourselves like the data analytics, it's very easy when you start a business to sort of do all these kind of things for our business, which is, as I said, many years old. So this sort of -- our contribution there around analyzing data working with partners et cetera. The design studio, UK restructuring, we got a very good result from the UK this year, we haven't been achieving what we wanted to up to now.

On the capital side, I talked about Enterprise making the additional investment in Saham, it's all expanding that footprint, buying up businesses, we're not doing anything different. We're just putting the capital in there, and as you can see we released about 4 billion this year, which is nice, and just to check my notes now, Enterprise is about 1.6. We had further released a 500 million out of Sanlam Life, Capital Markets released 350, thank you Mark for that, that's very welcome. We had additional -- excess over the dividend of 800 and then investment income about 800, so that all adds up to about 4 billion created. And we've applied that as you can see in some of the transactions, Heinie will go through that again in more detail.

But Saham phase 2, where we recapitalize -- we put extra capital in to take us up to 48%, which this -- is a single largest one. And someone asked me about, what about -- is it all in Africa and is it all Indian stuff. South Africa remains a target for us, there are opportunities, there aren't big opportunities, if there were, we obviously try and look into those, but we've announced a deal with Absa's employee benefits business, which became available, clearly BrightRock was about 700 million, and then Afrocentric in the prior. So when opportunities come up in South Africa that will achieve the returns, we'll continue to look at those, so it's not just all around the African continent, but clearly that's a big, big priority for us.

So I talked about the strategy, but also it's about the execution, and that's about the best people. And we would never have been able to deliver these kinds of results without the best people, and the people who were able to go ahead and do the business at all levels, we broadening the distribution channels, we've got a very solid brand, we move that brand consistently across the African continent in time. In case, for example, in Saham now, we've had the endorsed brand, we can consider, we've got the brand for about eight years as part of our deal, but we can consider maybe moving that across on to the Sanlam brand at the right time. And building that strong retail brand, of course, and the institutional brand is also well recognized, but we will combine that at over a period of time.

And I think it's clear that we have that first mover advantage on the continent, which is very important. Now this footprint I've shown you many times, we're just clarifying the areas where we're not yet and we have plans for Egypt and we have plans for Ethiopia and that's just about it. The other territories don't have the money, so people are not investing there. So at this stage it is not necessary for us to go there. So in due course, obviously, that sort of purply color will become blue, or if we get when we conclude on the transaction later in the year. And then we really, really have a very strong footprint, it's sort of Cape to Casablanca footprint so we talk about. But it's not just about the footprint, it's about being there for the clients and being there for that first mover opportunity to make sure that we build quality retail businesses and handle the commercial business, and on top of that we become the go to market for the corporates.

And interestingly you ask yourself, where does your business come from, it comes from the intermediaries that were operating in the continent, it comes from the banks, it comes in the telcos we partner with. But what is also interesting is beginning to see is that other insurers, who don't plan the continent, look to us to deliver solutions to their clients, and that's something that we haven't actually seen when we started on this journey. We've announced one now with the Japanese, Junior, you can talk about that and we're busy with one or two more for other international players who see our footprint and enable us to deliver that seamless service to their international clients. And of course, we're happy to do that, it will take the business at the right rate from all of the people, and this is really the unique opportunity.

And of course, the third phase of Saham that we've announced, which is a very substantial transaction. I'm advised that probably the biggest one than any of the financial groups have done on the continent. And that gives us really sort of that unrivalled footprint, but it's not just about the footprint, it's about the return, but you can see from the numbers that Heinie is now going to deal with, that the returns are beginning to come through, on a very solid basis.

So that's enough from me, I'm going to hand over now to Heinie.

Heinie Werth {BIO 7529974 <GO>}

Thank you, Ian. So Ian have already touched on good set of results, and he also referred to the Saham acquisition. Next few slides is really just and I don't think we have to tell you 2017 was a difficult year in South Africa. We had similar issues in Namibia; Botswana, we had strong competition, but in the end the year panned out well and on a much more positive note. So if you look at South Africa, if you look at the results from our competitors which show that it was stressful times and that we got downgraded, there is still a overhang on more. But overall the sentiment turned positive towards the end of the year, so not really much to add to on that.

If you look at the Rest of Africa, even Zimbabwe in the end now turned out more positive than what we would have envisaged six or 12 months ago. So things are moving again in the right direction, but last year, still we had severe competition from one competitor in Botswana and that competitor has since run into problems. And so, yes, they impacted last year on our results, but already going forward they have some issues.

If you also look at India, Malaysia, when we get the results, India we really had some sterling results coming from there post the demonetization and post the implementation of the GST. And Malaysia, you will see now result, your company is not doing well, our companies were not living up to our standards, it's still -- I won't say it'll -- taking longer, but it's not where we wanted to be. And we can't blame the environment, the environment in the economic growth in Malaysia is good. So it's a case of what we do with our companies. So that's just a bit of background on the environment.

If you look, and again Ian have touched on them, but what we are really proud of is a very, very good performance on the return on Group equity value. We exceeded our hurdle rate, both on actual and adjusted basis and very positive was especially the VNB growth in South Africa. And also that margins showing that we sell the right mix of business in South Africa. Also positive in the Investment cluster was the turnaround both on the volume and profit side in the Sanlam UK. It was the best year ever on the institutional inflows in Sanlam Investments. I've referred already to the Indian story, and Santam you would have seen there is actually very good, notwithstanding the catastrophic events that we had. And for us, yes, we will spend some slides on that, it is the biggest transaction possibly done on the continent, but in the end Saham is a collection of businesses, it's not one business and the exposure therefore is towards variety of countries, but we'll come back to that.

Low lights, so bit like the same problem children every year, Junior, Kenya and Malaysia. And then like our competition there was pressure on single premium or bulk volume business on the individual side in South Africa, which flow through to Namibia. And then Botswana, as I said, we really had, and I have to say, it was irresponsible competitor, and it didn't last long. Obviously, and I'll also spend time on that and I am glad all our colleagues from Sanlam Capital Markets are here to face questions, but we will also spend the slide on Steinhoff and where we stand on that matter.

So the results, we think it's a very good set of results on a very, very difficult circumstances, growing operating profit, while we see that huge improvement in volume -- value of new business and improved margin taking cognizance of the new business strain, taking cognizance of the stronger rand, all of that to the incoming of 7% profit growth, 18% on the headline earnings, 15% growth in value of new business, and at a higher margin than before meeting our hurdle rates. It's really overall a good set of results. Yes, the volumes did not grow, but that is predominantly due to the single premium business on the personal finance side.

If you look at the overall, again just the factors that definitely played an overall role. Bond yields came down right at your end, so that obviously helped us on the value of new business side and also on the embedded value side. Santam's results were really hit by those catastrophic events, the rand were, in general, still stronger than the previous year, not as much as 2016, but it's still had a negative impact. And then the JSE was largely flat during the year, lots of volatility, but obviously with a significant boost post the INC elections, and we also see that in our values going forward.

Steinhoff, so we got lots of questions and we put out a note, December showing what our exposure is. On the left-hand side is the exposure at different dates, 1st of December, end of December and 28th of February and you will see the biggest trends, obviously, now by the end of February was the redemption of the local bonds. If you look through, so this is pre-tax. If you looked in at our impact post-tax at year end on net result from financial services, we took a knock of ZAR49 million and you will see there was very little impact on the bond side and that's because we've got a spread reserve for events like this. If the bonds default the loss will become real, but the spread reserves are used to normalize the returns over the lifetime of the bond, so I'll come back to that as well.

On the net investment returns, yes, we took the knock also on bonds and we took the knock on equities. But again, you will see then if we had to do results now, at 28th of February, and I know there was more events in the last week, but you will see already that we will now make a profit on the collateralized lending and also there was a positive movement on the investment return. We have to acknowledge that all of the Sanlam Capital management team in playing this, because it was a stressful period, when this came out and especially if you go and get to all the people, and hope they help to resolve the situation, but really quick action and collaboration with Investec and Absa helped to put us in a position where as we stand here today, the two biggest exposures remain on the foreign bonds. So yes, we have to make the call that we see it yet or do we liquidate it somewhere. And then the other big risk remain on the collateralized lending, but the current agreements on the table and the process that have started on the Section 155 settlement will compromise with creditors. If that is handled responsibly, we are confident as we stand here today, that we will not have further losses. We don't say all the risk is gone, but we feel it is very much under control. So thank you to all the management for the effort over this period.

Sanlam Personal Finance; I remember when we started the Emerging Markets journey, it was because South Africa was supposed to be ex-growth, the economic growth was bad to everything. And yes, the volumes, you can see the message on this slide is we are selling the right mix. We did not get volumes that we anticipated on single premiums, especially on the Glacier, the traditional Glacier business, but we saw a huge improvement in the risk business, in the entry-level market and also a nice improvement in the recurring premiums and especially recurring risk in the middle market. And then also the more profitable annuity business in Glacier. And if you take that, so although the volumes were down, we then see the benefit of that in an excellent increase in value of new business in the entry level and the middle-market segment, and you will also see at margins that we have not seen before. So a very, very good performance.

If we -- the profit growth is a bit subdued then due to the new business trend, there is also some new projects that we've got on the go. Ian referred, for example, to Capitec, so we have started to make investments in a JV with them. And those costs are in here, but we haven't seen the benefits yet, but if we take the new business strain into account or out of the picture, it's a 9% growth. The hurdle rate after achievement of the RoGEV also good. The only reason why it is really down is, yes we sit with a closed book and in that closed book we allowed for a higher expense base going forward. And that is the only part where we had a bit of a negative in otherwise extremely good set of results by Sanlam Personal Finance.

Sanlam Emerging Markets, again it was hit, I want to share with all, by the currency, the rand becoming stronger relative to the previous year and the positives here is the growth in Africa, excluding Botswana and Namibia. Namibia same pattern as South Africa, same stuff we see here, we see there. Botswana was influenced by the competitor I've referred to, but then nice grow in the Rest of Africa and in India, especially also on the General Insurance business, we saw good growth. The negative is more on Malaysia.

Pulling refer to the value of new life business, constant currency up 9%, however, if we take out the structural growth, only up 3%. Malaysia pulling us down and then the annuity business in Botswana pulling us down. And I can assure you, Junior and his team understand that this is the area where we need lots of focus to show the growth the reason why we invest in Africa, outside South Africa.

Profits, very good story; India, yes, we went perhaps a bit conservative a year ago when we saw the issues around demonetization, but excellent set of results coming out of India, and also an excellent set of results coming out of the Rest of Africa. Botswana, and it's standing like a stock [ph] record, it is due to the lower annuity sales and Malaysia was disappointing. As a result of that you would have seen as well where we previously talked about is Southeast Asia strategy, we, given the acquisition of Saham now, the 100% and given that we are not in Malaysia, where we want to be, we have now formally pulled back and so we will not look at further expansion in Southeast Asia, but we will keep our businesses in Malaysia and fix it and run it properly. So Sanlam Investments; I've already said that the best institutional flows in ever, it was a bit tampered in by lower flows on the individual side. And the other positive was the nice turnaround in the international business and then wealth management also felt the Pine is going along on the individual side. Sorry, what -- did I press the wrong button here. Thank you.

So if you look at -- so it's a good set of inflows on Sanlam Investments. If you look at the profit, you will see the flat market in South Africa. And also then resulting that we didn't get the same level of performance fees to the previous year, but then very strong results from the international side to turn around in the UK, the cost base, everything was addressed, it's now behind us and here you will see that notwithstanding Steinhoff, we came out with very strong results in Sanlam Capital Markets, also as a result of the CCM delivering to expectations. Overall, also a good set of results from Sanlam Investments.

This is the slide where we first have to decide, we show it or not, because it's always good to show good slides, but we also feel we'll be transparent in all that we do and you will see our investment performance took a hammering as a result of two things, the one was the Steinhoff, where we had some over exposure or exposure to that and obviously the knock on a relative basis for that, and then also we took a bit more money off-shore and that impacted due to the rand impact. What I can say, although the percentages now look low, we are talking about a few basis points. It's not that it's a massive underperformance, it is really not a big issue but the reality is we have moved backwards on the three and five years basically on that. The reason why there is a difference obviously between third-party portfolios and Sanlam Capital policyholder portfolios is the different mandates against which we measure them.

If we look at Santam, I'm not going to spend time on them, now we came out with the results, it was well received by the market, and the underwriting margin right in the middle of where they wanted to be notwithstanding those events, it would have been more than 7%, if it was not for the two catastrophic events, but also very, very positive, is in difficult economic times still growing the net earned premiums with 8%.

If you look at Sanlam Corporate basically our health and employee benefits business, very good year on the recurring risk premiums, the more lumpy volumes a bit down, but again you will see it's an improved mix that we're seeing coming through in the value of new life business that is up 14%. And, yes, we have seen a nice improvement in the value of new business margin, but we still there is scope left to improve that if we look at some of our competitors.

So Sanlam Corporate; overall the profit, good growth in Afrocentric's profits and also employee benefits coming out with a reasonable growth, it was impacted also by new business strain. But you will see a very high return on group equity value showing that things are improving on a constant basis in that business.

Looking at the Group as a whole, we've referred our volumes is down 1%, you would have seen it already in the different slides, and it comes back, it's a single premium story where the whole market was impacted. Long-term trend line, still on track, although there was a bit of a slowdown then in 2017, what we are very pleased is that notwithstanding the difficult conditions, and we saw it in some of your competitors' results, is that both in the middle market and in the entry level market we actually saw an improvement in persistency on a year-to-year basis, and especially, in the last six months. There is pressure, we will not deny that, there is pressure, but overall, we're still holding out very well.

I'm not going to spend more time on this we've already talked enough about how good, I mean, value of new business and the margin was. Also there the trend line over time is really showing the right direction. Profit up 10%, we've already talked about the different contributions, but that's a very solid set of results. Income statement up 18% on headline earnings, we see the benefits there of the improved stock markets relative to the year before. And the fact that the rand didn't weaken that much or didn't strengthen that much as the previous year. Now people can ask, but your headline earnings is down 1%, we just want to remind you, the previous year we had to create a ZAR1.2 billion RPF asset due to the tax legislation changes. So that was a one-off in the previous year, which really caused headlines earnings to be only up 1% or down 1%.

Group equity value; overall emerging markets the only reason why they are down to what we would expect from them was the exchange rate, putting it on a similar exchange that it would be about a 16% return. But overall, all the clusters meeting the hurdle rates, and overall the cluster, the Group exceeding our hurdle by quite a margin. Again looking at it from on another perspective, we generated about ZAR17 billion of embedded value earnings. The highlights in that is really the value of new business, and I will come back to our experience variances. This is also the highest ever, 1.5 billion. And then Ian referred to the profit that we made on the disposal of Ghana. The only negative and that you would have seen in the return on group equity value for SPF was strengthening really of the expense base for the closed book in Sanlam Personal Finance and that comes through in that 407 million negative.

Coming back, because we know this always receive, I don't know Anton will have to answer later on whether we are setting a new base, but people got used to 1 billion. This year we delivered positive experience variances of 1.5 billion, but very pleasing about that is, if you look at the right hand side is we're not dependent on one source for these positive experiences. It shows that various areas in Sanlam is getting the appropriate attention. We make our experience on the CCM, on the credit spreads, we make our experience variances on our risk profits, that I want to say we are still not where we want to be on the employee benefits side, but we are starting to see the good things of the repricing coming through, but it's a well diversified spread of contributors to the risk, to the experience variance. We can't promise that we will be able to maintain this, but things are looking positive on this area.

Over time, again, just to show you a bit of a picture of a time, over time on a five year, we outperformed our hurdle rate on an actual basis and you will also see on average we outperformed our hurdle rate also close to 3% when you look at adjusted basis.

We continue with our diversification strategy and that's why Saham was also announced this morning, that is part of our further strategy to diversify across geographies and also across product lines, the positive for us was that Sanlam Personal Finance has indicated that they will continue to remain a big -- the biggest contributor to Sanlam and so there is a healthy competition in the Group to contribute to this diversified picture going forward.

Coming to Capital Management; Ian also referred to it, now these slides, I can promise you, were prepared long before we knew what our competitors was going to do and whatever. But we just want to leave the message, we know likely lots of questions get asked, but you make profits, is it cash profits or do you pay your dividends or are you using your investment return? Now this slide just simply try to give people comfort on how we look at our dividend. We take our operating profit and we take our cash operating profit to pay dividends.

And the next slide will show you much of our operating profit is cash operating profit. In that we normally apply 1.1 to 1.2 times dividend cover ratio, so we don't even pay out all our cash profit. And through that we try to maintain a real dividend growth of 2% to 4% per year. For us the message on that one is we don't -- we only use cash operating profit by dividend, and even in that case we're leaving ourself some fact, which if we don't need it, we then use it to buy or to put to our discretionary funds. The return on our capital is basically used to, let's call it, stabilize our capital that we need, and anything in excess of that was regard to discretionary capital. So I wouldn't say never, but the whole philosophy is underpinned that we don't use our return on our shareholder funds to pay dividends. And that's why we, every year, have growth in our discretionary capital. This is a huge focus for the Group and it's nothing new.

The philosophy is we want the cash earnings to be distributed back to the holding company, obviously it's more difficult when you operate with associates and in different countries with different jurisdictions. But you can see our traditional businesses were South-African businesses, Sanlam Personal Finance, Santam, Sanlam Investment, basically pay most of the -- most of the operating profit is cash operating profit, and all of that flows through to the Group. The one which also gets ongoing attention, we knew when we went into Emerging Markets, but they need to reinvest capital for growth. But given the tall size of the investments, the expectation is that this percentage, which is currently around 30% of their profits being cash that flow through to us, that we really want to keep on growing that as we go forward. So we will show to you year-on-year, basically how we make progress on turning the operating profit also in Emerging Market into cash operating profit to assist us on dividends.

If you look at our solvency, well capitalized on the CAR basis, the life company is about 5.8 times, and we are well within our target range -- we are above our target range on the new SAM basis. Our target range being 1.7 to 2.1 times and we run on about 2.2 to 2.3 times.

If you look at discretionary capital, and there wasn't much since the June, yes, we paid EasyEquities, we paid PineBridge, but we already told you all about that in the results. We have now allowed for the Absa payment, we think it should happen about end of March, we got all the regulatory approvals now, so it should be finalized by end of March.

So we started the year with 550 million excess capital, we told you, in June we had 2 billion and now we are telling again that we have 2 billion of the PineBridge. In addition to that, the Board approved the accelerated release of capital. We were planning to do a 2 billion capital release over the period of four years. So effectively, we would have done this year just 500 million, we did 500 last year, but we are now bringing the rest forward as well following further work that Anton and people did on that. We do not really need it to be so conservative on that. So differently put, we actually sit with 3.5 billion excess capital post our Board meeting yesterday.

Saham, we announced today as well, and I think it's quite appropriate in our centenary year, it's a good set of results, and this is also like a very, very important step in rolling out our Pan African footprint and really taking it to the next level. I would also welcome as we know there's some of our colleagues in Morocco who have turned into the presentation for the first time. So part of the reason why we were comfortable to buy Saham is due to the quality of the management and the comfort we have built over the two years, not only in Morocco, but also in the different jurisdictions where they operate. So we really had a successful partnership since 2016. It is really a nice complementary footprint. There is more opportunities for synergies, and I more want to say, it's income synergies because it is complementary businesses. If we have control of the company and that's why when the opportunity present it, we know it's not cheap, we know it is not -- it is a big investment, but we felt it appropriate to do it and to position us for the future.

It really will differentiate us now from any other non-banking group in Africa. We have by far the largest footprint. We can put offerings in place for multinationals, banks operating across borders, regional players, we really provide a footprint that other people cannot offer them. The transaction will take about -- I want to say about three to six months to complete. It is a quite a complex regulatory process we have to go through. And to put perspective on it, we already started to realize in December that we will see this transaction through. And from a risk management perspective, we decided to put hedges, currency hedges in place on part of the purchase price and to be frank, we were concerned that if the election outcome had a different outcome that the rand would be under pressure and then as a result of that, the deal -- at a certain price the deal would not have been doable.

So at the end of December, we had hedges in place for $600 million. You can see there at a high exchange rate now with the benefit of hindsight, we have started to put in place the further 400 million plus hedges and in the end, the price, the hedge price will be done at slightly above ZAR13 by the time we are finished. Obviously, it is still higher than the current exchange rate. This will be payable, we think, somewhere June to September. But the positive for us is, as well when we decided to make the investment, we knew that we can as long as the rand is in -- as long as the payment is ZAR13 to ZAR13.50, we will still get the returns that we envisage out of the investment.

People may ask but you have paid very much, you have paid it when if 6 PE for this latest acquisition.

I think you can see there in 2016, if you look at that stage it was also -- let's call it an expensive payment, at 27 PE, but if we now take that price and we divide it by this last year's profits the PE has already dropped to 16. So we are seeing it panning out the way we envisaged. And yes, we have -- we are paying a bit extra now for control, but if you take the different purchase prices and you roll it forward with the hurdle rate that we are setting ourself, the price we pay now is really very much in line with original price. We don't say it's cheap, Junior and his team now have a massive task on their hands in conjunction with the Saham team to deliver on the synergies that we have identified. We look at it as not only buying Saham, we look at it we are buying into another 20 plus countries, which will help with the diversification of our businesses.

So thank you, that's a lot. To summarize, we think, on a good set of results, and we think it is a great opportunity to now come into the next century with Saham and with this African footprint where we are now largely, I want to say, completed.

Ian?

Ian Kirk {BIO 1778703 <GO>}

Thank you, Heinie. Complex set of results, you've presented it really well, focused particularly on the issues, which I think we can see, which is Saham. Why we are doing and the financials around that and also start up [ph]. Just on Steinhoff, you will see that obviously the position was a significant improvement from what we put out in our SENS release. And we felt that was appropriate to come to the market to show the sort of worst case exposure. So well done to the team in managing it done. There were some learnings, of course, and we are a learning business and should be, and of course, we like to learn from the experiences of others, but sometimes we have to learn from the experiences of ourselves and we certainly take another Board in the capital markets and in the investments business. But of course, we can only improve in those things.

And just something to also mention, the alignment on in executive incentives is very much aligned with the outcome for clients. You'll see the Sanlam shareholders did pretty okay on this, on the Steinhoff, because of the work that was done subsequently, but one must also remember that some of the clients, whose money we managed, didn't do so well. So we've aligned all the executives with direct influence on the outcome, they are right up to Ian, the incentives have been reduced in line with what the expense for the clients have been. And normally that incentives are driven just out of shareholder return. In this case, we felt as a HR Committee and as a Board that it was appropriate to reflect the outcome of the clients or give some recognition for that.

Okay. So now having gone through the numbers and I dealt with the strategy earlier, I'd now deal with some of the priorities for the year, because as I say, the Board are very thankful and appreciative of the past, but it is the future that's important for them. So and in Jurie's business, which is personal finance, the largest business, as you've seen, and I mentioned earlier, we know where we're strong and we have to retain our strength there and we know where we have a bit of work to do in entry level marketing, entry level market, which is our Sky business, which remember for 10 years we were out of, from 1993 when we sold Metropolitan across to NAIL.

We are out of that market, and of course, our traditional competitors got busy there. We only got back into that business with the acquisition of African Life in the mid-2000. So we've really had a solid progress there and I'll call, (inaudible) was there, we're running with Mat [ph] and his team and we understand what we need to do to get to our rightful place in that market, and of course, its retaining the middle income and the affluent segments, some innovation, MiWay Life has come on board now, the BrightRock, which is a different advice-based solution.

So clearly we have our sort of what I call a better matrix disciples in distribution force, our own force and the independents and they support the Matrix product, the Sanlam product.

And then the BrightRock people, they've got their disciples and what we really trying to do with the Matrix BrightRock combination is to make sure that those are the disciples that support, those are the companies who can support us either on the Matrix range or on the BrightRock range. So that puts us in a very strong position there.

We're re-looking again the whole issue around savings, Anton is busy with that and moving up their relationship tighter, the Glacier relationship with Sanlam Investments. We've done a lot of work on this, omni channel, I spoke about it this time last year as to how to ensure that we integrate the new tech channels online digital and applications and all that sort of stuff that is necessary today because the clients require, along with the face to face distribution capability. So in simple terms, you can take -- you can have a youngster with a motorbike or a flat that needs the contents insured and he can go direct or through the app or all that sort of stuff. But when he has to come for some sort of investment, international investment stuff, should he go emerging markets, should he go active, should he go passive, we have the robo-advice certainly through the Glacier platform available for clients there, but our experience is that somebody wants a bit of face to face on that. So we integrate the digital capability together with the face to face, and we do this right throughout our channels, whether it's in Sanlam, whether it's in Santam or even now MiWay; MiWay also has a broker channel. Can you believe it? And we set up that business. And I never thought that they would come, that the brokers would support MiWay, but that is life. I mean, the market moves on, and nothing stays the same for ever.

We've got the broader partnerships. The one wonderful thing that we've -- and it's not wonderful that we sold our Absa in 2005, but it was the right thing to do and what that course that does is, it puts us independent of all the banks. So all the banks will see our capability across all the product types and they see our footprint across the entire continent of Africa. They see the opportunity, and we're not linked to one of their competitors. So it really puts us in a very strong position. So those of you work for the banks that are not working properly with the Sanlam Group at this stage, in every territory that's just something to remind you and your colleagues there back at the bank. So we really are in a strong position. And the same thing, of course, applies to the telcos and to the retailers. So that's really how we've positioned the Group. And of course, the back office is very, very important, we have those millions of policies and Heinie mentioned the strengthening of the unit costs in the closed book business. So we have to really work hard there and including and we rolling out a number of things including the robotics, Hennie de Villiers is with us today, Hennie was -- is driving that initiative for us.

On the Emerging Markets, Junior knows and Heinie mentions it all the time, is under pressure there, but it's been this shift to accelerated organic, to get the returns through to make sure we achieve our hurdles, on an adjusted basis, given the vagaries of the currency. We understand that and to make sure that cash is now coming through, and we're starting to roll that cash through now, which can fund the dividend like the other businesses. So we've had the sort of early stage now, 10 years, finalize the acquisition and delivering on that opportunity. The footprint is great, but the footprint has to deliver the returns, and of course, the cash, and that's the message that we -- we're getting there. But I mean, you can see it. You can see the business coming through.

If you look at the Rest of Africa results, the business is starting to flow. Now, what was the strategic driver? It was the growth level in the economy relative to this African growth. But very, very important, the insurance penetration percentage, as we've shared that with you before. They were pitifully low. We're now there with the quality business on the ground, delivering products, building distribution capability, not just all the face to face foot soldiers, also the digital and online, which is very, very appropriate for us to reach the retail clients on the content. We won't be able to do with the foot soldiers. And delivering on that opportunity and of course, on top of that layering does this go-to-market position for the corporates. So anyone who wants to invest on the content, who needs their insurances to give them peace of mind, where they are running a meat factory and Polokwane or whether they are running a -- whatever the business is on the content, they're going to have peace of mind that if there's a fire or if there's a liability claim or whatever that's got consistent cover right throughout the continent, and the brokers understand this and the banks understand this, and this is really what the whole game is about.

And it's that window period that we've got to deliver on that footprint, because the competitors are the competitors, whether they're locals or whether they're Internationals, they'll come after us, but we have this wonderful window opportunity to put ourselves in a very, very unique and strong position.

On the investments, of course, as you've seen, it's about that superior investment performance. And just working away and learning and analyzing, and I mean, I can just talk about the Steinhoff, immediately the guys at the Steinhoff, they questioned, did we get the analysis right? Could we have done it better? And then, what is it mean for the other situations where we got unders and overs and are we right? And those are the learnings that we get out of that business, which is great.

And then business analytics, working closely with SPF. The whole opportunity that we have in passives and alternatives, which is a critical, critical thing. There's a lots of moving parts there on the passive side. You've seen we've had to take some action on the pricing to ensure that we retain our strong position there and deal with some of the people, who are making lots of noise and trying to talk about their strengths in passives and whatever. So there's a bit of competitive pressure there that we have to deal with and then getting the costs in line with the new fee arrangements on active management and this outcomes based fund management, we have spend quite a bit of time talking about last year.

It's really making a difference on the retail flows and our percentage of retail flows from our Glacier platform that's coming into our own internal Sanlam solutions is increasing, because the intermediaries realize the game is not just about playing last quarter's and last half's performance. It's about making sure you are there and delivering the outcomes to the clients. And I think even the competitors now have kind of worked that one that.

Santam, Heinie has talked about around the business for eight years, I know it well, I mean, I can tell you this was a very, very solid performance. I mean, you think back to what happened there in Knysna and the Western Cape in June, you think back to those floods in Natal and Gauteng in October. And for this business to achieve 6%, I mean, I didn't think it was possible. I have to tell you and I'm around the business for eight years, it's a fantastic performance. And the growth in that business, I mean, the gross premium now -- I need to ensure the gross premium is 30 billion, I mean, it's amazing. I think I left the business with 22 billion, it's 3.5 years or 3-odd years ago. I mean, the team has stayed together. They know the relationships with the brokers, they value the relationships and they know what they have to do and now they're obviously driving up on the specialist business and the reinsurance business into the content. I mean, it's just a great performance so. Very competitive, lots of peoples are now coming in there and all over them on the specialist side, but I think the deal that we did to retain the A-rated paper for the specialist business and reinsurance business was a critical, critical component. Because as our credit rating in the country slid, the brokers were still comfortable that we had that A-rating, and that was really a very, very smart move, that was done, so great performance.

At Corporate, here you know we have got two very strong competitors, as you know the one -- I have forgotten both their names, the one is blue and one is green and they've got great businesses in employee benefits and we have to accept that, but really now I think we worked out what we need to do, and we -- how we need to compete in that space and Temba and the team, Ahmed and Davi [ph] were really on to that one. We've also with Trurman Zuma now taking on the Corporate Solutions role, Raul Trurman, you see with us today. We really targeting in on those corporates with the complete solution, not just the employee benefits and the health, it also carrying the products of the other groups, investments or credits or whatever be that the corporates need and we're having some solid progress there.

And of course, that's very, very necessary for us in South Africa, because being able to be successful institutional market, you've got to be able to deliver clients at the institutional -- solutions that the institutional clients need, not just what you might like to sell, so you can't sell -- arrive there with seven different Sanlam people, one selling investments and one selling loans and one selling risk and one selling employee benefits, it's got to be on a coordinated basis that Trurman and the team are doing that, and that's of course very, very important for the international relationships. You'll see that we have a capability now out of London and with Saham in Paris, so we're capturing all that opportunity from those international intermediaries into our footprint. And that's very, very important, so the corporate working with the SEM cluster.

Okay. So I spoke to you in September, and we weren't in a great shape in this country. We were well into nine years of misrule and it was a very, very difficult space through and then the economy was in the bad space. And we sit here now, colleagues, in March and we have reason to see the world a bit different, but we have to recognize that there has been a lot of harm done over that period. And there's a lot of fixing to be done in the country. And we played our role at Sanlam through the industry associations and obviously, through BLSA in the period from when (inaudible) went out first and it's great to see that he is back now. And we played our role there, but it was a difficult spot. Now business, Sanlam included, have to play a role. It's going to cost many, it's going to cost resources. We've got the people, we know how to do, we know how to fix South Africa. We have to now put our shoulder to the will to do all the fixing that's worked. I don't care if it's 14-point plan or 10-point plan or 8-point plan, we've got all the plans. Now it's around execution in this country. And it's about money and its going to cost money and it's going to cost time and it's going to cost people. But the people now can go into these environments to be fixed, whether it's SOEs or whether it's the road accidents fund or whether it's department of this or that. In an environment that's fundamentally different and fundamentally better, you can put people into that environment with some degree of confidence which you couldn't do last year. So that '16 can take place, and that's my message and that will create confidence and it's going to take time, and it's going to take effort, but it will accelerate and that whole thing is good for Sanlam's business in South Africa, I can tell you, because you can see and we've known for a business, the scale that we are now in all the segments that we're in. When investor confidence are up and people are happy to invest, that is what works for Sanlam.

And you know I understand the point about the strength in the currency and what impact on the hedge, we absolutely we will do that thing again. We could not risk that Phase 3, we've made a commitment to our partner, we have to deliver the billion dollars and at '15 -- scrambling around at '15 and '16 to one, it would have been a very tricky scenario for us to be in, but that's the negative. The positive is, for our international base of shortages is over 40%, look at what they've had, they have had a 20% run in the value of the Sanlam share price and there was a 24% run in the currency, I mean look at that since December.

So I think we have reason to feel a lot of confidence in the environment and of course Sanlam, when I talked about it and you've seen the figures, Sanlam is in good shape and it's in good shape from the efforts of all the people and our partners and we have a solid strategy, absolutely, but it's about that consistent execution of that strategy and that's what it's about. We have some wonderful opportunities, we've got a 100 year business and we're trying to build it for the next 100, I won't be around, but then the new younger Sanlam people will be around.

So I'd like to thank you for the support that you've provided to us. Thank you for coming down today. I think it's a great time, 100 years of Sanlam and we are just in so much a better position in the country and we can be very thankful for that. So thank you.

Now some questions and I just ask my colleagues to come up, Anton Gildenhuys, the Group Officer of Risk, Chief Actuary, Heinie and then Junior, I thought, Junior should come up as he does because of the focus obviously in the emerging markets area. But if there are other questions, my other colleagues will do with that as well. Okay, so let's start with the questions here from the colleagues present and then we'll go to the online. Any questions?

Questions And Answers

A - Ian Kirk {BIO 1778703 <GO>}

Mr. (inaudible), are you coming, you're just getting your -- you are getting your papers there.

Q - Unidentified Participant

I'm (inaudible) Relations. Glad to come up your expectations, with [ph] questions. When you are talking about discretionary capital, you said you now have excess capital of 3.5 per year. Can you give us a little more information on where you're going with that?

A - Ian Kirk {BIO 1778703 <GO>}

Well, we've announced the deal is going to take a bit of that and a bit more. So we'll have to use the discretionary capital, we've got some debt and obviously we've got -- we are in a strong position, lots of people at the moment now want to take equity position so that gives us a lot of options. So that's the main thing. So we think that we should be running a buffer now, given the scale of the business, definitely north of 2 billion, Heinie always makes the point that when you enter the 550 million, which we knew we had excess capital. He says he never wants to go to meet the shareholder again with 550 million of discretionary capital because he spends all his time explaining why it's more. So we will run north of 2 billion as discretionary capital, that's our target range, that would be sort of at the bottom. So it will go into these strategies and the SAHAM Phase 3 is a billion dollars.

Q - Unidentified Participant

Thank you. And looking ahead, you said you inclined to follow -- I am not sure it was to follow or to lead clients into the Rest of Africa which is it, because the clients go there first or do you to pave the way?

A - Ian Kirk {BIO 1778703 <GO>}

No, we -- well I mean, we don't go to pave the way. No we don't go to pave the way. We go there to support the clients where they need. So if you take the ShopRite, take MTN, take Standard Bank, take any of the -- those are just the South African companies investing on the continent. We need to be there to do their insurances. And of course, they don't all invest in the same countries, okay? So we need to have the footprint and they work through the international intermediaries and the intermediaries, we have a footprint where the intermediate are located and it just makes life easier for the intermediaries and for the clients to place the insurances on a consistent basis, so they have certainty of cover on the content.

So we're following the clients, we're following the investments, and that's why on the -- when you look at our map, you'll see a big area in the middle, that's blank and the reason for that is, there's no money there. We could set up offices there and the Sanlam people would be very quiet, they would be having a nice time, but there's is no business being written. Now, that could change and that's why we've said, Ethiopia is very much on our target because we have internationals investing aggressively in Ethiopia, it's just the regulations don't allow us invest there yet. So we have a partner arrangement, we do the business with them on a reinsurance basis that in our network, so we can provide the cover, but it's not within our group.

Q - Unidentified Participant

Now, I'm asking the last question. In your summing up, you mentioned the necessity for confidence obviously both consumer and business confidence and that you thought you have some indication of attorn in that. What's your time horizon, would you put on that? I know it's difficult because it's a political outlook, but nevertheless, you must have had something like that within your working plan?

A - Ian Kirk {BIO 1778703 <GO>}

Yeah, I'm going to -- I'll start with that and then I'm going to ask Jurie Strydom who sits behind you I think -- next to him actually, just answer because Jurie is right in the phase of that. I have said that come the second half of the year, we should see the improved investor confidence driving up the single premium volumes, that will be my anticipation based on the discussions I have had with the business and the intermediaries. And of course, if we see the growth coming through, where the growth helps us is in the employee benefits business because you've got more people employed and particularly on the Santam side because if you look at Santam over 10, 15 years, Santam's growth, premium growth is GDP plus CPI plus about 2%, 3%, that's how -- what they have achieved because of the developing nature of the country, yes, and also because they're taking market share. So that GDP component drives very nicely into the Santam premiums.

So second half of the year, I see some improvement and we'll be pushing the colleagues hard for that, but Jurie maybe you, because you're there in the SPF side.

Q - Unidentified Participant

It was really positive. Thank you.

A - Ian Kirk {BIO 1778703 <GO>}

Well, we have to deliver.

A - Jurie Strydom {BIO 16239298 <GO>}

Thanks, Ian. Yeah, we will take note of the need to deliver. No, I think I'm going to echo that. I mean, I think Ian we -- it does -- there is a lead time between turning sentiment and investment obviously and it's early days, I mean, the change really started in December. But I would say that we are in our business starting to experience a different sentiment in the market from advices and compliance. There is a different feeling and a new positivity that's coming through. So, I think Ian's expectation around the second half of the year is probably right.

A - Ian Kirk {BIO 1778703 <GO>}

You see, you have to remember the results we're looking at for South Africa and you saw and we talked about it at half year. The single premium volumes are well down, they were well down and that's all around people's confidence to invest, they sat on their hands, they left the money with the banks and of course the banks because of the Basel pressure were giving them better terms and all that sort of stuff because they needed the deposits to fund the business. So they weren't in our products, but I think it will change. People are becoming more -- will become more confident in time and we'll get more single premium business as an industry and as Sanlam.

A - Heinie Werth {BIO 7529974 <GO>}

Ian, I think it's also worth pointing out that the improved confidence goes wider than just business volumes. Clearly, it's the investment markets left, our entire base left which is supportive, but I'm also of the view that a lot of our pure risk experience will pass two years or so, has been driven by pure confidence. So if the business confidence picks up, I think we might see quite a turnaround in income protection experience for example, which has haunted us for a while.

A - Ian Kirk {BIO 1778703 <GO>}

Yeah that's a good point, yeah. Okay, any other -- okay.

Q - Unidentified Participant

Good morning, Ian. (inaudible) Just on the acquisition side, you're going to have roughly putting $1.7 billion, all is set and done [ph] into SAHAM

A - Ian Kirk {BIO 1778703 <GO>}

For the 100%.

Q - Unidentified Participant

For the 100% and so just looking at the numbers, that you have kind of 20% of the NAV shareholder funds will be in SAHAM. Does that have any sort of effects on the capital required into SAHAM and just by having quite a big number in your kind of -- in SAHAM. And secondly, I assume that there's going to be no dividends coming back from SAHAM for quite a while because that's obviously in a growth phase and -- so again, you're relying very much on South Africa to at least kind of generate all the excess capitals, that's just another question. And in just how you're keeping people just sort of incentivized, because obviously now that you own 100% of SAHAM, you can't manage SAHAM from Johannesburg, so obviously keeping all the people on board in SAHAM in the 20 countries, what's skinning the game, that's quite an interesting question to see how that keeps going and maybe just the last one for Heinie. How you are accounting for that in terms of intangibles versus sort of tangible assets for that extra billion, so it's quite a bit.

A - Ian Kirk {BIO 1778703 <GO>}

Now okay, Greg [ph] it's fine. Let's -- I've got the colleagues here, let's keep the thing going. Anton, will you do with the capital issue and the concentration. Junior, the other two, the operational side and?

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yeah, I think the SAHAM acquisition, clearly just off the acquisition for solvency purposes, we were right on the goodwill. But then the math is actually quite positive because you include the net, I mean there is stress in there from a Group consolidation. So we've done this for instance [ph] and on that 2.2 cover ratio, it will still be well within our risk appetite, and the operating profit as capital plus the acquisition.

A - Junior John Ngulube {BIO 19560361 <GO>}

Thank you, Ian. In terms of the -- you asked about the retention, I think one should start by saying, we've been in the business (inaudible) with them for two years. They have a very strong management team, very well incentivized and they have delivered on the business case to date. So that continues. I think the benefit really going forward is the synergies that we will be able to extract from the business. We shared this, our vision. They have bought into the vision, the management team. So from a retention point of view, I think we are in a good space.

In terms of dividend, Heinie did touch on the point from an SEM overall point of view. It's our homework now going forward to start delivering on the dividend and that equally applies to SAHAM.

A - Ian Kirk {BIO 1778703 <GO>}

Greg, the SAHAM business, Heinie will come in. The SAHAM business is well capitalized, that paid -- they are in a position to pay dividends. So I wouldn't make the assumption that there be no dividends from SAHAM.

A - Heinie Werth {BIO 7529974 <GO>}

No, if I can add, Ian, there is definitely the anticipation for dividends right from 2018 onwards and they said to have excess capital, they will be able to pay dividends, some of the smaller countries and all our projections, we know where capital will be needed, but the bigger businesses like SAHAM Morocco will pay good dividends. So we actually expect decent dividends from it. When we did -- and we didn't yet touch on that because we are still finalizing it. We obviously with ZAR3.5 billion, it's not going to pay $14 billion or $13.5 billion. So we are still looking at what mix of data and equity, do we put with our own funds, and we plan to finalize that shortly, but then I also want to say now really all of that was taken into account when we looked at our own dividend projections, including the cash we expect from them in going forward to maintain our dividend growth.

So the mix -- the whole funding mix will take that into account on the -- we also want to see and that's why we will take a little bit time during this process, there is seldom opportunities with Sanlam has the opportunity to really enhance it broad-based credentials as well and this maybe or this will be an opportunity to work with Ubuntu-Botho, who is our empowerment partner to also see can't we use this funding opportunity in a very responsible way working with them to enhance our empowerment credentials and use this also as an opportunity to do that. So we're really looking at different scenarios. We -- coming back to the more accounting question, yes, we set -- we, if you look at the announcement that came out, we've put about 2.3 times price the book. So we've all set with value of business required that we will amortize over the period of time. We are still looking over and over what period and then the goodwill, we will look at whether we need to impair year-on-year. If you ask me, I think the biggest risk on that one, always when you look at impairments is which way will the rand go, so it will be more currency for the rest. We are comfortable that there will not be too much risk. I think initially accounting wise, we are going to make a profit, because we sell our associates and we buy a subsidiary. So there will be growth accounting nuances, but yeah, the goodwill is something we will carefully monitor and we will have to look whether we can keep it or whether we need to impair it from time-to-time, but we think overall the deal will make sense.

Q - Unidentified Participant

I have one more if it's possible.

A - Ian Kirk {BIO 1778703 <GO>}

Certainly, yeah.

Q - Unidentified Participant

(inaudible) your time, but just in terms of SAHAM, obviously a lot of the countries, the 20 countries that operate, I mean even it goes to South Africa, but obviously there are very, very different nuances within each and every country, so some will be very much in start-up phase and some will be fairly mature, presume. So do SAHAM work similarly to Sanlam where cash back to center and then it's a capital allocation exercise from there or that all quite autonomous within Sanlam from a regional perspective?

A - Ian Kirk {BIO 1778703 <GO>}

Junior can add, but no SAHAM is very centralized from that perspective, because in their case, they normally control the companies, they've got majority stakes and they have a very strong on getting the cash back to the center. So now, it's very much aligned with our strategy and plans.

A - Junior John Ngulube {BIO 19560361 <GO>}

It's actually very similar to our own SEM structure. They have a strong team in Morocco supporting the countries, but also the makeup of the businesses is they've got a few big material ones and quite a number of smaller businesses across the continent, very similar to our own set up.

Q - Unidentified Participant

Thank you.

A - Ian Kirk {BIO 1778703 <GO>}

Okay. Any more questions here from the floor? Maybe we can go to the screen then, are there any questions from -- no questions from outside. Sorry?

Operator

A question from (inaudible) of Renaissance Capital.

A - Ian Kirk {BIO 1778703 <GO>}

(inaudible), Good morning.

Q - Unidentified Participant

Good morning, hi. Thanks for the call and the opportunity to ask questions. And this is simply on SPS (inaudible) might be disappointing compared with my expectation. And it's currently to deal with the (inaudible) business cost in that business, (Technical Difficulty) earnings in that business.

And then the second question is also likely to (Technical Difficulty).

A - Ian Kirk {BIO 1778703 <GO>}

Okay, Jurie will handle the one on SPF which is the balance between the new business volumes and the margin and the operating income and then Junior, you'll handle the Ghana and other priority territories. Okay?

A - Jurie Strydom {BIO 16239298 <GO>}

Thanks, Ian. Yeah, I mean I think the -- in the slide presentation, we do refer to the adjustment for new business trend taking SPF's operating profit up by 9% if it is adjusted for that. So it really comes predominantly through the growth in risk business, both in the middle market and in the entry-level market. So that's really the biggest driver of the impact on operating profit. There is still, I mean we are investing in the business as we have spoken new initiatives in MiWay Life, Indie and so on. But in the overall context, there is actually for -- these numbers are still relatively small numbers.

A - Junior John Ngulube {BIO 19560361 <GO>}

Then maybe I can -- okay.

A - Ian Kirk {BIO 1778703 <GO>}

Okay, I think also in the -- we had the MiWay Life, you mentioned, you mentioned the Indie, but it's mainly the risk, the normal risk business that's driven that, not so much the new initiatives, yeah. Okay, Junior?

A - Junior John Ngulube {BIO 19560361 <GO>}

In terms of Ghana, Ian did cover the reasons, we disposed of our participation in Enterprise and the plan going forward is to take over the two SAHAM businesses, which are in Ghana, it's a life and general business, this has already started. And then we'll build on that base, and similar to other territories who are also on the look out for bolt-on acquisitions and this is another option we are looking at in Ghana to get back to a leading position. We have done it before with Enterprise in Ghana and we believe we will be able to re-build another successful business in Ghana. In terms of priority territories going forward, I mean, we are in 33 countries already. Ethiopia is certainly an interesting one. At the moment the regulations do not allow FDI in insurance, telecoms and banking for example but we have reason to believe this is going to be lifted in due course and in anticipation of that we've entered into a strategic partnership with one of the local players with whom we will collaborate and when the time is right, we can expand that relationship further.

Egypt is an interesting one, the economy is recovering. We need to do some of our own homework there and wanted to recognize that Egypt is more part of the Middle-East. So we are looking at Egypt as the next point of entry on the continent. Some homework to do, but certainly, some specific actions have been taken in Ethiopia.

A - Ian Kirk {BIO 1778703 <GO>}

(inaudible), if you look at growth in SEM, you have to factor in what happened in Botswana and in Namibia because those are the big -- those are also traditional neighbors and we've explained that link, I think what happened there and the specifics and Heinie also covered it, but actually if you look at all the other ones, Junior and you can just clarify for me, I mean there was growth in all of the other ones. So, I mean the numbers are all coming through in growth terms, so we are confident that this issue around the very low level of insurance penetration and the issue around growth, it will -- does drive through to increase flows into the life businesses and the general business.

A - Junior John Ngulube {BIO 19560361 <GO>}

Absolutely. I mean, the Rest of Africa businesses, the numbers are quite clear. They are coming through in terms of growth, but what is also pertinent from our point of view, it's not only structural growth. We're beginning to push through organic growth, which is more long-term and sustainable. And that's one of the reasons we believe we should be -- should be growing our presence on the continent.

A - Jurie Strydom {BIO 16239298 <GO>}

But I mean, we've said it before, it's not going to be a short-term thing, this is a three to five, 10 year story and we just need to be there. And we do believe in that Africa growth story and I think there's lots of evidence around to confirm that we are on the right track and we're up and going now, we have done it. So that's beginning to come through. Thank you.

A - Ian Kirk {BIO 1778703 <GO>}

Greg, you're going well here, right.

Q - Unidentified Participant

Sorry, if I can -- yeah, (inaudible) time and but just one last one, if I may. In this sort of risk business in South Africa, you've been quite under indexed relative to your overall sales for quite a while, I mean your market share in the risk business is far lower than sort of your overall exposure.

A - Ian Kirk {BIO 1778703 <GO>}

In group risk you're talking or individual --

Q - Unidentified Participant

Sort of individual risk, if you look at the size, you're generally quite under-indexed. I think, but if I look at the new numbers in the volumes, your writing volume is probably ahead of what your market share is, which means you want to grow market share in that space. What's fundamentally changed in that sort of space that's certainly, you see that as an area for growth?

A - Ian Kirk {BIO 1778703 <GO>}

Okay, so I think for South Africa, Jurie, you can answer this one. You've got to look, Greg you've got to look at risk business in the entry level, yes we're not where we need to. In the middle and affluent, we are right up where we should be. We lead there. Okay, there are some -- there is some business we don't get that we could get. But we're very strong there and Jurie maybe come in.

A - Jurie Strydom {BIO 16239298 <GO>}

Yeah, I think we have -- I think it's right, we have gained market share in the last, probably in the course of last three years. And I mean I think we -- and it's a longer-term term project for us to have gained the market, I think we are now at a -- in a pretty strong position as far as that market share is concerned. A lot of it's really been driven by our product innovation, I would say. And so if you look at the last two or three years, there has been a succession of product innovations that have taken place in our core metrics range. And so -- I don't want to go into details on that, but I mean, I think that's really probably been the biggest lever obviously the acquisition BrightRock now give us another opportunity to make a little bit of a step-up, if you then BrightRock's market share into reckoning and also that's a base for further growth. So that's the strategy.

A - Ian Kirk {BIO 1778703 <GO>}

Greg, the situation in entry level we've discussed, it's a very specific thing. The traditional competitors are in the strong position, we now got ourselves to number two and we have work to do except that. In the other areas, I'd take the point that in the tough times, we've actually done really well and the business has moved to the stronger players in that tough time and that's really what's behind the comment that you've made in the --you've actually recognized that, but it's in the tough times the stronger businesses have done a bit better.

Okay. Can we wrap it up now until there is -- we are coming to the end of our time. Thank you very much, again, thanks for your interest and for your support to the Sanlam Group, it's much appreciated. Thank you.