S1 2017 Earnings Call

Company Participants

- Anton Gildenhuys, Chief Actuary and Group Risk Officer
- Garreth Elston, Deputy Chairman
- Heinie Werth, Financial Director
- Ian Kirk, Chief Executive Officer
- Junior John Ngulube, Chief Executive Officer of Sanlam Emerging Markets

Other Participants

- Larissa van Deventer, Analyst
- Unidentified Participant

Presentation

Garreth Elston {BIO 15952186 <GO>}

Good morning, ladies and gentlemen. My name is Garreth Elston. I am the Deputy Chair of the Investment Analysts Society, and it's my pleasure to welcome you this morning to Sanlam's 2017 Interim Results Presentation. On behalf of the Society, I'd like to thank the Board and management of Sanlam to presenting to us, and there's some housekeeping rules. If you can please make sure that your cellphones are on mute; also that this presentation will be broadcast and is being webcast too. So at the end, if you are going to be asking any questions, please could you wait for a mic to be given to you so that everyone can hear your questions, and just identify the company who you're from.

And I'd now like to pass on to the CEO of Sanlam and thank you very much.

Ian Kirk {BIO 1778703 <GO>}

Thank you, Garreth. Good morning, ladies and gents. Thank you for the introduction and for the opportunity. Thanks to everybody for coming down. We know it's a busy time for all of you with results season. It's a little bit easier than it was in March when our traditional rival reported sort of in the same day, but we also know that it's difficult for you. So thanks very much for your continued interest in the business.

So in terms of the strategy, I'll speak a little bit about that and the environment, the progress that we're making in rolling out the strategy. Then Heinie will join and take over for the financial review. I'll come back then and deal with some of the strategic priorities, just with a focus on the next six months, which is now four months, and then outlook.

So quickly moving into it, no change to the strategy really. Our strategic pillars, our intent, our vision, our purposes there. So we are going to stay the course in the times that we think it's appropriate. The strategy is working for us, and our people understand it internally and externally. And when you think about the real trick with the strategy, of course, is the implementation. We're very comfortable with where we are in terms of that strategy.

And we've done quite a bit of work on the Wealthsmiths. I see Yegs is here with us along with some of our other colleagues. And our brand is resonating well around the Wealthsmiths in South Africa and increasingly on the African continent. We do the brand health tracker and we're moving up in that -- in the league table there, so things are going well, and we've tightened up a little bit on the purpose. It's about supporting people in living their best possible lives through financial resilience at individual, organization and societal level. So we think the brand is going well and the results are positive on that.

Okay. So into the strategy, no change here. You'll be recognize this, the five pillars. We've just tightened up a little bit on the word, on the innovation, you'll see, extracting value through innovation and improved efficiencies. We had just operational efficiencies there in the past. And that really speaks to the risk on disruption and the opportunity that's delivered to a business like ours on digital and technology business, advanced analytics, BI, and all that kind of stuff. So we have to recognize a 99-year old business with legacy environment, we have to be innovative, we are challenged by these new players, and I think we're responding well. I am going to talk later about some of the things that we're busy with there.

So it's about leading in South Africa. We lead in many segments, but not sufficient to claim that position; leading on the continent, which includes the diversifiers there, India and Malaysia, and the niche support role in wealth management based in the UK for our corporate clients and for the high net worth individuals. So you'll all be familiar with that. No real change apart from the innovation, as I've said.

Footprint, we're very comfortable with it. I mentioned before the two countries where we have aspirations being Egypt, some are busy with that, and Ethiopia, where we have a partner arrangement at the moment, but hopefully before 2021, we'll be able to do some licensing there. We think that's an exciting opportunity. So really it's just about moving that footprint. I mentioned before about the accelerated organic growth and that's the main thing. We managed to conclude Saham Phase II, which is a very nice opportunity for us and now we progress -- we're working through the overlap opportunities there. You saw we had, as a result of the Saham Phase II, we exited, the Ghana business where we had two operations, so we have to strengthen up our position now in Ghana.

But we know where we want to be is the point. We're comfortable with that it's around leveraging that footprint of accelerated organic growth around the retail opportunity, the local commercial opportunity, but very, very importantly, the multinational corporate opportunity and I'll talk later about some of the progress that we've made on that one.

So let's talk about the operating environment, and I think it hasn't been the worst six months from a global point of view. We've had some rebound, sort of this -- we say rebound in investor sentiment and risk appetite. Of course, we always have the challenges around what's in the US and Trump, and what's happening now in North Korea, but the markets have received old Trumpy pretty well, maybe better than some of us would have anticipated. I'm not an economist, but I just sort of see it for what it is. I still think, with a difficult guy in a big job, we have some risks, but be that as it may, the market seems to have given some credit there and global growth is recovering and that applies I think into the sort of emerging market areas. Emerging markets have been kind of in favor for the last six months, plus 8% up in US dollar terms, and some sort of recovery on the commodity side. So it hasn't been the worst six months from a global and from a sort of emerging market scenario. We have to accept that.

South Africa, of course, unfortunately another story, and those were the disconnectors, and for a business that's still 65%, 70% invested in South Africa, that's problematic. When you look at these six months' numbers, you must understand the environment. We are a big player in the market, we're very impacted by these issues and I'll talk about that now.

So I am not going to give you the story that every -- all the other CEOs are going to give you. You heard it from, whether it is the Mike Brown version or the Ian Moir version or whatever, you've heard it all as investors. It is what it is. Very unfortunate plus the uncertainty that the downgrade that followed that disastrous move on the financial minister -- Finance Minister back in March whether it's state capture or the sort of things that are coming out on a daily basis, SOE governance, and of course, the balance sheet behind the SOEs, which I talked about last time is of huge concern. So a lot of fixing to be done.

But the reality is, colleagues, that we look forward to a favorable outcome in December. There's not a lot that's going to happen between now and then. But that's rather me focused on the impact on the business, the Sanlam business and our industry. So investors are cautious, whether they're retail or they're institutional.

Now in that time, the single premium product, and you've seen the volumes for the industry and also from Sanlam, the single premium volumes are much more difficult than we would have anticipated. So we're down on single premium, which is difficult and the intermediary activities changed a little bit. So the intermediaries are spending time, but they're, with the customer, understanding how safe is he in volatile times. It takes the focus away from the new business. So it's much, much more difficult to sell in the life insurance environment, and you can see that with the results of everybody, and we know this, we've had it before.

And of course, when you look at the fact that the growth is anemic, that's also problematic. On the employee benefit side, on the health side, we don't have new people coming into the employment net, which is difficult. And on the Santam side, traditionally the general insurance business grows GDP plus CPI plus a factor. And Santam have done extraordinarily well on growth. I mean, to achieve 14% growth in the six months, okay, 1.5% was through some transaction activity, but I mean, for a business with that very big market share to achieve that growth, I must say it was well above the expectation. We also didn't expect the catastrophes in net -- and nice to have it, let me say that, but that was well above expectations. So I've sort of explained a little bit about how it impacts negatively this in South Africa. And as I've said, South Africa is a -- remains a very big, very important -- the most important environment in which we are operating in.

Rest of Africa looking a bit better, but of course, as I said before, it's about how we adapt. Now, Namibia struggled a bit. The economy there is sort of impacted much more by what's happening in South Africa; Botswana, to a lesser extent, but there was certainly a slowdown there, but in the Botswana case, it was also additional competitive pressure and we need to also unpack in Namibia some of the competitive pressure there.

So it's a case of how you deal with the challenges and how you see the opportunities. So really it's -- but the environment has actually improved. And if you look at the performance, and Heinie will unpack it now, but from the Rest of Africa opportunities, some very, very solid performance is in there in tough times. And of course, the big bet that we have in the Group, Saham, has done as per expectations. So that's quite nice. That's an important one for us for them to deliver because that's obviously where we've put substantial capital in over the last couple of years.

India, I think the long-term position there is very solid, 7%, I mean, the major probably economy in the world today. We did unfortunately in these six-month results have the impact of demonetization, which I spoke about last time. Where -- for good reasons, the Indian government decided to withdraw the 500 rupee and the 1,000 rupee notes to try and get the sort of money out from under the mattress, so to speak, more people into the tax net. And that obviously impacted on the two credit businesses that we had. So we had to put away additional reserves. Heinie will tell you the numbers. I think it's about 110 million extra provisioning in this period. But long term, we are looking good and effective. In Malaysia, the economy is recovering nicely there. We've got some work to do, which we'll talk about later, but then the environment is looking a lot better.

So let's talk a little bit about the strategic progress that we've made, and in overall terms, we think that it's solid performance. We would of course want the absolute numbers to be a bit higher that we had certainly planned it that way, but the reality is that we didn't plan for the March move. That's the truth and really that sort of knocked the stuffing out of the economy and business confidence. So the quarter after that, as we've reported to you in June in the operating update, has been more difficult than we would have wanted it, but a solid performance overall and continued to execute on the strategy.

So look at the highlights. I mean, I think the risk business in South Africa, Sky, has done very well. Margins continue to improve and we're exiting the savings business and more focus on the risk business. SEM, solid performance in constant currency terms. We had some pressure obviously in Namibia and Botswana that I referred to, but a 17% growth in VNB in constant currency. I mean, it's really a very, very solid performance and persistency as well.

And importantly, the positive experience variances, because remember this time last year at half year, there was some concern there. We also had some concern, whether we were going to be continually able to earn out that. So we've earned out about 3% on that, on the experience variances, positive experience variances, and that's very important for us.

Then on the resilient side, on the diversification, we continued on our diversification drive. Saham, we were able to take up another 17%, and this is what happens when your partner companies need capital. It creates an opportunity for us. We were able to do the same in India last year. PineBridge is something we've been working on for a while. That also came through.

I just want to mention the credit -- Central Credit Manager initiative. Anton and Mark Murning, who are both here, they've really driven this very, very well. We were a little bit behind in terms of our utilization of the credit -- corporate credit opportunity, and you can see now in the experience variance analysis how that's coming through very nicely there. So I think we're making very, very solid progress and that's going to be a good generator of positive returns for the Sanlam Group going forward.

Then I think we made solid progress on the execution side. Investments is probably the one cluster where the fee pressure and the fact that the markets didn't deliver has really put issues on the cost efficiencies. So Robert and the team have responded very, very well. But the point we also need to make is that one must be careful to throttle off some of the important initiatives there. BrightRock, we're very excited with, now that transaction has now closed in September. So we -- that's a nice opportunity for us to have BrightRock now on the Sanlam platform. EasyEquities, Robert also worked on that one for a while. That's now come through. They've taken a minority position there.

And again, I think this kind of a business will do very well on the Sanlam platform. Anton is going well on the business intelligence side. We're putting some money into it, not crazy money, which some of the others are, but an appropriate amount of money we think in a controlled, in some of the business units' cases, they're looking very, very good.

And we've innovated very nicely in some of the areas, I must say, with -- whether it's with the banks, whether it's with the retailers or the telcos, whether it's the gold cover product that we've announced, whether it's a new millennials offering that we're announcing now called Indi, whether it's driving through on the MiWayLife. So the message is, we've continued to invest in these areas even though the times -- the sort of easy option might just be to cut back, throttle back on these kind of things. We've kept it going, and Heinie will show you the financial impact on the results of SPF in particular of that activity.

So as I've mentioned, we finished up -- we managed to get through the 4.8 billion, Saham Finances and PineBridge. We're back to 2 billion of discretionary capital. So Anton and the team have done very well. We reported on it. On that -- we said there was an additional 2 billion, which will come out. So we took through some -- about 700 million in this period.

And then the -- just the other point I think to make is that in the times that we are in, we've said it before, opportunities do come up, and our traditional partner, they are on the banking side, ABSA, we managed to pick up their -- in a competitive process, their employee benefits business. So that's also a nice opportunity for employee benefits.

So whether it's a bank that we're looking at these things or whether it's a industrial group like Imperial, which relooked at their financial services and exited their Egypt [ph] business, that one we were unsuccessful in, but in the tough times, these opportunities come along. And they don't always come along when the wind is at the back, but when businesses need to refocus, and that creates a nice opportunity for a group like Sanlam in the times that we're in.

So I'll hand over now to Heinie, who will deal with the financial review.

Heinie Werth {BIO 7529974 <GO>}

Thank you, Ian. Good morning, everybody. I must say listening to Ian, I wasn't that sure whether it was a good six months or a bad six months. So it's all relative and it's all depending to which part of the business you look in a diversified group like this.

But basically, I think to summarize our results, is -- the easiest is we think it is a strong set of results, or a resilient set of results in a really, really difficult times. And I think it's also fair to say that now that all our competitors have come out with results that on a relative basis, Sanlam has hold out well.

Ian referred already to many of the highlights. So to kick off with some highlights and low-lights, we try to be transparent that it doesn't just look as if everything is going well, but we did by far exceed our hurdle rate when we adjust for currency impact or the economic impacts.

And then another highlight really, because this is an area that Sanlam has been weak in for years, for the last two years, we've seen really good growth in the recurring risk premium business both in the middle market and also on the Sanlam Sky's African side. And that's obviously also the more profitable business line, as you will see when we get to some of our numbers.

Also nice, after a few years where we didn't really make good inroads into institutional business flows, we've seen some good institutional flows this year in Sanlam Investments. And Ian have referred to our VNB growing 17%.

Balance sheet management, Ian have talked a few times there about the work Anton did, and yeah, we did put the 2 billion here because last time when we reported 550 million, we started to reach in a place now we are running out of cash to do deals. It's a pity we could have -- we should have rather shown 3 billion, but on a serious note, I think we are well positioned to continue our strategy of bolt-on acquisitions.

The stuff that disappointed was really -- and this is an industry trend. It's not Sanlam on its own, but the slowdown in flows in the high net income and the high net worth market has continued. Last year December, we saw it in Glacier already. This year, we also saw it in Sanlam Private Wealth in the first six months.

Santam, the results came out. There was the stuff slightly beyond control, the catastrophic events in the Western Cape, but if you take that out, actually the results was well received by the market.

Botswana, Ian talked about the competitive pressure. Our high margin annuity business is far from where it should be. So that is hitting us a bit. And then Namibia, Ian again also referred to the liquidity crunch, but I think if we look through it, the change in our business mix, not achieving our business volumes, we have sourced in some large claims there. I think it's fair to say we have lost market share, and there is work left to Junior and his team in Namibia to get us back where we should be.

And then I want to say, I wouldn't mind if Santam, we can get these two lines a bit lower or even off the agenda, but yeah, we are not doing well in Kenya, and we have not yet succeeded to fix the business in Malaysia to the levels where it should be.

On the results, you have seen all of that in the books. Earnings flat, but if we take the impact of the rand out, it would have been 5% higher. Our headline earnings up 5%, again, with the impact of the rand, that would also have been higher. Business volumes are slightly lower than last year. Net flows also lower, but predominantly only due to this single premiums being down.

I'm very pleased with our value of new business. We know some people even expected more, but it is really difficult times. I mean -- and I think that is going to come through in the results going forward that if you don't have economic growth in South Africa, it must start to impact more and more on the consumer. The VNB margin, slightly higher, and then as already referred, we are very happy also with our lower rate.

The stuff that impacted materially on those results, to capture that in one slide, our results were quite negatively impacted by the stronger rand relative to the year ago. End of 2015, the rand fell to a very low level. So this six months compared to the first six months of last year, much stronger rand, it cost us about ZAR170 million on profit. Stock market remained flat. So that impacts on your investment return and it impact on the fee income in Sanlam Investment Management. I'll come back later to that.

And then in, as already referred to, the catastrophic events in Santam, if it wasn't for that, their profits could have been 100 million higher, 102 million. And India, referred to the impact of demonetization also hitting us with about 110 million, but we are quite confident that we went a bit conservative on that one and that we will see a turnaround or release of some of the provisions we might pay. Not everything downside. The interest rate was slightly lower and that obviously gave us a slight kicker on our embedded value and our valuations.

So Sanlam Personal Finance, the biggest unit in the group, never looks good when you start with a minus 7% number at the top, but really, actually the Sanlam Personal Finance had a very, very good six months behind it. And the highlight is that increase in the risk on Sanlam Sky side, very profitable business lines. The negative is the Glacier single premiums where we have seen a big decline. I've talked enough about that.

But as a result of that, it then really shows in the results that the lines where we have getting it more right now the recurring risk premium business. You will see the Sky increasing VNB with 57%, individual life, thanks to that better recurring risk premium business, 17% up, and then Glacier, you would expect with the lower volumes to drop. But overall, we think a very, very good result from Sanlam Personal Finance.

Now, when you go to the profits, again, growing just 2% or 3% doesn't sound too nice, but the impact of the new business strain, of this higher margin business, if we add back on a comparable basis, it would have grown 8%. Now, in general, we are happy if our South African business grows 7% to 10% per year.

On top of this 8% or -- what also happened, Ian referred to quite a few of the digital initiatives we are busy with. And I don't know where the name came from because it's not India -- like India, but we are launching internally already a platform called Indi; it's coming from individual, but when we deal in India, they may think we refer to them.

And then there is also lots of work being done on our loyalty program. And we are also starting a new banking or two banking relationships soon. So the cost of that, if you added that back, the growth could have been 9%. So there is also quite a bit of one-off costs in getting this new initiatives on the go, but overall, a good result from Sanlam Personal Finance.

Emerging markets, good volume growth, but even if we take the structural activities, last year, we bought higher stakes in India. This year, we bought -- increased our stake in Saham. Even if you take that out, solid growth, 17%. Very nice for us is the growth in our, what we call the Rest of Africa businesses excluding Botswana and Namibia. Botswana, good volumes here, but it's unfortunately not in our more profitable product lines. I'll come to the value of new business now-now. And then I've already said, Namibia did not meet expectations. But overall, good growth, and again, a case where the diversification of the portfolio is helping us.

And on value of new business, this is lower than what we would like it to be even in constant currency terms, but again there, you will see the impact of especially Botswana and Namibia where I've talked a lot about the volumes and the mix not where it should be, but then very pleasing, the increase in the other African businesses and also in India. Malaysia, I've referred to it, the business is not progressing as we wanted to be and we have strengthened the team last year quite a bit, but we are not seeing yet the results like we would like it to see.

Profits, however, we are seeing also gradually a move where traditionally emerging markets was lots of life business. With the addition of Saham, there is gradually more -- a shift also to general insurance business. 17% growth, even if we normalize it, where we take out structural growth and that impact in India, it is 18% growth. So overall profit growth, we are comfortable with. But in this profit growth, the areas that we are not comfortable with is Kenya and then also our Malaysian businesses.

I also want to point out the sale of Ghana is not something that we -- it's something that we had to do in the end because of our different business interests there. Ghana did well for us over the years, and on a very high level note, for the six months, when you look at profits and the VNB, you can reduce it with plus-minus ZAR30 million [ph] each to understand the impact. So come the end of the year, our results will look lower as a result of the sale of our Enterprise businesses in Ghana. We want to be back in Ghana. There is no restrictions really on us to get back in Ghana and so I know Junior and the team is already working on that on how we get back. It is a very important market in that part of Africa.

Sanlam Investments; the investment management business in South Africa, lower flows on the retail side, but very good flows on the institutional side. Wealth management, I've said we've seen this impact on slowdown or lower flows in that segment. International business, a welcome turnaround from the huge outflows previously; still not good enough to make the business really viable, but at least it is a huge improvement compared to the previous year. And there you will see again the impact of the currency is also having quite an impact on the net flows.

The -- why the business in the UK is being structured now is that gradually we will see less and less value of new business in the life company. Of course, the way the business is really structured, it's really working together and it's more making profits in the asset and the wealth management side rather than on the life side.

On the profit side, quite a mixed bag, the investment management, South Africa, lower fee income. So if you have got a cost base and a cost base increase with inflation, but if you don't have a similar increase then on your fee base, it does impact on your profits in South Africa.

Wealth management; two factors there; the one is, I've already said that the -- it's difficult times, we're not seeing real inflows in that segment or not as we used to see, and then they've also embarked on a few initiatives to improve again the systems and the service to the clients. So there is also one-off costs in there.

International, not due to the increased inflows only, but we -- our cost base was too high there. There was restructurings last year. That is behind us, and the trend line hopefully from here will continue to be upwards.

Capital management, seeing Mark sitting there, it's not that they did worse than last year. The whole business is now a total different business than last year. Last year, post the December '15 event, in the first part of 2016, there was quite a decreasing spreads again that boosted the profits quite a lot. There was also structures on the equity side that run [ph] out, which boosted the profits.

So last year's results also had one-offs in, but other than that, this year the whole shift and the bulk of the profits is now coming through from the CCM initiative, the Central Credit Management initiative. The program is rolling out very well. In this number of -- it's not comparable numbers due to the change in the business. In the 171, we've also been I think fairly cautious on provisioning for potential bad debts. So we think it's a good start to the Central Credit Management initiative. Mark, so please keep it up.

This slide, we thought long and hard, should we show it or not, because, I mean, when you look at three and five-year returns, but look, this is key. When you go into the future, investors look at your short, medium, long-term performance and more on your medium and long-term and you will see there on the three years, it came down quite a bit.

Now, to put it in perspective, we've got one portfolio of Sanlam assets, which is very material and they missed the benchmark with one basis point. And we decided to be transparent and to show it as underperforming. If we add that one back, it is back at 80%. So it's really -- we really do not actually -- when we look at the shorter term performance in all the units in Robert's area, it's going quite well. And it's really the impact of 1 basis point that cost us to have this trend in the short to medium term. Hopefully it will be rectified soon.

Santam, I'm not going to spend time on their results. The market, we're pleased with it. We've talked about the impact of the catastrophic events. They were on the lower side of their own hurdles of 4% to 8%, what they try to achieve on the underwriting margin, and if you add back that catastrophic event and the impact of the rand with a co-investor of Sanlam Emerging Markets, it could have been a 6.2% return. Sanlam Corporate, the newly formed cluster, it's not so new anymore. We are very comfortable with the results we have seen there from Temba, Darvi [ph] and the team.

The recurring risk, again, an area that we've been struggling and we have seen very competitive pricing in the market over the years, we've seen huge losses from our competitors, we didn't play that game. We are starting to see flows coming back to us. We are seeing slower flows on the investment side, but a lot of activity in the pipeline, but a nice increase in value of new business, but still a way to go to get to the margins that we think is acceptable for this business, but we are comfortable that the turnaround is in progress. And you can see on the profits, both the EB business and the health business doing very well. And also when we get to the -- when I show you our experience variances now now, you will also see that the impact of poor claims experience has also been largely behind us.

So pulling the Group together, I'm not going to spend time on this because you've seen all the detail now in the detailed businesses, but in these tough conditions, we are not too uncomfortable with volumes being 4% down, especially given that it is more on your bulky or lump sum lower margin business, and we think the net flows is also reasonable in this times. You can see, this is the longer-term trend line, and here you can see that the pressure on the bulky volumes the last few years in our results.

What is however pleasing, it is about getting volumes in the business, but also retention, and we are lucky, I think, given the current economic climate in South Africa and elsewhere that we are not seeing, in the middle market, a weakening at the moment and the same with the entry level market; actually very surprising, also holding out very well in terms of business retention.

New business, I think we've said enough that we are very pleased with this. Looking at the longer-term trend line, we feel it will be nice to see a sharper pick up again. We need a bit more stability and a bit of a tailwind for that, but the general trend is moving upwards both in terms of the margin and the overall level.

Operating profit, I've explained, the 1% and the 5%, but important on this slide, what I want to focus on is actually the item right at the bottom, where we show that our headline earnings, not our normalized headline earnings, have declined with 19%. Now, for you that may recall, a year ago there was tax changes in insurance legislations, a move from four funds to five funds, the RPF, risk policyholder fund tax came in. We had to create a deferred tax asset of ZAR1.3 billion, 1.275 billion, to be precise. So that number of 1.341 billion is boosted by a one-off event where we had to restate now our financials for last year and it's not comparable. It's a one-off. Come December, you will see it again because it will still take this year to get out of the system. Last year, we also showed it below the line when we got the benefit of that tax asset. I don't want to blame the auditors, but it is really an accounting issue. It's not that -- we won't say it's right or wrong. That's how we have to treat it.

I've already referred, overall we're happy with our adjusted return on group equity value. The only clusters that did not make the hurdle rates was Sanlam Investments and Santam. And then I have to add that emerging markets got a booster because of the sale of Enterprise insurance. If you -- we had quite a few questions at the time when Enterprise sale came about, but how much profits are we making? In total, we are making a little bit more than 900 million. We carried the asset in our embedded value at -- or in our group equity value at about 700 million and we made a 900 million profit. Pleased with that. I don't say that all our assets are now going to be double what we carried in our books, but I do think it should give comfort that we try to be conservative in our group equity valuation.

So the highlights -- this is the whole analysis of earnings, but the highlight here is the sale of Enterprise from a profit perspective and then also the experience variances. The low-light is obviously the impact of the investment markets and the rand, the, right on the right, the 2 billion negative.

The experience variances, Ian also referred to this, last year when we stood here, everybody was concerned. Yes, the whole industry suffered as a result of disability claims, big risk claims. Last year, we reported 75 million; this year, 595 million. We don't say we will double it, but I do think we are quite confident that the label that we previously used to report on of 1 billion or so should be achievable. We are talking to our actuaries to start to think about inflation. It doesn't help [ph] that billion remains a billion; you have to think about inflation.

But what is also very nice for us on this is the whole mix. It's not that we're dependent on one item. Right on the right hand side of the slide, you will see that it's a -- persistency is a bit under pressure. So there is some negative experience that we have put in there, but then it is the working capital, it's the new CCM initiative, it is risk profit. There is various variances coming through and we prefer to have a mix rather than to be dependent on one item.

This, just to put it in perspective, so just to show you how difficult the last two years have been. So when you go back to 2010, we really had some tailwinds. There was good investment markets, the rand dropped faster than people expected and we outperformed our hurdle quite easily. The last two years -- three years ago, started to slow down, and really the last two years, stock markets haven't given much to us. The strengthening of the rand has taken lot away. But still in 2016, on an adjusted basis, we earned 17% if we take out the impact of the rand, and in 2017, we are delivering more than 16%, if you take out the impact of the rand. So it is not smooth sailing. It shows the uncertainty and all the issues out there in the market, but as I say, if you really take just out the impact of the rand, we are delivering well above our own hurdle rate that we set for ourselves.

The whole story on diversification is continuing. Ian referred to the Saham investment. That's helping on the geographic side, also on the mix side. So I am not going to spend time on that. Capital management, I've said we are back to the 2 billion. We started with 550 million. We -- even though we increased our dividend with close to 9% last year, we retained cash earnings of 800 million.

We sold Enterprise, cash profit, 1.6 billion. We invested 1.9 billion in Saham; 260 million, we paid for PineBridge. And so basically -- and then the work on the balance sheet, we've referred previously that we are going to release 500 million per year out of the life business. That plus the return on the funds is close to 800 million. And then given the shift in Sanlam Capital Markets on to the Sanlam Life balance sheet, we also had a release of capital out of Sanlam Capital Markets. So they were in for 2 billion that -- there is two transactions already known in the market that will have the impact on that. Ian referred to ABSA Consultants and Actuaries, and then also EasyEquities, but after that, we still have a nice cushion for further activities.

Solvency; since Sanlam is well capitalized, more than three times, and then also using the new SAM measurements, well within our target range, actually exceeding it. Our target range, 1. 7 to 2.1 time; we are on 2.2. So the company remains, I really want to say, well capitalized and very solvent.

To conclude, the last two slides, Ian talked about the progress on our four pillars. Now, these slides, the only thing that this shows you is over the longer term, because it's not about strategy execution in year one. It's about sustainability. And you will see when we talk about top line growth, the longer-term graphs are supporting the pattern. When we talk about diversification, we are clearly seeing product diversification and geographic diversification coming through.

Lately, we've been doing quite a bit on the digital side. So the whole story on innovation and efficiencies is getting more and more attention. And then I would like to say Sanlam still remains very strict and responsible when it comes to capital management and delivering a return to its shareholders.

So thank you. Not an easy period, but we are comfortable that the results are reflective of the period or the times that we are in. Thank you. Ian?

Ian Kirk {BIO 1778703 <GO>}

Thanks, Heinie. Complex set of results. We don't make it easy for you to explain, but you continue to do that really well. And I can care, I mean, it's a good relative performance, it's about execution of the strategy. The wonderful thing, and I think living -- sitting in the position that we are in, is that the businesses really understand what they need to do. The strategy is well understood. All the businesses have got their heads down and that's a wonderful thing. Someone sitting in my position with a large number of businesses in the Group, you really -- to have that comfort is tremendous.

So let's go through the priorities now for the next six months, or as I say, four months really left of that. The August -- July and August, the markets looked a bit better, but we have -- we'll have to see -- on the SPF side, I must say I'm very pleased with how that business has repositioned. I spent quite a bit of time last year talking about the re-emerging project, how they're setting themselves up, how they've repositioned the business for growth over the next three to five years.

I've mentioned some of the new initiatives that they're investing in, in terms of alternative distribution, but also the business continues -- Jurie and Heinie continue to drive investment in the traditional distribution, the risk business is going well. So I think on the front -- very much on the front foot and growing market share in the important areas. They're number three now in terms of risk business, very close to number two on risk business, and we were way down the sort of four and five a couple of years back. And now with BrightRock in this table, we can really continue to go hard at the one and two in volume terms. We are number two in profitability now in risk business.

So it's -- it will be tough on the single premiums. People remain reticent to invest in our kind of equity products and offshore products and whatever. They're more comfortable in the sort of money market and this money with -- in the banks you'll see, I'm sure in the banks' report, you'll see the amount of money that remains in the bank accounts. Government keeps talking about that as far as the corporates are concerned, but we're more concerned about the individuals that just not -- that just don't have that confidence to invest. So I think the Glacier market will remain under a bit of pressure.

But as well as looking at the sort of growth opportunities and the investment that we've made there, simultaneously, Hennie De Villiers and his team have to look at optimizing the back-office cost efficiencies, Digital by Default and looking at all the opportunities there, robotics and some really good stuff being done there. And that's very, very important that stretch targets around the operational effectiveness continue because that's a big driver of the SPF profitability and of course it's a big business -- it's our biggest business.

On the emerging market side, lots to do, but again, the teams know what they have to do, every country has the plan, they know their issues, they put their heads down. It's about ensuring that we have the best people in the business and Junior and his team have really done that well. I mean, they are now in 34 countries on the African continent. They know who the good managers are, they know where they have got strengths, where they might need a few gaps, and they are busy with all that, improving the quality all the time.

On the Saham side, very important initiatives there around life, around specialist business in the general insurance, around the reinsurance opportunities across the continent with -- before reinsurance businesses that we now have, very important on the corporate market, where we've done particularly well on the general insurance side, we're monitoring every month now the additional general insurance business that we're earning out of the platform. And if you look through the Santam results, you'll see very significant increases in the business that's being sourced into Santam off the SEM platform, and that's what we want.

And at the same time, Junior and the team are working around the life solutions. So the corporates -- the solutions for the multinationals around life insurance and health insurance and wellness and all those kind of things are being built. So in theory, and this is a theory, but we'll get there quite quickly, it will be able to place cover for multinationals on general insurance and on life insurance, healthcare on a consistent basis right throughout the continent, and I mean, that is the goal, to become the go-to-market for the corporates.

We have a unique footprint. No one else has got the footprint that we have. And once you've built that capability, and of course, it's easy to sit here and say, yeah, we'll build it, but you must remember that regulatory issues are different in every single country and the products look differently. So we have to make -- there is quite a bit of work to get that all consistent because that's what the corporates really want. They want consistent -- clever and consistent service levels throughout the full -- and that makes a massive difference in their workload and the intermediaries and that's what we are after. And we wrap that around the local commercial business and then the retail business as well.

And then of course to mention India, I must make the point about India because you'll have seen -- some of you'll have seen reported that our Indian partners there are evaluating a transaction with the IDFC Group and they are in a 90-day period and we'll see what comes out of that, but I think no matter what comes out on this particular transaction, the fact of the matter is that financial services assets in India are very attractive and particularly the two credit businesses that we have, and I think we'll see some rationalization and consolidation in that market over time at very, very high prices. So that's really Junior and the teams have got their hands full on that over the next six months.

On the investments side, it's around delivering the performance to Sanlam. I was interested in the note -- the 1 basis point shortfall, I'm sure Anton was all over the SEM team, but I mean, really I'm very pleased with how they are performing. I can tell you that if they weren't performing for Sanlam, we'd be hearing a lot more tension in the business and we are not hearing that.

And at the same time, Robert and the team building out the third-party business. Retail flows have been difficult for the same reasons we mentioned, but on the institutional side, the outflows have stopped. We're getting some nice mandates now, so repositioning that business and dealing with the whole transformation challenges that we've got there to position ourselves going forward going very well. And of course, this is the one cluster where the cost pressure is sort of there for the future. So Robert will have to -- is dealing with that.

And that's the reality in the asset management game. More and more passives, more and more flows into the sort of corporate curves away from the active. So those are all things that are challenging for the SEM, the traditional SEM business, but of course, in this cluster is the credit manager which is going very, very well and so they know what to do there, and that's very, very encouraging if I look forward to what can be achieved by Sanlam on the big platform there.

Then, finally on -- sorry, not finally, on Santam side, only point that I'd like to make is that I'm very pleased with the approach they're taking to multi-channel because it's not about -- sorry, to full multi-channel, that goes to omni-channel, not individual channels, so you can get Santam products now from the independent intermediaries, which is the traditional market from the Sanlam agents, which obviously that we've built up over the last five years. You can get it online, but also you can get it on the app. And how you constantly, over the lifetime of the customers, blend in all those technologies, and Santam is really on top of their game there. It's very, very encouraging. In the short term, they have to address this one-event, two-event scenario because there's a bit of money there for them if they can do that successfully, but looking good on that side.

And then I would just mention the point again about the local municipalities. Probably nice and it could have been worse. We've done -- Santam had done quite a bit of work in Knysna, but Plett, they didn't do enough work or Plett didn't take along the work and we lost more houses in Plett than we should have, but the positive impact in Knysna is we had a lot lower disasters than we should -- than we could have had. So these things really do make a difference. It's not just we do it for charity. We do it because the municipal infrastructure in the country, certainly as far as storm water drainage and the drought scenario and as far as fire protection services, is nowhere near where it needs to be. We all know those things, and Santam has a role to play there because it makes a direct impact.

And then with corporate, Temba is here, with Darvi and Ahmed. I mean, we really -- we are doing a great job here. I'm just very pleased and we didn't chase market share last year, we didn't do the silly stuff. I see some of the competitors have realized and they've actually improved their performance there. So things -- the pricing is getting a little bit more sane there. Darvi still says is tough, but it's a little -- there is a little bit more sanity there and we're building our best of breed EB and health businesses.

We weren't in health; we're back in health now, and there is a -- I mean, of course there is a massive gap between us and the industry leader, but we know that and our partners know it and we'll make progress over time there. EB, we'd stepped back over the years, but over the last two years, we've really made solid progress there, lot of potential, additional scale from the ABSA deal.

And other opportunities will come along, I've got absolutely no doubt in that game. The umbrella funds are growing aggressively and there is lots of opportunity there and so I really think that we are in a solid position there, dealing with some of the challenges in the business around regulation, but also some of the opportunities that are there.

So in summary, looking at the overall position -- looking -- we have to look forward to a favorable December outcome with -- it's a period of inertia for South Africa; there is no doubt about that. I think if we don't recognize that, we're a bit naive. So all of us in business need to do what we need to do to the extent that we can to influence a successful outcome for business and for South Africa in December.

Now, we're not ANC delegates here, so we are not doing the voting in December, but -- so we trust that the right thing will be done, but we have to play whatever role we can to make sure we have a satisfactory outcome on that one. Now hope is not a strategy. So it's actions that make a difference and so that is very, very important.

So I think it's going to be -- it's going to remain challenging, but I think we'll continue to deliver well on a relative basis as we've done for these six months. South Africa -- outside of South Africa is looking more promising, India in particular. We're through those two difficult of periods on the demonetization. So as Heinie mentioned, I think some of the reserving there will prove to be -- will -- hopefully will prove to be conservative.

And I was over at the Board there in India the other day. I mean, the business is really, really doing well. The way they measure it, we do this lag accounting, but the way they measure it, the business is in good shape, they've got a nice interesting opportunity now to investigate. So I'm very pleased. There, I think, we can have a proof of progress there. So we have a solid strategy in the business we have. We're having good execution, our people know what to do, they're focused, they've got their heads down in the tough conditions and that's really what I would sort of look to for the balance of the year.

So thank you very much. Thanks for listening to what we had to say. We will have some time now for questions. Maybe if some of my colleagues would be happy to join me at the front. So if you're going to just join me, so -- I always -- I am very good at deflecting these -- the more difficult questions, as you know me. Heinie, you know Junior Ngulube who runs the Emerging Markets business and Anton Gildenhuys, you know who is in charge of actuarial and the risk -- Chief Actuary.

So if you have any questions, happy to receive them. Maybe we'll start from the questions in the room here. John?

Questions And Answers

Q - Unidentified Participant

John Frazer, Cape Messenger. [ph] You were just talking about a satisfactory outcome at the ANC gathering. That's a bit vague. What do you want to see?

A - Ian Kirk {BIO 1778703 <GO>}

I want to see an outcome, John, that is business friendly and South Africa friendly, and you won't get me to -- you won't get me to commit to more than that. This is really an issue for business, and for our industry association. So you will find lots of commentary from the head of BLSA. He answers that question better than I, and also head of ASISA, and that's really -- so we -- all our comments on that issue come through ASISA, which is our industry body and BLSA, but I think we all know in this room what needs to happen.

Q - Unidentified Participant

Okay. We'll see if I can get a straight answer on this one. Are you still flying with SAA?

A - Ian Kirk {BIO 1778703 <GO>}

Oh, yes. I fly with the national airline or BA, whichever the procurement system at Sanlam puts me into, which is the most appropriate and it's the cheapest. Yes, I still fly SAA. And I must tell you, I must tell you there are some wonderful South Africans working for SAA. And if you think about the environment in which they are working, one must give them credit. So they give Mr. Kirk his drink on a Friday evening and they give him his meal, and they are working in a much more difficult environment than the Sanlam people. There are good people in South Africa, there are good people in South Africa who can even fix the country. We just have to stop the nonsense.

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

Hi, Ian. Larissa van Deventer from Deutsche Bank. You mentioned Kenya several times. Can you tell us what do you think are the main challenges? How much of those can Sanlam control and how much of those are inherent [ph] to that country and how long do you think it's going to take to fix?

A - Ian Kirk {BIO 1778703 <GO>}

Good question. Junior?

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

I think if I look at the Kenyan business, our GI business, it's a fairly small company and we have a new management team in place now. We just need to give a bit more time to fix the business. There are already good signs coming through. On the life business, we are working on the distribution side. We just hired a new CEO for the life business. Again, we are putting in strong teams to address these programs. It always takes a little bit longer than one initially estimates.

A - Ian Kirk {BIO 1778703 <GO>}

Larissa, I would say, just to add to that, it's about the best people on the ground, and Junior is busy with that on the life side and the GI side, and the GI side needs a bit of time. The business we took on wasn't in great shape. And as you know, it's very, very -- there are too many general insurance players, and until the risk-based capital model comes in, there will be some shakeout then, but it will be tricky up to that.

The other thing that Junior and his team did do is they took the PineBridge opportunity, and I think Junior, that puts you in pole position there on asset management. And the nice thing about that is that they will support PineBridge, which is the leader in the region on a regional basis, not just on a Kenya basis. So that's quite encouraging. That's a nice opportunity. In other territories around the continent, the regions don't get supported to the same extent that they do in the east. Ian?

Q - Unidentified Participant

Ian (inaudible). Ian, you talked about new banking relationships and extending and growing these, and also there was the corporate acquisition of ABSA Consultants and Actuaries. And then third point was the move in investment management, if I can call it, the asset management and the results that came from them. Are you looking at extending that as a major (inaudible) and with the togetherness with ABSA Consultants and Actuaries and other arms, do you see a closer relationship there and maybe becoming even more of a one-stop financial services institution?

A - Ian Kirk {BIO 1778703 <GO>}

Okay. So there is -- I always find it difficult when there is three questions in the one, because I am struggling to get that, but let's go back, okay? So banking, the nice position for us in banking is we have -- traditionally we have strong relationships with a business like ABSA. So when they reorganize their shares, we are in a reasonably strong position albeit on a very much arm's length and at competitive prices, to pick up certain businesses that they no longer focus on. So that's quite nice. But what we are is we are independent of any big banking group. So some of the new opportunities that come along with the banks, we can also avail of that. So that's important.

On the asset management side, I think it's really about building out that third-party capability. That's really the important part. Anton, do you also want to deal with the performance, that question on the performance, the asset management performance?

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yeah. I think on the Sanlam assets, the performance is fine. I think the team is doing a great job, and we're also looking at supporting the strategy that Robert is driving in terms of alternatives and moving the best systems on. So I think the performance, it will always decrease, so that is what Sanlam Investments sell. So they all have to do well.

A - Ian Kirk {BIO 1778703 <GO>}

Yeah. Then you had a question about are we going to be a one-stop shop. No, we're not. We've defined what we are, financial services at Sanlam doesn't include banking. Well, there are banking opportunities available within the base which we do with the partners. And just like we think that the banks shouldn't be doing insurance, and someone is going to realize that; someone who hasn't', but so be it. Those are discussions not for this room. But we also don't think we should be doing the banking ourselves.

You know that the best banking people, Ian, aren't going to join Sanlam. They haven't in the past and they haven't joined the other insurers who want to do banking by the way either, at this stage; could change, and people are major, major contributors to success in this market, and it's not just about South Africa. (Technical Difficulty) South Africa. So that's the reason why and we will continue to partner with the banks in delivering the solutions to the clients that are necessary. For that, we don't think we have to do the banking ourselves.

Q - Unidentified Participant

Good morning, Ian. I'll deflect this question for you. I'll probably go to Anton, just for a quick hand discussion about it, but in the group equity value earnings on the far right, the investment variance isn't added for life and other ops, and it's roughly 2.4 billion. And could you just give us a bit more color on that because that takes your adjusted return on group equity value from 8.1% to 6.1%.

A - Anton Gildenhuys {BIO 4058523 <GO>}

They'd all mainly be currency. So that's on a group equity value, so that's mainly the strengthening rand on our Sanlam Emerging Market businesses.

Q - Unidentified Participant

Thank you. And then maybe, Heinie, just one question. Could you just give us the exact definition of structural -- excluding structural growth?

A - Heinie Werth {BIO 7529974 <GO>}

Structural growth will exclude where we last year did the Indian businesses and where we bought a further 23% in Shriram Life and Shriram General, and then last year the first six months sum, the first 30% only came in in February and this year, the extra 17% came in in March. So we adjust that to then the same periods for both years.

Q - Unidentified Participant

Thank you very much.

A - Ian Kirk {BIO 1778703 <GO>}

Okay. Any other questions in the room? Maybe then we can go to some of the other channels. Are there any questions on the telephone?

Operator

Yes, we have a question from Francois (inaudible)

A - Ian Kirk {BIO 1778703 <GO>}

Good morning.

Q - Unidentified Participant

Good morning. Hi, can you hear me?

A - Ian Kirk {BIO 1778703 <GO>}

Yes.

Q - Unidentified Participant

(Technical Difficulty)

A - Ian Kirk {BIO 1778703 <GO>}

It's not working for me. Is that Francois? Yeah. Maybe you can either call again or slow down because we can't hear you, sorry. I'm very sorry about that.

Q - Unidentified Participant

(Technical Difficulty)

A - Ian Kirk {BIO 1778703 <GO>}

Heinie, maybe --

A - Heinie Werth {BIO 7529974 <GO>}

Francois, we hear you partly. If I understand your correction -- your question, in our four months update, we actually show a higher growth in value of new business growth than now for the six months. I think we explained in the four months that the last year, Sanlam Sky, the first six months still included a lot of saving products or loss making saving products. So we are getting that out of the base, and obviously now as the period gets a bit longer, the impact of that base is becoming less. So you would expect the six months to be a bit lower growth than the first four months. I hope I'm answering the right question. Otherwise we must try on Tuesday.

Q - Unidentified Participant

(Technical Difficulty)

A - Heinie Werth {BIO 7529974 <GO>}

Okay. Not the right question.

A - Ian Kirk {BIO 1778703 <GO>}

Okay. Any -- no other questions, and on the webcast? Okay. Any final questions from the audience here? Great. Thanks very much and we look forward to seeing you then in March.