Sanlam Ltd Corporate Operational Update Four months ended 30 April 2018 Call

Company Participants

- Anton Gildenhuys, Chief Actuary & Group Risk Officer
- Heinie Carl Werth, Financial Director & Executive Director
- Ian Maxwell Kirk, Group CEO & Executive Director
- Wikus Olivier, Unknown

Other Participants

- Behrin Naidoo, Analyst
- Conrad Scheurkogel, Analyst
- Michael Christelis, Director and Insurance Analyst
- Musa Malwandla, Research Analyst

Presentation

Operator

Good day, ladies and gentlemen. Welcome to the Sanlam Limited 4-Month Operational Update. (Operator Instructions) Please note that this call is being recorded.

I would now like to turn the conference over to Ian Kirk. Please go ahead, sir.

Ian Maxwell Kirk {BIO 1778703 <GO>}

Good afternoon, ladies and gentlemen. Thank you for joining us on the conference call. I'm joined this afternoon by my Finance and Actuarial colleagues, Heinie Werth, Anton Gildenhuys, Wikus Olivier and Patrick Hartnic.

Let me deal first with an overview of results. We released details of the results for the 4-month period earlier this afternoon. Just make a couple of comments before we deal with questions. Operating conditions remain challenging during the first four months of 2018 across a number of the markets where we operate. In South Africa, which remains our biggest market, economic growth, as you'll have seen, remained subdued despite an improvement in business and consumer confidence following the political changes in December. As anticipated, it will take some time for this improved confidence to transpire into accelerated economic growth.

Economic growth in Namibia also remained below the longer-term potential. The economies and currencies of Nigeria and Angola are still reflecting lower oil prices. But conditions in the other African countries are showing signs of improvement. India and Malaysia, the economies achieved robust performance.

Some of the salient features of our performance are as follows. New business volumes declined by 3% to ZAR 69 billion. Good growth in most clusters was offset by declines at Sanlam Investments cluster from a fairly high place in the comparable period in 2017.

Net VNB increased by 2%. The relatively low level of growth in this period is largely attributable to the change in the mix of business in Glacier and the lower new business volumes at Safrican and at Sanlam Employee Benefits. We anticipate some acceleration in VNB growth during the remainder of the year with contributions coming from the new Capitec arrangements on funeral and credit life as well as a good pipeline of business at Sanlam Employee Benefits.

Net fund flows of ZAR 10 billion were down on the ZAR 12 billion achieved during the first four months of 2017, mainly due to the lower inflows at Sanlam Investments. SPF showed a marked improvement reflective of Glacier's new business growth.

Net operating profit increased by 11%, up 7% in constant currency and excluding structural activity and as adjusting for the demonetization-related provisions we raised in the 2017 period.

Santam, Sanlam Emerging Markets and Sanlam Corporate achieved particularly strong growth.

So overall, we're satisfied with our performance for the four months to April, reflect the resilience, diversification and our ability to maintain robust value creation for our shareholders in the times that we're in.

As mentioned in the operational update, we're pleased to report that Saham Finances is tracking its business case.

So in conclusion, looking ahead, we expect that the economic and operating environment will remain subdued in the largest markets for the remainder of 2018. Volatility in the currency and investment markets is also likely to persist, which may impact most of our performance metrics. The change in mix to less profitable lines of business in Glacier, which we've expensed in the first four months is also expected to continue. Sanlam Personal Finance in new business volumes and VNB will, however, benefit from our new distribution initiatives.

The acquisition of the remaining assets in Saham Finances is progressing largely in accordance with the plan. The first phase of funding for the transaction was concluded at the end of March through an accelerated bookbuild equity issuance. An additional 5% equity raising is planned with the intention to utilize this as an opportunity to further strengthen the group's empowerment credentials.

Over the medium to long-term, we remain confident of the growth potential in all our markets. And we'll continue to deliver value to our shareholders and other stakeholders.

Thank you. We will now open the call for questions from the audience.

Questions And Answers

Operator

(Operator Instructions) Our first question is from Michael Christelis of UBS.

Q - Michael Christelis {BIO 15233664 <GO>}

Just 3 questions, if I can. Can you give us a bit more color or guidance on Saham? I mean, just in terms of -- I know you've mentioned it's kind of according to business plan. Can you talk how that relates to the 26x guidance that you gave us in terms of what you're paying for the business and how that's -- how you see that playing out at the moment? What was actually going on in the sort of larger geographies there? The second one, I'm just trying to reconcile your value of new business in that you seem to have a situation where you've got very strong growth in SEM. The guidance for product margins is flat. And yet, your VNB on -- as a whole is flat. It just seems like there must be a really strong mix that they're coming through SPF. And maybe if you can just talk to specifically the SPF margin. What that's doing? Then lastly, just in terms of your comments around the issuance of another 5% capital and potentially to BEE partners. The perception is that that's going to happen to be if it's for BEE show -- does it add a significant discount to fair value? I mean, can you talk about the structure and how you -- what sort of process you'd follow to issue those shares? How exactly are you planning to do a deal like that?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Okay. Let me have a go at Saham. And then Heinie can help me on that. On the VNB side, Wikus, Patrick, maybe you can deal with that one. Then I'll have a go at the BEE story. And then Heinie will (supp) beyond that. Okay. So on Saham, the process we're in, Michael, we're going through the regulatory approvals. So we've got some in. And some of the bigger ones are still outstanding. So we would sort of say at this stage, it's looking like in the Third Quarter, we'll probably be there. We're doing what you'd expect in terms of integration planning, looking at the finance, looking at the structure, looking at the operating model, that kind of a thing. But I think probably you want to talk a little bit more about the numbers. And we say is tracking the business plan. Maybe, Heinie, you can give a little bit more on that?

A - Heinie Carl Werth {BIO 7529974 <GO>}

Michael, when we did the March results we remained true to this slide. We showed that we, let's call it, expect a moderate improvement for lowering of the BEE multiple going forward. So we now have the March results. And the March results, I want to say, we've seen a lot what we've seen in the previous quarters but are cruising well. Afrikaans is doing well. Local terms, Angola did well. But there was February. As you may know, there was in Angola a resetting of or taking of the Angolan Kwanza. And so I would rather like to put it that notwithstanding the negative comment around with -- that, the earnings is on track in terms of, let's call it, gradually reducing the BEE multiple impact. If it wasn't for that, actually, the picture would have even be better than what we guide you in March. So the answer simply going forward still remains what will happen to the Kwanza. But the business is, I would say, in general, is doing well. It is more currency impact. So I think when we reported in March, I don't know if it's right in front of me. But we said we buy 25 multiple. We forecasted 23, 24. That's on track. And if -- it would have been even better if it wasn't for the Kwanza devaluation.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Michael, we also had a look at the synergies. We've checked them, which we did -- do on a regular basis. It's looking a little bit better than we had planned. So that gives us a level of comfort. We'll share -- we'll have to share some of that information with you, either in the half-year numbers, I'm looking at Wikus now, or in the investor presentation. We'll just have to give more flavor. We just said we would do this. Maybe on the VNB?

A - Wikus Olivier {BIO 20074722 <GO>}

My thought on the VNB, speaking to the factors on the ordered change in mix of business at Glacier. But then also, we mentioned that the group with Sanlam Sky is also quite a bit down in the last year. So that did have a negative impact on SPF. But then also to take into account, in particular, with some emerging markets is part of the corporate activity was actually the disposal of Ghana last year, which was quite a large contributor to today VNB. So if you take that into account, which got quite a big impact on the mix. Then also, the corporate cluster, also the lower new business volumes and VNB is also lower than last year. So those are essentially the biggest factors.

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yes. I don't think that change in margin is that dramatic.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

For Glacier...

A - Anton Gildenhuys {BIO 4058523 <GO>}

Glacier (inaudible) in total.

A - Heinie Carl Werth {BIO 7529974 <GO>}

No. The overall margin is slightly lower than what it was at year-end.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. I would just say, Anton, maybe, Heinie, I think we'll be fine on the volumes in SPF, right? I think we're beginning to see a bit of light there. So 2017, you remember, was very tricky. But the pressure will be on the margin on the Glacier side because we're probably going to end up with less guarantees and more linked kind of stuff. But I mean, our guys are very aware that -- they understand the issue very well.

A - Wikus Olivier {BIO 20074722 <GO>}

On the Safrican side, it's also a more lumpy business.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. We're looking at four months as well. On the equity, the 5% issue. You know we don't get many opportunities. The environment is important, as you know, competitively, particularly in the seasonal markets. We don't get many opportunities. I mean, we're having to watch this very carefully. As far as the discounts, we'll only do something that's in line with the market. So when you say it's fairly substantial, yes, it's probably over and above -- it will be over and above what we did in the bookbuild. But it'll be in line with the market. We're not planning any crazy stuff there. So...

A - Heinie Carl Werth {BIO 7529974 <GO>}

Now again, I would like to go too far to saying, Michael, where people perhaps do deals at 25%, 30% discount you're not going to see that. We are very aware that this -- the first deal was successful. The second one is to improve our position. But we are not going to do deep discounts. We would rather assist within the finance. And we have gone quite a while really in developing the model, which was discussed at the board today. But I think we, like the board, also want independent advice now on -- before we can come out with further detail. But I can assure you the board is extremely sensitive that it's not the -- whatever we do, we should be able to have confidence that the discount will be -- might up largely to improve volumes, the benefits going along. But we're not looking -- I can assure you, we're not looking at this premium of 30% off of discounts. If you say we've done the -- we've bought at 5% discount, yes, it might be a little bit more than that. But then it's also assisting within the finance.

Q - Michael Christelis {BIO 15233664 <GO>}

Do you think you're going to be partner prepared to take on script at a smaller discount than 10% or 20%? I mean, I just -- my sense is that the likes of your friend at ACA are buying business at 50% discounts to the dollar?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Right now, dealing with Sanlam. We don't see (inaudible)

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. No, no, we don't -- thanks, Michael. But I mean...

A - Heinie Carl Werth {BIO 7529974 <GO>}

No, Michael...

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. You will understand as well as anybody that issues that we face in this country in the financial services sector, we aspire to a leadership position. You'll be watching very carefully what our traditional competitor -- the others are up to. So we're watching all these things.

Q - Michael Christelis {BIO 15233664 <GO>}

Yes. I mean, just, I guess, maybe ask the question slightly differently. If you get to quarter 4, whenever it is and whoever you'll be partners that you're looking at are, are not prepared to pay up to, I don't know, 10% discount, does that mean you issue capital to the market and forget about this? Or does it -- do you have to go back to the drawing board and start again? I'm just trying to understand the thought process about if you don't find a willing partner at a fair price?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

We will raise that. And we're fairly confident we can do it, to find a partner at the right rate. So that's our best case. We're not going to do crazy stuff. We have -- I mean, we're not going to do things at all costs.

Operator

Our next question is from Musa Malwandla of Standard Bank.

Q - Musa Malwandla {BIO 20221131 <GO>}

Just 3 quick questions from me. So the first one is again, on the share issuance. What I would just maybe like to understand is to what extent is this -- is the share issuance for capital purposes versus for BEE purposes? And the context under which I asked this is, in the previous -- for the previous issuance, it made sense that you needed the money and so on. And in this instance, given that the share is trading above easy, for example, I mean, do you really think -- or what's your sense of the extent which it is necessary to do it now? And how should -- to the extent that we can view easy, for example, as a benchmark, how should we view the value creation or destruction -- destructive nature of the issuance? So that's the first. Then the second one is around Capitec. So I mean, if you could just give guidance around what margins per se, hundred trend of PVNBP or in whatever measure you would like to use or -- from the Capitec deal. Because what I understand is there is a huge discount that is being offered to the consumer. And on top of that, there's a profit sharing. So I just want to get a sense of whether you see it, see this arrangement forming a huge part of your Sanlam Sky sort of seat or at least your low income presence, especially in a context where Sanlam Sky seems to be doing exceptionally. Where is the place for this arrangement in the long run? Then I guess, the final one is maybe just give more color on what's happening in Namibia around new business experience. So what I understand from the update is you're getting good volumes. And at the same time, you're seeing high (chain) experience. So is the value of new business that is coming from that market of good quality? And what's your sense of that?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Okay, let me have a go at the share issuance. And then I'll -- Heinie can deal that as well. Then I'll talk a little bit about Capitec. Then, Heinie, maybe you can deal with Namibia. Okay, here is -- let me be very clear. It's around capital, that's what drives it. And when we say, when we have an opportunity to issue capital, can we do with to enhance our environment credentials? So it's not driven around -- it's driven around the transaction which creates the need for capital. And that's what it is. That's how we see it.

A - Heinie Carl Werth {BIO 7529974 <GO>}

I think -- and if I can add, when we -- again, March, when we (giving) out the frequency in placement, we raised ZAR 5.5 billion. We indicated to you that the we've got about ZAR 3.5 billion in funds or will have by the time of payment. And so basically, there is shortfall of some ZAR 5 billion, ZAR 5.5 billion, which we said we would do a short-term bid. But it's not our preference longer term to basically increase our debt to levels that we didn't normally do. So the 5% we'll really need the risk -- to refi the debt and to restore some of our excess capital. And so we do it from that perspective. So if you take the view from economics, yes, we will have more shares to service. But we will also have less interest to service. But I think the real reason is to drive the position of the businesses better in the South African context when you go for deals with institutions or that we show our seriousness on development. But the financial impact, again to -- coming to Michael's question, whatever structure we put in place, obviously, we cannot control the share price. But we do it by really looking carefully. Whatever structure we put in place and discounts we will put in place, will we, with our own assumptions over the next five years or so, be able to maintain our dividend growth. We've told you that we try to go for dividend growth of inflation plus 2% to 4%, while doing that out of our cash earnings. So nothing of that philosophy changed. And everything is done against that background. Same with that, we look at the impact on earnings. And when you look at earnings per share, I really want to say other than the upfront IFRS 2 cost, which actually calculated and disclosed, the impact on earnings we are really developing the old structure that the impact will be minimal and that it should not disrupt our future dividend buying pattern or our income -- our earnings growth. Also, I think to add to that, I mean, you guys will understand, I mean, we are trying to do this, the transaction, it's finding that balance. You can put in own funds. You can put in third-party funds. You can put in colors and stuff. But you have to find that fine balance that we do not leave some loan at risk. And we do not want to leave the government vehicle at risk. But I can assure you, I mean, you can't forecast the future. But everything is taken into account to keep the dilution impact as little as possible. I can stick out my neck and say to you what percentage of market cap because I've done it on -- when we were on merchant's growth. All I can say is we are really very, very sensitive. We understand we've got lots of investors watching this. So we are not planning to hurt the share price or to hurt the earnings or whatever through this transaction. That's a bit of a long answer there. We really will have to find ways to -- how to convey that message. And that's where the board goes to us today, the commentary of independence for totally -- irrespective of what guidance we as a company gave, that they also want further guidance. Is this really trying to be acceptable to the market? Not in terms, first, on issues but in terms of, as we call it, the second time issue that followed the previous very successful first time issue. On the -- Ian, (inaudible)...

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. Just on Capitec on the margins. I mean, we're not disclosing in these results, the split of the profitability. We are going to leave that up to our partner to do that. We're very comfortable with it in terms of the standard duration contract that we have. But maybe just on margins, we don't think before...

A - Heinie Carl Werth {BIO 7529974 <GO>}

Anton, I think you must remember the value -- totally, it was always the objective that the product must be the lowest price in the market. But you just remember they do nothing to incur further acquisition cost because it's so -- suddenly or totally through the integrated processes and through the mobile platform. So they didn't -- there's no additional acquisition cost or very, very little.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. So that's why we're able to do that. It's not the deep discount stuff that you're talking about. I mean, the volumes is coming soon at...

A - Heinie Carl Werth {BIO 7529974 <GO>}

At the moment.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

At the moment. Maybe on the margin?

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yes, I think Heinie made the point I wanted to make is the discount is not at the expense of the margin but because of distribution model. We -- currently, we see a lot of attention on that. But that is -- before that really only got into the branches. So we do expect the branch volumes to pick up over time. Then also important because it's a different distribution model, we expect that the cannibalization within our traditional model and the Capitec model will be manageable because the traditional model is much more price affected by it.

A - Heinie Carl Werth {BIO 7529974 <GO>}

But I think it's fair to say the margin overall will be lower than what the current cycle is achieving due to the profit share. But it will still be attractive, very attractive to Sanlam.

Q - Musa Malwandla {BIO 20221131 <GO>}

So -- yes. So I mean, if one compares -- so if I'm using Sanlam Sky as a benchmark here. If one compares where Sanlam Sky is going to offering its premiums to where Capitec is offering its premiums, I find it a bit difficult to sort of conceive that if that could the -- difference could be only explained by just a distribution model. I mean, as you -- is that really -- I mean. So is what you're saying that if we start with your margins, your Sanlam Sky's margins. And look at Capitec's entire margin. So ignoring the profit share, we would be like-for-like. It would be at the same levels. Or would there be any sort of thing that causes a difference, any allowance of whether it be for risk or for any other sort of variable that causes a difference in the level of margins beyond what would be explained by the distribution model?

A - Heinie Carl Werth {BIO 7529974 <GO>}

No. The difference in pricing is almost exclusively explained by the different distribution model. Then in the next few months, well, obviously, we would like to monitor the -- how sticky is that business relative to what we are used to.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

And the average premium is going to be -- it's early days still.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Premiums...

A - Anton Gildenhuys {BIO 4058523 <GO>}

So we've made various assumptions. There're arguments both ways in terms of stickiness given that the distribution model could even be more sticky than our traditional model. If someone (inaudible) buys the product through the app, I mean, there's a certain willingness to engage. But there are other arguments -- typically, direct models suffer from persistency. So we'll have to share it better.

Q - Musa Malwandla {BIO 20221131 <GO>}

Good. So I just want to get -- in the pricing between phase of the app and the branch and yourself, if you can comment on that, is there any material difference in the assumptions you make around persistency and risk?

A - Anton Gildenhuys {BIO 4058523 <GO>}

Currently, we assume the same level of persistency at the app and the branch. And the pricing is also similar.

Q - Musa Malwandla {BIO 20221131 <GO>}

And risk?

A - Anton Gildenhuys {BIO 4058523 <GO>}

That's a question -- well, that, as you know, the risk is appropriate given the method offered. The African retrenchment, no, that's more on the credit buy. Now the risk assumptions (fair) margin is similar to what we assume in (inaudible).

Q - Musa Malwandla {BIO 20221131 <GO>}

And in terms of what you assume for -- oh, okay. Sorry.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Heinie, do you want to do Namibia?

A - Heinie Carl Werth {BIO 7529974 <GO>}

On Namibia, we actually have very strong growth in the entry-level market and at very good margins. It's actually, Namibia is doing very well on the volume side and value of new business side. The higher income side sees some of the -- better than in South Africa. So more investment products, lowered margin. But not yet the volumes we hoped for. But then, we are still in Namibia by lots of claims. So the profits are still a bit under pressure due to claims.

A - Anton Gildenhuys {BIO 4058523 <GO>}

But it's more on the group life side.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Group life.

A - Anton Gildenhuys {BIO 4058523 <GO>}

And largely, the (inaudible) market.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Yes, not entry level. In the middle market on the group side. But overall, Namibia, very good start of the year.

Operator

Our next question from Behrin Naidoo of JPMorgan.

Q - Behrin Naidoo {BIO 19680509 <GO>}

Guys, sorry, can you hear me?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes, yes.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Yes.

Q - Behrin Naidoo {BIO 19680509 <GO>}

Sorry about that. Just one quick question from our side regarding the outflows mentioned at Sanlam Investments. Do you feel you've addressed some of the issues you are in? Could we actually expect some improved turnaround from flows here? I mean, you mentioned that there's been a bit better retail flow in the Glacier platform. Just from the institutional side, could you give us some color?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. It is institutional. I mean, retail flow started to -- weren't as good as it could have been 2017 and into -- it's improved a little bit in the first four months. The issues on the institutional side, we had a good first four months. And we haven't -- as many the inflows. You talk about the outflows. There's not a big issue with the outflows. Although I think, we get one...

A - Heinie Carl Werth {BIO 7529974 <GO>}

Some of the outflows are small as a result of share schemes that is being managed. And so this time in the year, financials have good inflows. The level of outflows related to share schemes do knock the volumes a little bit.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

We had a good look at the industry numbers. I'm sure you've seen them. I mean, they were really poor. So I mean, look at some other numbers as well. So we're not too worried about us -- us being stabbed. On the retail side, we're still doing very good relative. On the institutional side, it's lumpy. And we're hoping to do a bit better for the rest of the year.

Operator

(Operator Instructions) We have a follow-up from Michael of UBS.

Q - Michael Christelis {BIO 15233664 <GO>}

Guys, sorry, just one more from my side. Again, trying to reconcile some of the data you have provided. The like-for-like growth in your operating earnings, given how strong Santam's performance was, which by my guess is probably in the region of about a 4% impact on your numbers, I just find that 6% looks particularly low. You've got asset levels that have grown quite nicely. I mean, even in this morning, sort of unit trust data that I look at, you've got -- you've got quite strong growth there. I mean, I'm just -- I'm trying to understand what has been the key drag on the like-for-like operating earnings growth in the core sort of SPF business? You've got less new business trend, as you've mentioned. What am I missing? Is Sanlam Capital Markets falling off the cliff? Or where am I missing the sort of drag on earnings?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Nothing is falling off the cliff. But let's -- Wikus, have a go -- let's have a go here.

A - Wikus Olivier {BIO 20074722 <GO>}

So I think, Michael. So you report that here (inaudible). So as we take it into account that the 6% constant currency that we quote that already allows for the low base last year from India. So with actual rating in determining the 6%, we've added back that on a ZAR 110 million provision. And the Sanlam Sky actually experienced an increase in new business trend, not a decline.

Q - Michael Christelis {BIO 15233664 <GO>}

Even with the reduction in the group scheme stuff?

A - Wikus Olivier {BIO 20074722 <GO>}

Yes. So the group scheme doesn't really generate that much new business trend. So the strong growth they saw on the individual life side, that's actually driving the new business strength. And those 2 factors have quite a big impact on your calculations. Then expect -- and you should also take into account that BrightRock is in this 4-month period compared to last year. And...

Q - Michael Christelis {BIO 15233664 <GO>}

You've added in the 6% there?

A - Heinie Carl Werth {BIO 7529974 <GO>}

Yes. You've normalized the 6%, yes.

A - Wikus Olivier {BIO 20074722 <GO>}

So that's in the 6%. And then the other new initiatives like MiWay Life and Indie, of course, that is also (inaudible).

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

And maybe the -- just a comment on the investment market in Glacier. On the Glacier side, they do have products where we essentially share in the absolute investment return on those portfolios during the period. And the markets in absolute terms have been down this year compared to an increase last year. Sadly, they're an impact on the market-related income as well.

Q - Michael Christelis {BIO 15233664 <GO>}

All right. And sorry, Heinie, can I ask you just to repeat what you said about the targeted dividend growth? I don't think I've ever heard you refer to a target dividend growth before?

A - Heinie Carl Werth {BIO 7529974 <GO>}

Yes. No. In this sort of case of the life based on -- but there's a specific page we brought in, Michael, now during the last results. And they will basically explain how we look at capital and basically showing that we pay dividends out of our cash operating earnings. In that, we also included the guidance that our aim is guiding dividends with 2% to 4% real.

Q - Michael Christelis {BIO 15233664 <GO>}

This is real, 2% to 4%? Sorry, I just wanted to clarify that. Okay.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

You can also have a look at the integrated report as well. We also explained our whole philosophy there.

Operator

Our next question is from Conrad Scheurkogel of Artha Capital.

Q - Conrad Scheurkogel {BIO 16941797 <GO>}

I think I can't remember when it was -- Heinie mentioned the first impairment exercise was highly successful. Can you just qualify that comment why you regard that as successful?

A - Heinie Carl Werth {BIO 7529974 <GO>}

Well in terms of -- when we did the issue, I think Sanlam share price 2003, '04 was ZAR 6.75. Empowerment was really needed in the South African market. And if you look both Sanlam and UBI as shareholding Sanlam, the last 10, 12 years of Sanlam was really a period of very, very solid growth. And -- which obviously means that this company directly and indirectly benefited from the right to BEE credentials and UBI and the broad-based empowerment base. There was literally many, many millionaires created in the process. So you have other schemes, I'd rather say, where returns are very successful, where schemes are to be refinanced and all of that. In our case, the (inaudible) -- as you look for UBI (inaudible) as we sit here today, they own (13,8%) directly of Sanlam. Yes. They did put in ZAR 200 million own money into 2004, '03. But I mean, if you take that risk today with ZAR 17 million, ZAR 18 million. So from that perspective, that's what we mean. It was a very successful one. But in the South African context, you have to ask yourself whether 14%, 13,8% direct black ownership is enough or whether we, as a company, can do more.

Q - Conrad Scheurkogel {BIO 16941797 <GO>}

Okay. That's helpful. I thought -- I -- my guess was that you were going to say it's on the back of share price performance. So the new impairment scheme, again, correct me if I heard you wrong, obviously, we trust that share price performance will be equally strong for the participant. But did I hear you correctly when you say that you trust that you should also see increase of volumes on back of the new empowerment scheme?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Absolutely.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Yes. That is -- let's call it the reason why we do it is to show that you want to be relevant in the South African context. And if your clients, especially institutional, semi-government or government pension funds, we'd like to see it that we'd be relevant for the country. They should be, I must say, more supportive of Sanlam. I think it's also a case if you don't do more, will you be able to retain or will you even lose business? So it's...

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

That is relative guide.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Relative guide...

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Not just an absolute, yes, yes. So you've got to watch what's going on around you and in terms of our desire to lead in financial services, a big planet here in South Africa. So it's relative, not just an absolute (guide). And let's stay on the front of (inaudible).

Q - Conrad Scheurkogel {BIO 16941797 <GO>}

Okay. So you're saying the further empowerment credentials will essentially, you will tick a box. And because of that, you would adhere to requirements. And therefore, further volume growth. It's not as if your new partner will be directly operationally involved to help volume growth.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

No. I think the partner who is operationally involved is the current partner. So we have that. Obviously, we continue to discuss with them on how we can help, what other things we can do. Yes. So that's really who we look to for that.

Q - Conrad Scheurkogel {BIO 16941797 <GO>}

Okay. Then here's a question I have. In terms of Safrican, you mentioned it seems a bit lumpier than I expect it to be. Do you think we can see this similar type of lumpiness in a positive way? Do you have a sense that that's going to look better in the final eight months of the year? What -- how do you read the environment?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. We're tracing down a few deals. They had a good year last year, particularly in this first 6-month period. But it is lumpy. They're still saying to us here that they're confident in their projections for the year. But yes, to some extent, they've got to go right to that business.

Q - Conrad Scheurkogel {BIO 16941797 <GO>}

Okay. But you don't have the visibility yet that we may see some...

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

No, no, no. I think what -- the comment that -- if you talk about visibility in the period, short period we've got, the one thing that I'm -- I've got a bit more confidence is the group -- the employee benefits. Because there, we were very quiet in the first four months. And -- but we've seen their pipeline. That's looking a lot more encouraging.

Operator

(Operator Instructions) Sir, it seems we have no further questions from the lines. Would you like to make any closing comments?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. I'd just like to thank you for participating in the call and for your continued interest and your support to Sanlam. We look forward to speaking with you again at the announcement of the interim results. And that will be in September. And obviously, we're planning then for our investor conference in the month of October. We will -- again, we'll give you more flavor and input into the access to the Class 3 executive teams. Thank you.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.