S1 2014 Earnings Call

Company Participants

- Johan van Zyl, Group Chief Executive Officer
- Kobus Moller, Financial Director

Other Participants

- Carin Smith, Analyst
- Unidentified Participant

Presentation

Johan van Zyl {BIO 4080290 <GO>}

Welcome to our Interim Results Presentation. As it's become customary, we do it here in Johannesburg. More interest, more money here in Johannesburg.

Before we start with the presentation, I'd like to welcome a few people specifically. First some Board members, our Chairman, Desmond Smith; Flip Rademeyer; Paul Bradshaw, one of our directors from the UK; Kobus Moller, our Financial Director, who will talk about the financials just now; Yegs Ramiah; Ian Kirk; Themba Gamedze; Johan van der Merwe; Andre Zeeman, who will do the actuarial questions later on, help us with that; some of our business people; and then a whole lot of our analysts and others who support us.

Welcome; it's our pleasure to share with you another set of six months results. The agenda is straightforward; we will start off with talking a little bit about the economy, the operating environment, about what is happening and how it's impacting us; talk about our strategy in Sanlam, how are we trying to run the business to take advantage out of the markets. Kobus Moller, the Financial Director, will come and give us the financial review and I will end off with a few points on what we're going to concentrate on for the rest of the year, what the outlook is and so forth.

Starting off with the operating environment, I think the overriding thing that we see is the fundamentals, in particularly our major market South Africa, are weak. So if you really look at things, it is challenging operating conditions, slow growth in global demand, weak economic growth in South Africa, combined with industrial action over the past six months and particularly the platinum mines that hurt us, and by and large and increasingly we see the South African consumer being under pressure.

In the South African economy, we'll have a few slides to show how we're doing and with respect to growth, interest rates, equity markets and currencies and we'll also remark briefly on what is happening elsewhere in the economy.

But if you really look at growth, you can see that growth is not going back to the levels that we've seen sort of 10 years ago -- 8, 10 years ago, but we sort of flooding along at around 2% and a bit low, but below that. And that is not great. It isn't when you talk to, particularly with the investors from US and Europe, they're worried about that. And as we can see, there is a lot of pressure in our own economy.

If we look at the interest rates, we can see the long-term rate, the nine-year bond rate that we use by and large to value our business. You can see that has gone up by about 70 basis points. Of course, because we use that as a discount rate, it had a negative effect on the value of new business to the tune of about 4%. But we were under pressure with the volumes as well. The new business margin went down a little bit because of the higher discount rate. The short-term rate sort of very much the same if we compared the two halves from 2013 to now.

If you look at the bond market -- the equity market, it's done pretty well, and because we get the equity, the higher levels actually caused, particularly our investment businesses, to do substantially better. You can see the markets were about 11% higher and that has made a big impact for us. On the bond market, the returns were 3.4%, which is also substantially better than the previous period. So overall, if we look at the market, a positive effect on our results.

Similarly with the exchange rate. The exchange rate has weakened quite a bit and that has had positive effects from the income that we've seen, particularly from Europe -- our European operations. In the UK, we see that on the period -- over the two periods that we're comparing, exchange rate weakened by 26%. So of course, the results from the UK would be higher.

You see the US rate there, Botswana also positively impacted, India; and the Rest of Africa, particularly because of what's happening in Ghana, the effect is fairly neutral. But overall, you can see a 5% better result coming from exchange rate movements. New business volumes have 2% effect and the value of new business has 1% positive effect. So the economy.

If we look at the economy in more detail, one of our bigger operations in Botswana. I think we are -- results were bolstered by a fairly resilient economy and a consumer base that is on the up. They struggled for a year or two, but I think the economy is well managed and they're doing pretty well. If you look in the Rest of Africa, the GDP growth prospects exceed South Africa, despite slow global -- slow growth in global demand. The Ghana economy is struggling, particularly because of high inflation, devaluation of the currency and so forth, high growth rate, but once you look at the real rates it is bit on a pressure.

In India, we've had a below trend economic growth, but I think a very buoyant equity market with Modi winning the elections there being very pro-business, a lot of that has provided through into the equity markets and these markets have done extremely well, not only stopping at half year end 30 of June but running well into August and even now into September. And in Malaysia, I think growth prospects remain in place. The economy is doing fairly well. The ringgit is holding up well as the currency, and particularly at that lower end of the market where we're playing, we see quite substantial growth. So overall things are fairly positive.

So from the economy, tough in South Africa, more positive signs elsewhere; currency helping us, high markets helping us, higher interest rates, particularly on the long-term impacting negatively on our results. Within this framework, if you look at a little bit about what our strategy is, nothing much has remained. We still focus on returns being the major driver and measurement of our success.

Return on Group embedded value has been measured, big focus on the growth component, trying to maintain South Africa, get positive growth from pockets where there is still money to be made. But then trying to get into the higher growth areas offshore into Africa, India, Southeast Asia and also the developed markets in the UK in particular trying to drive new business flows, diversification, operational efficiency. Again, the second pillar of our strategy is around capital efficiency. We were able to do quite a bit around that and going into SAM, I think we're well placed to sort of capitalize on one or two opportunities that has become available.

So if you look at the core strategy, about 75%, 80% of our business in South Africa, it's key that we get back to work. We look at lower growth, but really focus on sustainability, within in the businesses it's much more focused on efficiency and so forth really getting the returns up, trying to do more with clients and so not trying to add a massive number of new businesses but trying to do more with clients and so forth. And then through the mechanism of capital management, trying to build the future for us into the higher growth areas particularly the African markets, the Anglophone African markets.

The lower end of the market in India, Southeast Asia, Malaysia and others and also the high-end of the market trying to capitalize in the opportunities that we see for our clients into places like the UK diversifying portfolios and so forth. And by putting all of that together you get sort of a blended growth in South Africa, much more stable type of an environment giving us 12%, 13%, offshore higher growth 30% and higher, lower penetration, less competition and by putting those two things together you can get to around 16%, 17%. In the shorter term -- in the longer term around 15, which is what we're trying to achieve, so trying to get to around 10% sort of double-digit real growth into the future.

If you look at the actual results, I think some of the highlights there, certainly in my mind, the major highlights is the net operating profit per share that increased by 43%. Now that's at the back of most of the businesses working well, Kobus will talk about that a bit later. Santam coming back to the party, having it -- had a difficult year in 2013; we've done pretty well this year. The higher asset base helping Sanlam Investments. Our personal individual business, Sanlam Personal Finance doing very well and I think particularly good performance from our Emerging Markets business. We did buy some new businesses but even when you strip that out, 36% growth in the net operating profit, ex-acquisitions, so very, very solid base going forward.

If you look at business volumes, we can see some of the pressure coming through, new business volumes increased by 8% to 82 billion, that's excluding white label. Our net fund flows were 19 billion, it's up 40%, we were able to retain more money, it was in the business. Net life value of new business 7% up to 600 odd million one or two areas where we struggled a little bit and Kobus will show you coming from the strikes and so forth since normalization there, we sort of back to normal, but the higher discount rates knocked that number by about 4%.

Our net value of new business margin around 2.68. On most of the products, we've been able to maintain our margins, but our mix hurt us a little bit. And the group equity value of ZAR42.77 per share; remember we pay dividends once a year. The dividend got paid this year. So, it's tough to grow the group equity value in the first half, most of the growth comes in the second half.

And if you really look at the annualized return of Group embedded value, actual number around 18% against the target that is substantially lower, just about 12. But on an adjusted basis, if you normalize for the markets, that's done particularly well, we're at that level of about 15 that we would like to be at. So plan, everything is sort of going by and large according to plan.

If you really look at the operational efficiencies, the growth stays intact. We've been able to take Sanlam from a fairly stagnant business, not growing, to a business were the value of new business is now at least expected to be well over ZAR1 billion on an annualized basis. For the half year, we've done pretty well. You can see, how particularly the emerging markets have done well. You can also see the maturity coming through in the South African base and the strikes hindering us in the growth areas and the lower end of the market in South Africa, really putting some lid on the South African growth, but most of the business is outside of the country growing pretty well.

If you look at the persistency, we're very happy that the persistency is still well within the assumption base. But as the consumer is under pressure and particularly in that platinum area and a fewer things, we see the lapses, surrenders and fully paid-ups ticking up slightly. Of course, you have to take into account that the environment in which we operate from a regulatory perspective makes it much easier to churn the business, makes it much easier to lapse in the sense that the costs of lapses are lower.

We're not recuperating things as we used to in the past. It's relatively easy to do that. A big part of our lapse base is Section 14 transfers, regulatory transfers, weren't there four, five years ago and in spite of that we still run relatively low numbers in the middle market. So, we're very happy with these pictures still and the trend we think is fairly healthy. And in spite of all regulatory issues and all sorts of pressures, we're now -- the core of what we do in our middle market book very healthy and doing extremely well.

If we look at the lower end of the market, Sanlam Sky business, we can really see how we were able to manage it down to our target of around 10%. And then we can see the latter part of 2013, with some of the industrial action coming through, and particularly in 2014, an uptick there. Now virtually all of that comes from the consumer being under pressure and particularly in the Rustenburg area.

To give you an indication, we sell about -- in this market segment, we sell about 10% of our policies in the platinum belt. And of course, if you can't really get going and sell for three months, people who were striking there, they didn't have income, you would expect those numbers to be quite higher. We've put in special measures there to run that. But overall, I think still a healthy result given the comp where we are at in the country.

One of our key measures and how we -- the shop window into a contractual savings business like our self is really investment performance. We're very happy to say, both on a three-year basis and a five-year basis, more than 90% of our mandates been performing at or better than the benchmark, which is really what we've been aiming for and a very stellar performance there, particularly we have fixed benchmarks, not the variable benchmark, but fixed benchmarks that you would expect in a life company that you would like to -- on an asset liability matching type of a mandate, we've been doing extremely well. So on our big Sanlam book in particular we're really happy with the results over there.

I think Gerhard Cruywagen [ph] and then the team of the investment side has done particularly well. It has become usual; we talk about our operational efficiencies and positive experience variances. Again, coming from a number of sources, particularly on the risk side, again close to about 500 million for the half year as opposed to the other numbers for the full year, you can see the percentage of our book, it is in that range of between (inaudible) that we've been guiding the market. And so, again, a good performance particularly well. And if you put all of this together, it is really resulted in a return that is substantially higher than what we would like it to be.

So if you really look at what is being -- doing, big part of the strategy is on the diversification side. On the business component, on the left hand side there, on the slide you can see the group equity value. About half of our business is life, then a much better distribution than what we've had in the past between general insurance, investment management, credit and banking, and admin health, and then surplus money. If you look at the profit on the right, you can really see which are the most profitable businesses in terms of the components of the value. But much more diversified than it was -- used to be and that is why we can also (inaudible) a bit of the difficulties that we see in the economy.

On the diversification side, in terms of countries, you see still the South African base around 75% of our activity and profits and investments come from there, with about 25% of our investments mainly into Anglophone Africa, India, Malaysia, the old colonies, the lower end of the market where we have a differential advantage, in many cases the first mover advantage as well, barriers to entry to the big players from overseas, somewhat very expensive systems, try to penetrate the high end of the market and from there go to the lower end, very difficult to do that. I think we have a clear differential advantage in most of these as a first mover.

And then on the high end of the market also, mainly in the UK, having a base where we offer optionality and where we have systems, where we can invest in the US and Australia and in several other places. So working fairly well across that international positioning.

If you look at the diversification a bit further, in 2003 sort of 10 years ago, about close to being a 100% South African business with a little bit in Namibia. If you look to the right, about half of what we achieved now in terms of the value of new business on the life side really coming from areas that we didn't play in. And even within the traditional South African markets, quite a bit of new business and innovations taking place. So overall, you get the idea that it's much more diverse and so forth.

And if you look at the profit you can clearly see the growth, the circle becoming bigger as we move to the right, and also new components, not all of it coming from a particular business. And even within that we have credit, we have life, we have savings, we have investments, we have short-term insurance, we have a whole range of businesses, administrations and so forth, much more than what we used to have. So the growth comes with much more diversification and I think much more resilience.

Just a picture to show you, as we moving forward, how we're diversifying the base between South Africa, our Emerging Markets businesses in Africa, India and Malaysia and in UK, the investments there, the value and the profit. Overall, you can see the trend increasing more of our businesses showing is being the high growth areas.

Just a few slides on capital efficiency. The final SAM specifications are expected towards the end of the year. We will be running sort of a high level dual process with the new risk based system and with the old capital system to really see how that will impact us for the rest of the year. The SAM QIS3 results indicate that we have sufficient capital in our life operations with the level of the markets in particular. Of course, if markets adjust, we have always have to look at those kinds of things, but for the moment, I think we will capitalize.

We have 1.8 billion of investments in growth opportunities that we finalized in the first half of the year. We will talk about one or two of them just now. And at the end of the six months, we had 3.3 billion earmarked for investment in growth opportunities. We will come to that particular number and here it is. So, we started the year with 4 billion. We did investments of around 1.7 billion. We've added surplus capital of around 1 billion, that gets us to end up with about 3.3 billion. And you can see there, in Southeast Asia and Malaysia, we did the MCIS transaction, the Zurich transaction. We've bought their stake in MCIS, our life business in Malaysia for 1.2 billion.

In Rwanda, we acquired controlling stake in the biggest insurance and one of the biggest financial services business is there. In Botswana, we've bought back some shares of ours. We are up to -- close to 59% holding now in BIHL. In the Rest of Africa, we've spent around 80 million from the co-investment strategy with Santam; we realized a net 43 that they paid. We've re-bought their stake in Namibia. They bought our stakes or 35% of our stake to get tied into India and some of the other businesses. So, we with the net (inaudible) of 43 million. In the developed markets of UK, we spent ZAR25 million, mainly in four capital buying an additional share from our partners over there; in South Africa we spent about 90. So overall you get the picture, we're continuously pushing on the capital and we have a pipeline available for -- in fact pipeline that's slightly bigger than the 3.3 that we have over the next year or so that we will work.

With those few comments, I would like Kobus to come and address you on the specifics of the financial review. Kobus, over to you.

Kobus Moller {BIO 7480143 <GO>}

Good morning, ladies and gentlemen. It's pleasure to share with you some of the features of our results for the six months. Just to start with just a comment on our presentation or the assumptions underlying the presentation, there is no changes in accounting policies. Fortunately for the six months period, there are some minor changes in the allocation of some of the investment businesses with -- or some of the (inaudible) so those are pretty minor.

And then as Johan indicated, we have seen an increase in the rate at which we discount some of our future cash flows that had a negative impact on some of our valuations, but also on the value of the new life business and it had a negative impact of about 4% [ph] on the growth in the VNB and also marginally on the actual average margin that we've achieved from (inaudible) business.

Salient features; you've seen most of us 18% return on group equity value which is well in excess of our internal target of just more than 12% for the period and on an adjusted versus 15.3%. Those are annualized numbers. And then Sanlam Life, the biggest business within the Group, remains well capitalized at 4.4 times instead of likely capital requirement. Good growth in our operating profits, and I'll share you some more detail on that in a while. And then business flow is at 8% and ZAR5.5 billion increase in the net new flows that we've achieved across the business.

The next few slides will deal with some of the individual clusters -- business clusters within the Group, starting with Sanlam Personal Finance. Overall, good new business flows into the cluster but you will see that in Sanlam Sky, our business at the lower end of the market. We have seen a 6% drop in overall new business flows.

The combinations of 33% drop in Group business or realized schemes -- small schemes and those are (inaudible) businesses and we didn't have the same level of interest last year. Individual Life business is up by 6%. That's also lower than our normal expectation with the big win there since the impact that the strikes in Rustenburg (inaudible) had on our business. If you exclude that the growth is more than 10%, which is slightly better performance.

Individual Life that's both life business and investment business in the middle market, up 8%. We see (inaudible) are very strong. Single premium business there on the recurring premium, we see the impact of the economy as well in our recurring business and particularly on the west side, where we didn't had put growth in recurring premium business.

Glacier had another good six months in terms of new flows both investment business and life insurance business, we specifically see some very good flows onto the investment platform of Glacier. Overall, some good net flows from the prospects, particularly again Glacier as you can see that those up, the net inflows were almost ZAR2 billion on to the platform there.

Value of new business in SPF, down 3% and the actual rates have defused on a comparable basis, it's plus 4%. Again a combination of lower flows but also a change in mix to some extent in Sanlam Sky on a comparable basis, the increase is marginally up from the 146 that we achieved last year. And then on Individual Life also slightly up from last year and if you use the same discount rate and for the (inaudible) reasons.

And Individual Life in particular, it's an issue of changes in mix with the (inaudible) life for example and I'll come back to the profit contribution of our personal plans, because we could deliver the decision to scale down the credit in our personal loans book and obviously (inaudible) it was also down for the period and that impacted on the Individual Life value of new business and also the average margin as you see at the bottom, we have the margin slightly lower than last year.

The profit contribution from Sanlam Personal Finance up 26%, a very good performance in all areas we had an exposure to the equity markets in terms of fees that we've earned, we've seen a good increase in fees earned. And both in Sanlam Sky and in the Individual Life, the middle market business we had some good mortality experience and good underwriting experience, which impacted on the growth positively impacted. Sanlam Sky also benefited from the lower sales with the investment (inaudible) was slower than normal, which contributed to the growth of 44% there and their profit contribution. Glacier obviously were impact to the market at a good run in terms of investment (inaudible) or fees earned on the underlying assets.

And as I've mentioned, personal loans book, the book remained more or less at the ZAR3.7 billion where it was in December, which is marginally up and as a result of that we have to see another contribution from profit from that book fee. We are still comfortable with the level of (inaudible) in that book, but we deliberately didn't grow the book during the period. The group equity value of Personal Finance, almost ZAR37 billion and returning 8.7% for the six months, that's a six months number, most of all ahead of the target that we set for Personal Finance.

Our Emerging Markets business, the actual new business flows is actually down by 32%, but the one number that once you take into account in 2013, we've actually sold the collective investment scheme business in Namibia, which had a big impact in the flows of Namibia. If you exclude that, the Namibian business is actually up 50% on a like-for-life basis, 50. Similarly the overall new business flows was also up by about 50%, which is a better reflection of the underlying performance of the individual businesses in the cluster. So good performance there across all the areas of that business.

The Malaysian business include the first time contribution of P&O. That number, the growth there is slightly inflected on a comparable basis, but good overall flows, good net business flows from that business and then the value of new business from our Emerging Market business is up 44%.

A combination of very good performance in Botswana, where we've got some profitable (inaudible) business during the period, which also impacted on the average margin. The rest of our African business also increased contribution to value of new business by a large basis by about 24% and also making a good contribution there.

The profit contribution for Emerging Markets up 60% for the period. We did acquire some businesses during 2013 that made us the first and full six month contribution for this year. So it does inflect the growth slightly, but if you exclude that, the growth is still around 40%, just more than 40% which is an exceptional performance.

We always have one-off items in any reporting period that might be the one bigger one that I should point out is that we actually reversed the provision in Shriram General in India that we (inaudible) against our third-party exposures there for about ZAR70 million, which also had an impact on the growth that we reported for our Indian businesses, but even if you exclude that one single item, the growth is still close to 30% year-on-year, a very good performance from our Emerging Market businesses and you can also see the group equity value of return of 12% for the six-month period, exceptionally good performance there.

Our Investment businesses, the net flows, obviously much more important in that business. We've seen an increase of almost ZAR2 billion in the net flows in Sanlam Investments, in particular our investment management business in South Africa did very well in terms of net flows.

The wealth management business showed a negative flow for the period. But that's really a result of the loss of about ZAR1.5 billion of share schemes that we've administered, very low margin business. So the rest of the business actually performed very well in terms of net flows there as well.

Our new life loans in (inaudible) South Africa is slightly lower than last year as a result of lower single premium business. We have some good recurring business flows and that's actually reflected between the value of new business at the bottom. We have a bulk of the growth there, actually coming from our South African business, EB business that increased the value of new life business over the period.

The profit contribution from our investment business are 43% and obviously, that's the one area we benefit from the higher equity markets and the fees that we've earned on that, so a very good performance in particular from investment management, up 34%. We've had some good performance fees for the period as well as a result of the level of investment performance that Johan has showed you.

Employee benefits are good. Underwriting results, 24% up, and then capital management, as Johan said, had a very good six-month period, ZAR161 million, but when comparing numbers, you should just maybe remember that last year we had to provide for exposure (inaudible). So on a comparable basis, we increased closely about 20%, that's still a very good performance from Sanlam Capital Markets. group equity value of ZAR19 billion, another good return of about 11% for the six months period from that cluster of businesses.

Santam perhaps the star performer in terms of the turnaround that you've seen in their underwriting results, particularly on the agricultural side, very good crop business, moving from a 1.3% underwriting margin to more than 7% for the six months period. And our investment in Santam yielded a better return of 7% for the six months, which is now worth about 13, just more than ZAR13 billion.

If I look at the total flows, business flows on a gross basis, 8% increase with good flows across the board. If you take into account the one-off item with the selective investments business in emerging markets, that number should be 50%. And then net flow basis also some good flows across the board, particular our investment business both in South Africa, the institutional business and also our Glacier platform business.

The overall value in covered business up 9% on a gross basis, net of minority 7% and then if you do the calculation on the comparable discount rate, the increase is 11% on a net basis. And as you can see very good contributions from the Emerging Markets and that's one item [ph] in particular and then also our employee benefits in South Africa that made a quite a good contribution -- strong contribution for the period.

Overall operating profits 44% up on last year on a sales per share basis, margin lower that was 3%. All our businesses contributing very strongly, in particular Santam as I've mentioned, the turnaround in their underwriting performance. As I've mentioned, we did acquire some businesses during the periods, so if you exclude that and the contribution from those business it would be still 40% increase year-on-year.

And then if you take in to account all these one-off anomalies that I've mentioned, one-off items in some of the businesses, if you normalize the Santam performance of last year to the average they've achieved for the second half of the year, the underwriting margin been perhaps a comparable increase is closer to high '20s and are between 29% [ph]. If you want to look at a more sustainable or comparable level of increase in periods still a very good performance for the period.

Overall income statements 44%, operating profit increased and normalized headline earnings 27%. The net investment return is down 3% and I suppose one would have expected that to be higher because of their equity markets. Again, just to remind you that last year, we had about ZAR200 million of exceptional items on that line, where we -- as an investment (inaudible) we revalued that investment and we had a provision against one specific item that we've reversed last year. In total, that was about ZAR200 million and if you exclude that investment return line also more (inaudible) what happened to the underlying investment mortgage. The overall normalized headline earnings up 27% and then on IFRS basis they're very similar level of increase (inaudible).

Our group equity value amounted to 88 billion -- ZAR87.5 billion at the end of June and ZAR42.77 per share. And Personal Finance is still the biggest single cluster, but as you can see there is an increasing contribution from Emerging Markets in particular, as you've seen from the diversification slide that 23% of the group equity value is not outside of South Africa, and that is growing each reporting period.

All our businesses exceeded their return targets. On the right hand side you will see the performance. Overall the Group operations return of 9.5% for six months. All business is well in excess of the target that we set for those businesses, the total return of 8.6% or 18% on an annual basis and once you adjusted for the effect of the markets and interest rates and the return is 7.5%, 7.4% or 15% -- just more than 15% annualized.

Just look at the contribution to the 7.3 billion or the 18% return at the bottom -- starting to looking it up from 7.3 billion. Our non-life businesses and our excess capital have a return of about ZAR3.3 billion, our non-life businesses yield a return of 10% for the six months. The EV earnings or the contribution from our life business is just less than ZAR4 billion. The return of about 9% just more than 9% from the life businesses for six months.

And let me just go into few items contributing to that ZAR4 billion or ZAR3.9 billion. to the net value of new business of ZAR600 million. The positive experience variances of 477 million with the biggest contribution there is actually positive mortality experience. And then the impact of the markets, the non-investment variance of the in-force book, that's sort of -- because of the high layer of the markets, the fees that we earn in future added about almost 500 million to the value. And then return on net worth of 765, which is also higher than our normalized expectations because of the higher level of markets for the period.

If we -- the middle column been adjust for the impact of the markets and interest rates. On the right hand side, we show you that contribution on a normalized basis, which is (inaudible) of 15% on an annualized.

In summary, I think we are happy that we continue to deliver shareholder value continued to exceed our hurdle rates and particular this period with all the businesses, well above what the hurdles that we've set for them. We've seen again some profitable growth in particular strong growth from some of our emerging markets, but also this time around from our South African markets -- businesses, the valuation business of plus a 11%, on a comparable basis and as I've mentioned, if you strip out all the one-offs and the individual anomalies in the results, and still operating profit that's close to a 30% for the period.

You see the positive impact of the diversification in the contribution in our results, from our growth markets and in the capital management side, we continue to invest in growth markets and that's also our strategy, if you look at the ZAR3.3 billion that was still available. The focus will be to find those growth opportunities and particularly in the growth markets. We have this overriding hurdle to achieve certain minimum return in our business and on a cumulative basis we continue to outperform that mark by quite some margin since we've listed the company in 1998.

That's the end of the financial part and I'll hand to Johan for the remaining part.

Johan van Zyl {BIO 4080290 <GO>}

Thank you, Kobus. Ladies and gentlemen, let me -- for the moment stand still with the few of the priorities that we have for the year that is left. In our Personal Finance business that our individual business in South African, there will be a big focus on sales growth and to maintain the margins in the country. So we have some plans to grow adviser force in all the market segments. We fell a bit behind. We're catching up fairly quickly, particularly in the light of the strikes and so forth, it would have been I think short sighted to grow unfettered, but we're picking up there.

We're really focusing on product innovation, we've launched a number of new recurring premium products. Our market share is substantially low, if you look at the savings space, our market share is around 18%, 20%. If we look at the recurring premium products though, our market share is closer to 10%. And I think there is substantial scope to pick up on that. So we come with a whole range of new product and that seems to bring traction in the market. And then in Sanlam Sky, particularly our brokers are struggling. We have a whole range of measures there, very happy to report I think in August. It seems that we already sort of back on track and things looking well, focus will be to continue at those levels for the rest of the year.

Persistency is an issue, we essentially as an life insurance business make more money and keeping existing good business on the books and rather than writing new business. And therefore, as much as new business is important, it's also important to keep the existing business on the books. So we have a number of measures to get persistency up. We do write new business, we really focus on quality and that focus is there particularly in tough times is what we think creates some differentiation between us and some of our competitors and there will be substantial increase on that focus.

Efficiency, we're driving that hard, we have a history, I think if people ask me what is our core competency in Santam. I said that in the past. A big part of that, particularly in our now life book is the management of costs. And in times when inflation puts pressure on that, it is critically important that we keep on driving the efficiencies. We have quite a few plans there to manage our costs down, not only this year, but over the next two, three years and we have to drive those things a bit forward.

The transformation and employer of choice issue, increasingly our client base is changing. We're trying to change the composition of all sort of our staff to reflect those changes and we're making some progress on the scorecard. We are a level 2 provider. There is scope to increase particularly in employment equity space and we have some plans there. Yesterday, the Board also discussed the plan. We will be making additional investments into the space.

And then the issue in South Africa of regulatory change. I think we've been talking a lot over the past four, five years about changes coming to the floor. I think the time has now come as we started to implement it. A big part of that is on the regulatory capital side, the SAM project. We now starting to go live on a parallel run. The QIS3 results are coming up. We have a much better idea of where we are and by year end, we will have a I think quite a good feel for how we -- our capital stack up and what can be done and what the future holds with respect to that.

We've seen pension fund reform being driven. We think a lot of those things are imminent, treating customers fairly is coming. We've made substantial progress. I think we are fairly happy with the position that's we're in at this moment in time, not only in absolute terms, but also relative to our competitors. I think we're well set there. And then one or two missing pieces, particularly the RDR, the retail distribution review, which will have some impact the way we sell our products, the way we see independent and type agents and advisors and how that will pan out going forward, the relationships around conflict of interest in that space. I think, there will be much more clarity as we move forward.

And then the long anticipated move with the -- we had the Red Book strategy from government coming in 2011, moving to (inaudible) sort of the regulatory system with potential regulations going through the Reserve Bank, not only of banks, but also of insurers and investment managers and then with market conduct regulation going to the FSB. We expect that legislation shortly, so sort of implementation by April of next year. I tend [ph] on to stay 1st of April but maybe 1st of April and we'll see what that (inaudible). So overall, it's a big market, a few changes.

In our Emerging Markets space, we've seen tremendous growth, you would have seen what's been happening, we've been buying businesses. Business have been growing organically and so forth. Our focus remains on Africa and then lower end of the markets in India and Southeast Asia, particularly Malaysia. We would like to continue our focus on top line growth the efficiencies that we drive in the business getting those businesses on board and capital optimization in current operations. Many of the businesses that we bought were relatively small, over capitalized and as we make them bigger and grow them, we utilize that capital better. The integration, we optimize reinsurance arrangements and whole range of things that we can do over the short-term to drive up the returns.

We would like to bed down the new acquisitions in Rwanda and Malaysia. Shriram capital, the holding company, lots of synergy still between the different components of the Shriram Life business, Shriram General, the truck [ph] financing -- Shriram Truck Financing -- Transport financing business and then also with the retail operation -- the financing retail. Lots of stuff that we can do between these businesses, already the cross-selling is increasing quite substantially. But this much more than what we can do to drive those businesses forward.

On IT, we have quite a few changes we have one set for Namibia, we've implemented a project MARA, it's not in Kenya. And it's bedding down these things and good support from South Africa. I think we are doing fairly well. A key part of what we're trying to do here is to some additional transactions and deepening the existing relationships of partnerships in Africa, India, Malaysia and Africa in particular I think we've spoken in the past that we don't have general insurance operations in Kenya, a big market that we playing in, we don't have one in Ghana. There are some opportunities with partners and others to do something on those spaces. And across the board in Africa, we have some messing building blocks that we need to put in place.

In India, in particular, I think it's imminent now that the restriction of the 26% FDI limit, Foreign Direct Investment limit in insurance. With several discussions it's being referred. Our understanding is that there will be a joint sitting of the lower and the higher house later in the year to address this issue and to get it to a vote, being supported by the majority party there and they have the majority in Parliament to get these things through and our expectation is that it will happen. So we've earmarked the 550 million to increase our stake from 26% in the life insurance and general insurance businesses from 26 to 49.

And then in Malaysia there is a whole lot of space and additional things around the (inaudible) integrating our businesses and so forth. We'd like to remain the leading player in Africa; we have one or two additional things that we're working on. We continuously refine the organizational capacity to support growth. It is impossible to find the talent in each of the countries.

So a lot of the support to the country's come from South Africa, where we do have, I think key businesses to pull some people up, not permanently but to address particular issues. So we're working on that and then the whole focus on trying to get governance FX values aligned with what we do here in Sanlam is a major drive. So there is quite a bit of work to be done to move a century from where we are an investment holding company in many of these businesses to really make them an integral path and parcel of what we're about in Sanlam. So that's the major focus of the emerging markets.

If we look at the investment space, key of course as an investment business is investment performance and because the performance has been fairly good, it's really about maintaining that consistent upper quartile investment performance to really at least outperform the mandates over the vast of those mandates and I think we have a good track record there and we like to maintain that.

We'd like to grow our market share in the higher margin areas particular in the retail fund flows. I think that is coming through, working better with Sanlam getting the Sanlam money and we're getting the Sanlam relationships to work sort of a project that we have as Sanlam for Sanlam, but then also driving the institutional fund flows. I think that's an area, we are bit late, our market share is not where it should be, but some good plans and we have to start implementing those and getting results.

I think a very positive part of our business; you would have seen the nice growth in the value of new business coming from EB. This is a more recurring nature and type of business. But on the large mandate side, these 10 billion, 5 billion type of things where we have been missing some of them in the past is a quite a nice pipeline and indications are that in the next six months, we will be able to land one or two of those things and if we can do that, it will have a substantial change, because these things produce value of new business in excess of ZAR100 million for one particular client on a particular day. So that we hope by bringing one or two of those on board, we can affect [ph]. The one area, I think we were a bit lighten [ph] the results, the value of new business can set that straight. So we're really looking at the EB pipeline, and I'm fairly positive that we can do something there.

Then it's all about cost effective solutions to clients from across the Sanlam Investment value chain. I think, we're making progress there as well using the South African base, the people want go offshore, use those opportunities and getting it right, we're doing well there. Active and passive, you know that we -- in fact we bought all of the minorities in Satrix. It is really -- refocusing that business, getting more money into that, that seems to be working on a passive management capabilities, but without detracting on what we're doing on the active side. So overall, we're driving that.

The African investments proposition is doing well, we have a few African funds and African property funds and African debt funds that's been launched recently. Those things are doing well. And then the across the businesses to work better together, not to fight inside as much, but to collaborate inside to work on the outside.

The Santam, we've turned the corner there, we're doing pretty well, but we have to deliver on the diversified growth, the market diversification, we have a whole range of these things, partnering into Africa, India and so forth, the specialist business, Santam Re. Continued growth at MiWay, which is critical, we can only get it at that level with investments and advertisements and these kinds of things, but we are on track. I think, it's a solid business now with relatively low claims ratios on the motor [ph] side.

Our quality of the risk pool is critically important. I think we've done a great job of moving risk profile down, moving away particularly from climate type risk, flooding, and areas like that where we've either adjusted the rates or own [ph] from those things completely. But there is still a lot to do on the unprofitable accounts. People who targets, so things to be carried away and for that, it seems to be recurring (inaudible). So we have to really do a lot to rectify our unprofitable accounts. We have to drive efficiencies through the value chain, cost management key in this thing. We are dropping [ph] off the rand vis-a-vis the other currencies as we get motor parts in. We have to look at other solutions to really provide a better service at lower cost. And then the key strategic projects in the commercial and personal lines, really driving and the key event being underwriting. I think we will fit.

Overall, ladies and gentlemen, I think the next six months will be tough. We won't get to 44% increase as Kobus has told you in operational profit, but we will set I think to continue the trend going forward. In terms of the outlook, we think we'll see increased pressure from the, particularly on the retail side, some of our market volatility probable increasingly a bigger probability. We've seen a lot of money invested in equities, market levels are high. But you have to ask yourself, where else do you put the money, the returns on the other kinds of alternatives to equities are relatively low, even just relative to dividend yields.

So you have to weigh these up, but it does -- if you're rational, there should see some increased market volatility, particularly equity space. We have a few new acquisitions that we plan on. We have to get them down. We have a few in the pipeline, we have to finalize those and I think one or two that can make a big difference. And then the issue around the compliance, the regulatory change in areas that we've mentioned. They are important to think that regulatory change will go away, I think is a sort of a fallacy in our business, you have to be able to deal with change.

However, what I do think is we're trying too many things of the same time. It's impossible in the business to try and do 40, 50 things at the same time. We usually focus on three, four major things and so forth. We're trying to work with the regulators and trying to get them bit more focused. To look at the big things, that can get 80% of the benefit rather than trying to everything. So that's very quickly fall into sort of tick-the-box sort of a strategy.

So overall, I think tough conditions, few challenges, but we are on track, ladies and gentlemen. We are on track, we've been there for a while. No surprises really. I think the market is a bit tougher, it shows in the results of this new business, but we're managing it well. It shows in the profits and the way we coming through, we're much more diversified, we have some resurgence. And overall, I think the business and as a management, we certainly happy. We've been with the business now a long time, my 12th year and a lot of what we've been trying is now coming through. There is still substantial upside looking into the next year or two.

And with that, we'd like to take a few questions. Can I ask Andre Zeeman, our Chief Actuary and Kobus Moller to join me here in the softer chairs for some questions?

Questions And Answers

Q - Unidentified Participant

(inaudible).

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

Well, of course, we have to talk about the (inaudible) change and incentives to change behavior like, for instance, if people don't claim, if they manage things better, that there is enough differentiation in the system that they get the benefits of either lower premiums or a range of other benefits. And not only in general insurance where we get that in short-term insurance, but across the board. A lot of the products that we've launched in the recurring markets space. For people who stay with us for longer periods and so forth we have an RA, the ECHO RA and so forth, actually rewards people for staying with us for longer periods.

So that trying and all these things increasingly have components in place try to align the behavior of the client base with where they without profitability, but also where it makes sense. So increasingly embedded in many out of what's embedded in a lot of what we do is that (inaudible) change, not only among the clients, but also in ourselves.

I think in the last two years, just to give you an idea, a big part of our business has been focusing on treating customers fairly. We adopted that approach, we call it the client centricity in 2003, we had the statements of intent that made most of our products much more flexible. We recruit substantial costs of people moved away from our products, some people call it penalties, it's not penalties, it's just a recruitment of the costs. That we've already spent upfront based on the contract we had with people. But those things are much more flexible and we're moving to a much bigger consumerism, we spent much more time on things like Hellopeter and really, the Ombudsman for long-term insurance and general insurance and trying to address things and so forth.

And if you really look at what we're doing in the business at Sanlam but also in the industry, we are not only people, it's been a massive focus over the past two, three years to do things better, to work towards sustainability and so forth, and I do know there are one or two places we can still do a lot and so forth, but they are on the agenda.

And the whole issue is about behavioral change in the business itself amongst our client base and aligning and getting better value for money over the longer term in to class. So that is really a big focus. Doesn't bring anything now, but these are some business principles. So if your client get us [ph], they don't leave and they stay.

And if you really look at how we also remunerate not only ourselves and where it been but our distribution and so forth, a big part is that is on how what the persistency is. It's not about the sales per se, I go and visit most of our offices during a year and true, what we sell the new business is important, but it's as important to have persistency. None of our people, our sales people can win an award for sales without meeting very stringent levels on persistency. It's as important because that shows they are doing the right thing, they are selling things to people who can stay on the books and so forth.

And clearly one can always do more, but I think, on a relative basis, we've all set (Technical Difficulty). Can you just announced your name and where you're from, when you ask the question please, may I request that? So as we know, where to look.

Q - Unidentified Participant

(inaudible).

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

Good. Any other question?

Q - Unidentified Participant

(inaudible) Firstly, I'd like to congratulate you and your team on producing first rate results. The standout items as far as I am concerned is one that doesn't feature, a percentage increase, and that is the group operating margin, which has gone from 20.5% to 27.5%. It's an increase in excess of 34%. Well done on that particular item. Regarding my question, I refer to the emerging markets table on page 32. Now on comparing the differential between net fund flows and new business for the various territories. And there is some massive differences in percentages and possibly you could give me any explanation as to the reason why the Rest of Africa is just under 2%, India, Malaysia and Namibia are in excess of 75%, Botswana is approximately 60%? Now, I fully understand that net fund flows of the commissions', claims, cancellations and lapses, but why are these percentages so widely different from the various territories?

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

I think a lot of that lies into the economic conditions of those territories. The products that we have available, the businesses that we got on board in many of those places we did invest and we acquired additional businesses and then of course, the product mix on the life side.

In Namibia in particular you see a massive negative there and Kobus has spoken to that. This is where we sold, didn't really sell, we exchanged the big part of our business that we owned a 100% for shares in Bank Windhoek or in actually Capricorn Holdings, the holding company Bank Windhoek. So our share of the holding in Bank Windhoek went up from 19% I think in the process to 25 (inaudible). So that is all in there. And that is why you have these massive things. It is always difficult when you look at business flows to form a clear picture and increasingly we've had this discussion because of exactly that issue that you have is massive changes in certain -- between certain countries and so forth.

In Namibia, you will see the numbers are fairly big, last year we had 4 billion flows in there, but most of those were money market type funds where people didn't pay tax and the margin was virtually zero. And you compare that with the Rest of Africa for instance, where the margins are well over 10%. And that differentiation makes no sense, if you lump these numbers together. So in future, you will see we've dropped all sort of white labels from our results because the margins are relatively small. In future, we will increasingly distinguish when we do on the business flows between high margin and low margin stuff that we simply house in different places.

A - Kobus Moller {BIO 7480143 <GO>}

I think you're correct, I think the answer lies in the mix of (inaudible). In short-term insurance versus for example that will be (inaudible) actually a very small margin there actually just underwriting margin where business flows -- net flows will be a much larger number. So, it's really the -- if we bought the (inaudible) to combined, flows of all those businesses, it's very difficult to look at the overall number to explain the trends.

Q - Unidentified Participant

Sorry, could I persist in this question, please with specific reference to India and Malaysia, where you just started in recent years, what accounts for that massive differential?

A - Kobus Moller {BIO 7480143 <GO>}

What we've included for the first time, remember we acquired a business in Pacific & Orient, the short-term insurance business in Malaysia. And in the 2014 numbers, that are included for the first time. So that would explain the jump there.

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

(inaudible) buying the business. I mean, in the one period, we didn't have it, the second period it's in. But thank you Mr. (inaudible) for pointing that off. I mean, we -- it's worrying us as well. We've much rather focus on the value of the business than simply the products itself. Anything else?

Q - Unidentified Participant

(inaudible). You mentioned the pressure on the savings space. In this business is, it's already likely to intensify with unemployment cost of living, cost of (inaudible) actually that really it seems to me that there will be less opportunity to grow your market share and could you just give an indication of what impact you'll have on new business and also profitability there from?

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

Yes. I think if you look at South Africa, it is a fairly consistent space. For a long time, our financial services are well developed. I think that there is no competition although we may have only five major brands or five insurance or six of them and so forth. The competition is fairly fierce and often destructive for what is available for share of wallet and so forth. So you have to, when you do something focus on that particular niche areas where you think you can, you have sort of an edge.

This is what we've been trying to do, but increasingly in South Africa, it is not about adding much more, and we've said that but try to maintain what we have. And a big part of the benefit comes from efficiency gains in how we manage. So it's being more efficient in doing things, not necessarily grow market share and these kinds of things, but make more money out of what we already have and the management there of and then from redeploying that profits into the higher growth areas, we have less competition of Africa, India, Malaysia and then some niche areas in the UK where we will set the cap for us.

So what we see in Santam is actually the change over time from being fairly big in South Africa to maintaining and deploying businesses and so forth and you see that in the results as well. South Africa is doing well, but coming with a result of roughly about 14%, 15% higher, but most of it actually comes from the new areas. That's where we get the growth of 60% and so. We're buying more businesses there but organically the numbers are about more than 40% in these higher growth areas. And that takes up the slack that we get from the consumer being under pressure in South Africa.

And if you really look at that and you take that whole planning forward, we think we can more than compensate from what we lose here and the tighter competition to what we gain in the new markets. So that on a net basis, we can be positive and grow the business at a rate sort of at the real rate sort of close to double-digits. Nominal rate of around 15 what we're aiming for deduct inflation 5%, 6% it gets us around close to 10%. This is what we've been able to do now for about another 10, 12 years and we think there is much more of that.

Anything else? If there are no questions, yeah. Can I ask any questions from the phone lines?

Operator

Yes. It is from Carin Smith from Fin24. Please go ahead, ma'am.

Q - Carin Smith

Yes, hello. It's Carin Smith from Fin24 in Cape Town. Since I can't rely on my (inaudible) I just want to be sure that I'll be (inaudible) speaking at the beginning and then he first quoted Moller and then back to Dr. (inaudible) right?

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

That's correct. Kobus Moller, not --

Q - Carin Smith

Moller.

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

Not Mu.

Q - Carin Smith

Thank you.

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

Good. Any other questions from the lines, from the webcast?

A - Kobus Moller {BIO 7480143 <GO>}

I think we've actually answered the question early, but just to -- the question is very 32% fold up we show in emerging market business flows -- new business flows and as Johan explained, we've actually sold. The data transaction was completed [ph] in May last year 2013, so for the first part of the year we still included the business flows from the collective investment scheme in our results. It's operation [ph] out there for this period. If you exclude that, the 32% fold is actually on a comp [ph] base 30% increase, I think that's actually the number to focus on, if you look at the underlying performance. It's just a technical issue.

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

Okay. Final questions from here? Ladies and gentlemen, thank you. Thank you for the support. Thank you for being here and we hope that we can come with another positive set of results in six months time. Thank you.