S1 2019 Earnings Call

Company Participants

- Anton Botha, Member of the Board of Directors
- Ian Kirk, Chief Executive Officer
- Peter Du Toit, Board Member
- Sydney Mbhele, Chief Executive Officer of Sanlam Brand
- Unidentified Speaker
- Wikus Olivier, Interim Chief Financial Officer
- Yegs Ramiah, Chief Executive

Other Participants

- Francois Du Toit, Analyst
- Larissa Van Deventer, Analyst
- Unidentified Participant

Presentation

Unidentified Speaker

(Starts Abruptly) this morning. But before we do that. I'd like to welcome Peter Du Toit from the Investment Analyst Society to say a few words. Peter over to you.

Peter Du Toit {BIO 15411733 <GO>}

Well, good morning, ladies and gentlemen. Ian Kirk members of the executive, the Board of Sanlam, the Investment Analyst Society, we just like to thank you for hosting us today for the results for the period to June. I think, I'm correct in saying that Sanlam, has past a message on to the South Africans to say that the person -- first person to live 200, has already been born. While, looking at the audience here today, I think Sanlam is going to win the race to get to 200 first. IN 1948, and '49, the United Nations passed the Human Rights charter and in that Charter said, everybody has the right to live. So and the medical science industry got going and they're gaining increasing momentum.

So today we can live in a expectation that they will come in, we will live to 200. I don't know what happens after that. But Sanlam is going to get their first, it's already a 101 years old. As a Company that is the largest insurance Company in South Africa, Assurance Company, life assurance -- insurance and related personal financial services. The market cap of ZAR168 billion and it's a Company that's relatives -- tremendously relative strength in -- in a market that has been in different for us over the last few years.

So it's relatively strong, but as a company that's a pillar of South African Societies of -- of the South African society. So, behalf of all of us, once again, thank you and we look forward to the presentation.

Unidentified Speaker

Thank you so much Peter. As I said, ladies and gentlemen, we'll get a presentation from Ian and Yegs, I will then come back after to facilitate the Q&A session and I do need to say there are full bench of the Executive Team is -- is here, should they needed to answer any of the questions.

Without further ado, over to you, Ian.

Ian Kirk {BIO 1778703 <GO>}

Thank you, Sid and thank you, Peter. Much appreciated the kind words. As you say, we are around 101 years and we're building the business for the next 100 and that's, it's a real -- and a real pleasure to present the results here today. So let me start do a bit of a strategic review. And then talk a little bit about the operating environment that we had to face in the first six months, Wikus will then take us through the financial review, I will come back and do priorities and governance. Little bit about the outlook.

So most of you have seen this before. This is the strategy and we say, the strategy has stood the test of time. It sets out the vision for Sanlam in South Africa, which is around the leadership, in the broadest definition not just the financial metrics, the vision in Africa supported by India, Malaysia. And how we support that through our activities in the developed world around asset management and investment management to support our clients through their diversification activities, based in the UK.

We have our five strategic pillars. And that's -- those are used by all businesses of which there are over 200 businesses now in the Sanlam Group and they use those pillars in defining the strategies for the business. We have a federal model. I think, it's worked very-well for Sanlam over many years. We have tight principles and loose principles, at least not in the loose concept, but in terms of the flexibility that we provide our businesses in determining their markets and their strategies and their value propositions, for their clients and the go-to-strategies.

And of course of late, given that the environment has become more complex and more challenging and more highly regulated, we really embedded within the federal model. We've embedded the concepts of risk management and governance in recognition of the realities of regulation today in financial services and for a group like us, that obviously poses systemic risk and this is systemically important business, so we recognize that.

We've continued to deliver shareholder value over the years, it's been a multi-year performance. Again, I think as Peter indicated, a very good relative performance, of course, we will always want the absolutes to be stronger, but in the environment and the headwinds that we face, I think it's a very, very credible performance over many years.

I will say that in the first six months, the RoGEV which is a key measure for asset Sanlam, 10.5% is slightly behind our target of 13.5%. There are some very specific reasons for that essentially around how we've treated as appropriate we think in the environment we're in. And how we've treated the valuation of certain -- some of the key investments and Wikus will explain all that. And of course as Sanlam, I have every confidence that we will put our heads down and will work hard to achieve that all of the targets that we're trying to achieve for the financial year, will be done.

And of course, good enough to say that more conducive environment would help, of course, but we -- the cards we are dealt, these are our cards, they're dealt to everybody. And that's why I, said over the years we must monitor the relative performance not just absolute performance. So again, we are confident on this and these are key components, the RoGEV and the stable dividend.

So when I looked at the scorecard for the six months, of course, on the downside is the environment and confidence. And I will talk a little bit about that later. And of course, one has to watch the corporate credit, we have a big book there. So one has to look at those realities, but the capital position of course restored now through the BEE credentials and Wikus will explain the accounting for that through the charge, which obviously affects the earnings per share.

Capitec Bank had just been an extraordinary success. I will come back to it later, but in -- I've been in the industry now since 1988. I've never experienced something like this. I've said it to the Capitec teams at one of our workshops with them, it's an extraordinary achievement and very fortunate for us. We have delivered shareholder value, we've had good solid growth and positive experience variances, which is people have come to expect, of course, they always asking how much, how much, how much of the experience variances. So we were just trying to keep it down a little bit, but -- another very, very good solid performance in the six-month period, on that front.

So this is really the sort of key strategic advantage now that we have as a Group, and I've talked about it to you many time, is to how we're -- trying to position ourselves as the go-to-market for the corporate investors and the confidence and have a very strong local general insurance and life insurance retail and commercial capability, we see two timetables here. The first time table is to integrate the Sanlam business that we've done and we still at there, we are on track. I will talk about it little bit later.

And then of course the second timetable, which is to earn out the business return in-line with the hurdle rates that we set up at the time. That's probably a two to three year exercise, but we fully committed to that and we are confident that we can do that. This is really the positioning of the business.

So on the operating environment. Now -- I mean you have read lots of things but, Chief Executives later, I'm not going to repeat you all that. So we are in a serious situation in South Africa, there is no doubt. I've never believed in terminal decline, but I really do think that it's South Africa first. It's time to implement the plans, we've heard that from many, we know what to do, whether it's the latest plan out of the Treasury that I'll talk a bit about later. Whether it's a 14-point plan or whether it's NDP, we've got all the plans, we know what to do. But we've struggled with, it is getting done, to getting it done. And -- but let's just to -- rather than just go through all that, let me say that, how does it play-out in Sanlam just to clarify that. The first thing of course is the intermediated activity, is impacted because despite the success we've had in diversifying the distribution right across the Group. Sanlam is still today, largely in intermediated business. And in the tough times the intermediary spend a lot of time on retention.

The discretionary money tends to dry up a bit and you can see that in the glacier flows and it's just harder for the clients to the intermediaries to get the clients to commit to the range of products that we offer, albeit international guaranteed equity plans, which you would think would be sort of the type of thing that plans would go into. The psyche is such that they don't necessarily do that and it's harder for the intermediaries to stick at the business across the line.

So what we've been doing, of course, and we've done it again in the last six months. And is that we just growing the business nicely. But we are growing it through market share gain, as opposed to real new money, which is the South African issue. On the general insurance side, it's also not quite the same, but it's impacted by GDP because Santam over the years has grown GDP plus, CPI plus about 2% of the developing economies.

GDP is zero, whether you take a minus 3 for the first quarter plus 3, whatever it's -- if it's a 0.5 plus or if it's a 1 plus whatever it is, it's anemic and that affects the general insurance business. And of course corporate credit, as I mentioned is at a tough one. We've got a big corporate credit book, which we would have, of course, as a big life company along with all the others and the Banks. So you've got to be very careful and the type of things that we've seen, we've had to do some provisions there and we've consistently raise the provisions, another ZAR142 million in these results.

And that's obviously impacted the business. And then of course you have to manage the investment market conditions through volatility and that's from how you deal with the clients to how you run your business and how you position your portfolios for your clients and for yourselves. So it's very hard for operating the team to operate in this environment. But this is the cards that we are dealt. Now as far as Africa is concerned, of course, things are looking a little bit better. Even that we have 34 countries in the portfolio, you have the diversification benefits.

One or two countries are always going to find it a bit difficult to. We had problems in Zimbabwe, but of course because we kept our exposure to Zimbabwe at the beginning, it wasn't such a big number for us. I think, Wikus will explain, it was ZAR188 million that we took in the GEV writing down the business. But we've got great businesses and we believe in time that we'll recover the real value. It will take time for the country to recover. And therefore the value to recover, but we've got great businesses and wonderful people there and we'll back-away and hopefully the value will come back in time.

But there are two things. I just want to mention that are probably be going to be quite important, and our desire to ensure that we get penetration of insurance products up in the territories in which we operate in, because that's a key component. The first is the Africa Free Trade Agreement, over there has been some positive progress. And of course, we believe the free trade is very, very important in growing the economies and in growing Sanlam's business.

I don't know that Mr. Trump sees it that way, but we certainly see it that way, and hopefully Africa now will come through and South Africa is the Secretary [ph] and Nigeria will make some difference. The second thing is risk-based capital, and that really plays into our hand as a diversified business we've seen as now in West Africa, we've introduced the new capital requirements. And Junior explains to me of the 90 players that are operating there. 48 don't meet the capital requirements. So that's a nice opportunity for a business like Sanlam.

So those things are important, the global environment is a tough one. We have had decade long free trade, driving global growth and now we are into a situation where we have populism, we have nationalism, we have protectionism, we have Mr. Trump and Mr. Johnson so goodness only knows what's going to happen. But we don't necessarily see that as a positive, at least in Africa where we're playing. We can have some positive. So of course, it would be great if we had a little bit, a little bit more. So that's it for me. I'm going to hand over now to Wikus take us through the numbers.

Wikus Olivier {BIO 20074722 <GO>}

Thanks, Ian. Good morning, ladies and gentlemen. It's my pleasure this morning to take you through another set of solid results for the first half of 2019, which as Ian mentioned was achieved facing major headwinds in South Africa. If you look at the features of the economic and on the rating environment that impacted on our results in the first half of the year. From an interest rate perspective, we saw a long-term interest rates in South Africa, both in nine year and five-year yields being lower at the end of June compared to both December 2018 and also end of June, 2018. That of course, also had a consequential positive impact on our risk discount rates, boosting our return on group equity value by 1% and also increasing the growth in our value of new business by 5%.

From an exchange rate perspective, the average rand exchange rate was significantly weaker in the first-half of 2019 compared to the same period in 2018. I think, about a 3% positive impact on our operating profit growth for the period, but if you can pay spot to spot exchange rates from end of December to end of June 2019, we actually saw a strengthening of the rand over the period, which are in negative impact on our return on group equity value of about 1%. From an investment return perspective, if you look at the first half of 2019 markets really performing strongly up about 9% in South Africa, which is a counter of the performance in the first half of 2018, where we saw a negative equity market returns.

So that's contributed to positive EV investment variances of about ZAR570 million, but if you look at the average market levels first half last year versus first half this year, the average was down about 6%. So, we saw continued pressure on fund-based fee income. But I think the Robert's business and the Sanlam Investment side but also within the SPF business. From underwriting perspective, you saw the Santam results coming out earlier.

The underwriting margin declining from more than 8% to 5.3% in the first half of this year, but still well within the 4% to 8% target range. And these are on-site, unfortunately reclaims experience continuing with the underwriting margin of 3.2% below the target range.

Looking at the key performance indicators of the Group from an earnings perspective, operating profit up 13% in the first half of the year, which I think is a stellar performance given the environment in which we operate. Our net operational earnings, which is a combination of operating profit plus investment return earned in our capital portfolio also up by 15% supported by the relatively stronger equity market performance. Business volumes is where we really had a stellar performance from our life businesses, with the net value of new covered business, up 19% to ZAR942 million, even if we strip-out the impact of the lower interest rates, VNB still up by 15%, with the margin also improving from 2.46% to 2.79% in 2019.

Overall, new business volumes up 4%. We will get to the detail in the later slide, but impacted by risk aversion within particular our mass affluent and affluent market space. But net fund flows, increasing from ZAR19 billion last year to ZAR23 billion in 2019. Ian already referred to our return on group equity value, which is softer than what we would have liked with both the actual RoGEV and adjusted RoGEV below our 13.5% hurdle rate.

Taking a look at Sanlam personal finance. New business volumes down 9% on last year, but essentially due to a lower performance in Glacier, where we've seen the trends from second quarter of last year continuing into 2019, with this business really suffering from a lack of investor confidence. You can see both in life and non-life lines of business down on last year. Sanlam Sky up 3% in total, but there we have to look at the different lines of business. We've see traditional individual life recurring channel up 13% on last year and I think, especially compared to the rest of the peer Group a very good performance.

The Capitec funeral product, Ian has also referred to already, reaching sales of almost ZAR470 million in the first half of 2019. The capital credit life business, unlike the funeral product, which is -- where we've had a strategic relationship with Capitec. The credit life book is essentially upward in the every year through a competitive pricing process. And Sanlam Sky, given the current environment priced for that and unfortunately proved to be uncompetitive with other players in the market and we lost a scheme this year. But of course it's up for renewal next year as well. So we will be able to win that back.

The other channels doing well, up 82% with both group business and African and doing well. The recurring premium channels where we actually saw the pressure on disposable income within the middle-income market coming through up only 3%, supported by good demand for retirement annuities. And also good growth at my way. But if it's essentially all of the other lines of business on the saving side down on last year and the traditional risk business also flat on 2018.

Net fund flows reflects the lower single premium volumes written by Glacier. Net value of new business up 16% on last year 11% if I strip out the impact of lower interest rates. Essentially a function of the strong growth that we saw in particular on the Sanlam Sky side and also some impact of basis changes that we made at the end of 2018, coming through in the first half results, with margins exceeding 3% again which is particularly satisfactory results.

Net operating profit up 9% on last year, Sanlam Sky increasing its profit by 12%. Despite our new business strain incurred due to its strong new business performance. If I exclude new business strain, the profits were up 27% on last year, which reflects the growth in the book over the last number of years, delivering on this growth area for the Group.

Recurring premiums up, cluster down 9% on last year, essentially three factors impacting on that result, also our new business strain, lower profits from the older book that's in run-off and also a little bit lower positive risk experience variances in the first half of 2019 after stellar results in 2018. Glacier up 33%, despite the new business performance, were supported the results in the first half of the year was good fee income on products where Glacier participates in the actual investment return and underlying portfolio, with a relatively stronger market performance in the first half of the year.

Providing some support on that base, but with the core platform business also increasing profit in high single-digits. Strategic business development up 82%, due to lower expenditure in these businesses, but also a one-off ZAR70 million prior year positive tax adjustment coming through in the first half of 2019.

Group equity value of ZAR45.6 billion at the end of June, with the return of 11.5% which is well in excess for the business for both life and in non-life businesses contributing strong returns. Switching to Sanlam Emerging Markets. New business volumes up 36% on the first half of 2018 with most countries and lines of business achieving good growth. Exceptions were investment business in Namibia and Kenya, which is reflected in the lower new business volumes in Namibia and other African markets, but we've seen in Namibia space, the life business actually did very well with strong growth in both the entry level market and also a large-single premium Group savings, mandate received in the first half of the year.

Botswana business, up 34% with growth of more than 40% in the investment business, but also good growth on the life side. But there we have actually seen a change in business mix to the less profitable products. So when we get to the VNB, you see the VNB growth was not as strong. Within other African operations up were 81%. Saham finances overall outperformed its targets for the first half of the year, which together with the impact of the acquisition that we did in the second half of last year, resulting in a more than doubling, each new business contribution.

But in other emerging markets up 23% which is a combination of 16% growth in India and more than 40% growth in Malaysia, where we've seen, it's, particularly the life business in Malaysia founding very good traction in the first half of the year.

Within India the general insurance business did very well, the life business unfortunately was impacted by lower disbursements in the credit life businesses in the last quarter of 2018 with consequential lower internal sales due to credit line base.

Net fund flows, up from ZAR3.2 billion to ZAR5.5 billion, with the impact of the acquisition of Saham Finances, also providing support. Net value of new business up 17% on last year and Namibia up 39%. Where the strong growth in the international market and the one-off large and savings mandate also providing support. Botswana as referred to up only 4%, which if you strip out the currency impact that actually down in local currency on last year, due to the change in business mix.

Within other African operations, I think, the highlight is -- although it's still small within the overall Sanlam context. The improvement in the other African operations was particularly pleasing. Other emerging markets down 18% on last year and that's essentially due to lower VNB in India that's linked to the lower sales into the client bases of the credit businesses and -- with the Malaysia business recording very good growth. New business margins, the only item that I want to highlight is Namibia, we saw slightly lower margins, and that's due to the impact of the single premium policy that we are out in the first half of the year.

On the net operating profit perspective, up 50% on last year, Namibia flat on last year, due to a weakening in claims experience on the general insurance side, similar to what we've seen in Santam in South Africa. But with the life business in particularly showing strong profit growth with the Group price risk experience improving from last year.

Botswana up 9%. This is a good result despite some asset mismatch losses incurred on the annuity portfolio. Looking to other African operations, Saham Finances is still underperforming targets for the year and that's essentially due to weak, both the clients in Morocco, we saw that in the second half of last year and those trends continued. But -- with the combined ratio of the business, still well below the average for the markets and in some also incurred some large one-off clients within Continental Re of some ZAR70 million related to oil and gas cover and also the cyclone in Mozambique. Within other emerging markets India up 74% on last year. The credit businesses despite the lower disbursements in the last quarter of last year, the book still showed some good growth, supporting the profits from the Indian operations or from the credit operations and we also saw some improvements in regulations within Sanlam City -- Shriram City Union Finance.

The general insurance business, increased its profit contribution by 170% on last year, where they have seen a strong improvement in the performance of the third-party pool business. It's a combination of factors, the claims frequency has been coming down the last number of years and the business is also put a lot of focus on managing the claims, within the business settling claims earlier, setting -- out of court and then ultimately lower claims cost to the business.

So we did see some release of reserves in that business. So the ZAR570 million is not necessarily a sustainable profit going forward. But we do expect the general insurance business to operate at a higher than historic profit level going forward. Group Equity Value, actually reflecting a negative return of 0.4% in the first half of the year. This is essentially due to the valuation of Saham Finances and the Indian businesses, where we -- for both of those businesses, we keep the valuations broadly unchanged from the end of

December. So, on Finance -- in case of Saham Finances, essentially taking cognisance of the current claims experience within the business.

In the Indian businesses, despite those business doing very well from an operational perspective. Our valuation mythology does take into account listed values of the credit businesses, that's part of our unlisted investment within Shriram Capital. And those share prices were on severe strain in the first half of the year. So we've decided to rather keep those valuations also unchanged.

Looking at Sanlam Investment Group. Net investment flows almost doubling on last year and you can see most of that's coming from the investment management business in so which I also think is a really good results, even the challenging environment and we've seen good flows from both the retail and these institutional and the alternative businesses with SIG. And I think they can really be proud of that result.

Wealth management, unfortunately, reflecting a small net outflow with that market segment also impacted by a lack of investor confidence. Similar to the Glacier environment and with international business also experiencing a strong turnaround from the previous year. The net operating profit, up 7% on last year, within similar to the flows investment management business also doing very well, up 61% on last year, included in the ZAR197 million of profit is one-off fee income of ZAR60 million that the alternatives business and on the closure of the climate one fund and is also ZAR38 million of fee income earned by the properties business on property transactions.

Also think the national side, down 15% on last year due to two factors. The one is lower brokerage volumes and then also bad debt provision of ZAR30 million that we had to make in that business, which more than offset really strong performance by both Nucleus and the asset management businesses in the international segment.

Ian already referred to the ZAR140 million corporate credit provision that we had to make in the first half of the year given the rising in credit risk in the corporate space, which impacted negatively on the SanFin profits. But I think despite that only being down by 11% is also a good result. From a group equity value perspective, the returns of 5.5% is lower than the hurdle rates for the business and that's due to us holding back on the valuations of both the asset management businesses and all sort of private wealth businesses, given the current challenging environment and the low net flows within the private wealth space.

Santam results, you've already seen net earned premiums up 6% on last year with underwriting surplus down 34% essentially due to a normalization in the underwriting margin from 8.4% to 5.3% that I've already mentioned. The return on group equity value of 3.4% reflects the performance of the listed share priced during the six months, because as you aware -- we value Santam added, listed value within our group equity value.

Sanlam Corporate. Very strong performance from a new business perspective of 32% with strong flows coming through on the Umbrella Fund business in particular, but have net fund flows more or less at the same level than last year, with a good new business performance also reflecting in more than doubling in its value of new life business for the period. And with the new business margin also more than doubling, which is a very good performance from this business. From an operating profit perspective -- profits down 18% on last year. The two biggest businesses in the employee benefits and the healthcare. On the employee benefit side, we did see a weakening in Group risk claims experience, which negatively impacted on its profitability and while the healthcare business was impacted by lower than expected growth in its members on the administration and also some one-off expenses coming through the business in the first half of this year.

But the despite the lower profit contribution, return on group equity value of 8.2% is also well in excess of the overall rate for the six months. Putting it altogether for the Sanlam Group, new business volumes up 4% on last year and net fund flows as I've already mentioned, up from ZAR19 billion to almost ZAR23 billion in this year, which is, is really good result for the group in total.

Net value of new business up 19%, 15% excluding the impact of the lower interest rates. This slide just gives some the trend-line over the longer term for VNB, where we've seen a trend of strong growth over the years actually continuing in the first half of 2019. Net results from financial services or net operating profit, up 13% on last year with strong contributions from emerging markets that I've already discussed.

From the income statement perspective, net operation earnings up 15% combined effect of the 13% growth in operating profit, but in a relatively strong investment markets in the first half of the year also supporting the investment return that we've earned on the capital portfolios. IFRS attributable earnings down 32% on last year and you see the biggest items in the -- is firstly the IFRS 2 charge of ZAR1.7 billion that we have to recognize on the conclusion of the 5% share issuance through the Broad Based Black Economic Empowerment vehicle that is a one-off, I think will recur in future periods.

The increase in amortization of intangible assets. This is due to the significant intangible assets that we recognized last year once both Sanlam finances and Nucleus became Group subsidiaries. The other line item is a combination of the elimination of trade issues, helping [ph] our policyholder funds in terms of IFRS with that number of volatile, essentially dependent on what the movements in the Sanlam share prices. Group Equity value perspective I've already discussed the individual performance of the businesses, but as mentioned earlier, adjusted RoGEV on a per share basis of 8.9% four months to six months. On an annualized basis, which is below the 13.5% down the rate. And as Ian also mentioned this is the specific focus area going forward. But we are to some extent dependent on what the market performance will be in the second half of the year.

Looking at the buildup of group equity value earnings. Total adjusted RoGEV of ZAR6 billion for the first-half of the year with a ZAR4.7 billion contribution from a life businesses, which is well in excess of our hurdle for the combined life operations and you can see a continuation of positive experience variances and strong VNB also contributing to that performance.

The ZAR1.3 billion contribution by -- by other operations is lower than the older rate. I mean, it's essentially due to the low valuations on the Shriram Capital, Saham Finances and also the low return on the Santam share price that I referred to. Adjusting from adjusted RoGEV to actual RoGEV ZAR414 million positive impact on the life businesses due to the lower interest rates coming through and then very small adjustments on for the rest of the life businesses and -- and also the non-life operations.

Looking at experience variances. This is a number that we've always been very proud of at Santam, with us producing consistent positive experience over the years. First half of this year, we again achieved ZAR663 million, it's lower than the ZAR1.1 billion of last year and on the right hand side, you can see the main components of experience variances with the biggest decline being in the other category, which reduced from ZAR498 million, to ZAR156 million in the first half this year.

But just to remind you that included in the comparable number was ZAR290 million one-off release of cost of capital, when we reduce the capital allocation to the South African Life businesses. One or two other items, I highlights on the credit spreads also down from ZAR192 million to just about ZAR100 million and that's where the impact of the ZAR140 million credit provision comes through. Assistance experience in line with last year, risk experience also declining by about 40 million, with most of that attributable to the weak claims experience within the EB environment. Return on group equity value, if you look over the longer-term. On an actual basis, we -- 0.9% short of the target but on an adjusted basis, we still exceeding the target by 2.2% over five-year period, despite the underperformance in the first half of this year. Which is still acceptable performance.

From a diversification perspective, South Africa remains the biggest part of the business contributing 62% of our group equity value and still about 70% of net operating profit. But if you look at those two graphs, you can see, there is still some work to do to ensure that the other African operations profit contribution gets closer to the group equity value on composition.

Looking at the line of business diversification, a very well-diversified profile across group equity value with life business of 42% and general insurance business 31% and this is where [ph] the acquisition of the remaining interest in Saham Finances made a real difference to our diversification profile. But similar to the geographic picture, if you look at the net operating profit, we can still see the life business contributing a disproportional component of operating profit, with some work required to list the contribution of the general insurance businesses.

Looking at capital management, we started the year -- the negative balance of ZAR3.7 billion adding to discretionary capital over the six months was net cash of ZAR4.5 billion that we raised through the 5% and there will be issuance that's after allowing for -- and the funding that we provided to the SPV, and also the dividend that we paid on the increased number of issued shares over the period.

Capital deployment of -- amounted to ZAR877 million for the period with the two biggest components, the capitalization within the similar region due to buy a minimum capital requirements, which used about ZAR550 million. And then also a -- some ZAR170 million payment to Santam to reduce its participation in the African GI businesses from 35% to 10% to be in-line with its stake in Saham finances.

That leaves us with discretionary capital balance of about ZAR570 million at the end of June, which is fully earmarked for transactions that's in the pipeline. Looking at the solvency position remaining very strong. If you see in the middle of the slide, the Sanlam life covered business standing at 240%, which is still in excess of the upper range of its target 170% to 210% in solvency range, with the Group solvency also remaining strong at 205%. The reduction in the cover level since the end of December, is essentially due to more severe equity stress in the standard formula due to the higher market levels at the end of June 2019.

And that is from my side. And I hand back to Ian.

Ian Kirk {BIO 1778703 <GO>}

Thank you Wikus. Well done. It's amazing. As you can see from the diversification, it's helped us adapting and do with the challenges that we face. But of course, it complicates things and over 200 business now on 44 countries, it absolutely amazes me, Wikus can just talk the figures off the top of the head, which is what, obviously we had with Heinie and we had with Kobus even before that. Thanks, Wikus it's not easy. We make life hard for you, but you totally on top of it.

Okay. So just going through now, into the priorities and the governance. Dealing first with the group, now I talked there about the strategic partnerships. Look we are not going to partner with everyone, we have a couple of key partners on the retail side and on the institutional side and I think that's going to be key to our success pan-African, in particular, it takes a long time to build traditional distribution we busy with it. Robert and the team are doing that certainly Robert.

But you need alternative distribution given the pressure on the huge opportunity, particularly in the retail area, and these partnerships that we've announced with the banks and with the telcos and with some IT businesses are really going to differentiate us, but the other thing that's quite interesting is that the actually help us the debt. I mean what we've learned from partners like Capitec and MTN is really very valuable for us strategically as a business and it's opened our eyes and it's a deliberate thing. But it's really been very, very valuable. So I think, no matter how big and how strong on how focused you are, you do need partners to avail of those huge opportunities that we see across the content.

Now the other thing I would say here is that, obviously we have to deal with all the challenges today around analytics and digital transformation. I think, we really getting our heads around that. We've put in place necessary infrastructure and over time, given that it's 101-year business, it's not like you can started tomorrow. We adapting very, very well on that and -- because it's pretty good. People know you've seen, we've made a move Jeanett Modise who is with us today. Jeanett has been with us for a good few years through Santam through Sanlam Investments. And now we've bought around to the Group -- as a Group HR Director.

So, and as a deliberate strategy because it shows to and we've managed to get Sanlam to position, where we can retain our top talent and we can attract our top talent and that is absolutely critical in our performance. So we really focused on that we have to ensure we have the right people, in the right role, with the right support, that is a message for government by the way, to get the job done.

Aligned with the strategy and really purposeful and you see that obviously with SPF and the development in Africa has been the number one priority for the Group. If you see the moves that we've made now to position Junior into the business development and the stakeholder management role which is what really is something that can untrip or trip you up in Africa. So with the full time focus Junior there and then asking, I need to -- which we very kindly agreed to take the full operational responsibility for the emerging market business. I think, it sends a very, very strong message around our intent and Heinie of course has been with us for many, many years. He knows all the talent available in Sanlam. So he will know what he needs to help and get the job done, and I think you'll see more moves in that regard.

And that really talks to the commitment we have. And Wikus gave the numbers on SPF. So I won't talk numbers, but I think you know for Jurie and the team a very, very solid performance. And of course Capitec as I mentioned, this is extraordinary achievement. I mean 100,000 policies a month. I've never seen these in my life and I have never experienced anything like it.

And of course, it talks to the strength of our partner and the strength of the partnership in building out the capabilities that we did up over time and how the things working very, very well. And of course we'll take that to the next stage over the next couple of years, but also what they've done there very, very cleverly as these new initiatives and we mentioned MiWayLife and Sanlam, Indie and BrightRock and of course you have to be careful in the times that we in and developing.

And the Jurie and the team have really brought those. So it's definitely helped us in the VNB and we've kept the operating profit strain very much under control as you can see from the figures. So I think, that's really fantastic. And I've talked before about the four strategic priorities in South Africa, and it's in the entry level market and recall, US guidance that we really have made progress now we were out of the market for many years having sold metropolitan we've now under clause [ph] guidance. We've now got three horses in the race, we've got the Sky business which is doing very, very well and taking market share as you can see. We've got this wonderful opportunity with Capitec and now we've got African Rainbow Life up and going, which is a different distribution model and really an opportunity for people to come on board and do the business on the Sanlam platform.

And with those three horses in the race. I think we really making very, very solid -- solid progress. And of course Jurie and the team active on digital and the analytics and improving the value proposition to clients and the way we run our business. And we've even got the robots-up and running known Bellville. So if you want to see Bellville robots.

So I think, that the same as other robot and not any different because they are in Bellville. Ao, and they work 24 hours and they don't get sick and they don't have transport problems. So on the emerging market side, I've talked about is and we use the word the complete, I would rather really say that the integration, which is timetable one is on track it's certain -- not complete, but it's on track and in progress.

And then as I say, it's a two to three year earn-out on the business case. The deal is done, I think it's in progress. We understand the business case. We've got confidence in the model, we've delivered in the past, we think we can do it, we think we up to it. The people moves are referred to and they expect more in the future will really position us well. But on top of that, what's really critical. And what I'm really positive about is the way the clusters --the other clusters have come on Board in this opportunity.

We're not going to be successful. Just leaving it up to Junior, leaving it up to Heinie, leaving it up to the teams we have to come on board as all of the clusters and whether it's Santam and the corporate and the investment business, I am really beginning to see that now and that's going to be, it's a wonderful capability that we have. And once we get people to -- within the 21,000 people, we've got in the group to understand the significance and the wonderful opportunity that we've got there.

But of course, it's not going to be easy. And it's not going to go on a straight line. These things we -- we realistic. We've been in business long enough to understand that but delivering on the synergies, building up the life business, growing the general business now under Nadia and her team, optimizing the reinsurance to work with Anton and his team are doing on capital optimization.

The work that Manuel-Briley and his team are doing on really positioning us well for the go-to-market and the internationals to really deliver on that, on that unique opportunities. So that's the number one priority. And I think, we -- we are in solid position there. It is going to take some time not everything is going to go according to plan. We realistic on that, but this is the story for the next three to five years for Sanlam, and we have a unique positioning at the moment.

Wikus took us through the numbers on investment. But going forward, it's really around this superior investment case, and I have to say well done to Robert, Anton [ph] and the team. They have really positioned us well on the investment performance, and we were very, very solid there and it's helped us. The performance from the third-party asset management business and the split that Robert put in place a few years back is really working, and they have an outstanding performance. The profits are up 70% and that's just -- it's just been great and positions that business very, very well, because though asset management is a business that's under pressure right around the world, passives and alternatives and we've invested nicely there, we've got a great passives business. We are building a very strong alternatives business. It's working for us, and we're looking at the scale opportunities that will inevitably come in South Africa because of the pressure that's on this -- on the margins in this business. We are well positioned for that. We are well positioned around black empowerment deal. In the UK, it's all about improving the returns. We know why we need the business, and it's critical for our client value proposition. But we need to make sure that we all focused on getting the returns that are necessary out of that business. And Robert and his team are certainly well active and busy on that.

Santam, difficult first quarter, but we know this business. We've been in it for many, many years. It's about volatility. At the end of May, Lize was sort of saying, oh, how is it going to be and then they came through very, very strongly in the month of June, so a great business and in the conditions that we're in, very much on track. They've got a new five-year plan and we went through that for a day, it's last week with them and it's fantastic for me because I was in that business for eight years to see how the team is really rallied around Lize and giving her a huge support and the confidence that it gives me as an investor in that business about making sure that that business is future fit, it's dealing with all the challenges, it continues to grow the market share. So they also participate actively in our partnerships in South Africa and outside of South Africa and they are busy with the municipality. So we're really, really in a good position there.

Sanlam Corporate now, I'm confident I've seen some of the numbers over the last few months, I think we can turn that profitability. We're really focused in on it. We're very much in line now with Afrocentric strategically. We know what's going on there. We are in a stronger position to support that business. And of course, with the defaults, the retailers opportunity is very, very significant. So I think we're in a very good space there now. And (inaudible) and the team will build out that business strongly, and that's of course in that area, it's really, really critical because, talk about the two that -- in that cluster, two of the four areas where we need to get to that leadership position. We've got strong competitors against us, but I think -- just give us a bit of time, I think we can make solid, solid progress strategically there and closing the gap in those two areas.

Okay. I must just say a little bit about governance, because this is an important issue from our shareholders, and we've made some really impressive, I think, Board appointments, Elias, well known to all of you; Andrew Birrell, well known, certainly to Ian, Andrew and I work together in the capitalize, it's a wonderful for me to to have Andrew back, but he's had a great, great career, great success. It is a real success of his career in South Africa and in the UK. So it's wonderful to have him back. And of course, Kobus now, having done the three years compulsory cool-off period, Kobus is now back with us on the board 1st of January and then as I mentioned bringing Jeanett on board showing the -- demonstrating the really important people, the people and the new ways of work and all that sort of stuff. We've also made solid progress on the broad-based trusts. We will have that all wrapped up at the end of December. All the criteria is now finalized, and we are working there with our partners in UV ensuring that all that is wrapped up by the end of December.

So of course, it's outlook now and I'm sure you've heard many comments from Chief Executives as to how they see it, but just before I get into that, I just want to talk a little bit about the xenophobic attacks on foreign nationals in South Africa. I think it's appropriate for me as a leading insurer in Africa to make some comments there. So we have a presence, as you know in 34 countries through the Sanlam Pan Africa business. And we note with deep concern and we condemn the spate of attacks that we've seen in our country against foreign nationals, and of course, we see the reports on retaliatory attacks in businesses in Africa again South African businesses now that really -- it's just a dreadful situation.

So our business model, as you know, is based on strong local partnerships with businesses outside of South Africa. And it's managed by locals in those countries. There are many and many countries. We use our partner brand. So you want some Sanlam, it's an integral part of how we do that, and particularly in the countries where we've had most retaliation in fact we're not using the Sanlam brand. It's not to say we are not impacted. Of course, we are impacted, but we are not impacted in the same way as a shop rater [ph] or a standard bank on an MTN. So it is slightly different for us. But really we -- it's a most unfortunate situation. We believe strongly in diversity and inclusion and staff in the businesses throughout Africa and we've now got about 12,000 staff in Africa and the 21,000 staff that we have in South Africa, they are most valuable assets, and we strive to provide them with the safe and supportive working environment. So, having Junior now fully available to focus on stakeholder management and business development, so Junior and his team are fully focused in on this. He can tell you exactly what's happening in every country. This is his main focus to manage the relationships and do what he can and do what we can to deal with this most difficult situation.

So, getting back to South Africa, I've said earlier, I don't think we are in terminal decline. I think South Africa can be fixed. We have a new paper now from the Ministry of Finance towards an economic strategy for South Africa. And very much in line with the NDP, very much in line with the other priority plans that we've had over the last few years, but really guys and girls, it's now about implementation. And I'm seeing more and more recognition within the government where uncertainty is parts of the government, let's say, the ones that the more rational side, around the real need to focus on implementation and to work with the business sector and to work with labor and getting the job done.

Now implementation of the job is what we do in Sanlam. So we really do understand these things. So it's having alignment around the priorities and when you don't have alignment, then you have all this policy uncertainty and we don't know what we're doing and we're doing this one day and we're doing this another day and how does it all hang together? We're not going to fix South Africa, if we don't address that issue. Business has to be more proactive, so there's no doubt about that. We have to work on the priorities. But I think the recognition that the state needs to work with the private sector. I'm certainly hearing a much, much more of that and that creates opportunities. Of course, it takes -- it creates challenges for us too, because the expectation will be there from government that become on board and we fix South Africa, but as I've said many times, we can't have a successful Sanlam if South Africa doesn't succeed, and we have to work together with the business and government for doing that.

So, thank you very much for listening to what we had to say. I think the business is in good shape. I would agree with Peter. That's from the beginning. At the beginning when he said a very, very good relative performance in challenging times, of course we would all want the absolute performance to be stronger, but the reality is that you can build and you can make a real strategic progress in tough times because the stronger businesses tend to get stronger and the weaker ones just find the difficult -- find it more difficult with the wind in the face. So we know what we're doing. We've got the capability to implement. We know that this business is about. Our heads are down and I've got every confidence for the next six months. The real source -- workforce would help us if the external environment is a bit more conducive, but some of that is strictly outside of our control, but the things that are within our control. I think we're on top of that. So thank you very much. If I can hand back now to Syd.

Sydney Mbhele {BIO 20089938 <GO>}

Thank you. Thank you, Ian. Thank you, Wikus. I hope you all found that formative. Ladies and gentlemen, we are now going to take some questions. We will start (inaudible) and then we will go on to the telephone line and the webcast. If you could please ask that you introduce yourself and where you are from. And as you ask questions, I will invite Ian, Wikus and Anton, please may be join us on stage to get ready to take some of the questions, and I -- already as they settle, I already see a hand. Can we get a microphone closer to the gentleman over there? Over to you. Can you please stand if you can?

Questions And Answers

Q - Unidentified Participant

Good morning. I'm Tato [ph] from Sanlam Private Wealth. Ian, you mentioned obviously the distribution partnerships with Capitec locally and MTA [ph] on the continent, could you perhaps just give some color over three to five-year view, if you have any as far as expectations around business loans or written premiums that may be derived from these partnerships as well as future product growth that could be supplied aside from funeral plans that could be supplied by those partnerships?

A - Ian Kirk {BIO 1778703 <GO>}

I mean, it's hard for us at this stage. I'm not really in a position to disclose, but obviously in the two that you've mentioned and there are one or two others. We do have project plans and we do have projections as to what can be achieved. And as you've also mentioned, it's not just about one product, but you have to start the partnership with something. This is like a marriage. You've got to start with something. So you start with the one thing and we started with Capitec for example with them the funeral plan and we've embedded great success on that. And we have projections on that and that can make a very, very significant difference to Sanlam, and it can make a very, very significant difference to the positioning of all the players in the mass market there. And I think you're already -- I mean the smart analysts already begin to work out the sort of winners and losers and that's an interesting scenario, but it's about a broader and a deeper partnership. It's not just about funeral plans as you say. So we're very, very busy on that.

The one thing I would say about Capitec is that one of their criteria for working with us and why they chose us is that we are prepared to disrupt. And so, that is one of the key criteria of the product. Even though it's a standard funeral product, it's extremely disruptive for various reasons, which I won't go through in the market and it will be the same with the next range of products that we deliver with Capitec.

The same thing will apply to MTN. We'll start with the particular product, which we've got just about ready to launch. It's sort of a -- more of a savings investment type of plan around the product that we built in Sanlam Indie. And we'll take that forward, but it's not really appropriate to go through and tell you what -- as a percentage, what our production will be, but if we were sort of 90-10 in terms of intermediaries versus alternative today, that will be a very, very different picture, I would say, Anton, in three years time. And the partnerships, and I want to mention again, it's not just about the presence that they bring, it's also about the value that they add in improving our ability to adapt to market conditions. We learn a lot from these partners. Hopefully, they would say they learn a lot from Sanlam, and they do tell me that I hope they tell others too. So I don't know, Anton if you want to add.

A - Anton Botha {BIO 1644199 <GO>}

I think the only thing to add would be to highlight that the uses of partnerships will also be different in Africa. In many of the African countries and Ian alluded to that, we are going to make more use of partners to get distribution up and running much more quickly than building a traditional distribution force. So I think in that regard, the partnership role will be different in Africa from South Africa specifically.

A - Sydney Mbhele {BIO 20089938 <GO>}

Yeah. Thank you very much. We've got another question over there.

Q - Unidentified Participant

(inaudible) from Obsidian. And in your results, your emerging market, your SAHAM contribution was positive given the increased shareholding as well as the weaker rand. If you look through to SAHAM Group per se in their reporting currency, which presumably is the Moroccan dirham, what was the year-on-year growth rate? It looks like it was around about a 10% decline. Is that in the ballpark or not?

A - Ian Kirk {BIO 1778703 <GO>}

Maybe on the underwriting, but not in the total. Wikus will -- maybe -- but just look, focusing on the underwriting six-month on six-month. Wikus, maybe you can?

A - Wikus Olivier {BIO 20074722 <GO>}

Yeah, I think if you look at the two components, the two largest components of the earnings is the underwriting results on the GI side where we did see a significant decline from the first half of last year. If you compare the first half '18 and second half '18, the second half was much softer than the first half and that trend effectively continued into 2019. But on the investment return on the insurance fund, they saw about a double-digit -- but a very high double-digit increase in those investment returns.

Q - Unidentified Participant

I just asked from Group perspective in total, was it a decline year-on-year, the Sanlam Group, the total business?

A - Wikus Olivier {BIO 20074722 <GO>}

You are referring to from a topline perspective or --

Q - Unidentified Participant

From a bottom line earnings perspective, the year-on-year growth rate in the reporting currency?

A - Wikus Olivier {BIO 20074722 <GO>}

But if you look at the average Rand exchange rate, I just want to get to that specific slide. Look, SAHAM Finance, they were up 63% on last year and the currency impact was about 10% over the period. So they were still well up on last year. But as I mentioned, a large part of that is due to the impact of acquisition that we did last year. I think if you strip out the impact of the acquisitions, in total, we are down. I think that's probably the number you are referring to down about 7% on last year.

Q - Unidentified Participant

in the reporting currency?

A - Wikus Olivier {BIO 20074722 <GO>}

In the reporting currency, yes.

A - Sydney Mbhele {BIO 20089938 <GO>}

Okay, we've got another one. Over there.

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

Larissa Van Deventer from Macquarie. Four questions were all related to your excess capital, please. So, on Slide 42, you mentioned excess capital of ZAR570 million. The four questions are, first, you used to have ZAR1 billion buffer and do you still have a buffer in mind, or is it -- are you comfortable carrying about from zero? The second one is you've made several small acquisitions in the UK. What is the strategy around that and should we expect more? The third one is, what do you (inaudible) around, if it's not the UK? And then the last one is, you previously mentioned partnering with ARC on the asset management side. And can you please give us an update on that, and is that related to the capital spend?

A - Sydney Mbhele {BIO 20089938 <GO>}

Good. Let's start with the first one.

A - Ian Kirk {BIO 1778703 <GO>}

Okay. So on the capital, as you say, we've restored the capital position. We've got other sources of capital as well outside. So we're watching that very carefully. So I think we're okay on that one now. You mentioned about what are we planning to do. The stuff that we've got on the list at the moment is fairly small. It's not significant stuff. The big deal is done for us Larissa, and it's really just a bolt-on stuff.

When there is an opportunity in West Africa, (inaudible) region to recapitalize, we will do that. If there's some bolt-on acquisitions in one or two of the countries, we will do that, but it's really an organic growth story for Africa. There is not much to be done in South Africa outside of the organic growth, there's nothing big there. So all the stuff will kind of be supplementary, but you've got to remember there's a lot of businesses there to support and they do of course need capital from time to time, but the big step is it's done.

As far as the UK is concerned. Robert will tell you that, again, unfortunately, you have to -- the rand amount of the deals is quite significant because of the plant. But in -- there's small deals in the UK and they're really just to improving our value proposition for wealth management and asset management. So we don't see much big stuff going forward there as well.

And on ARC asset management, it's just down to the finalization of the negotiations. Robert and the team are busy. We've announced it. We now want to bring it in and finalize that. So we would hope to have that certainly in the second half of the year. But both of us are solid business people. So we're not going to just agree for nice. It is the process to follow with both listed announcement. One has to give recognition to that, but we're busy with that.

And I'm sorry, what was the other one Larissa?

Q - Larissa Van Deventer {BIO 20764470 <GO>}
No, that was one.

A - Sydney Mbhele {BIO 20089938 <GO>}
I think you've covered all of them.

A - Ian Kirk {BIO 1778703 <GO>}
Did I remember them all?

Q - Larissa Van Deventer {BIO 20764470 <GO>}
Yes.

A - Ian Kirk {BIO 1778703 <GO>}
Oh, my goodness.

Q - Larissa Van Deventer {BIO 20764470 <GO>}
Thank you.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you. It doesn't look like that. One more here, please help with the microphone. We can then come back to you. Let's maybe start here in the front.

Q - Unidentified Participant

(inaudible) asking us to stand. This is a heavyweight document. Ian, you started off by mentioning the operating environment and you pointed out growth of negative shrinking of the economy of 3% in the first quarter, offsetting that in the second quarter, but assuming we carry on at around 0% plus or minus with very small margins, do you see that impacting the aim of your targets where you had GDP plus that disconnect? This is going to have an impact and you may have to refocus on the achievements you're hoping to achieve.

And then just one other question if I may please and you've made a lot of IT in provisioning you've had of capital kind of disruptive products that they're able to focus on. Do you see Sanlam changing an image that they had? I'm always looking at products that are best in breed. The (inaudible) the most innovative order disruptive, this a new strategy that you are implementing? Can you give us some more information on that, please?

A - Ian Kirk {BIO 1778703 <GO>}

Okay. Anton, I'm going to ask you to help me on the second one. Okay, so Ian -- you'll remember the last time I presented you had a comment you said, Ian, you said to me, things are very tough. I mentioned that like 20 times or something. I was absolutely clear not to say it once this time. So, yeah, whether it's zero or whether it's one or whether it's really anemic and it's not going to (inaudible). So I would say, and that our game will be -- the scenario that we're planning is for a slow recovery. Nine years of damage isn't going to be fixed in 18, 24 months and that's how we project it. But I think what we've got in Sanlam is a capability to take market share. And we've demonstrated that, and we've got a desire -- we've got a number of horses in the race in all our various segments, our Federal model mix ensures that we have the best people focused on the ground in the businesses and they can respond quite quickly. We're not making all the decision-making out of Bellville.

So I think we're confident that we will have a growth scenario in the South African, our traditional insurance in our investment space and in general insurance, largely coming from market share gains and then hopefully, we'll recover back to where we should be in the emerging market, which is a proper emerging market country, and we all have to do what we have to do to make sure that, that happens.

So what it will mean of course is -- which is what you're hinting to is where will we end up in diversification. The growth outside of South Africa will exceed the growth in South Africa, and that won't be a surprise to anybody. We usually build the business incrementally around that recognition. We're not focusing on a particular percentage. Wikus showed you what we've achieved, we are 60% now in South Africa, but it's earning 30% of the profitability. We've got plans in place to address that in time in the countries in which we're operating, we think the margins can be even stronger than South Africa, which is more competitive.

So I think that's really the sort of guidance that I would give you. Now the Capitec thing and the best in breed, I would say we've always tried to deliver best-in-breed products. You would have seen when I spoke about SPF that the one area that I do think we can make some progress in is in the savings products. Because of the way we've developed over many years, I think we have a multitude of savings products and that's something I think that we could perhaps look at, but on the risk side, I really think we have best of breed, and to be honest with you if we didn't, those partners who go through a strategic review process, they wouldn't have selected us. They're not just selecting us because we've got an unrivaled footprint. They're not picking us because we've got a strong brand and a capital position and the people. They are picking us because we have this philosophy around doing the right thing for clients. We were a mutual for 80 years. So that sort of deeply ingrained and they saw stuff and they saw the innovation and that's why they picked us. It's the fact that we're prepared to disrupt and that we've invested and come up with innovative best-of-breed solutions that the partners have selected us. Anton, maybe you can comment on --

A - Anton Botha {BIO 1644199 <GO>}

Yeah, I think two comments, in terms of -- on the Capitec's funeral product, the disruption is in the price. It's simple as that. It's -- disruption doesn't or innovation doesn't necessarily translate into product features and bells and whistles and those kind of things, it's really about meeting client needs and the need is actually quite simple. And the Capitec philosophy of having a very simple what-you-see-is-what-you-get product in the market and a solid quality offering, that is what we deliver to as well. And I think it's a really good example of how we should embrace the free market principles in South Africa. That's the model that over time delivers best value for our clients. It's not necessarily through interventional regulations. it's actually to allow competition to thrive, that clients are the ultimate beneficiary.

And in terms of savings products, I absolutely agree with Ian, and there we're also in a fortunate position from a disruption point of view. We actually -- we don't currently focus on savings products in an entry-level market because we are struggling to make the equation work provide a good value for money product to entry-level clients, but we believe the Capitec partnership could provide us with the solution.

A - Yegs Ramiah {BIO 16883413 <GO>}

And the partnerships with MTN, it's a different model. And as Anton said, we've been able to disrupt on price, why? Because the acquisition costs through that distribution arrangement that we have with Capitec is fundamentally better. If -- and Jurie, you can just correct me here. When you look at the Capitec presentation, they talk about giving 300 million to 500 million MRIs back to the clients since May -- since we launched May 2018 and that really is what this is about, and sometimes it's tough for a legacy player like Sanlam. But if you don't -- I mean, you've seen the challenges that the banks are facing. So we're really trying to be proactive on this one.

A - Sydney Mbhele {BIO 20089938 <GO>}

Yeah. Jurie, do you have anything to add? Happy, great.

A - Yegs Ramiah {BIO 16883413 <GO>}

Did I get the number right, Jurie?

A - Sydney Mbhele {BIO 20089938 <GO>}

Good. We had a question there at the back.

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

Francois Du Toit from Citibank. And just a few questions around SAHAM please, if I may. The investment return on capital looks very low. And if I look through the balance sheet, and thank you for the good additional information you've disclosed here, it looks like the tangible net asset value is not very high. I know you also invest in a bit of capital, I think you mentioned West Africa that you're sending with more capital. Is it related to SAHAM and the balance sheet there? And what do you expect to earn in future from the capital base? The capital base earnings were very low in this period. And related to the investment return as well, there has been a big improvement in investment return on the float; second half of last year, it was very weak. Can you maybe guide us in terms of what we should expect in a normal period day?

And then just one more question around your solvency position in the South African Life business. I think some of your peers have seen significant changes in the capital requirements, also in terms of whether that -- how they count participation? Has there been any impact in that regard with you that might explain the lower ICR cover? I'm trying to work out obviously on the new solvency rules with the free cash flow -- after the free cash flow reduction of the Life businesses? So -- and you're comfortable that at the cash that you've extracted from the Life business in this six months is close to a normalized level of free cash flow. Thank you.

A - Sydney Mbhele {BIO 20089938 <GO>}

(inaudible) Anton?

A - Anton Botha {BIO 1644199 <GO>}

All right, I'll try my best to cover them all. In terms of the West African capital, that was a regulatory requirement. So the minimum capital in the CIMA regions was lifted to, I think, $5 million and most of the entities operated below that level. So we actually had to inject additional capital into various entities in the CIMA region on the life and GI side, so you can see -- if you look at the EV disclosures, you can see on both life and GI that there were capital investments made. I mean returns in SAHAM, the returns in Morocco is actually -- the returns are actually quite low compared to South Africa, we are in a much different interest rate environment. So if you look at the yield curve, then Moroccan yield curve would start at about 2% and in the long end, it will peak at about 4%. So the returns against our EV assumptions were actually better, I mean, in the first half of the year. So, the equity market returns were actually quite low in Morocco, but the stocks that we are invested in Morocco are defensive stocks. Those stocks performed well. So we are quite happy with the return on investment on the capital, the share of the funds in SAHAM in general

In terms of the flow, throughout the returns are much improved, but there is also a bit of an anomaly. If you look at 2017, the returns were incredibly high, but that's on IFRS basis because in SAHAM where accounting treatment is based on book value, so to bring it in line with Sanlam's accounting treatment, there was a mark-to-market adjustment. I think it added up to about ZAR1.7 billion [ph] in 2017. And then in 2018, the returns are quite low, but that was on peer mark-to-markets. So the delta from 2017 to 2018 looks horrible, but that was a bit of an accounting anomaly. But I think we're back to normal in 2019 as well.

(inaudible) exercise as a result of that to make sure that the investment strategy in SAHAM and the float is appropriate. The floating side -- the general insurance business has quite a substantial allocation to equities, and we've added that disclosure. You can see that now which is different from South Africa with Santam's float is invested in cash for example, so that raise questions, should we go back to equities or to cash in Morocco. The reason why we actually still prefer some equity exposure in there is efficient frontier modeling and that is driven by the very low yields that's available from fixed interest. So you will see a little bit more volatility in the float returns in Morocco compared to Santam, but it is based in the long term; we believe it is on the efficient frontier.

Then on the solvency, as you know, Sanlam doesn't rely on participations to back the capital requirements of the local life business; we separate it out. That's why we've got that internal coverage ratio. In terms of stability, the Sanlam Group solvency level, that's the main solvency that we're starting to focus on. And we've also started disclosing that, which is at 205%. If you strip out the dividend and discretionary capital out of that 205%, it's been incredibly stable at about 198%, 200% over the pretty much three, four years since we started tracking SAHAM. So, yes, there has been some movement in between in SAHAM, but it's -- overall, the core business, the core group solvency has been incredibly stable.

So in terms of free -- of the free cash flow, I think, yes, I mean Sanlam Life for the first six months, there wasn't any additional flow of cash from capital requirements, if I understand your question correctly.

A - Sydney Mbhele {BIO 20089938 <GO>}

Good, that's comprehensive. If we don't have any further questions in the room, shall we just check if there is anyone on the line, who has a question? No. No questions. And on the webcast? No questions? Well, clearly, we've come to the end of today's proceedings. Thank you very much ladies and gentlemen for joining us. And we hope to see you outside for some snacks and tea where we can hopefully further engage. Thank you. Go well.