

S1 2013 Earnings Call

Company Participants

- Johan van Zyl, Group Chief Executive Director
- Kobus Moller, Financial Director
- Michael Brown, Analyst

Other Participants

- Francois du Toit, Analyst
- Larissa van Deventer, Analyst
- Michael Christelis, Analyst
- Unidentified Participant

Presentation

Michael Brown {BIO 17407273 <GO>}

Ladies and gentlemen, good morning. I'm Mike Brown from the Investment Analyst Society and we're being hosted today by Sanlam Limited. We'd like to get going now because this presentation is, I think, live on DStv and Bloomberg around the world and we've got a webcast since only -- probably on Facebook as we speak. So we will get the presentation going now, but obviously you can eat while the presentation is going on.

This is the presentation for the interim results of Sanlam Group for period ended 30th of June. There are just two things I want to say about Sanlam, one is that that 10 years ago, they started a new corporate strategy where they repositioned the Group and its products and where they operated in the world. This has been going on now for 10 years. I think there has been great success, delivering its strategy, but you'll hear more about this today.

The other thing I'd like to mention is just that they have got an exemplary record in reporting to stakeholders, including functions such as this where they talk to investment analysts and to stakeholders around the world about their results. So on behalf of the society and anybody else who are in today, I just like to thank Sanlam for hosting us. Those of us that are here in person could eat some food and drink and all those which is fantastic, so I can now hand over to the Group Chief Executive, Johan van Zyl, who'll do the presentation. Thank you, Johan.

Johan van Zyl {BIO 4080290 <GO>}

Thank you very much, Mike. Good morning, ladies and gentlemen. This really a pleasure to have you here at our Interim Results 2013 Announcement. I would like to mention a few

people here in person that's attending. Our Chairman, Desmond Smith is here, Flip Rademeyer, a new member to our Board; Paul Bradshaw from the UK joining us. We have a senior member of one of our Subsidiary Boards, Tom Wixley being here. We have some of our Exco people, Ian Kirk; (inaudible) and then we also have Kobus Moller, our Financial Director and our Chief Actuary, Andre Zeeman, here and the latter two will also help with the presentation and with some of the questions.

Let me start with what we are about to do today. I'm going to introduce the operating environment and talk a little bit about that strategy that we've had for the past ten years and that we're continuing with into the future. Kobus Moller then will take you through the financial review, explain the numbers and how they stack up and I will end off with the outlook, a few priorities that we will be focusing on and so forth and then we'll have some questions where Andre Zeeman, our Chief Actuary, will join us here in front.

Starting off with the operating environment, I think, the key is that the strategy that we're following of diversification has been doing fairly well to withstand the headwind. And I must say, the operating environment that we're dealing with is not an easy one. The conditions are challenging. We see the best amount for resources, in particular, at the broader economic level. We see volatility emanating from the quantitative easing, uncertainty and how that will turn out into the future, probably disappear in the near future.

We see still a relatively low interest rate environment, although we've seen some spikes in the past six months. We see a short-term insurance cycle that is quite tough to handle on the back of the deteriorating currency. In terms of the South African economy, I have a few slides, but I think it's a biggest business still being here. I think it's pertinent that we focus on some of the growth issues that we struggled with and then also interest rates, equity markets and currencies as they affect us hugely, and then a few remarks on the African economies in Africa and so forth and India, in particular, since that is a new area that we play in.

If you look at the South African economy and how we see it, it is certainly not growth now and into the immediate future that would excite anybody. It is a tough market. We know about many of the problems in terms of employment and other issues that we face, but the year-on-year growth is simply not where it is. And as a business, you simply cannot over the longer term outgrow the economy. You have to follow the terms of your strategy and what you do here and where you look for growth maybe elsewhere if that is not forthcoming here.

In terms of the interest rate environment, of course, very important. We do matching of assets and liabilities and things like that and the big part of your base is derived of the assets that you manage. We have to really look at the short-term rates that we're fairly consistent. Last six months to the previous six months, but we've seen a marked increase towards the latter period, the last few months in the longer term rates, particularly, the rates as they affect us, then the nine-year bond yield, which is the key part of our big in-force book.

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And of course, that gets us to deal with a higher discount rate, which means the value of in-force is impacted negatively, our value of new business is impacted negatively. However, if you look at that period, that rate is at a very similar level than the period in last year. So for comparative basis, I think it's fairly safe to say that we work with the sort of the same base although rate of it has gone up quite a bit since December. And I think that's what we really have to look at.

If you look at the equity market and the bond market, you can see the equity market, it's tough; we didn't get the performance for the six months, but the key thing for us is on a relative basis, the level of the market is simply substantially higher than the level of the market last year during the first six months. And since we derived a lot of our income of the asset base that we have and that level, the asset base being higher, we've done pretty well of that. I think that is a key part. You see from the bond market the performance not being that great with the bond performance coming off.

So overall, I think higher levels, asset bases, certainly on a relative basis, working well for us. On the exchange rate front, we know that the rand is weakened quite a bit and since we have been driving a lot of our growth offshore that has benefited us tremendously. You see compared to the businesses that we do and we run in the UK, rand is deteriorated by 13% over the period in the unit against the dollar 16% against the pula about 5% and for the period against the Indian rupee by about 10%. Of course, since the end of June, rupee came under tremendous pressure and it deteriorated quite a bit, but overall, you can see the rand we -- you can virtually in the period against every single currency of the different bases where we operate. So a tough environment going forward.

A few words on what is happening in the rest of Africa. Botswana, which is a big country for us, despite being small, we had a fairly mature business over there, very high penetration, with consumer remains under pressure. It's evident in our new business sales and so forth and a big part of what happened there is in economy, overly dependent simply on one commodity diamonds, that hasn't performed -- diamonds have not performed that well. It means that the whole economy is under pressure and that turned out to relatively low increases in salaries to civil servants, in particular, where we have a very high client base in there and so we are under pressure there. The rest of Africa, we see a lowering demand for resources, but growth sort of starting to pick up.

In India, in particular, where we now have a big investment in insurance [ph], we see lower economic growth. It is still in the order of 5% or so numbers that we can only dream of over here, but also increasing the regulatory changes, not only in the area of insurance, but also in the area of banking and credit that will impact on us and I think something that we've seen particularly over the last months tremendous currency volatility with a lot of effort going into state trying to stabilize the currency and so forth, but with all of that we now back at levels against the rand where we were two years ago. So maybe a lot of volatility in the last few months, but over the past two years not too bad.

So the real issue is in all the areas that we deal with volatility, uncertainty and not really easy, but some definite opportunities, if we really look at what is happening there. So with that in mind, let's look at what our strategy is, it remains unchanged, the focus, we've just

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had a board breakaway for two days and reaffirmed the basic premise, of course, we did adjust a whole lot of the smaller plans and so forth, but still driving shareholder returns.

Two major things that we're driving, the one is capital, the other one is the growth story and with most of the people in the business really focusing on getting growth, operational efficiency, cost savings, these kinds of things through the business and a lot of focus increasingly on using the capital, driving surplus capital out, driving lazy capital out and utilizing it. We've paid a special dividend in the past six months and we've invested quite a bit of the capital in new strategic opportunities and investments. And that remains intact, driving those two forces.

If we really look at what we would like to do, first story still about 80% South African-based business. So it's really about getting efficiencies going maximize these returns in existing businesses and a lot of it is not only growth, but also a lot of focus on cost and capital efficiency. And then using the South African base, which is fairly mature, providing a lot of cash generation from that base, using the cash and the surplus in the process to pay dividends and use the excess cash to go into Africa, India, Southeast Asia, the new growth markets. So use the South African base to create a platform for future growth in particularly these countries that I'm speaking of.

And the trick that is everything together is a relentless focus on effective capital management and using capital efficiently. Within this environment and strategy, I think we've done remarkably well. Our earnings per share, the operating profit per share increased by 23%. You'll see later. About 16% of that -- 16% of the 23 came from simply doing things better and growing our businesses and so forth. And the rest to get it up to 23 came through acquisitions and acquisitive growth. Kobus will talk a lot about that.

The normalized headline earnings per share level up 35% on the previous period, we had a few ones-off that impacted positively on us, but overall, I think a very, very credible and good results. And it's illustrated really well, I think, through what is happening on the business volume side. Our new business volumes increased by 37% over I think already a good period that we've had last year.

It is now 83 billion. The net fund is close of 13 billion. We've had a few losses of some bigger funds, but by and large, we are a mature business, we pay a lot of pensions and so. So we not only to get money in, we pay it up. In spite of that, we were able to retain quite a substantial amount. Our net life value of new business went up 20%. That is substantial for us. Remember, the rates, the long rates going up, so this impacted negatively on that number. The net VNB margin very much in line with the previous year.

So overall, I think quite a credible result on the growth. And then on the value side, we have Group equity value of ZAR37 or \$0.47 per share, as of 30th of June, which gives us an annualized return on group embedded value per share of 14.3%. Of course, it's lower in the period, but if you analyze it, it comes, and that is substantially higher than the hurdle that we have to perform at. If we look at the operational efficiencies, you can see the growth value of new grid business growing substantially over the period.

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The last 10 years or so we were able to grow it at about 20%, 22% per annum. On a compound rate, you can increasingly see the South African business that many people thought to be matured in particularly well. So focus on efficiency, driving at the lower end of the market, emerging market business particularly doing well, and then increasingly the African businesses coming to the floor here.

So overall, I think a very, very good picture in terms of profitable growth at margins. Persistency, a key thing. If you keep on growing quickly, you generally expect to lose a lot of the business. We're really focusing on quality and you can see in terms of the persistency in spike I think of a lot of our clients being under pressure because of credit and we would see particularly in the retail sector, a lot of our retailers being under pressure because of clients experiencing pressure due to credit exposure and things like that. We've been able to see a clear -- of a big part of that by simply increasing or decreasing the number of lapses, surrenders and fully paid-ups.

And as we know, the regulatory environment actually make it much easier to lapse. And the costs of getting, for instance, section 14 transfers out of your pension fund and so forth as the costs have diminished quite substantially, making it easier for people to move their money. In spite of that, I think we're still improving on the quality of our book. And we feel pretty proud of it. This is in the middle market. If we look at the lower end of the market, where it's absolutely critical, we're now at that level where we would like to be aiming for about 20% of the book lapsing are Oeing surrendered, which is substantially better than the market as a whole where the number is just north of 30%.

So we're doing fairly well there and driving the efficiency and the focus on quality. If we look at a key area, that has become a mainstay of our results over the past number of years, positive experience variances that we've had and you could see this has been a feature, certainly since the mutualization with higher numbers over the past few years due to the practice of strengthening, those areas of weakness, because we assume that is going to recur every year. And if we outperform, we assume that it's a ones-off mainly and because of the ones-off also arising in many of different areas.

You can see that positive number, which I think a very high number for the six months, already for the just the first six months of the year, the number of just south of 500 million, which is again very, very much in line with what people would come to expect of Sanlam. The number again probably being a bit higher than we expected ourselves.

On the diversification of the business, you can see the earnings base being substantially diversified now. 10 years ago we had about 80% in life business. Now we have about half of our business there with the short-term insurance, investment management, credit banking, admin health, providing the other half. And if we look at the net operating profit, the life business being a key part of what we're doing because of the higher margins particularly that we get in Africa and so forth.

A big part of the diversification is not only on the product and income side on the -- but also in terms of the regions where we play. We do about 80% of our profit in South Africa, the rest increasingly up into Africa and India, most of the countries where they speak

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English, where we think we have a contribution to make, outside of South Africa, our focus is on the lower end of the market where we do not necessarily compete on capital with some of the big players from Europe, the US and Asia and this is an area where we believe we can add some value. And certainly in the shorter term last three, four years of the growth that we've experienced, that looks to be the case.

And the developed markets, you would see us playing in the UK and Australia and so. It's essentially at the higher end, providing our clients with seamless opportunities to move the money offshore, that portion that they're allowed to invest offshore and particularly in the last few months with the rand weakness, we've seen the big demand for people trying to use that facility.

If we look at the contribution to net operating profit from the growth markets and so forth, a few years ago, we started with the South African business. We -- first half of 2012, we had about 25% of our money coming from the new growth segments. Now we have about two-thirds of our money coming from the traditional South African base, and about a third from the new growth market. And increasingly, this will be the case as the new investments that we're making coming on board and starting to deliver.

In the last few months, particularly, India and the investment in insurance, that we made towards the end of last year, but brought into the numbers from the first half of January this year is making a big impact. And if you look at the value of new business, that effect is even stronger. You can see that the new growth markets playing a bigger role and with the margins being substantially higher and so forth.

On the capital efficiency, allow me to say a few words there. We follow a fairly prudent approach. Certainly, we would through diversification and all sorts of things would probably be able to run our capital at deliver base. At present we run at a multiple of the capital adequacy ratio that we're required to have. So probably we can have a little less capital, but we think it's prudent to await the final sem and the South African equivalent of Solvency 2, the sem specifications, we don't want to look stupid to release some capital only to find out that we have strength in certain areas. We've gone through the quizzes and so forth. It seems to us our capital is adequate at this moment in time. And we're not going to do too much until we have certainty around those issues.

We did invest ZAR2 billion in the first half of this year in growth markets, in particularly, in India also in Malaysia, a little bit in Africa and so forth and we have about 3.2 billion left of surplus or discretionary capital and that is mainly earmarked for additional investment into Africa. Firstly, really growing our businesses that we already have, some bolt-on acquisitions and so forth bottling them up. We want to spend some more money in India, the regulatory change has come and we are allowed to more than 26% of life insurance and the general insurance businesses, we'd like to make that investment.

So we hold some capital for that and then for Southeast Asia, still looking at Indonesia, Malaysia and some other opportunities within those countries to really bolster and bulk up what we already have over there. Just in terms of the numbers for the capital efficiency, we started the year with 4.2 billion. We made about ZAR1.1 billion of investments. We

released another ZAR500 million, ZAR600 million of capital. We had investment return of about 600 million. We paid a special dividend of around 1 billion and that leaves us to about 3.2 billion as I've said the bulk of that will be used for Africa, India, Southeast Asia and so forth going forward.

I think with that, I would like to call Kobus Moller to the podium to just take us through the financials. Kobus?

Kobus Moller {BIO 7480143 <GO>}

Good morning, ladies and gentlemen. It's a pleasure to share with you some of the main features of our results for the six months period of June. As in the past, just a few quick words about changes in government policies and presentation, I think we -- during the six months, we've seen some quite a few changes in the IFRS environment. I think the one that impacted and injured the most on Sanlam is the IFRS 10 adjustment that broadened the definition of what you should include in your consolidated IFRS accounts. So if you look at the technical account, you'll see quite a jump in the assets and liabilities of Sanlam. We've had to consolidate quite a number of investment funds. On a net basis that had no impact on the shareholders and the shareholder funds balance sheet that we present.

Big change is the way that is the STC (inaudible) withholding tax and you will see in our income statement that there is quite additional increase in the headline earnings per share drop of that. It's about ZAR229 million and we still had an existing charge in last year's numbers. And then there was also technical change in the way we present on non-life operations with the valuation of the non-life operations in the past. We've included those -- the unlisted non-life operations at the fair value, plus the year-to-date profit with expected dividend to be consistent with our life operations, we now include those businesses only at fair value and we expect the dividend to be part of our corporate cash.

So it doesn't have an impact on the overall valuation of the overall returns, but it will have an impact on the individual lines if you look at the valuations. And then you want to refer to the changes in the right since December there was a 1% increase in the 9-year yield that we used for our Sanlam life business and the result we've also increased the risk discount rate therefore by 100 basis points, we've got a negative effect on valuations and the return on group equity value.

And just again the highlights, I think good enough show it to you again. Group equity value of ZAR37, ZAR47 [ph], it is only up by \$0.40 on December, but you'll recall that we actually paid a dividend plus the special dividend, in total of ZAR2.50 in between. So it means that we achieved an annualized return of 14.3% for the six months then compared to a target of 10.8 for the full year and on an adjusted basis 15.1%.

The core cover [ph] remains at a very high level at almost four times for Sanlam life. Operating profit up by 24% and our headline earnings up 36% with some good growth in volumes and also in our new life business with margins more or less the same as last year.

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Let's get into the individual businesses and starting with Sanlam personal finance and a very good six months period for Sanlam -- for SPF overall. And you'll see that all the segments in that business, the entry level, middle-income, affluent markets, all have very good business flows. The entry level market in particular good flows in the group business side and our agency flows not so good on the broker side. We are seeing some structural changes that taking place there.

Middle-income market, good growth in single premiums in particular, similar within the affluent market. We've got about a 40% growth in investment business on to the Glacier platform, a very good growth in that area and that's also reflected in the net flows that we've achieved for the six months and since almost doubled what we've achieved for the previous six months period.

In terms of value affluent business, a 15%. This is the one area where we're seeing the impact of the higher risk discount rate in particular in the entry level market based on the new discount rate, or the increased rate, there was a slight reduction in the value of the business, it's actually quite a positive growth if you do it on a similar or a comparable business rate.

Good growth in the middle income market, reflecting the growth in the underlying life business and similar in affluent market. You can see the average rates more or less the same as last year's flow, the margin.

In terms of the profit contribution, again, very good growth overall in SPF. Three factors that contribute to that, the higher asset base, obviously, where we earn fees on the assets under management that had a big impact on the profitability, but also we had some good experience for the period. And I must say a very good cost management across the SPF structure, where we're seeing very small increases in costs over the period, which contributed to the profit.

But overall, I mean, all segments in the market entry level, middle income market, last year good growth. In the personal loans group, the profitability of it looks to be still holding up which means an 18% in the profit that we made from our unsecured loans book. In terms of the equity value, 66.8% return for the six month period for SPF.

In the emerging markets, overall, we have seen a reduction in new business volumes of about 8%. The big reason for that is actually lower single premiums. We had some chunky inflows in particular on the asset management side in Libya and Botswana in 2012 that didn't happen this year and similar in rest of Africa and Kenya in particular, we had some good annuity flows in 2012 that also didn't repeat in the six-month period. So if you then look at the recurring premiums, which is the more profitable side of the business, we had growth in excess of 20% in all those markets, and particularly in the rest of Africa, you've seen some very strong growth in the recurring premiums. And so we're not that concerned about the fall in the single premiums. We believe that there is all chunky parts of business and then it will come back again. Net fund flows also reflect the low single premium business. Overall, you can see the value of new business increasing by 26% and

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that really reflects the higher and recurring premium investments that we've written across all the stakeholder areas in emerging markets.

In terms of profitability, gross operating profit up 83%, more than double on a net operating basis to ZAR391 million, again, good stable growth from Namibia and Botswana and the rest of Africa doubling the contribution, strong growth in Kenya and in Ghana and then obviously the one area that, maybe, for the first time and included the profit from our initial investments in India.

And also the small part of our Malaysian investment and resulting in a substantial jump in the Indian/Malaysian contribution, that's in the 391 million, it's about ZAR160 million that as the result of the acquisition of the operations additional investments in India and also Malaysia, excluding that still about 26% growth in profit, which is still a very good performance across the board and the group equity value reflects the growth in the underlying investments, you can see the 22% growth or return nearly for the six-month period.

Net investments flows in our investment business, very good net flows in wealth management or investment services businesses, also our international businesses. Asset management, Johan referred to the fact that we had one or two outflows, plants restructuring the owned portfolios, which impact upon the asset management business, but overall, still a big increase in net flows in our investment business. Similar in our life business both in South Africa and also in the UK. It's some really good growth in new life business flows and that's also reflected in the value of business. We had a 50% increase in the value of investments of our group life business.

In terms of profitability on the investment cluster, investment management and the growth there rejecting the growth in the underlying asset 22% [ph] growth. The employee benefits had a good year. Last year, there were some one or two one-off items, extraordinary items in the results that impact on the comparable number, so the 174 million -- good result. Capital management 15% reduction that is the one area that we, I think it's well known that we had exposure to the (inaudible) on our books in capital management actually provided for that exposure. So this 62 million is actually net off that provision. Fortunately we had some recovery of previously impaired investments, I'd say some of that. This is about a ZAR62 million negative in the capital management number as a result of, a net result of that exposure.

So overall, still a good set of results in investment cluster, 11% increase in profit. And then also 9.2% return over six months in terms of return on Group equity value. You have seen the Santam results. I think again explained that already in the results presentation. I think, the big reason for the drop in (inaudible) prospect is what happened on the client side and underwriting margin went from 6.1% for the six months in 2012 of the 1.3% with a substantial portion of that attributable to capacity events in the agricultural claims that they had, but also the effect of the depreciating rand on replacement thoughts and some of its claims. That's a 30% drop that had a major impact on our (inaudible) results.

And the return on Group equity value only about 3%. That's mainly deflecting the movement in the Santam share price over that, over six month period.

So in summary, looking at the vessels flows, increase of 34% with good growth in all our business, if you exclude the impact of single premium business in the emerging markets, we have as such the recurring premiums in excess of 20% gross. We really happy with the performance in all the businesses and the growth for the six months period and very strong net flows also in all our businesses.

(inaudible) business up 20%, but on a gross basis and also net of minority interest. Again, good growth in all our businesses, but some -- in particular from relatively low base, but also doing very well in terms of value for the large business day [ph]. And the margin staying that's what signal is, at the same level as last year. The one emerging markets increase is really in the result of an increase in the business as we're right in the middle here, we continuously will -- increasingly right business that lower end of the market where the margins also higher than before.

Net operating profit, overall up 24% actually that increases in all our businesses expect for Santam. And if we exclude the acquired profit or the structural growth ZAR160 million from the overall profit, the increase is still 16% which is still a good performance and of that 2.4 billion, about 1.6 billion is, at a two-thirds is our life business and increase in our life business about 27% year-on-year and for the remainder of our business, we have further about 18% increase and that's really lower increase during the result of Santam not performing well for the period we had. Overall income statements, net normalized headline earnings up by 36%, obviously assisted by the net operating profit growth of 24%, but also net investment returns up 29% of it. We have some one or two extraordinary items in there with the listing of (inaudible) we had exposure to that and increased the price (inaudible) that's included in our investment portfolio.

The effect of HPC, but we don't have any chart for that currently, also had contributed to the (inaudible) but overall score a very satisfactory performance. The IFRS headline earnings by 44% on last year.

Turning to group equity value, as I said overall the ZAR76 billion group equity value of 0.37 a share, that represents growth of about ZAR5.5 billion on last year or 7.3% set against the target of 5.3% all our businesses contributed to that growth because the emerging markets pretty strong growth in the Santam reflecting the share price growth of between December and June.

But the components or the buildup of that growth in equity value, starting with our life businesses net value of new business of ZAR587 million. We had positive operating experience of 471 million for the six months, Johan also showed you essentially risk and persistency experience being very positive across all our businesses not only in SPF, and then we had fairly substantial operating assumption change net of ZAR289 million. That's a net effect of some positive assumption adjustments on risk in particular our age expectations and offset by some model changes and stating some of our other reserves on a net almost ZAR290 million positive operating assumption change.

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We had some positive investment variance. And then the impact of the higher rates -- higher risk discount rate and higher investment rate minus ZAR900 million negative impact that leaves us with about a ZAR3 billion EV earnings on earnings on the life businesses and ZAR2.5 billion on the non-life businesses. And in the right hand column if we take out the impact of the market and impact of the higher rates on an dusted basis the return is fairly similar overall about ZAR5.8 billion. So in summary, I think on fact delivering in our strategy virtually do provide shareholder value. We again our return on group equity and the equity value well exceeded. Our hurdle set, we continue to see profitable growth, in particular pleasingly still strong growth in the rest of our African business. Value of new business up by 20% and our net operating profit still doing very well, notwithstanding the difficulty that Santam had in this period.

In terms of expectation, that's still contributing to the growth as we see increasing contribution from our new investments in our new markets. And capital management we've made some investments recently that actually yielded quite large returns. If you look at the, this is the first line contribution from Shriram and Malaysia of ZAR160 million that represents an earnings yield of more than 10% on a annualized basis. And then we, last time we invested, there has been, as Johan have also indicated the number of other initiatives for buying our surplus capital.

Last slide that I have is just to remind that we're still well on track to outperform our internal hurdle rate. On a cumulative basis, the top line we're showing our -- that we achieve well above the (inaudible) our own hurdle rate that we sit and we're in the cumulative periods since we first start the company.

With that, I will hand you back to Johan for the rest of the discussion.

Johan van Zyl {BIO 4080290 <GO>}

Thank you, Kobus. As you can see, ladies and gentlemen, I think very creditable set of results. Looking quickly at the priorities for the remainder of the year, now somebody told me this morning we have 113 days or so left to the end. So we better start going on them. In the personal finance space, that is our business focusing on individuals within South Africa, the big focus there will be on sales growth and to maintain margins at the same discount rate.

And in order to get that and the growth going big, I think focus on growing the number of advisors, we see, particularly the brokers moving up in the market with more regulations and difficulties that they perceive as independents. Well, they have independence to right business and making ends meet. And we see some space definitely opening up for growing advisors type agents and so forth. For Sanlam in particular, we have a big focus on product innovation, particularly in the recurring premium space. The last two, three years we've been struggling and we've been implementing new systems, those things are in now and we can come with our old slew of new products, some have had been launched, you would have seen the press likely that some of them received a lot of attention, some positive some negative focusing on cost. So we believe that we're going to make a big difference to the new products that we're launching there.

And then in particular in the lower end of the market Sanlam Sky, our broker channel perform is an issue that we struggle with, to counter that by growing advisor firstly, but also to fixing what is happening there and to making up for some of the issues that we're experiencing.

So sales growth, a big focus on the other hand, it can't be about growth only, it is always about the quality of what we get. You can often do better with less. So the focus on persistency remaining and even in these tough times possibly increasing.

We don't want to slip or let slip and you can see from the positive experience variances, we're doing much better than what we anticipated when we start operating the business, we would like to maintain a lot of that. We would like to continue the improvement on the operational efficiencies, particularly in parts of the business. Our biggest middle market book still diminishing in terms of policy count.

That means that we have to focus on how we do things better and so forth.

If we can't grow that, simply the absolute numbers and money grows, but the policies come down. So we are under cost pressure there and therefore the management of costs being a key focus area. Kobus mentioned that for the past year or so we've done particularly well. I think the whole SPF on the cost base, our cost base only increased by 2% while inflation was closer to six. And we have the duration in the brand that impacted some of the licenses we use and so forth. In spite of that only 2% decrease. It's maintenance of that and even doing better than that. Transformation is a key part in this part of the business.

Focusing on, as our client base change, we want to reflect a big part of that within the business. And then lastly, we see a lot of regulatory change. I will talk about that and refer to that at the end again, but we have to meet our obligations particularly about treating customers fairly. We're working on the solvency issues, working on the cost base retirement reform, there's a whole lot of issues around agent's commission and so forth. And getting the flexibility in there and anticipating a lot of that takes a lot of time.

So that will be the focus there. On the emerging market space into Africa and India and Southeast Asia, the focus is to remain on those areas. We've not too keen to add too many areas. The real focus is to bulk up the current operations to make them more efficient, to make them -- to increase the covenants, to make them better. In Botswana, the biggest country that we have, is to review the cost models and efficiencies given the low growth that we experienced over the last year or so. In India, it's unlocking the Shriram Capital synergies; now that we have those businesses on the books, we wanted them to be able to unlock synergies, now we have to bring that to the table.

In Namibia, it's to expand the revenue base, so we'll be trying to look the general insurance, the short-term insurance at Santam -- of Sanlam and Bank Windhoek, the investment that we have in that business to really look through that business is to see how we can leverage revenue base by working better together.

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And throughout the businesses there, we have IT upgrades in Botswana, in Namibia, in Kenya. It is really to get those things better done and to provide the support from South Africa to be able to do that. In Africa, India, and Malaysia a number of bolt-on transactions that we're actually looking to deepen the existing partnerships that we have. Doing more in India for and in Kenya, for instance, we need to add short-term insurance to our portfolio of businesses having sold our business a few years ago. Increasingly looking for opportunities in Nigeria mainly in life insurance, we have to extend, the plan was to go into short-term insurance as well, we're looking at those things. And overall, there is a lot of movement.

In Malaysia, we have a short-term insurance. There it's about adding life businesses and so forth. So across the board looking at the opportunities we already have management teams in place, where we have partners in place really strengthening those relationships and doing more. In Malaysia in particular, Pacific & Orient acquisition has come on board, I think the first of April, the first of May.

It is now getting that down, getting to work with a new partner and to understand the business before we embark on accelerating the growth there. So, organizational capacity is key in that business finding people from South Africa who would like to work in foreign destinations, foreign more than one way, working in Nigeria and Ghana, Kenya, India, Malaysia quite different from being based in southern suburbs of Cape Town and I think people to go there is often a challenge. But with a few threads here and there, we get it done. And then lastly, many of the countries we operated in, we work with businesses that are not as mature as our own. We work with regulatory regimes that are not as mature as our own. So a key part of it is to really get the covenants, the compliance, the reporting up to our standards.

And I know some of our partners in Africa and India and Malaysia they want to fend if they see us coming, asking for more information, asking for more information earlier, you know on the compliance side, on the governance side. But trying to up the level of governance to what we're accustomed to. You would have seen from the World Competitiveness Report in these areas, we have very high standards in South Africa, we are amongst the best countries in the world.

Our partners don't always appreciate that being in the third world and being in the emerging markets, but it's something that we having as objective as a South African business that we would like to do. In Sanlam Investment side, clearly a key for us is the maintenance of credible investment performance.

We haven't spoken about that in fact, in the presentation. I can just say in the last year, 98% of the funds that we managed within our asset management business has outperformed their benchmark. So I think it's a very, very credible on the South African equity side, 98% of our investments have outperformed benchmarks. So it's a very credible performance. But of course, the key is not to do it in one period, it's to do it consistently so that over time you can add value.

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I must say, we're very comfortable with what is happening there on the investment performance side. We have definite bias towards value, we know that value investments have underperformed for a short period in time. But value seems to making a comeback and it's quite evident from the results over the past two months that we're doing pretty well there.

A second big focus area is the institutional fund flow. So I think on the retail side, of the back of the very strong Sanlam distribution, we've been able to increase the funds into some and our asset manager, in particular, but also into the multi-major quite substantially. But we haven't seen the institutional flows are really coming. So they have a focus on that to work around that. In spite of the retail doing well, I think we can still do better, we see some of our peers getting a lot of money, but our distribution we think is superior.

And we have to translate it. It's not only good enough to get the stuff on our platforms. We have to go for the extra mile in that value chain to also get it into our asset management business. And I think this where our brand and the focus that we do on brand also work on Sanlam as an investment brand type concept is going to be critical. That is an area where (inaudible) who is here, who will be driving. So we will be looking at that as well. Our African fund proposition were we have African equity fund that has been performing extremely well, outperforming benchmark over a three year period, now that we have a track record. But by at least 4.5% still being small doing well. But in the period we also launched our African property fund out of Mauritius, Mark Murning who is from Sanlam Capital Markets, who is the ultimate responsibility for that and looks after that business is here. I think that, we have high hopes for that.

We also think we can do particularly well in the debt space. We already run a number of debt businesses also into Africa. And if we can get our ducks in a row, we can offer that also over and above the equity, the property and the stuff that we already have.

So I think there will be a big focus for us. And that of course will build on our exposure into Africa. We have more feet in the ground probably than most people who run these funds either from London or Dubai or from South Africa with very little feet on the ground in Africa.

I think that's a particular proposition that we can add to. The distribution network is key. We'll work in the investment path a lot on client simplicity, falling of course treating the customer fairly regime that we have. But with our new focus on, you know how to in the product-based business be much more friendly towards your client. And then lastly the same thing that we've seen in all the businesses around cost efficiency being the main driver and collaboration between the businesses not competition is really the key there.

Lastly, talking a little bit about Santam. Now, again this announced their results last week and we explained it in much more detail. For those of you who missed it, it's really the issue of delivering on diversified growth, the diversification that we see in the market, setting up their own reinsurance, expertise, getting their specialist businesses to work in the way they should.

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And then explore investment opportunities in conjunction with Sanlam into the markets where we already operate short-term businesses to make sure that they get their rightful share of what the value that is being created. And I think a big part of this in South Africa is to grow my way. I think it's been a brilliant story, relatively short period of time, creating a credible business that is doing well. I think Rene and the team should be congratulated and how from a standing start five years ago when we launched this business was right in the midst of the credit crunch. And despite of that we've done pretty well in growing our credible business. Rene told me in the -- before year-end, we will have more than 200,000 clients on the books.

I think the second focus area is the size and quality of the risk pool to make sure that the premium rate increases following the claims cost that we've seen in the motor books based on the back of the weak rand. And so, is putting into place, but again trying not to do it just across the board. But by awarding our better clients and really not treat everybody in exactly the same way.

Really looking at systemic risks, things like climate change are here to stay. We see that, if we build under the flood line, you will get washed away. And these are the kinds of things, try not to insure those things, or where we do it come with proper rate.

And then the whole efficiency story again in Santam as well, costs, costs, costs, you see that throughout the system and increasingly to do the right thing, underwrite properly. I think, gone are the days when bad risks can piggyback on good risks because you're simply part of a risk pool. Increasingly it will be about individual risks and how it is, and we have to reflect that in our underwriting system. And a lot of the work is now being done and we're working on getting that into place within Santam.

That is what we have to do in the businesses. The last slide on the outlook and what needs to be achieved, we don't think the good run that we've had in the, as in the markets in the second half of last year will repeat and that will impact negatively on the growth performance metrics simply. Last year we've had a good run in the second half, this year unlikely. But, we have a much higher estimates already than what we've had last year.

So, the market will probably won't repeat, but we will reap the results of last year's growth. So overall, it will likely be a more subdued second half for us relative to the first half. We see lackluster emerging market economic growth, in particular reorientation back to the developed markets. We don't think that over the longer-term, developed markets will outperform the emerging market.

Emerging markets will still be winners at overall longer period. The tailwinds that we've received over the last ten years or so will be more balanced. We see the risk premiums that we demanded in the emerging markets essentially disappearing, we know it can't be right. We have much bigger risks here than in the US and elsewhere. We've seen those risk premiums open, risk rates opening up and premiums opening up. We think it's good, but it does hurt us in the shorter term. So overall, with still a bit more headwinds, but we still think we have the right strategy and then I can't stop by saying that we see continues regulatory changes, specifically in South Africa where we essentially ploughed under. We

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have some of our most senior people not spending time on growing the business. But on regulatory changes or potential regulatory changes thinking about what can be done, working with the industry.

Working with our partners in treasury and the FSB, try and create a system that is more equitable than what we have in retirement reform, and really the focus is particularly on costs. It is around commissions and the whole thing conflict of interest in how we distribute products and things like that is about treating customers fairly. We by and large is good business practice, but we can also go overboard on that, if we try to do too much. And then it's really about capital, which for us is a big issue.

We don't think we're under-capitalized. But we don't know where this is going. And while we don't know, we cannot really work on the capital base and do the improvements that we would like to know. Now a lot of this will provide clarity in the next year or so. But it is an area of concern and the mere magnitude of trying to do all these things together at the same time is dangerous.

And not because the intensions are and we don't think about it, but all these things are on the separate streams. And if you combine them, the unintended consequences can do us harm. And often you ask the question and this is my own little thing in the end. So where are we? Are we that bad? And if you look at the World Competitiveness Report released yesterday, again you will see in the financial area, they measure us over eight different areas in the financial area, South Africa is number three in the world in terms of regulation already and so forth.

In many of the areas we would like to change everything be number one in the world. That makes you ask, what are we trying to do? So it's not about not doing these things, but the plea is and certainly, with a different (inaudible) we'll be working on trying to effect and focus on the five or six big issues that will definitely affect 80% of the change getting those things and trying a lot of them, trying to do 100 things and throwing out the baby with the bathwater. But we have responsible partners, we work well with Government and particularly the FSB, all partners in this, we're all running and we're all in the same boat, the fact that it maybe drier in one spot of the boat, doesn't mean much, because if that boat sinks, we all sink. So it's really getting these things done. Ladies and gentlemen, that is the story. I am fairly confident that we're able to repeat a big part of this. I've already said that, it will be tough and in all likelihood, the second half will be a bit tougher than the first half. But I think it's excellent set of results in really trying conditions.

With that, I would like to invite Andre Zeeman our Chief Actuary and Kobus Moller to the front here with me, and I will then open the floor to questions. Please, if you have a question just raise your hand, we have roving mics out here. The mic will be brought to you, introduce yourself, where you're from and fire away. Thank you. We have a question here.

Questions And Answers

Q - Unidentified Participant

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The name is Rosenberg. Thanks, Johan van Zyl. Perhaps the territories of Botswana, Namibia, the rest of Africa obviously feature largely in your plans. You've mentioned that in a number of times as well in your presentation. Now I refer specifically to the table on page 13 of your addendum, where there are a number of tables under certain headings and I'd like to link two of the headings and ask for an explanation if I may please.

The first section is called new business volumes and a little lower down another section is called present value of new business premiums. The part that puzzles me is, the one for the rest of Africa where new business premiums is reflected as 720 million and new business volumes at a lower figure of 436. I can't follow that.

I would think that premiums form part of business volumes. So I don't understand how it can be a lower figure.

In addition to that, the differential of new business premiums against new business volumes for Namibia is of the ratio of one in ten, where as in Botswana, it's approximately 90%. Now why is there such a big difference in these two adjacent territories we have in many ways similar populations?

A - Johan van Zyl {BIO 4080290 <GO>}

I think the big, Kobus can answer the technical stuff, but the big differences in these territories and as we move into Africa, in particular some of the numbers that you've quoted there is the product mix that we have. The product mix.

If you look at a very mature market or a market that we've been in for a long time in Namibia, the big bulk of what we do over there is single premiums. So the moment you get the present value of future premiums, it means single premiums it will be quite close to it.

If you look at a territory like Botswana, it's a much better mix, but the bigger part of the premiums being recurring premiums with a small component of single premiums, but the growing component of single premiums. If you look elsewhere in Africa, it's by and large recurring premiums, risk products that we sell.

So although we sell a little bit, if you look at the present value of premiums moving into the future because of the long terms of many of these things, the number is going to be large. And that to me explains a big part of what it is, it's the composition between recurring relatively small numbers of recurring and big numbers of single premiums and as they work. And there the composition is very different in Namibia where it's mainly single premiums in Botswana where it is a combination of single premiums and recurring premiums and elsewhere in Africa, which is essentially recurring premiums. Kobus?

A - Kobus Moller {BIO 7480143 <GO>}

I think, Johan is correct, maybe just two additional add-ins. So I think when the, probably the numbers at the top will be all new business, so that will include investing business as well in particular Namibia, we sell a rough unit trust business which obviously is not life

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business. So and when we calculate the decent value of new business at the bottom that will only be life insurance business. And Johan is correct, what we do, when we calculate the value of new business, we actually take the value of, that's the future value of all profit that you will make on a particular set of life business you are out in this year. And you express that as a percentage of the future value of all premiums that you will receive.

So that's why the number for present value of premiums will be much higher than the value of business that you write in one particular year. So the present value is actually hold the premiums over the life of the policy discounted to the current period.

A - Johan van Zyl {BIO 4080290 <GO>}

But I think the question expresses a big part of what we have also experienced in Sanlam is that increasingly, the business is becoming complex and varied in the different territories. And you have to be an analyst and full time on one of two or companies to really understand all the underlying issues.

Q - Unidentified Participant

Also on -- take your final question, please, and that is a little bit lower down this section, new business margin. And in here is reflected as 0%. Is that going to be changing in the coming year?

A - Johan van Zyl {BIO 4080290 <GO>}

Yes, that's going to be changing because we're still growing the business in India. The moment we make profit, we immediately invest it again. So there is no profit. We don't go into massive deficits there to invest it. But we take the profit that is being made on the existing business, invest it into growing business into the future. So we drive that value of new business deliberately down in a way towards zero.

But when we need those businesses to become positive, we'll just close the tap of the growth a little bit and then we will see the value coming through. This is very much like what we've seen here in the South African entry level market. Initially when we couldn't get the middle market to grow, that was the growth engine. We didn't rely on them for profits, they grew very quickly.

And then as we fixed the South African middle market business, now that has been fixed, we not as reliant just simply on growth from the lower end. So the growth is simply lower, but you'll see the profits now coming through. And it's that interplay between profits, growth, and distribution that you see the different territories. That's one of the few management tools that we still have nowadays where the auditors can't accuse us of smoothing.

Q - Unidentified Participant

Sorry, but just to take that point further. Does this suggest, in India now particularly, that you are required as a method of strategy to buy into the market, to get yourself established.

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A - Johan van Zyl {BIO 4080290 <GO>}

No, we simply appointing agents in areas where we're not represented. Our partners have a very good distribution, but in a particular market segment. Outside of that, that client base of theirs, of 10, 12 million people, we don't have a good distribution. And what we're trying to do is that low cost trying to set something of that up. And this is what you see over there. We don't believe in buying businesses and buying business, we don't believe in running big J curves and so forth. This is simply a mechanism, we can do a once-off investment and then everybody would look happy, but we're not sure to do it incrementally, where everybody pays that benefits from that.

Q - Unidentified Participant

Thank you.

A - Johan van Zyl {BIO 4080290 <GO>}

Any questions, you'll have to help us. We're a bit like hazing the headlights here.

Q - Larissa van Deventer {BIO 20764470 <GO>}

Yes, Larissa van Deventer from Barclays. Two questions both around the emerging markets please. You mentioned that you're looking for synergies to be set out of the India business, but at the moment Sanlam only has a 26% stake in that. Can you please give an indication of what kind of synergies and whether it's going to be mainly eroded by minorities or whether we can get some of those straight shares? The other question is around Namibia, you mentioned that Namibia is emerging market, but you also mentioned entry level growth. Could you maybe give a bit of color to what the entry level looks like in Namibia? Is it similar to South Africa where it's mainly seasonal policies or are there different dynamics driving that market?

A - Kobus Moller {BIO 7480143 <GO>}

I can on the synergy, obviously the big synergy that we see there is, Namibia credit businesses and also the life insurance and general insurance business and the cross selling into the client basins of those two credit businesses. Now a lot of the new sales that are taking place and the new loans that are granted, we already have credit life or life covered into that, obviously huge inflow space that we haven't explored yet. So big drive will be to actually to sell to existing clients of those two credit businesses going forward.

A - Johan van Zyl {BIO 4080290 <GO>}

The other big synergy there is the 1,400 offices that we have throughout India with well over 100,000 staff and 120,000 agents working through these offices. And in some offices they sell life insurance and others general insurance and others the focus is on credit and so forth. I think we can do much better by collaborating between each other and so forth.

And there is a big scope to do that. Our general insurance business is already growing, the fastest growing business and also the most profitable one in India. And we think, we can add that and we can spread that cost base of distribution over three businesses, some of them fairly mature instead of having one.

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So these are but two examples. I think there are many others and where we can really do it. In Namibia, increasingly, I think we've done pretty well in the middle-market that reflected the old Sanlam business that we have over here.

With the acquisition of African Life, we also acquired as part of that acquisition, a business called Namlife. And that focus was in the lower end of the market, we struggled for a while to get that going, but now similar like Sanlam Sky in South Africa, it is doing extremely well.

You're right, that sort of the same margin and very similar product mainly funeral and it's doing very well. Very, very similar to the South African dynamics, although not a 100%. So here and there things are different. Any other question there at the back?

Q - Unidentified Participant

Yeah, hi, (inaudible). UK that much better than in the past few periods very good sales, profits seems to be quite good. Maybe if you could just give little bit of color on what's changing the UK and what's driving the improvement?

A - Kobus Moller {BIO 7480143 <GO>}

A few things. The exchange rate did help, I mean, the weakening of the rand is reflected in the numbers that the report today. But there is also the growing focus on the distribution -- actually to get extra additional flows into that business. And that is also coming through in the flows that you see there, particularly on the large business slide.

A - Johan van Zyl {BIO 4080290 <GO>}

Yeah, I think we have been trying for a while to get business going. After a few misses, you're bound to hit the goal. And I think we have it right now. We have a model, particularly if you think in that distribution space of in the UK, in that middle market, many smaller independent people they'd like to leave the business, they need somebody to take it over, hand it over to a bigger entity. And this is where we see a particular space. And I think a lot of that movement that we see following the RDR the retail distribution review in the UK, the pressures on individuals, some of that business coming through some bigger players, some people exiting the business. We see a lot of that dynamic in that number. And we think, we now have a positive sort of a stuff going forward.

A - Michael Brown {BIO 17407273 <GO>}

Mike Brown. To some extent the question I was going to ask is, that was asked by the previous speaker, which is that 6% or so group profit still comes out of developed markets UK, Australia, and elsewhere. And that's still bigger than what you're getting out of Western Africa and India and places like that.

So, I was also going to ask about your focus there, but perhaps just to look quickly at Australia, and I think also perhaps the other developed markets, are there regulatory reforms and other aspects taking place in those countries, making it difficult to operate there and that's why you're not moving more capital in, but you still see opportunities for

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growth in developed markets rather than the big focus on emerging markets or you're going to really focus on the emerging markets?

A - Johan van Zyl {BIO 4080290 <GO>}

No, I think our big focus is on the emerging markets. And often of a low base. You'll see the African growth is relatively small still the rest of Africa, but it's growing at a rapid pace. I think the developed markets if we think about the UK and so forth, it really, the key for us is to follow the South African client base. Everybody now has a substantial amount and effectively, we don't have currency control for all the individuals in place anymore. People can move big amounts of money. Institutional clients can move around 20% of their investments. And these are big numbers and if you simply don't have the ability to service those things offshore, you lose credibility. And not people are likely to go with you if you're only focused on the South African base. So we have to have some sort of presence in that local market whether it be the UK also leverage a little bit of what we have, once you have the team over there to make a little bit more.

And that's what we're trying to do there. It's much more firstly a defensive and since you've been here in these foreign jurisdictions trying to see what you can do. Now, the big trick of moving money into developed areas we think, is not to try and compete with the established partners. These are elephants relative to our sizes over here. And you may think ZAR3 billion of surplus capital is a big number in South Africa. It's nothing in value -- insignificance if you look at the big institutions over there.

Now regulatory change, I don't think keep us from those places. That provides the opportunity for us to doing a little bit more, but without buying into big businesses because these big businesses there are like us over here, regulatory change creates uncertainty for them, it creates fallout and often you have to change big systems around that haven't been designed to change. And that provides niche opportunities for us to play in. One of these areas, for instance is in the asset management space where one of our Directors, who is here, Paul Bradshaw, he is the Director of Business called Nucleus that we run out of Scotland, out of Edinburgh.

The platform like Glacier that we have over there. Because of the RDR there is certain changes coming, platforms change around and so forth. We were well placed, Paul, was one of the founders initially of Skandia, which is now liked to a competitor of ours here. He used to be the CEO there for many years. He knows that space and by simply being in the market and looking at the regulatory change embracing, the new opportunities in starting a business, and we now have a business within excess of 6 billion pounds on the management that simply spring up and it's growing very nicely and so forth. So regulatory change, I think provide opportunities with where you can with low capital and because you have a small presence in these markets go.

But clearly, you have to, of course, every year or two look at whether it makes sense to be in places like Australia. I think initially we thought with a lot of people emigrating from South Africa to Australia, we found out it's mainly the people without money going there. So many stories about South Africa and Australia. I'm not going to go into that, but maybe

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it's time to know that we've been there for a while, evaluate whether it's working the way we would like it to work or not. Nothing is forever.

A - Michael Brown {BIO 17407273 <GO>}

Thanks very much. I just want to find out like from your parity of like growing advisor force, what strategies do you have in place currently to ensure that you retain your experienced advisors? Mainly as like certain divisions are like losing financial like advisors like to other like financial servicers like providers. What strategies do you have?

A - Johan van Zyl {BIO 4080290 <GO>}

Well, most of the big life is I visit personally, I know them, we suck up to them. We do a lot of stuff, but I think the biggest part of what we've done is in initiatives that what we call the blue star initiative. We visit these guys up in practices, where in practices, they can build value for themselves. It's not only about the pension that they put the money away every time now, but where they create the book of business with value. So that they retire, we can help another advisor or a newcomer into the industry to take over that book finance part of that, and to keep that business with us.

So a big initiative around our blue star concept. We've developed it with some of the Australian -- based on the Australian example of what's happened over there. And we now write 55% of our business in SPF in the middle market through this concept of people being part of it where in a practice like a few doctors getting together, you would specialize and so forth. We can do, but off risk, we can have a few investment people and increasingly we now add maybe in a practice or a few of these back to blue star comp businesses.

We add a short-term insurance specialist that grows the Santam business. So overall, there is a lot of that and the idea is three, four years from now provides about 85% of our advisor business through these channels. So that's a big driver. And in there we have development, we get these guys to employ people, they can choose, they look and they train people. So it alleviates some of the problems we have of finding people and so forth. So there is a big massive development in that space by retaining advisors. And in this blue star thing, of the past three years, we haven't lost a single guy to any of the competitors, in spite of several getting offers. So it seems to be working. But it's still early days.

Q - Unidentified Participant

Hello, this is (inaudible) from Standard Bank. I would like to find out more about growing into emerging markets Indian and southeast Asia. What are some of the challenges that you are facing in those regions?

A - Johan van Zyl {BIO 4080290 <GO>}

Well, firstly we don't have enough money. I think secondly, we're not willing to pay the premiums that people demand for businesses in these spaces, I mean, I remember firstly when we went into India, it's very similar, they said, every business guys would say, 1.1 billion people and then from there it would go down to your little business case.

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If you look at Indonesia now, it would start at 300 million people, insurance penetration less than 1%. So the potential is to go up to 10%, it's these massive numbers and people demand premiums for that. If they have distribution or something, we would pay around 1 to 1.3 times embedded value, in sort of the areas where we -- these places demand values of three and four times embedded value.

And you know these tycoons seem to brag on the golf course, that I got four times embedded value for my business and you only got three, the next time, the bar is raised, if you want the business to pay five. Now clearly we can't do that, that's the one part.

The other part for us is really the ethical. I've referred to the governance and the ethical practices and so forth. For us it's very difficult and we focus in due diligences and areas like that on practices that we're happy with. To buy businesses and particularly if you go, get into bet with partners, you need sort of something akin to getting married.

We -- for a while you have to simply be engaged, see what happens and whether this thing can at all work. Because your partner might have practices that you're not very comfortable with. And it's not only illegal stuff, because those things are clearly up, it's simply things that are legal in those places, but they don't fit well with us. We're not used to it.

We're simply not used to it. And we think those things aren't sustainable. You can't -- I don't think you can, over the long-term do stuff that is not right for the client. And if that is the main value proposition in some of these places, you have to walk away. So these are the kinds of things that you struggle with. Culture is a big issue therefore, save culture and return.

Those are I would say the two major groups of businesses. I sit here with people with very tightfisted in to my left here, to my right. They don't like to spend money on things that wouldn't give a return.

Any other question. I see we have two questions on the phone lines. Greg, can you do something about that?

Operator

Our first question comes from Michael Christelis of UBS. Please go ahead.

Q - Michael Christelis {BIO 15233664 <GO>}

Hi, Johan, thank for taking my call. Two questions if I can. Firstly (Technical Difficulty). I wonder if you can just give us a bit of detail as to how that's changed from last year where the number appear to be a lot lower. And almost (Technical Difficulty) your comments were about your, the economy and consumer being under a bit of pressure.

And then the second question, just trying to understand a little bit return in your, you have an embedded value generated quite strong returns of about ZAR1 billion here. Equity

markets were flat for the half and bond markets were negative for the half. So if you could maybe just explain how you generated that (inaudible).

A - Johan van Zyl {BIO 4080290 <GO>}

I think you weren't clear to all the people. I didn't get all of the question. We can pick it up when we see you later today. But I'm going to ask Kobus, just on the investment return side. You would have seen in our results, going from operating earnings to headline earnings that our investment returns performed particularly well. And Kobus, you know, did mention one or two once offs in that process. Just explain that again, Kobus --

A - Kobus Moller {BIO 7480143 <GO>}

I think it's -- obviously the one component that did give us some additional income will be the exposure that, international exposure, it was the national markets and brands since they performed very well over this period. But I think there are two items that are once off and exceptional. And the one being, I've referred to the fact that we have, we have an investment, indirect investment in bank then to convert listed over this period.

So with quite a kick in the price or relative valuation, so that came through in this period, which is quite a sizeable portion of that. And then also, when I spoke about our Sanlam Capital investment, there was a provision that reflected against our first that was somewhat offset by (inaudible) investment that we bid in the past have actually we recovered most of that. Similarly we had similar part of investment in the capital portfolio, we also have recovered during this period, which is a once-off, but it also boosted the returns up.

I think if you take those exceptional items out of the returns, the return should be more or less in line with the market performance versus year-on-year.

Q - Michael Christelis {BIO 15233664 <GO>}

Great, thank you.

A - Johan van Zyl {BIO 4080290 <GO>}

Okay.

Operator

Our next question comes from Francois du Toit of JPMorgan. Please go ahead.

Q - Francois du Toit {BIO 16128719 <GO>}

Hi, Johan. Under your cash operating earnings that is up 24%, can you relate that -- sorry, that's the operating earnings. Can you relate that to cash operating earnings in terms of, which you set your dividends as well given especially maybe just talking around the contribution to the earnings from the newly acquired businesses, which I guess the earnings weren't be as distributable as some of the other operating earnings you have got. And then the second question around, your new business growing on the life side

and therefore on the interest income statement as well as has gone up 18%. And I think your sales generation is only up 7%. So if you can maybe just explain why your new business strength went up that much?

A - Johan van Zyl {BIO 4080290 <GO>}

Okay, on the first part, our dividend, it's a critical question if you follow our dividend policy. Our dividend policy is essentially to pay out all the cash that we receive. And that's very close to our operating earnings except that's in Santam we have a listed company and we only get the dividend, we don't get the full operating profit. Increasingly as we now invest into Africa and particularly India, these are listed entities over there.

So we only get their dividend into our operating or into our cash dividend that we pay out. So that is not growing as quickly as what is happening. And the question was exactly, so to what an extend is our underlying cash component because growth because that gives you an idea of the dividend.

A - Kobus Moller {BIO 7480143 <GO>}

Yeah, I don't want to link that to dividend expectation yet. But I think Johan is correct, in particular our investments in India we don't necessarily expect any dividends or major dividend flows to come out of that. Those are growing businesses and most of the profit will be reinvested.

So if you clearly look at the contribution (inaudible) for example, in the six month period that I would exclude from cash earnings in the calculation that you may make. And then obviously the Santam, Johan, referred to and there we should clearly look at the rand (inaudible) to the profit contribution.

A - Johan van Zyl {BIO 4080290 <GO>}

But the cash earnings has been high in this period, simply because the one business that underperforms the one that doesn't give us through all its operating profit at Santam. So the other businesses has done extremely well. So the cash earnings have actually grown more on a relative basis than the, if you just make the sum there, then simply the operating in. Yes?

A - Kobus Moller {BIO 7480143 <GO>}

We can talk about the detail when we see each other. But the change in new business plan would just be a function of the volume and the mix. Some lines have the biggest win in others for instance, where we realize reserves on some of our risk products. So it depends on which lines grew more than others over the year and some, but there wasn't anything funny from the one year to the other.

A - Johan van Zyl {BIO 4080290 <GO>}

Okay, any last question from here? No, I would like to thank you then for the support. Thank you for being here and we hope that we see with a similar result in six months time. Thank you.

FINAL

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