Y 2018 Earnings Call

Company Participants

- Anton Gildenhuys, 'Chief Actuary and Chief Risk Officer'
- Heinie Werth, 'Groups Financial Director Executive Director'
- Ian Kirk, 'Group Chief Executive Officer'
- Junior John Ngulube, 'Chief Executive Officer of Sanlam Emerging'
- Jurie Strydom, 'Chief Executive Sanlam Personal Finance'
- Musa Malwandla, 'Standard Bank'
- Unidentified Speaker, ''

Other Participants

- Analyst
- Larissa van Deventer

Presentation

Ian Kirk {BIO 1778703 <GO>}

Are we good to go? Okay, good morning, everybody. Welcome. I know it's a busy time for many of you. We really appreciate you coming down to spend some time with us.

It's a big day for us to present the results, a big year. 2018 was a big year for Sanlam. So I'll unpack the results now with Heinie, then we'll have -- Heinie will take over through all the financial numbers. Then Junior will talk about emerging markets and the progress we're making there and then I'll finish up with some comments on the priorities that we have for the various clusters.

So it's this normal format and then we'll have some question time at the end. I also have some executives here from Sanlam. So I know some of you always have some difficult questions. So it's nice to have some colleagues available to talk it through with you.

Okay. So strategic review, the operating environment that I'll do. Heinie will do financial review and then Junior and I will cover strategic priorities and governance. I'll make some comments there at the end and I'll talk a little bit about the outlook.

So the strategy you've seen. All of you will have seen that. I make no excuses. There are no changes here.

We're quite happy with the strategy. One of the nice things about Sanlam I've said it many times is we can focus on executing the strategy. And the real thing is alignment and the alignment of our people, and particularly new people who we bring into the business, getting aligned around that, the vision, the strategic intent, the five pillars and how we use those. And the check there are really just designed to say that we've made some progress in all of those areas.

Now 2018 was tough. If you think back to the start of the year, full year we saw some nice increase in volumes in the first quarter and then I think reality set in for all of us, in South Africa became tough. But strategically, it was a big year for Sanlam. We made -- managed to close out phase three of the deal on SAHAM, which was a major thing.

I mean, there was one SAHAM was one opportunity. The previous owner was selling. He was either going to sell to us, and we were going to go out with him to someone else and that was an opportunity. We managed to get the deal done and there were lots of ups and downs and getting it done, but we got it done, a big strategic move and we see a huge opportunity.

Junior will unpack it now to really create something very, very special, very, very significant for decades to come, which is the story of Santam and Sanlam in South Africa. And that was a unique opportunity and now we have one Sanlam. And then the package of B-BBEE transactions that we announced and got approval for in December, also very, very significant strategically. So a tough year.

We'll talk about that now, but strategically very important for Sanlam. We made some solid progress here. And of course in the areas in South Africa where we don't lead the market, we also made progress. Now this is a real underpin for our investment case in Sanlam for sustainable shareholder value creation.

A difficult year. We achieved our target on an adjusted basis, 19.4%, and against the target of 13. It was a great achievement and talks to the diversification of the group and it talks to the ability of the group to execute on the strategy. Of course, we had some great performances and we had some performances that were a bit soggy.

We'll talk about that, but overall, the diversification, the focus on executing the strategy carried us through. It's a 10-year story now, 15.6% consistent outperformance, and a stable dividend growth, 10 years, 12.3%. And that's driven of course all the cash operating earnings and these are really two key fundamentals in our investment case at Sanlam. So highlights and challenges.

Closing out SAHAM, as I said, the shareholder approval. Some smaller bolt-on transactions across the business, both have done well. Capitec, a wonderful launch. It's just a wonderful opportunity, and to be honest it's turning out even greater than we expected.

We were with Capitec a number of years ago and Credit Life. We've now built a capability with them. Took a long time to get it going because we had to integrate all sorts of systems, but 500,000 sales in nine months, it's just a wonderful story and a wonderful opportunity for a multi-year engagement with them to really take the business to the next stage. So we're not a bank, and we won't be owning banks.

Said it many times, but it's great to banking partners and particularly Capitec we're very proud of that. And then of course, SAHAM as I talked about and the challenges of South Africa and the investment markets. Really that's it, and investment markets are tough. The All Share Index is minus 11, it's going to hit your fee income, it's going to hit your capital position.

We still haven't quite got it right in East Africa. Junior will talk about it. It's not easy there. It's not right for everybody.

So our relative performance is not so bad, but our absolute performance is not where we need to be, and then SAHAM in the second half a bit soggy that we expected -- didn't expect, maybe we would have had a bit of growth. There's very good explanations for it. Junior will take us through, but I suppose with 200 businesses, now you can expect not everyone's going to fire, but some fantastic performances. We'll talk about that as we go through.

So I talked about the unmatched footprint. It's in place. The real challenge for us, of course, is now to deliver on. It's diversification, yes, but it's diversification with a real purpose.

We are there to deliver it on the retail market opportunity, on the commercial market opportunity, but also on the multinational opportunity. And I'll say multinational, not just international investors, any investors from any country on the continent. We are there for them, and we've put this footprint in place, this unique opportunity to deliver to the local markets and to the multinationals. And interestingly enough now, many people are seeing the value in the partnership.

We have our partners here from Japan with us today. We have other partners from other international insurance groups who see the footprint who want to use it. Because we're not in their face in their countries, they very happy to use our footprint. So these are things to be honest with you we didn't anticipate.

So we're partnering now with banks, we partnering with telcos, we're partnering with international insurance companies. And of course, our traditional partnerships are with the big international brokers, and you've seen quite a lot of consolidation and announcements there. That's all consolidating, but we have very, very strong relationships with Marsh and obviously with Aon as well. And this footprint is very, very important.

But of course, it's hard work to make sure that we over a period of time we deliver on that opportunity. And that's really the hard work for the next 5, 10 years and for decades to come to deliver on that. We believe firmly in this. We think Africa is the next Asia.

We think lots of others do as well and it's up to us to be there for that opportunity. So talking a little bit about South Africa and the rest of Africa, these are the kind of highlights and it's been tough. Even in India actually where growth was 7%, we had liquidity issues which affected us in the last quarter. So the diversification is absolutely critical.

For us, Brexit it's not so big -- such a big issue. People ask me what about Brexit that and what does it mean for your business in the UK? Our business in the UK is fundamentally there to service South Africans and Africans international -- institutions and retail. So it's not there to be big, and as long as UK is an acceptable investment destination, which it is, and well if it isn't, all the internationals will have moved before us. And if we have to move, we'll move, but we won't be the first to move, so that's the position.

And I'm sure next door in Ireland, they'll find a place for us, but so be it. So South Africa of course tough, as I mentioned, optimism at the beginning of the year, much more realistic, and it's tough out there. It's not easy here. Those are the issues that we well understand.

So what does it mean for us? Well, on exchange rates positive because of the movement of the -- on the last. That's a 3% impact. That's got nice investment variances, a big negative 2.7 billion. On the road, you have interest rates negative there, 2% and VNB minus 6%.

So positives and negatives. Exchange rates positive, the rest negative. But on underwriting, interesting that we had a standout performance from Santam, really, really excellent performance. Didn't expect that.

But it was well explained by Lize and the team last week and that it's just an outstanding performance. And thankfully in the year that we had, it was great. So as you would expect, 200 businesses, 44 countries, you're going to have highlights and challenges. So let's just quickly look at those.

RoGEV, Santam, VNB 14% on a constant basis. That's wonderful. Anyone can sell a two bob [ph] ice cream for one bob [ph]. I've said that many times, but in tough conditions to sell at the margins that we're doing, very acceptable.

So well done to the Sky people, well done to Sanlam Corporate. I mentioned at the half year results that we did better. We anticipated that we would do have done better in the second half. It came storming through even better than I expected.

So well done for them. If you've got positive VNB and you've got positive experience variances of 2 billion, you're running your life business properly. All of you will understand that. That was a standout .

I know people will ask me, what's the new standard? But I don't know if we're going to do 2 billion. It's a very, very high level, but we'll try and do as best we can. The dividend, as I said, up 8%. Net inflows 42, it's okay.

Challenges, the investment markets, not such a strong performance on the investment cluster, as we had last year in place under pressure. Not just from the flows or so because they participate. Because they'd write all the single premium business now which used to be in SPF They participate in the ups and downs. In a bad investment market, their operating earnings are under pressure.

Group risk experience, I've talked about it at half year, I've talked about it last year. You've seen some comments from the competitors. So there's just too many claims in the market. We are repricing.

Yes, we are repricing. We had a kind of okay result, but just not where we need to be. It's certainly with a portfolio of over 4 billion now on group risk. We're not making the money that we need to.

And there's just too many disability claims in the market and conditions that we're in as you understand, there are too many people on disability that should probably be on retirement or retrenched. So that's just how it is unfortunately. East Africa, Letshego, had impairments there, some late tax charges. SAHAM Finances, I talked about it, are a bit soggy on the claim side in Morocco and the growth in Ivory Coast, not quite, and then of course the float, which Junior will explain as well.

So just before I hand over to Heinie now, I don't do all the stuff. These are the key results. So 4% net result. Yeah, okay, credible I think, will prove to be credible.

We haven't seen all the results. The ones you've seen so far will prove to be credible yet again in a tough year as we had 2016-2017, a very credible performance. Normalized earnings down 8 because the investment markets, business flows 14%, VNB, very good margins, consistent largely. Under GEV, the return on that 19.4%, I think very credible compared to the hurdle and the dividend, 3% real growth.

So that's really where it is. So Heinie will take over now and take you through all the numbers and then Junior.

Heinie Werth {BIO 7529974 <GO>}

Well thank you, Ian. Good morning everybody.

It's always interesting to see you when Ian decides to stop and really hands over. So at least the benefit is now he have told you the story and I'll fill in the details, so starting with our biggest cluster, Sanlam Personal Finance, on the volume side, 4% up. We really think this is a pleasing number in these difficult circumstances, you never preferred to our lower income subsequent business Sanlam Sky. They are very well presented in the audience today.

You can see they knew they had a great year. So, they are sitting in a quite a few seats here, but really the Capitec did exceed our expectations must have perhaps not mine but the rest of the teams. And then I also want to say, even if we strip that out, the rest of Sky did extremely well in this segment with the 13% growth. If you look at our middle-class -- our middle income segments 20% up we--- the bulk of that is coming from the acquisition of BrightRock Glacier and BrightRock continues to exceed our expectations.

The rest of the middle market we do want to say we experienced pressure, but lots of focuses on the retaining clients. Glacier actually a pleasing performance I really wants a difficult time signal premiums people are not really in the mood to put it in the investment markets and 1% of the -- is not bad, when we come to the results under the profits, you will see the impact of that. So overall, we think a pleasing performance from Sanlam Personal Finance really one of the standard items today is our day growth in value of new life business right over here into little bit of spike in interest rates, as Ian have said to you'll, the year really started, and I -- very strong rent, very strong stock markets, and it ended quite totally the opposite. So 7% growth in value of new business, big contributions by Sanlam Sky and the middle market.

And then Glacier was it even with those volume the change in the mix cost allocations and the nature of the products, but overall when we put it on a comparable interest rate 14% up on the previous year, and holding out well on the margin notwithstanding the squeeze in Glacier. If you look at the profits 5% down. I think the important thing for us is always to whether we understand, why it is down, and if you look at the numbers this also we chose minus 1%, if we exclude all the investments we make in new initiatives, we are picking up quite a lot of new business throwing obviously from Sky. We pick up a lot of new business strength on BrightRock's growth and then we've got the various other new initiatives like Indie, reality, MiWayLife.

So we do one for this business to grow their business in all their capacity in difficult times to be ready for the great years ahead of us. That we believe will be not too far from now. But then, the other one I also want to I like to highlight here, the only area where we are down a lot on profit is Glacier. Now you will see the not to the same extent similar impact when we get to Sanlam Personal Finance, where your fees are quite a pennant on stock markets and if stock markets are down.

You would expect this and we've got quite a few products here that are quite geared in terms of the fee income related to the assets under management and the stock market. So again, the important thing is we understand, why it's happening and we do know Jurie and the team, he's focusing on that. Again, the highlight on Sanlam Personal Finance, I really want to say the excellent growth in the entry-level market, solid value of new business growth and keeping the raced and positioning for future growth. If we look at, I want to say a big and complex cluster, even I've showed you the map.

It's not about being on the map, in the introduce about delivery on the map. Now, in our detail results, we really tried to give a lot more detail, because this cluster keeps on changing and when we bought some the numbers changed tremendously. So, we've been buying into SAHAM over a period of three years and not one year is comparable. Overall, volume of new business up 20%, Botswana is the one being down there and Botswana is mostly on the investment side, where we at least flows.

And then, also Annuities were -- let's say not the normal levels we would normally see. The -- all the other class, all the other businesses have really done well other than I want to say East Africa that Ian referred to. So there were we see other it's up 8%, but it has been pulled down by Kenya especially. Junior will also refer to what steps have been taken there.

Overall good growth in the volume, so we told good for the future and then on value of new business 3% down, this year we didn't show you the comparative and restating the exchange rates because the impact was quite small. It's only till which yearend that will end really took a bit of a hammering. But, what I can point it out here is if Ghana, the style of Ghana year ago, if we exclude that impact our value of new business would have grown about 8%. We expect more and I think Junior will talk about that.

It's -- we always knew it was going to be difficult. It's not easy, you will see all your competitors are pulling back. We invest in the future of Africa, and we will have quickest and we will have 30 years, but it's important that we understand what must change going forward. To the margin East down, but the margin has been pulled down especially due to the experiences we have in the other African countries and Ghana was very profitable business.

Profit up 14% Namibia similar trend to what we have seen in South Africa there maybe 15% down, but excellent growth in the value of new business in especially the lower income segments, and then for the rest the Namibian story for follow very much the South African story on pressure when it comes to oil income products and the middle market being under pressure. Botswana, the results were predominantly pulled down by Letshego. Ian has referred that Kenya and Letshego did not live up to our expectations and Letshego contributed, there was some tax -- late tax charges that you've raised nine impact all of that, but it's definitely not really should be -- rest of Africa up a lot but this is where we one have to say the impact of SAHAM skill the picture but overall I want to say it is a reasonable picture. India, we are comfortable with the 4%.

It was difficult times. It was hit that by the rupee weakening against the dollar as well they -- and there was the liquidity constraints in India towards the end of last year and the rise in interest rates. Malaysia, yes, up nicely, but from a low base reduced welcome turn around the -- On Sanlam investments, this is the cluster that was obviously very hard hit by stock markets Ian referred to 11% downturn in the South African market. But with that, we set in the past, we are lagging a bit on our investment performance not a lot.

So we have seen quite a sharp decline in our performance fees. So investment management South Africa, when we look at flows firstly, it is down. We've already said to you in June in our results that we had a big outflow from Alexander Forbes was mostly low margin business, quite ironically given that Alexander Forbes is in the news every day. But yeah, we've lost some a lot of business from them earlier in the year.

Wealth management, SAHAM -- it's a similar trend as Glacier. We do not currently see the Investor's confidence of putting money into investment products. International, quite flat but it is on the circumstances far as also a good performance given what's happening all in the UK If we look at profits on the Sanlam Investment Group South Africa to be flat in the current circumstances our third party investment management business. What we call the investment managements of Africa to be flat in the current circumstances, we think is quite good because there was a non recurrence of performance fees, you would expect much lower fees on a lower asset-based.

So what it does say is that there is quite a bit of a drive to keep the costs under control in that unit. Wealth management down because of the again the assets under management, but then also there is quite investment in the new systems. International, it's nice for us, to see that this strength line continue, a few years ago this was an issue for us, and the turnaround is continuing. Specialist finance, which is basically a combination of the old Sanlam capital markets, which is combined with our central related management initiative.

And which is now combined with managing the Sanlam pool of assets down quite a lot. Two or three reasons again performance fees from Sanlam, we don't pay if the delivery is not there. Secondly, credit assets all under pressure, so we have seen a widening in the spirits, and the previous year still we're at interest for part of the year on the Mayfair loan the whole section 155 process around Mayfair is continuing. We did not allow for any further interest on that, we're also very confident that we'll recovery our money, but we did not we follow the prudent approach, and just that item alone have got quite a big impact on that.

I do want to point out that this is possibly the only cluster where we really have quite a lower return on group equity value. If we normalized it just for investment returns predominantly for investment markets. The return is 14.5%, which will be then quite in line with the rest of our businesses. I've talked about performance fees, this is not a nice slide, but we decided to keep it in.

Because in the end, we do -- and that we must meet our benchmark hurdle rates. So, on the five years, if you look at Third Party portfolios we are now only 57% of our portfolio meet the benchmarks. But they underperformed with 30 basis points, which is really not big. It's still a mess, but it's a near mess.

And then, on the capital and the Sanlam money, it's only 10% basically now meeting our criteria, and the 10 basis points you rather mess with 10 basis points and messing with 1%. But again this impact obviously heavily on the income side of our investment business. Santam, it's not that I don't want to talk about it but I don't think this guy is in the audience but her words is there's not much to say about their results. So, okay.

We have now refer this absolutely a sterling set of results. Yes, 2017 was cute by a lot of catastrophic events, fires and floods while 2018, there was the list of roses issue and some issues with money collection agencies. And notwithstanding that, they was luckily not -- no other big catastrophic events, but overall really, really good performance where they underwriting margin exceeds their own benchmark of 4% to 8%. So really a good set of results from Santam.

Coming to Sanlam Corporate. I don't see it in my mind we're seeing the room, but this was for us, I mean, Ian will always talked about this about four areas, were we lack our competitors and Corporate Business or our employee benefit business is one of the businesses. And we don't just want to do to do business to do business, but this was really a great year for them in terms of flows you will see they, on the risk side with a nice increase in recurring risk premium flows. Sometimes we get the question, but we take other people's bad business.

That will really not be the intention. So we will see the benefits going forward. On the investment side, we also told you in July already. We add some more, in August, we had some good inflows, and you see that flowing through to the value of new business.

So really a great year for Sanlam Corporate, and it does not flow through to profits because even though when we get to experience variances, we had a good year this is the one part of our business with the experience on risk claims both on morbidity and on -- what's other one, Anton? Mortality, yeah, an all of this the claims experience is still worse than and we seek in the whole industry what we don't understand is why this cycle is longer than previous times. So a lot of work go into it, but overall I really want to say this is one of the best years that Sanlam Corporate at in many, many years. Sanlam Group putting it all together, ENF already referred to the highlights, our volumes basically 1% up. The only area where the volume flows was weaker was institutional flows into Sanlam Investments and then on the net flows up combination of the acquisition of SAHAM you will see the increase in general insurance premiums, but then also the outflows -- the net outflows in Sanlam Investment Group.

But overall, we sold think in these conditions not bad to maintain it at these levels. One of the highlights, I'm not going to say too much again on this, we've already spent time on the detail. But we really see this as a very, very good performance and I mean helping our profits obviously going forward. This is just the trend over many years so the margin slightly coming down and that's due to our mix of business rather than due to other reasons.

Profit, 4% up. Again, I've already explained every cluster but again, we are comfortable with this achievement, not in absolute terms, but on a relative terms given the tight economic conditions. Rest of the income statement is -- I want to say a bit of needs perhaps a bit of explanation, we start with operating profit being 4% up, a decline on a per share, we have issued 3% new shares during the year. And we didn't get the benefit of that new shares, we issued the shares in much about and we only concluded some finally in October.

On the investment return, this is really the impact of the investment markets coming through. And then secondly, we moved early in the year the all time as we add excess capital, we moved it abroad to prepare for the acquisition of SAHAM and as a result of that, we would have had lower as the rand had weakened to the same extent, the returns in dollar terms will lower. The other one is we do to reduce our level of capital with 1.5 billion and obviously then you also less on that. So, that's why the 57% will never look good.

But I mean that's the reality markets were really, really bad on us. Intangible assets, what we saw to see here, when we buy a business like SAHAM the value of business required is very big. The previous year, it was big when we also bought BrightRock. To amortize the value of business acquired over 10 years.

So the first start of the amortization around SAHAM has taken place. And this number in future will be like 700 million to 800 million as we amortize the value of business acquired. I don't have anything else to add to this slide. The headline earnings are then down minus 6%.

When you look in the detail in our books, you will see a attributable income is up a lot. We don't want to spend time on that year, but a lot of that peak increase is really an accounting profit when you sell your equity stake in SAHAM and when we listed Nucleus in the UK, we become -- move from an equity accounting to consolidation. We might mess of book profits. Please, we didn't want to report it because of accounting we have to.

So attributable earnings is up until 10%. But it's not it's book profit, it's not sustainable. The previous year we might real profits, when we sold Ghana. But just for people who may see in the detail income statement earnings down, but attributable income up, it is really due to the wild accounting treatment around SAHAM and Nucleus.

Group equity value up 11.6%, most clusters performing nicely in these difficult circumstances, I've already referred the knock that investment group had as a result of the stock markets. So, overall up 11.6% per share. It does not meet our roll rate of 13%. I have to say, when we buy a new business, we -- the value of new business -- you pay the full appraisal value but then we bring you embedded value back to just underlying embedded value.

So we write off the future VNB that's we acquire. If we added that back, we would be very close or slightly above our actual hurdle rate or meeting our hurdle rate of 13%, if we adjust for stock markets, if we adjust for the spike in the interest rate when we value assets, and if we are just, yeah, also for this, amortization I mean, we have got a 19% plus return on group equity value which is really a sterling performance in this -- these times. I have to say the 19% also includes a nice kicker of the age that we had in place on some which in the end worked out well. Looking at all the group equity values, the earnings where it came from.

So yes, the value of new business, a nice contributor. The expected return on WIP [ph] close to 5 billion, the other outstanding item that the end of refer to the first time, we passed the two billion mark. I have to say 300 of million of that is definitely not the re-occurring because that's a kicker we get on the release of capital. The cost of capital that we won't have going forward, but still a very good contribution.

The other items I would like to highlights this more than when you look beyond the other operations, my apologies where we invested in SAHAM The -- but basically overall a nice picture on before we get to the negatives. So the negatives the 755 on the life business is to increase in spike of any interest rates. If you look at other life, it is the stock market that we collect full year, and then also on the other non-life is where if you adjust for exchange rate and stock market movements, it brings us to that return of R12.8 billion. So on adjusted RoGEV basis a very good performance.

But then it was most probably one of the most severe years when it came to the impact of the stock market's relative to what you would expect in normal years. It's unpacking the two billion experience -- 2.1 billion experience variances a little bit. I'm not going to go into the detail, but the picture on the right, really tells the story. It's a nice diversified set of stuff that contribute to it.

It is positive risk experiences, notwithstanding the negative risk experience or we add on the group risk business overall a very solid posture for this experience for the group. It's also nice to know, it's not only in South Africa but also outside South Africa. Our persistency levels actually improved during the years, which you feel a bit contradictory to the economic situation. But it also shows the effort that goes into the quality of sales and refining those clients.

Working capital, always the steady contributed to our experience variances, as the CCM the Central Credit Management initiative expands and as we go more into corporate credit. Responsible corporate credit I want to say the credit spreads will also gradually contribute more and more. It is more volatile item as well. And the other is largely the R300 million we got from the release of capital and the consequential saving on cost of capital.

But, really -- also one of our highlights. But I also want to say as we plan in going forward. We have seen quite a shift post SAHAM, before SAHAM, the group was always largely driven by life business. So we do a lot of unpacking of results on our life business.

The shift in SAHAM also causes now that our non-life operations are vary material. So we've also plan to go forward to start the show more in more detail on a big part of our Group Equity value as there non-life businesses, especially businesses outside of South Africa. And we have to give you as investors and stakeholders the comfort that we also follow conservatism and realistic assumptions in that. So, we will start to do much more unpacking on the non-life side going forward.

Overall, the history. Still a good story. This year, yes we did not meet our hurdle rate but over a period of five years we still outperform. If we've adjusted for you cannot for non-controllable economic conditions.

We are well above our long-term hurdle rate over a period of time. The diversification stories continuing, and as Ian says, it is about not just being to make it useful diversification and having this diversified profile across product lines across countries really helped us year of the year. Coming to our Capital Management, this one needs a bit of explanation and understanding. We started the year with two billion available capital.

We in one of the earlier slides in showed, we don't pay all our cash dividends or cash operating earnings out as dividends. So, we return about 600 million, 700 million of debt.

I want to caution going forward that number will come down because we will have more shares in issue. We had the 3% issued earlier in the year.

And if we do the be e-issue of further 5% that number we don't expect it to go negative that will never be the intention, but we do expect it to come down. We have to capital of lease is 1.5 billion included in the 1.8 billion from Sanlam Life. We did the accelerated book bolt earlier in the year; 12.9 billion was on it out let for SAHAM And then we had other acquisitions that Ian referred to, especially Catalyst. So then the reality is we end the year on a negative 3.6 billion negative.

Now Ian will come to that a bit later. So I will leave it to talk to you where we stand on the plant issue on BEE, but the timing of that we are trying to get the timing right and all of that there is still some regulatory approvals we're waiting for but once we do the issue in the range we indicated to you, we will restore our capital. So we are currently running short, but it's all due to the timing of the rights issue or not the rights issue the BEE, to restore our capital levels. On the solvency position, both on the life level and the group level, well above our own arranges and more than sufficiently capitalized at levels of 221%, which is above our target range on the life side, and also on group level very well capitalized.

The dividend, we started to show this last year, this is to give people comfort that what percentage of the profits in the countries where we operate or the business is where we operate do they pay out as dividends to the group. We would always like this number to be as close as possible to operating profit. So we don't -- we want operating in profit to be cash operating profit. It can't be perfectly like that but it should be -- if we like we do our counting on the writing of new business expenses.

So, looking at that I think from all places, the only two areas in 2018, we had reminds work in progress. Following the acquisition of SAHAM, we have to up the dividend contribution from SAHAM All the planning is being done around that and then, the area where we also need to work is in India its fast growing economy and businesses but we get low dividends out of India. That is why is our emerging markets also low. So it is high on the agenda to up that.

And then Santam, it's not -- I mean people expected special dividends and so. But Santam is in the process to get approval from for own regulatory internal model, which will impact on the way they look at capital, but then more important, they also holding back money, they still streamlining we want to do between us and them, when it comes to the over Africa is managed. And we rather prefer them as well to follow a bit more conservative approach, while a lot of activities on the go. That's from my side.

So, overall solid set of results in really difficult times. Thank you. Junior?

Junior John Ngulube {BIO 19560361 <GO>}

Thank you, Heinie. In terms of priorities for 2019 for Sanlam Investment Market, I guess the priority is quite clear.

It is SAHAM Where we are now is with effect from January, we rolled out the new target operating model. It is in place. The integration quite complex has done very -- is gone very well. And the teams are working very well together, in Morocco, in Johannesburg, and Cape Town.

So I'm pleased with that part. And then, Ian also spoke about the network. Our belief is that to succeed in Africa. You need strong presence in country, leading companies in country, to support you retail commercial and local corporate clients, but also you need network across the continent.

This is where the additional value believe is going to come from. We almost creating what one could call an echo system across the whole continent, which will enable us to support our various partners, but I'll speak to that in now. What SAHAM then brings in terms of this network is a very complementary footprint. Complementary in the sense that we now cover that the three countries on the continent, and out of that we only over lived in four, which is quite exceptional foreign transactional of this size.

Also complementary in the sense that Ian alluded to it, SAHAM was grown essentially as a general insurance business. They started doing some health and Sanlam Emerging Markets our part grew out of the life side and we've gone into general insurance. So, you can see in terms of capabilities SAHAM is strong in GI We are strong in life and therein lies the complementarity. That's where we see the synergies of bringing the two businesses together.

We now have a truly Pan-African Insurance and Investment Group, and when we say Pan-African, we now operating in all the four language regions of the continent. The Arabic speaking North Africa, Francophone West Africa, the Portuguese speaking territories. And of course, the traditional English speaking parts of the continent. We have the possibility now to grow the life business of SAHAM, which they had started and supported by our strong life capabilities as Sanlam and the reverse is also true.

We now have the possibility to grow, our former general insurance businesses is with the support of SAHAM's expertise. SAHAM also has a very strong health offering they administered over 3 million lives in Morocco alone, and another 4 million in other parts of the Francophone West Africa. And that capability we have started to bring to our part of the continent. We have already handed over our East African health and medical business to SAHAM to drive further, therein lies the synergy.

Assistance business in South Africa with what the automobile association in many countries on the continent this possibility doesn't exist. And SAHAM has in offering for roadside assistance and evacuation and we'll be bringing this offering to our part of the world as well. Optimizing reinsurance, SAHAM is got SAHAM RI, which is an internal reinsurance optimization vehicle, it is registered in Mauritius, and is done extremely well in optimizing reinsurance placing within the SAHAM Group as well as providing risk management support for these businesses. And we bringing in SAHAM RI into our general insurance businesses.

The East African general insurance businesses have already been -- out say handed over SAHAM RI is now leading those businesses from an reinsurance point of view, and to expect to see more benefit. In addition, we now have the possibility to realize our vision to be a leading pan-African financial services business. This is the network effect that I spoke of and what does it allow us to do. We are now well positioned to be the go-to partner to multinationals and their employees.

And when we talk of multinationals for us, it's African multinationals, those from abroad and we are well positioned to support them. And especially, their brokers, local brokers, regional brokers and the international brokers, they have the possibility to deal with what we refer to as a one-stop shop, covering 33 countries it makes their lives easy. This also talks to other distribution partners. Ian mentioned, our partnership with international insurance.

Therein are a number of international insurance who have clients in Africa, but they themselves are not in Africa and they're partnering with us to service their clients on the continent. We have as Ian indicated already our partner from Sompo, one of the leading Japanese companies with whom we're collaborating looking after their clients. We've recently at this point signed an agreement with one of the leading Chinese insurance companies for their South African based companies. And step two, would be difficult part it with them in the rest of the continent.

So, these possibilities are coming through. I have already indicated that it is important to have leading companies in country, and this is one of our stated objectives. We would like to be number one, two, or three in the main markets, and we are working towards this objective. In terms of the results, the SAHAM results, I would say not exactly what we would have liked.

Ian did indicate, that the results are not what you expect it. We know the causes, we know the reasons. It's something that we can deal with. In the main -- if you look at the net result from financial services, it shows quite a material drop.

And there are three areas that drive, it is firstly on the underwriting side. We saw a spike in frequency motor claims in Morocco itself -- SAHAM Morocco and SAHAM Morocco also had one or two large losses. And that in the main drop of the combined ratio and the overall GI combined ratio is now outside the stated range of 5% to 8% it's seated 4.1. And it is driven mainly by those two classes.

The top line grew at 4.5% again, mainly because of in the Ivory Coast, that's where we saw that impact. Float retain the markets ran in 2017 as we saw elsewhere, and didn't perform so well, in 2018 and that volatility is probably the single largest driver of the drop in result. And there were other one of impact, mainly in Morocco as a tax assessment. We also paid rest of retention amount once off and we also sacred [ph] in Morocco alone that the company had with one of the state entities earlier than they had intended and that also led to an increased in the interest cost.

So, those are the main drivers for the result, it's clear, we know what to do. And if we normalize for those impacts, you see the normalized earnings[ph] coming down to or going a broader to just over a one billion and the PE ratio goes to 25%. That is the result, we have the team in place, we know what to do and we will be working furiously to address that impact. In terms of other strategic focus areas, with the footprint that we have 33 countries, we believe that in terms of geographic expansion may be safe for one or two areas.

We now need to focus on organic growth. The footprint is likely complete, and we will be driving this quite hard. Governance, operational controls compliance and ethics, as we will appreciate we have quite a wide range of businesses from the very big medium and small. And it is important that we continue to improve the internal control environment in all the businesses and we have reversed ourselves accordingly, to do this stuff, doing business on the continent and we have our hands around most of these issues.

Life distribution, Heinie spoke to the challenge of VNB We have resourced adequately to drive and support our businesses in terms of distribution and we believe this will pace results. We see a lot of opportunity, more opportunity on the continent on the life site for growth, and would like to take advantage of this. I've spoken about the corporate opportunities branding this is ongoing we have branded East Africa. We have co-branded SAHAM and there will be a few more of the branding exercises for visibility of the Sanlam brand.

And then we have our partners Santam, who are going to drive the reinsurance part on the continent we're working on that. SAHAM is very strong in the retail side of general insurance, when it comes to specialist classes your engineering, corporate property liabilities and the like. We looking to Santam to work with us to drive that part of the business. And also to support on the on the multinational potential.

Human resource development very key. There is now very good possibilities for our staff. Working for 10 African organization, we are sharing best practice across the board, and then we see a lot of the regulators on the continent increasing the minimum capital requirements and this presents us with opportunities to consolidate and bolt-on as we grow our business or the continent. And of course, the current strategic partnerships that we pursue whatever it makes sense.

So, in brief that is the story of Sanlam Emerging Markets, particularly on the SAHAM side, where the solid team in Morocco, Johannesburg and Cape Town and I think, we're very well placed to take this forward. Thank you.

Ian Kirk {BIO 1778703 <GO>}

Thanks Junior. Well done, Heinie.

Well done, Junior. We thought we should spend a bit of time on emerging markets, and particularly the SAHAM deal that's the feedback we've got from you so well done from unpacking this, and whilst us we think that our strategy is fairly straightforward, obviously that the number of activities and the complexity within the geographic structure makes them, the numbers a bit hard to unpack. So, it's well done for taking us through this. I'll just cover now the other areas and really just to focus on the key priorities that we see so to over the short to medium term in the other clusters.

SPF, we talked about closing the gap in entry level life, one of our key areas in South Africa, one of the four areas and Jurie and the team are busy with that. The Capitec arrangement you can see the impact of that that's a critical one. And obviously, then, we've come through with African Rainbow Life. We've announced that we haven't formally launched it.

We still going through some of the regulatory processes, but the team is on board now, and we put in through this capability building this improved work site offering, African Rainbow Life that gives us an additional area. So between the Sky business that's doing very, very well. And under Carl and Gavin that are here. And then the Capitec arrangement and then this African Rainbow Life arrangement, which will be as the Sanlam controlled business.

But that's just because of the regulatory requirements, we really think we can make strong efforts they're closing that gap over the medium term. My ways doing well on the life side it's been right-sized in these doing nicely, and adding a lot of value through the strategic partnerships, not everyone is rushing to the door to buy a digitally as in South Africa, not for us or anybody else. But lot of that capability will be very valuable in our other channels and BrightRock doing very nicely. They're very happy with us, we're very happy with them and it's a nice story actually that, someone who came and wanted to partner and work on the footprint of Sanlam.

They feel they can build their business a lot stronger than I could have done on their own which is really very special for us. And hopefully everyone will talk to them, if they wanted to think about doing the same thing with Sanlam. Savings business, we have to do some realignment there it's a tough market margins are not where they want to be serious about that, Glacier cooperation with Sanlam Investments we've talked about place to invest and then the Capitec taking that partnership to the next level. And then really digital a massive effort going into digital.

We had legacy business, 100 years old gives you great brand, great strength, great footprint when people contact, you don't have to sell Sanlam, but the digital challenges of course for us are significant. And we do want to get outcome by anybody else whether that's a another legacy player doing it better than us. So, all these things are very, very important and so we really -- we had a presentation there last week from SPF and that's very impressive what they doing. Now, interestingly, and this has been the experience around the world for insurers.

It's not so much that everyone's going to write the business digitally, there will be the yes, of course, that'll continue to increase. But it's really about client engagement and the big value is in the back office and the middle office. And of course that create -- it creates huge challenges for our workforce as well. But there's a massive opportunities for us opportunities for us in these areas.

And that's of course, of how you go about us. And I'm very pleased to say both at SPF and again in Santam, which is our big sort of retail businesses. They really are leading the way. And of course, the arrangements that we have with our international partners who are using our footprint, where we were able to engage with them on their latest thinking.

And some of them have got more money than us. So they set up these Silicon Valley Hubs and we part and parcel of that. So, that's been a massive advantage for us, because we can now come with our ideas and say, look, this is a particular issue, we've got in South Africa and we can take it to our international partners. And because, we partnering with them, they let us into those initiatives.

So it really that's quite a big value, which -- I have to be honest we didn't anticipate that when we started off. On the investment group and we showed you the numbers, we show every year the numbers. Some years Robert likes it some years he doesn't, but we showed every year. So that the performance is solid.

It's a solid performance, and not maybe where you'd wanted in a areas. But it is improving showed us some numbers more recently. So it was a tough start to 2018, but the actually the investment guys have done a lot better as the year went on. And that has continued in the new year.

So it's all about investment performance and now of course, we've repositioned the Third Party business as from the package of transactions we've enhanced. And I think that will really, really set us up well. We have a proper asset management business. And the passives, and the alternatives, the international capability, we really have a now we have this enhanced empowerment positioning and I think it's really going to set us up quite nicely.

So Robert is busy with many things on in that regard to try and leverage off that opportunity that we've crazy. But of course, it's about broader transformation not just at the shorter level. It's about people, people development and also they picking up on the retail side with the analytics and stuff like that. But he's got to watch your courses costs, through because that's just how it is, this business and I said it at the August presentation, September.

This is a business industry worldwide under pressure because that you know we've had poor returns for five years and to clients that set many cases and the cost pressure is significant the growth of passive So, I mean there's a lot of opportunity for scale players. Santam, great performance. What do you say, 9.2%, I mean, we take -- we left 10.2 but is it going to happen. So, the range is four to eight, we stay within this.

But the big, big opportunity for Santam is on the continent. Now, you've got a 25% market share in the business, you get them to grow every year. So, what are they going to do they're going to grow into the poor risks, that's always been the risk for us. So, we giving them a much bigger field to play on now.

So they're not going to just play[ph] around in the poor risks, and that's what insurance is all about. And now, we've given them a much bigger play, we've given them the lead on specialist business, we've given them the business on Santam RE to drive that whole reinsurance business will restructure and continental RE in Santam there and that's important. The other two big things of course is omni-channel, which is exactly what Jurie and the team are involved in, to make sure that when you dealing with all the segments that we deal with, you can deal with online, you can deal through the net, you can deal through the app, you can go to the retail, you can go to the bank or you can get us from the broker or you can get us from the Santam Emerging. This whole omni-channel and recognizing that, that young people like to engage with you in a certain way and older people like to engage you in certain way.

And we always thought that the older people -- the 80 year olds in that would only fund the broker. No, they want to see the stuff, the digital stuff too, but then even the youngsters we say well they'll just want all their stuff through India, which is only a digital platform. Not the case, they also realize as they get more money, and they get more complex. So they want face to face contact.

So this all on omni-channel capabilities that we have now, building in Sanlam Life SPF and in Santam is really, really important. And of course, the digital processes for Santam as important. And all that stuff doing it selectively, doing it intelligently, not just rushing and doing stupid things and then bouncing growth and profit that's the real big thing. Corporate improvement but of course this is the one area, where we have a big stretch on the healthcare to that other company is named I keep forgetting.

And but we back in the healthcare business healthcare business and with the relationship with Afrocentric doing very well and the EB business is lifting, we aren't where we need to in terms of profitability on group risk side, lots of partnerships there, lots of discussions to take place over the next year and the repositioning with the empowerment package also important in this whole thing. And of course over time, as the capital markets develop and as retirement fund options develop across the continent will be there. To support Junior and the team, digitization a big, big thing in there as well. Okay.

So Heinie's asked me to do a little bit with the on the BE site. So, you saw the figure. I remember it's Heinie saying to me one year. He will never show a slide on the capital that won't ever discretionary capital of two billion, so he said to do it again and that's just because we haven't had the timing on the 5% deal.

And that's only because we haven't got there one regulatory approval. It's imminent untold and as soon as it says the structures are in place. And we'll get the thing done, as soon as we can assuming the course the range, the prices within the range the two billion facility of NUB that's now available it's in progress. So there's a process around that and the timing will just have to roll that out of a time.

African Rainbow Life depends on the regulatory approval, third-party asset management process that we've announced to be busy with that. And of course, the across shareholding that remains a work in progress. So, these are all -- these are all things that we've made progress on, but not quite as we would have wanted. We would have wanted to have this thing done, as we did this presentation.

So, it didn't happen, because we can get the regulatory approvals and that's a simple as that and we'll get it done as soon as you can. Now Heinie, also we thought we should also speak about the issue of governance, now in the lead up to the getting the approval on the 12 of December there were some issues raised. So I mean it's something at Sanlam that we've always prided ourselves to be top rate in terms of governance, but the game has changed and we recognize that. And some of the things that we thought were particularly important, of course the market today, and kind of let's call it a post kind of scenarios, these things are a little bit different.

So we've given a lot of thought to that and I want to announce and in fact in the same announcement, you'll see some announcements there. So I thought I'd just give a bit of flavor on that. I'll just keep my notes to make sure that I get it right. The first issue is around independents.

Now we had a number of directors who retired because they reached 70. They were with us for a long time, so -- and then we had new ones coming in. So you always have this issue in Sanlam's situation that you have this gap. So two of our directors, Sipho Nkosi and Anton Botha have been with us for many years.

But in the situation that we're in with a lot of new people who've come in to replace the ones who reached 70, and we really want to keep them. We really want to keep them on board but there were questions about their independence. So what we've decided to do is to put all the details on board in the notice for the AGM as to why we consider them to be independent, and there was some press around this that you might have seen and there were some comments made because they've been with us for a long time. And of course, we have the nine-year rule now, which was it doesn't quite apply to us as insurers yet.

The regulator on the banks is getting very -- he's getting (inaudible) on this nine year rule, so around independence. So all the other stuff we've dealt with. It was insignificant stuff we've dealt with that, but we do have in their case the issue of tenure. So we'll put them up, we will put them up for re-election as independents on the basis as we've done it, and defined in kin [ph] and then after 2020 AGM, we will be happy then to define them as non-independent.

We need to keep them on the board. They really add a lot of value. They are experienced people, but we recognize that they will no longer be deemed as independents. So what we'll do is during the year now we'll appoint four or maybe even five independent real, in quotes independent, with no connections to a empowerment shareholder or whatever by the AGM 2020.

And then we'll be able to deem the other two as non-independent and we still have a balance of independents. So that's quite an important. Chris Swanepoel. Chris has reached 70 and he's been with us for a long time, a fantastic guy, good technical, really on the committees.

We really need him, but we've needed him, but now he's asked us if he can stand down at the AGM and he was an independent. And then the other changes that we are -- have announced is that Johan van Zyl will stand down at the AGM 2020 in place of an independent non-executive director. Now all the shareholders would say you couldn't have a better chairman than Johan van Zyl, but that's the view we took. But in the world that we live in today, we recognize because of his association with our empowerment shareholder that perhaps the independence which was what we would want, and we understand that.

So Johan will stand down, and we'll have a year now to go through a process to find the independent chair. So we think really -- These are always sensitive things and difficult things to get through, but we think we've done the right thing. We've taken it on board, we've led the process. Of course we'll have to advise the PA and get their views on these things, but we think we've dealt with the issues that were raised and we did have some discussions with the shareholders on the 12th of December, so we've addressed that and so I just thought, I should spend a minute on that one.

So on the outlook, now, South Africa is still 60% of the business. You've seen the numbers there from Heinie. So very much front of place in terms of when you look at the outlook for Sanlam. We think it's subdued, we think it will remain subdued through to the election.

There's not that much money around for investment. Yes people are risk averse, but the truth is, in the times we're in, even the rich people are not so rich. And so that -- it's not so easy for Jurie and the team there and Jacob [ph] is here with us, he'll tell you. And intermediator is spending a huge amount of time with our clients around investment return.

Thankfully, that's picked up a little bit, but the retention of the Sanlam business has been absolutely unbelievable. I mean if you look at those numbers there aren't insurance companies around the world. When we deal with our international investors, they can't believe the figures on retention. How on earth (inaudible) you changed the business from the business, when the economy is where it is, well it's all to do with the process that you follow and now you have the intermediaries work with us and how we support the business entertaining us.

It's extraordinary but it's been in place for a long time. So a lot of that activity of course the intermediaries are busy with and it's not so easy to sell. Hopefully and hope is not a strategy I know that. But things will sort of improved and the growth rate will look a little bit better and the will be in a slow recovery in South Africa which I can spend hours talking about but that's probably the most likely scenario for us.

Outside is looking a little bit better the liquidity issue and (inaudible) has moved along, Africa's looking a bit better, the big devaluations, we've had with the Angola, Zimbabwe, and Nigeria hopefully around the system. And we can move that forward one has to look at a five-10 years story there, and then as Junior said Angola have the results this year. So all of those growth rates are higher than South Africa, I looked at the chart and also gave me the details just last week. Every single one disappointing though it is a South African except us, every single one is above and of course the insurance penetration is the big opportunity for us.

Higher growth insurance penetration, yes, there's going to be some years that one country one won't work, one country to go faster. But the long term, we think the opportunity is there. So, it's a little bit more positive than. A regulation a big challenge.

Big, big challenge. Big cost pressure for us, we in the twin peaks now, we got two regulators and they're both busy and we busy with them. So, it's really very complex. You hear this from every Chief Executive but it is what it is makes it difficult for everybody and so be it.

I think, the two big moves strategically that we made set us up really well for decades. We've really reposition ourselves very well in South Africa to grow in the areas where we need to cover the ground in those four areas. That transactions we've done the empowerment partners of -- empowerment partners and you ones that will bring in will make a massive difference and African footprint, we've talked about for long. So a very special business, we very -- it's very proud for us to have the opportunity to lead Sanlam in the centenary year.

We building the business on solid foundations. Junior and his team are trying to do the same thing across all 34 countries and we really think that the business is uniquely positioned for growth. 2019 might be tough. We have to sort of look through this we building a business for the next hundred years and I don't know if I'll be around but maybe some of my colleagues will still be around.

The people are born today they're going to last a 120 years hard to believe. I just like to say a big thank you to all of you. Many of you are here have partnered with us for many years and you stuck with us. And it's the value of those partnerships that are coming through in this business.

You can't do it all yourself if you're going to be successful in business today and financial service you've got to be able to -- it's about partnerships and true partnerships. I'd like to thank all of you. I'd also like to thank my colleagues. It's been a tough year, we've had a lot on our plate.

The windows in the phase it's tough but it's tough for everybody and this is a very, very solid performance. Against the third year, I sound like a stuck record but it's a very credible performance in tough years and I just want to thank my colleagues and all of you for sticking with me and supporting with us. And, we are in a very fortunate position certainly on the relative basis. Thanks very much.

So now we'll have some questions if I could just be joined and are filled nice, who's got all the answers to the difficult questions, Heinie and also Junior, and I've got other colleagues here. So I've got all the support that I need for the questions you may ask. I think let's start with the with the audience here. And then, I don't see a row, but we can just go outside.

Okay. If there any questions from the audience. (Question And Answer)

Analyst

I'm (inaudible) Shroyer from Citigroup. First question just is -- got to do with the -- I notice somewhere I think in a press release this morning, as well that you mentioned that there's been an impact from devaluation in Zimbabwe and Angola and so on.

Officially, there was no devaluation in Zimbabwe. How did you deal with it in accounting in this period, I know it's not that significant for you but did it is important for us to understand. And then second question, just notice the big reduction in earnings in SAHAM, and a lot of that's got to do with the float earnings.

Ian Kirk {BIO 1778703 <GO>}

Yes.

Analyst

The investment return on policyholder reserves. So you can just unpack that in my big explain what the assets are see there's some R17 billion assets there how that's invested? And why is that, why was that such a big contribution last year what is a normalized.

Unidentified Speaker

Yeah.

Analyst

Contribution there please.

And then just a third question on the impact of market variances in the life business. And also the week SPF earnings which I guess is related if you can maybe just indicate how much of that investment variance was one-off, in other words sort of capital losses impacted -- impacting operating earnings and how much of it is just a function of lower assets under management? So on a longer-term impact day? Thank you.

Ian Kirk {BIO 1778703 <GO>}

Okay, so I think what we're going to do there. Heinie if you can start with the currency stuff, if you can deal with the float.

Anton will also maybe pass the comment on the float, and then Anton can you maybe deal with the life business. And then the SPF earnings and on the investment side, and Jurie will ask let's see how we go.

Heinie Werth {BIO 7529974 <GO>}

Okay, thank you so much. So, firstly on Zimbabwe.

You're right there is no official devaluation but in terms of good accounting practice these non-adoption of the really using the unofficial rate of 321. So during the year, we still accounted our earnings at going right, but at year end we value tell, carrying value of their asset acknowledging this. I'm going to call it pending devaluation, but we took the conservative route and brought[ph] a investment down to reflect the free to one exchange rate. Just on Angola currency, obviously dropped more than 50% about 50% during 2018.

So, in terms of integral updaters between Angola and other some companies. Obviously that data is now worth much less and that's why when Junior presented the picture on SAHAM's normalized earning it was such a big number that we had to show it. So you can take the one off, but it is we took on the exchange rate. We really don't expect another one to look at the bankers in the room, but all the impression is that far from here on we should see a more gradual depreciation in the Angola Kwanza, rather than this type of 50%.

Junior John Ngulube {BIO 19560361 <GO>}

I think, one could -- one could at the end, particularly with the Kwanza, our business in Angola, SAHAM Seguros is reinsured by SAHAM Re, and this is where the entire company was comes from.

Unidentified Speaker

This just before Anton, I just I just want to make the point that in the models that we built for the valuation of SAHAM, we took into account the potential risk on the Angolan currency in the value, in the model. Yes, but obviously, when the earnings come through you have to.

Heinie Werth {BIO 7529974 <GO>}

Even before they answer on the float and then with Junior or Anton but, even in our valuation models, we use a very conservative and Anton can expand, but basically we use expected flow through returns close to the risk-free rate.

So what you see in SAHAM is volatile market. We can come now and all the float is invested, but in our cash flow, in the purchase price, we use the different scenario of investment assumptions.

Unidentified Speaker

I think on the float they've got in some substantial allocation to equities. The float is actually more on (inaudible) and equities performed very well in Morocco in 2017, but in 2018 and the start of this year as well markets has been flat.

So we will see that coming through on the front returns. Okay, that is something that we will need to consider. It's not a outlier strategy, many international short-term insurance companies doing this accelerating into equities but it's something we will need to understand, whether we've come through to continue with that strategy or change their strategy to be a bit more on the conservative side like we're doing in Santam. And then, just on the Venice on the investment variances -- the variances on the value of enforce is simply a function of lower assets under management and if you look at the (inaudible) in SPF, it's about the 5%, 6% impact which is alive before the markets that.

So, that they're not surprised us. But, if you look at the investment variances on the map that is possibly what you referring to the minus R400 million, that's mainly related to the Glacier returns that Heinie and Ian referred to where some of the products have fees that's linked to the investment return itself. See if you have a poor market those fees are geared and that comes through on the next slide.

Ian Kirk {BIO 1778703 <GO>}

Okay, just one comment on the float because I think this is a some of the you may remember in Santam we had this issue in the mid 2000s, where we had equities in the in the float.

And we just took a view that around capital optimization optimizing reinsurance that we should restructure that and we have other in place now for 10-years, but I mean that we had to change in Africa and in many other countries whether bond yields are different capital markets what's available in capital markets is not quite the same. This is quite normal, but obviously doesn't mean it's normal for Sanlam. So, we're now going to go through a process of engagement with our businesses, because we control those businesses now. So we can go through that -- we're on the capital optimization issue as opposed to just restructuring the float arrangements.

Okay any other questions?

Analyst

(inaudible) relations. First comment is I started counting how many times you said tough about every fact you and I stopped at 20 that he carried right on, we get the message. And I think that is something that we all need to be aware of. And so, I'm asking your view do you see this changing is it just the run-up to the election, we could it will continue after that.

I'd like to do a comparison going a long way back to 1985 where (inaudible) speak. It was a huge knock and it stayed tough for many years thereafter. We then also had poor performance in equity markets separate returns. Do you see that sort of situation is a real risk continuing again in the medium-term?

Ian Kirk {BIO 1778703 <GO>}

Yeah, Ian.

I can only just explain how I see us and how I think most people in a similar position running businesses see it. We in for a slow but progressive recovery, that's sort of the most realistic scenario that I think we can expect. But if we think that's going to be a quick recovery it's not. I mean there are many, many things that went wrong in this country, over the period, over the last period.

And we -- no one can say, we should have been more active, one can ask many questions. But right now, we don't have a choice. We have to support the to support the current arrangement, we have to make sure that the election gets through. Business has to be active and has to lift up and work at.

Otherwise, the different scenarios are not that attractive. And that is kind of I think what you're alluding to. So I sort of base case for South Africa is we have an acceptable election outcome with some action taken thereafter, maybe not what one would expect, what we would expect in business at that rate but nevertheless progress and opportunity and recovery over a three to five-year period. That's how we see this.

Now the business will remain difficult in those task[ph] but you can see, where we've had some great stories even within that. On a relative basis, we doing fine, we one would hope it would be different when we were hoping to go back to double-digit earnings growth, but the reality is the business is not there. And I've said for some time in that -- in the tougher times the stronger businesses get stronger. And we have that unique opportunity available to us now and it started South Africa.

So, South Africa is a critical, critical component of our success going forward I recognize this. But we do have some optionality.

Analyst

Hey, looking at business confidence, it's a mountain to climb. Good luck.

Ian Kirk {BIO 1778703 <GO>}

Larissa?

Larissa van Deventer {BIO 20764470 <GO>}

Good morning, Ian. I'm Larissa van Deventer from Macquarie. Very impressive numbers coming out of Capitec, and a great source of discussion speculation as to the impact to the other competitors in the market. More specifically to the Sanlam Sky business.

Are you concerned in cannibalization or you seeing cannibalization? This was first question. The second one is, can you -- are you able to comment on whether the Capitec momentum is increasing or whether it's starting to taper down from what was a very aggressive start? And then lastly, the agreement that you have to do -- to basically do the underwriting, is that an evergreen agreement or is there a timeframe attached to that?

Ian Kirk {BIO 1778703 <GO>}

Okay, Jurie? Ideal man to answer all those questions.

Jurie Strydom {BIO 16239298 <GO>}

Good morning, everybody. Hi Larissa.

I think the comment on cannibalization is that if you just look at the numbers, the new business now is in Sky and the persistency actually is remaining strong. So we haven't seen a material impact. On that I mean, obviously there's a lot of business that's being written in Capitec, as we can see. So ultimately it should have an impact on the market, but I suppose the guidance we'd give is that the funeral mark is a big market.

So you can't just look at the listed players. You've obviously got a look at all the unlisted players, the mutuals and so on. So in sense Sanlam Sky actually doesn't have that big a market share, and so we wouldn't expect us to carry -- we would carry, if anything, the upper portion of the -- of that risk. But instead at this stage, we're not seeing any of that really coming through in a material way in the numbers.

And I think on the momentum side, we are seeing actually that it's -- we expect 2019 to be stronger than 2018. It is going well. So for now we're positive about the outlook for that business. It is not an evergreen agreement, but it is multi-year agreement, so there is a term on it that we haven't disclosed, but that we're comfortable with.

And we certainly see it as a long-term partnership, it's the way we're working with Capitec and the way we're building the business together. We believe that if Sanlam continues to add value, then there will be no reason for people to think of it as a long-term partnership.

Ian Kirk {BIO 1778703 <GO>}

Any other questions, at the back.

Musa Malwandla {BIO 20221131 <GO>}

Thanks, hi everyone.

It's Musa from Standard Bank Securities. Just three questions on my side. So the first is on just following up from Larissa's question on Capitec. So given that you expect -- so basically what's the -- I mean maybe to be technical, what's the conversion rate on the -- on the -- how quickly does VNB translate into earnings for these businesses for their business being written there? And then for BrightRock, there was a comment that new business strain is still outweighing the back book profit.

So I'm just curious. Just reading through to some of your peers that J-curve can last for years. I'm just curious what your expectation is around that? And then just maybe a comment on SAHAM, I mean I didn't see any unless I missed it any changes in your EVOI first earnings following SAHAM and then maybe just a comment on how conservative you are now currently relative to the peers that have already published their numbers on the same basis? And then finally Southeast Asia, just comment on how you see that going forward because I don't think it featured in the discussion today? Thanks.

Ian Kirk {BIO 1778703 <GO>}

Okay.

And Anton, maybe do you start with it Capitec and the BrightRock and then Jurie, and then do the SAHAM as well after that so and then Heinie will deal with Southeast Asia

Anton Gildenhuys {BIO 4058523 <GO>}

Let me start with -- I'll just start with BrightRock. On BrightRock, we expect it to break even in about five years' time. So I think that will continue for quite some time that we will need to continue funding the new business trend. Of course, it's very continuing, growing more and more that break even though it might actually be pushed out.

On the SAHAM capitalization, I don't think it's a -- there shouldn't be so much room for conservatism relative to peers. The intention is for it to be a best estimate, but clearly they are some subjectivity in the calculation methodology. So it's difficult for me to pass an opinion on how conservative we are relative to others. What did surprise us, and maybe it shouldn't have surprised us is how stable the numbers are and our effectively equity symmetrical adjustment is in stabilizing your cover ratio.

So I think that's a quick comment. Just what was the capital question?

Heinie Werth {BIO 7529974 <GO>}

The conversion.

Anton Gildenhuys {BIO 4058523 <GO>}

The conversion. The nice thing about the Capitec JV is it's in pretty disruptive potential in the market, and that disruptive potential comes from various sources.

So first of all, I think, we're getting to clients that (inaudible) did do not get to, and it's more of a non-intermediated client, a client that's worth reacting to is an ASIS [ph] or those wonderful call centers and so on. Now more likely to go there. I think that's great. But the new business trend on the Capitec is zero.

It's absolutely nil. So profitability comes in from day one, and the impact on us and the attractiveness of this business along the course of that is tremendous.

Ian Kirk {BIO 1778703 <GO>}

Maybe Jurie, you can explain -- you're happy, how it works.

Jurie Strydom {BIO 16239298 <GO>}

Yeah.

Because how we've integrated, we've integrated the whole operation into their one global account thing.

Ian Kirk {BIO 1778703 <GO>}

Yeah, yeah, just explain the whole thing.

Jurie Strydom {BIO 16239298 <GO>}

So how practically it works. So I think the idea of just a new business training shoes that actually Capitec infrastructure is 800 or branches 10 or 11 consultants per branch and what they do is they service clients across the full range of the products it.

And this is just another product set in that basket. So in a sense there's no real incremental acquisition cost from it, really runs through that acquisition annual.

Anton Gildenhuys {BIO 4058523 <GO>}

And we spent about 18 months building the infrastructure with them into interoperability and now the whole analytics that we applying to us. So it's really -- it's a seamless kind of a thing.

So you don't have big acquisition cost we spent that last year and we can search for that last year as part of our SPF result. Now, one the reason why we didn't cover India, Malaysia is want you to focus on Africa, we read -- we announced the structure, Sanlam Pan-Africa. So that's, what Jurie takes responsibility for. The India, Malaysia and the Lebanon, Heinie, a team under Heinie takes accountable for that, maybe Heinie you deal with that one.

Heinie Werth {BIO 7529974 <GO>}

Yeah, so I don't think there's any specific reason we didn't mention it. I mean we did want to focus on Africa. So the portfolio was split now with effect 1 of January, the India, Malaysia and Lebanon reports in to me via different team members. I think, on Malaysia, India very great outfit, Lebanon New the Middle East is new to us.

I think it's fair to say Lebanon, Malaysia, the way we approach it, we want to improve those businesses and we always open what is in the best interest of the business and for Sanlam and the staff in those markets. It's not up for sale. We do believe both those countries you can really look there is lots of fragmentation and they could be good consolidation opportunities. But within that context, we continue to support them like always, and we try to deliver good results.

Ian Kirk {BIO 1778703 <GO>}

Musa, I think it's just important to understand operationally, that the support requirements of those three businesses because they more mature and they've been around are a little bit different than the support requirements on Africa, where it's I call it the heavy lifting to build that integrated capability to make sure that there's a consistency right across the network, not just for local retail and commercial, but also for the internationals. So, the heavy lifting is really being done there, that's why that model we had to change. Okay. Are there any questions from the network? Nothing.

Any questions from the floor. Thanks very much again. Thank you. I think, we have some refreshments outside.

Am I right? Hopefully, we have a cup of tea for you. Thank you very much, and thanks for your support to Sanlam. We look forward to talking to you again in September. Thank you.