Y 2014 Earnings Call

Company Participants

- Desmond Smith, Chairman
- Ian Kirk, Deputy Group Chief Executive
- Johan van Zyl, Group Chief Executive Director
- Kobus Moller, Financial Director

Other Participants

- Brian Mushonga, Analyst
- Unidentified Participant

Presentation

Desmond Smith {BIO 1745614 <GO>}

Good morning, ladies and gentlemen. On behalf of the investment, analyst society of Southern Africa, we would like to thank at the outset Sanlam, Dr. Johan van Zyl, members of the Board, the executive. First thing that we have today in the presentation of the results for the period ending December 2014.

Sanlam is one of the pillars of South African society. It is the custodian of people savings and of investments and in more recent years, focused on capitalizing on the opportunities in the emerging markets of this world. Sanlam was formed, came into being or just after the First World War in 1918 it is a mutual company and it de-mutualized itself in 1998. It is today it has a market capitalization of 160 billion. It is one of the top biggest companies in South Africa in terms of market capitalization and employs just on 13,000 people and this is the home for people savings and also for employment. As I said it's a pillar of society and this is manifested in the share price which has risen from some ZAR6 some 12 to 13 times over the past few years since listing. So, Dr. van Zyl and to the members of the management who will be addressing us this morning, once again, thank you. And we look forward to having greater insight into Sanlam as a company, as an enterprise, the past, the present and the future. Thank you.

Johan van Zyl {BIO 4080290 <GO>}

Thank you so much for that kind introduction. It's always nice to be hosted by the investment analysts society here in Johannesburg when we do announce our results. Ladies and gentlemen, good morning, welcome. We'll be talking about on what we've done in the last year.

But before we start just a word of welcome and I would like to welcome the Sanlam Chairman, Desmond Smith, the Chairman of our Audit & Risk Committee, Audit Committee (inaudible) and number of executives that we have over here. Here's Yegs Ramiah, (inaudible), Themba Gamedze, I see Temba Mvusi here. Hubert Brody that's joined us recently from Imperial. And then people will help me with the presentation, Ian Kirk, our CEO designate and presently the deputy CEO of Sanlam; Kobus Moller our Financial Director and also Andre Zeeman, our Chief Actuary and Risk Officer.

Ladies and gentlemen, I'll be handling mainly the strategy in the operating environment if we start off. Then we'll have Kobus Moller talking a bit about strategic delivery and what has happened into the financial review. Priorities will be handled in the businesses by Ian and I'll end off with one or two things that we plan to do in the rest of the year and issues that we have to look out for.

If you really look at the strategy, it is all about maximizing shareholder value. And we have a diagram that we really would like to drive in our own case returns on group equity value, which is the measure that we've put forward. This is how we incentivized; this is how we measure ourselves. And in order to do that, we have a whole lot of strategic colors within the business.

We want to grow the business, operational efficiencies; key part is capital optimization, diversification, transforming our business. And then there's a whole lot of other strategic enablers like client centricity, doing the right thing, responsible products -- were products a prosperous society. These are the thing that we focus on. If you really look at the key part of what we do, South Africa is still our home, it is a big part of what we do. We have a mature business here. So it's really about maximizing the return on the South African business, there's a lot of efficiencies and effectiveness issues that we have to do and that we have to drive out efficiencies. So it's about getting return on our investment. A lot of it is mature; this is where we get the cash flow, this is where we get the dividend that we actually pay.

And then through the process on the right there, the capital management drive out the surplus capital as old more capital intensive policies mature. Using that capital, using some of the profit to apply to higher -- into higher growth areas where we get higher returns. So it's really about that sourcing of new growth opportunities, making the investments and then growing those businesses and through both investment, but increasingly so also through organic growth, because our footprint is also quite big.

And that is the story, it's been the story for a while and we think there is quite a bit of it left. A few remarks on the operating environment. The environment has been fairly tough, not the toughest that we've seen. But it is a difficult environment to operate in. The business environment itself is characterized by weak global economy, not only low growth rates in South Africa and unemployment that is driving things, but the pressure on the South African economy I think is very prevalent. And we also see it in our numbers.

Global demand has dropped off quite a bit, particularly for resources. We've seen in our own economy also substantial industrial action. And we were impacted heavily by it. In our Sanlam Sky business, for instance, we write quite a bit of our business in the platinum area, Rustenburg has been one of our major branches. And as we know, for full on 6 months last year we sold way under what should have been done in that area because of industrial action. Just as we got that right and got that going we had load shedding and other things that put pressure on how people see it on their ability to save.

And all of this, resulted in relatively low level of growth in the economy, but particularly so in disposable income with large segments of our particular retail client being under pressure. In Africa, outside of South Africa, much more resilience, despite pressure on income from resources, also in the oil producing countries, but a lot of currency volatility. Fortunately, increasingly we are about a basket of areas that we work in. It is about the portfolio of businesses and in that lies an inherent stability. We focus on those areas where there are opportunities and maybe close at that a little bit where we have headwinds. And overall, the result is a very pleasing one. In India, growth is below the long-term potential but massive optimism after the elections with share prices close on doubling in the last few months or so. Investment markets, lots of volatility and lots of momentum investors and so forth and particularly the value investors being hurt in many areas, lots of risk aversion in the market and very difficult to get things right.

But having said that a few numbers here. You can see the economy, the growth and so not doing very well. And in the long term, this is the picture that we have to play in about 70, 75% of our business. This is the cot that we've been building it. It is a tough one, so increasingly we are diversified. If you look at interest rates, a key part of our results and how things go forward, this is the two top lines there, the 9-year bond rate and the 5-year bond rate determine actually our discount rates for our middle market are our lower end of the market, both of them.

And if you really look at the top there, we've seen 10 basis points lower discount rate that we're using for the middle and the affluent market, which has had a slightly positive effect, a negative effect coming from the increase in the discount rate for the lower end of the market. The net value of new business impacting about 2% negatively by not so much I think the absolute levels of the curve much more the point and the shape of where we're at.

So new business margin because of those movements about 5 basis points down. But by and large, I think not much movement coming from interest rates. You've seen a slight pickup in the short-term interest rates, which of course a 20 basis points tick up there, a slight tick up you can see in the lower end, the short-term interest rates; we have a lot of cash that we have invested at that rate. So, our profit being slightly higher on that.

If we look at the equity markets, a major driver is that average Alsi up about 17% in the two years. We haven't had as great a year in 2014 as in previous year, and this has resulted of course negatively on particularly our headline earnings where we include a lot of our investment income. Kobus will talk about that. But by and large, I think a fairly pleasing picture on the bond side as well. On average, a higher base and because we increase in our asset management type businesses off the base, you would see the base was 17% up, we've done pretty well in those businesses.

If you really look at the exchange rates, increasingly as we move offshore these things do impact us. The rand weakened about most of the developed -- against most of the developed currencies where we operate and you would see places like the UK and Europe having a bigger contribution to your profits because the rand is weakened.

That has helped us in Botswana and India less so but still a strengthening of those currencies relative to the rand. The rest of Africa there I spoke about the currency volatility at the beginning. You can see we've been hurt by those currencies weakening against the rand by 3%. Overall, the net result from financial sources are operating profit, up 1.7% because of currency issues. New business volumes are up by about 1.4% but value of new business coming mainly out of Africa down by 0.3%.

So, not too much, but overall a positive contribution coming from the currency valuations. If we look at what's been achieved in the past year in the delivery, a key part of what we're driving (technical difficulty) of course the results. But we really look at the business quite carefully. We do a lot of investment into the business upfront, incur new business trend, as long as that is positive and you know which makes our hurdle rate so that we can get the profits into the future.

We treat a lot of our business like that; it is all about capital, the management, the investment decisions. And so within that, sort of a framework, our net operating profit per share increased by a very credible 26% over the past year. We are very chuffed about that. Normalize headline earning is a bit lower mainly because the market didn't contribute as much in the past year, only about a 10% increase in the market as opposed to close to well, close to 20% increase in the previous period.

So normalized headline earnings fairly flat. And in that, we incurred quite a bit of new business strength because of the growth that you see below, new business volumes up 18% across the board. Net fund inflows up 42 billion. Those things don't mean as much, they are very positive and an indication that things have gone well. They say nothing about margin. If we look about the margin stuff, our net life value of new business, up 21% up to 1.6 billion. And that of course a big chunk of that incurs new business trend particularly around the risk side, the EB side and so forth. This is where we had a negative impact because of the high growth on the actual profit that we've shown. But we'll talk about that later when Kobus comes with his financial results. The margin fairly flat on a per product basis maintained a bit of a mix towards the higher or the lower yielding margins, more savings products in South Africa as opposed to risk and that sort of a thing.

Group equity value, which is really a key part of what we try to drive, group equity value at the end of December was -- of last year, ZAR46.84 per share. We're pretty proud of what has been achieved there with a return on group equity value over the past year of 18.5%. On a normalized basis, taking out the market, which has been fairly flat about 18% return. This is how we measure ourselves. We have hurdles that we would like to achieve, and that is probably the main reason why we trade at -- as the share price trade at substantially above the group embedded value is because our return is substantially more than simply to unwind of the discount rate.

So overall, if we look at the efficiencies in the business, the trick is not to only be bigger, but to be better and a big part of it lies in growing the value of new business. I'm very happy to say that this has been a recurring story with about another 20% increase; gross value of new business, 20% up over the period. In EB, we've had a very large single policy, at a bit of a lower margin. Overall it decreased the margin a little bit; you would see that coming down. But on a per product basis, the margin, very similar to the previous years and increasingly you see the new territories that we've added and how it just makes a difference with a cherry on top. We're very proud of what has been achieved here.

As I've said, of course, this incurs quite substantial new business trends on the risk and EB side, with EB's contribution being a major part of the growth there and therefore, it impacted negatively on operating profit. In spite of that still the 26% growth very credible.

Quality is key for us; we don't like to write business that will disappear before we've made our money. You've seen a slight uptick in 2013 in the second half from -- in lapses, surrenders, fully paid-ups, mainly the Section 14 transfers, which is about administration. We're also gaining from a whole lot of that which we don't show in the net number, but this is our book and the lapses is a percentage of book in the middle market. You can see, after the strain that we've taken in the first half of the year, a substantially better second half also better than second half of last year. And that is pretty good for us. And this goes to show a bit about the health of the South African consumer and our focus on different segments of the market. We're fairly happy with that and overall we don't see too many problems there for us.

In the lower end of the market, persistency is a big issue. You have seen in the latter half of 2013, industrial action, resulting in particular in that Rustenburg platinum area in the latter half of 2013, the beginning of 2014 with lapses ticking up a little bit and a big chunk of that coming exactly from that. As soon as things started normalizing we were able with -- and in a team they are doing a sterling job getting things back to where we would like it to be. And you see the persistency increasing and lapses coming down a bit. So overall also a pretty pleasing story in terms of quality.

Always a slide on the experience variances and it's been a big part of the profit where we simply do better what our assumption are. Again, a number of sources of this, the big bulk of those experiences coming from risk. When we outperform in terms of what we assumed the assumptions to be, still well within that range of 3% and 4% of the value of in-force, but still a pleasing number at close to ZAR1 billion of positive experience variances and of course, that helped quite substantially in getting the return on group equity value up quite a bit.

If we look at our investment performance. I think we've had a good year, a very sterling year. In fact, in a year where particularly, as I've said earlier, where value investors struggled. No clear direction in the market, difficult to find opportunities. But I think our team on the (inaudible) has done a sterling job. We've outperformed the benchmarks consistently by between about 100 and 200 basis points over the past 3 to 5 years rolling basis.

And I think that puts us in very good state. And a big part of our result is the shop window that is being created there under Johan van der Merwe leadership actually not only for the investment side of the business, but for a whole lot of our savings industry coming through SPF personal lines businesses and so forth. So overall, I think a very credible number and something to be really proud of. We've also in this business achieved quite a bit of on the profit side, achieved quite a bit of performance fees that, Kobus, I'm sure will allude to. The theme of diversification is key not only in South Africa but also when once we go beyond diversification on essentially four fronts. We used to be a middle market business also only focusing on African's business around 10, 15, 20 years ago. We've been able to diversify that middle market base.

We've added the high end of the market through businesses at Glacier, the mass affluent space, the high net worth space in Sanlam, personal wealth used to be Sanlam personal investments that we re-branded in the lower end of the market through Sanlam Sky, really expanding our business quite a bit on what we do and in the back end and the investment sides and then going following our clients offshore in the high-end into niche areas, in the developed markets and into Africa, Southeast Asia, India, Malaysia and so in the middle market.

So this is a key part. If you really look at our equity value were our investments and values sit, around 50% now in life business, down from about 80%, 10 odd years or so ago, a substantial contribution from general insurance, investment management, credit and banking, admin, health, other stuff, surplus capital and so.

So a much more I think robust and diversified base. And if we look at the profit that that base generates to the right hand side there, also much more diversified. Life being particularly profitable once you've added the African businesses on to that, our general insurance doing well, investment management across the board carrying a bit more than its fair share in credit and banking, while only being 9% of our investment contributing roughly about 14% of our profit footprint.

So, we're in the -- must be in some of the sweet spots in that area. So overall, much more diversified. And if you look at that picture of diversification, geographic stuff, every year we're strengthening that, we're into 10 African countries now, actually 11 by adding Mozambique there going to India and Malaysia, places where they speak English. In the emerging market side, in the developed markets area, we're into UK, the Ireland, Switzerland, we don't [ph] have presence in Australia and USA.

And these businesses now contribute roughly about a quarter of our profit, about 15% or two thirds of it from the African base, the emerging market space and about a third of it from the developed market space; both of those businesses grew quite substantially on average close to 30%. But more importantly gave us a return of roughly 28%. So it's a big part of our business, more than 25, doing very well. You'll see most of these places, they speak English which means we can support them from Johannesburg. And although we may be smaller in the countries we then can because of having a big base that we split between the businesses we split that fixed cost investment, we can operate as if we begin those places with support coming from South Africa, following a partnership approach where we have great partners in those countries.

So overall, we are very happy with that approach. It provides opportunities to increase our investments, to broaden our footprint and so forth. So overall I think pleasing, having been at that for quite a while, I think (inaudible) have done a great job in creating a footprint with many moving parts where we have optionality to the future. And if you really look at how the business has grown from a traditional South African base 10 years or so ago to one that is much more diversified. But the traditional base still is important, we've added some new business into that traditional base like credit and so. So, about 40% of what we used to have 10 years ago is still doing well; 60% of profits coming from new areas that we've added to that.

The entry level market then maybe our emerging spaces, the rest of Africa, other internationals are doing fairly well. And if you really look at the contribution to net operating profit over that time, not only we've been able to grow the size of the pie but also the composition. And this is the key part of it. We now have many moving part, we have optionality as I have said. And it's really I think a great story, if you look at the progression. And into the future, it provides that optionality. You can now partner and focus on the area with potential, wait a little bit if there are headwinds in other areas and drive the thing forward.

The overall picture is, you see in terms of an investment, on the right hand side of the picture there. We now have 23% of our investments offshore, but they give us or gave us 26% of our profit on the left hand side. And in terms of life, the future and so forth, you can see a pretty picture, a big chunk of it is offshore. Of course, a big part of our investment is into Africa and India and so forth, not only in the life side but a big part of it is in the general insurance side and also in credit and banking. And overall those contracts is doing very well for us.

Capital efficiency, the key thing over the past 10, 12 years, we've redeployed close to ZAR30 billion over the past 8 to 10 years into buying back shares, into, first of all, selling our stake in Afsa [ph] then using that money wisely in buying back shares. We know we were under-priced buying businesses like African Life, building other businesses of that base, going into Africa, into the UK. We've had returns of well overall 20% from those investments. So overall, it has done very well for us. In the past year our net basis 1.9 billion invested; we've done deals of around 3 billion, 3.2 billion.

We sold some businesses in the UK and in India, reinvested that money elsewhere. So 1.9 billion on a net basis invested. We realized another 930 million from our operations mainly you know returns on surplus cash also a small part of dividends that we didn't pay out, the cash dividend. Added to that part of that 930, we also got a 185 from selling part of our stake in emerging markets where we have short-term insurance exposure to Santam. They only are 35% of that. It's key that they support us there through their expertise but also by having skin on the -- in the game.

So a key part of that and then discretionary capital at year end of about 3.3 billion, substantially allocated for acquisitions. Having just a word or two on that, we have quite a big pipeline, this is what -- how we came to that, we have quite a big pipeline for that 3.3. We've already announced, towards the end of last year 700 odd million due with buying a small 30 odd percent stake into med scheme. There is a big movement in India towards lifting the FDI limit of 26% in insurance to 49%, all indications are -- is that the rules, it has already been announced. It's been through a decree by the powers that be in India.

They are now sorting out the rules. We think that should be done in the next month or so and to take up our additional option of going to 49 there when the insurance companies will be another 600 million, 700 million. And then we have a whole lot of smaller bolt-on type transactions, both in South Africa but also in particularly Africa and elsewhere and that will take in my mind, the bulk of what we have available. Hopefully, we will add again during the year to this number. So -- but a pretty picture.

I think with that sort of a basic story, very similar to what we've been talking about over the last five years, another step I think towards realizing our objectives, I would like to hand over to Kobus Moller, our Financial Director to talk a bit about the numbers. Kobus?

Kobus Moller {BIO 7480143 <GO>}

Thank you Johan. Good morning, ladies and gentlemen. We start off with just a quick word on presentation and assumptions. I think we were fortunate this year that we didn't have any major IFRS changes or changes in our basis of presentation. So you find it very similar to last year, the comparison. And similarly with our changes in our risk discount rates and the loan rates as Johan already indicated just the 10% -- 10 basis point change in the nine year yield and 20 basis points up in the five year yield. So the discount rate for Sanlam Life 10.6% and 10.1% for Sanlam Sky and we made similar adjustments to our value discount rate that we applied for the valuation of our unlisted investments. We used discounted cash flows, so very similar to last year in terms of valuations.

You have seen some of these numbers, group equity value of ZAR47 a share, a return of 18.5% on that. All our businesses remain well capitalized and Sanlam Life (inaudible) 4.5 similar to last year. And then operating profit, an increase of 26% on per share basis and our normalized headline earnings 3% up. On the back of those earnings, the board declared, decided to declare a dividend of ZAR2.25 [ph] a share which is 12.5% up on last year. And I think it's in line with the policy that we followed to have a smooth growth in dividend based on the available cash earnings of the underlying businesses. So more or less following the same level of cover of cash earnings that we followed in the past.

Life business growth of 33% and also really good net fund flows and life business -- value of life business up 20, 21%. The next few slides I am just going to cover some of the highlights of the individual businesses, starting with Sanlam Personal Finance. Really good growth in the insurance business, but also an 18% growth in Sanlam Sky. That is the one are that we had the downside of the platinum strikes earlier in the year which impacted in particular our agency force in the sales in that environment. I think the pleasing part of the result is that, that we covered throughout the year.

Overall we had a 14% growth in our agency [ph] for sales and it's actually 18% up in the last half of the year. So a good recovery in that environment. The negative thing was that we had some less sales, group life sales, it's more chunky business so that was down about 30%, essentially contributing to that minus 2% for the year.

Individual life business did very well, a similar story than before, very good single premiums, good RA sales and somewhat negative performance from our risk business, minus 3% that had a negative impact on the overall growth but still very good growth overall in Individual Life. Glacier did well again, good flows on to our platform there (technical difficulty) 27% growth. And you can also see that in the net flows of almost ZAR20 billion that SPF achieved big part of that actually in Glacier, big part of that being new investment flows on to our administration platform. The value of new business in SPF followed more or less the trend of the life business flow.

So you can see that increase of 10% in the value of new business, but Sanlam Sky similar to last year, essentially because of the lower sales on the group side. The Individual Life 14% increase, and the margins are more similar to last year as Johan also said on a byproduct basis and essentially the same. And the only reason for that slight drop in the overall margins is the higher growth in Glacier, the margins are slightly lower than the rest of the business. So overall still about 3%, 3.1% average margins that we have achieved. And if you express that on a comparable interest basis, it's very similar.

The profit contribution from SPF, I think that is one of the highlights for the year. It's exceptionally good performance to increase the profit contribution to close to ZAR3.5 billion to 19% in a relatively mature business. I think the two areas that certainly helps in, in that is the higher asset base, so (inaudible) in particular in Individual Life on the book, in-force book that we have and also in Glacier we own fees on the in-force book that had a big impact and a positive impact on the earnings contribution.

And then also some on Sky and Individual Life for that very good underwriting performance. Particular totality experience very good in the period, contributing to the 25 and 19% contribute -- increases that we've seen there. Personal loans, the profitability of that book remains, in fact, 4% growth is really the result of us cutting back on the growth in the book.

So not issues for the profitability, but we didn't grow the book by that much -- I think the book is now close to ZAR4 billion from about ZAR3.6 billion a year ago. The cluster, you see a cluster yield a return of almost 18% on equity value for the year. Again well above the target that we set for them and if you compare that with a similar or even higher return in 2013, a very good, two years actually for SPF cluster.

Emerging markets to dwell on the volume side, 27% growth in insurance business that includes both life insurance and general insurance. Life insurance business up by about 15% (inaudible) on the annuity side, annuity business that they have done. And rest of Africa and India and Malaysia reflect some of the acquisitions that we have made in the last year, in particular the phasing in of the contribution of some of the general insurance businesses, but overall very good flows that we have experienced across the board from our businesses. And you can also see that in the net fund flows, plus the ZAR4 billion in net fund flows that this business has achieved.

Value of new business followed the growth in the new life business, a 18% increase in the margins, also more or less the fairness last year, also a bit of a mix to change the average slightly higher, but still a very good margin that we make in the business in Africa in particular. The profit contribution of some emerging markets, ZAR1.2 billion on a net basis, up 23% on last year. Again that's a combination of growth of the existing businesses, the organic growth, which was about 16%.

On top of that is the contribution made by the acquisitions that we have made over time and particularly India and Malaysia, and in Namibia where we bought indirect interest in (inaudible) that made the contributions. Botswana had a very good year. But in general I think across the board our businesses performed very well. We had one or two areas like in Ghana where the currency had a negative impact on results. We didn't perform that well. But we're quite happy with the overall performance of all our businesses in this cluster. And as I said, it's now making a substantial contribution to our results already had a ZAR1.2 billion.

And the return that we achieved on that cluster, 28% return in the value of the businesses there, the equity value in our operation ZAR15 billion, becoming quite a sizable part of our business. And relative in last year at a 30% return, this year 28% returns, you can see that we actually achieved quite a big return on our investment in that businesses, those businesses which we're very happy.

Sanlam Investments. The net investment flows of ZAR4 billion for the year which is quite a credible performance if you take into account that we've actually lost about ZAR10 billion of PIC [ph] flows in the year and involves management that also lost about ZAR2.5 billion of very low margin business that we've done for (inaudible) so to achieve a ZAR4 billion net flows in that environment I think is an excellent performance.

New insurance business at the benefit of the ZAR8 billion single premium that is annuity business that we've sold in the year that obviously helped that, the numbers there or the 90% increase there. And that is also reflected in the value of new business. So, more than doubled. And the big part of that increase is actually due to the single premium business, the single premium policy that we've sold during the year.

The operating profit contribution from the investment cluster up 13% to just below ZAR1.5 billion. The investment business did very well, I think that the benefit of higher base but as Johan also indicated that the investment performance resulted in quite nice performance fees. I think the -- maybe the -- one highlight is that even without the performance fees the profit is still up by about 20%. So the performance we certainly helped get the higher base, but the underlying business is also doing very well.

Employee benefits had a 16% drop in profit and that's the one area that we actually incurred the new business trading on that the big policy that we wrote. We had the benefit this year to have some modeling adjustments that we have made. So we could release some results so the net effect on the profit is only about 137 million negative if you take those both the new business strain and the finishes of reserves into account. So without that the employee benefits profit would have been about 30% higher, which is a better reflection of the actual performance in that business, in particular on the risk side we had a very, very good year. And so it's a bit distorted by the new business trend that have been incurred.

Capital management did well to have a 12% growth in net profit for the year and the cluster in total yielded a return of 20%, again rallied by a far hurdle. And the positive side is that both the current versus anti -- non-current versus both yielded in excess of 20% returns. Santam had a exceptional year. Last year as we've seen in the results already, underwriting margin increasing from 2.8% to 8.7%, each turnaround in the crop business, the agricultural business. But that all the business has actually performed very well if you contribute to that performance. And if you invested in Sanlam share our investment in Santam over the last year you are looking at a 19% return.

So the overall picture in terms of business flows, I think the same growth in new business flows, gross flows and maybe the one item adjustment to clarify the emerging market share, minus 5, that's essentially because we've sold the Capricorn Unit Trust business in Namibia last year. If you exclude that from the base, the increase (technical difficulty) 40%, the real actual increase like-for-like. And overall you'll see we've achieved good net flows in all our businesses close to ZAR42 billion [ph] for the year.

The value of new covered business, up by 21% need to find lot of these so there is some portion of that close to ZAR1.6 billion as we've seen good contributions from all our businesses and officially there -- substantial jump in the employee benefits business for the year. The margins remaining almost similar to a year ago. Our overall net operating profits increased 27%, again all businesses contributing to that. I mean the standout performance for the year being that of Santam and each recovery and the contribution for the year. In our income statement, Ian already alluded to that, that investment returns around 40%. I think the -- that's the investment returns on our shareholder funds. And that's really just a factor of the lower equity returns and also the 2013 we have the benefit of the depreciating rand in our international assets which tend to occur to the same extent in this year.

So lower returns are still within our normal assumptions that we have for investment returns is much lower than last year and therefore the drop in the investment return and that contributed to the headline earnings being down -- up only by 3%.

Our total group equity value, the contribution will be composition of that. In total close to ZAR96 billion now and you can see the major contributors there, the biggest still being personal finance but an increasing contribution now from emerging markets and almost 15 billion as I said and within investments, about 6 billion of the 20 billion is international assets.

So the international component of our equity value is now about ZAR20 billion and you can see the RoGEV that those individual businesses yielded for the year, all above the hurdles that we've set, all above 17%, 18%. And the national component of that yield about a 27% return. So a very good performance, we're very pleased of in terms of our international contributions, but also our local South African business is doing very well.

So it's 18.5% return and if you normalize that for the market it's about 18%. Just looking at the different components in the buildup of the group equity value earning starting with our covered business, the value of new business was 1.6 billion on our existing in-force book, a growth of or earnings of ZAR4.9 billion including 991, almost a ZAR1 billion of experience variances, (technical difficulty) bulk of that, it will be part of that being alternative experience a good alternate experience in particular in the SPF side, but we have good experiences across our book.

Operating assumption changes added ZAR522 million, part of that, half of that is -- we capitalized some of the positive experiences variances and then the other half would be more or less the modeling changes that I referred to earlier, we could release some reserves. Our in-force book at the benefit of the higher equity markets or other markets that added another ZAR550 million. And then in terms of our policy, we actually don't account for any goodwill in our GEV when we acquire life companies. So when we did the acquisition in Malaysia, in CIS, we paid slightly more than embedded value so wrote off the goodwill in our GEV calculation. So that's the bulk of the 168 million (technical difficulty).

So if you add the return of the net worth, the 1.3 billion, it's about ZAR8.2 billion return on our covered business and that's about a 19% return for the year. And we had a similar return of approximately 19% on our non-life businesses of about 7.3 billion to get to the 15.6 overall. And in the right had side, you can actually see the adjustments that we make to get to our normalized return which is very similar to the return, the normal return for the year.

So just the last slide in summary, I think in my view the results will show that we're on track to deliver on our strategy. I think we still add shareholder value by RoGEV returns. We had some strong profitable growth and I think the pleasing part is that most of our businesses made strong contributions to the growth, 22% growth in VNB and operating profit growth. And the diversification continues to add to our performance with our investment in the growth markets. And as you also would have seen the bulk of our investments are capital investments in the past year, went into those growth markets and that will also continue to be the trend that we will look at those growth markets for the application of the ZAR3.3 billion.

With that I will hand you over to Ian to talk a bit about the priorities for 2015.

Ian Kirk {BIO 1778703 <GO>}

Kobus, thank you. Let me start by saying thank you to many of you in the room for the good wishes that you've sent me. Thank you also for some of the suggestions that you've sent me, that's more greatly appreciated. It's a real privilege and honor for me to lead the group through the next stage of its development. Lots to do and it's very exciting including the centenary year.

So just before I get into the priorities, just a couple of comments. Number one is I'm nine weeks in the business, so please don't expect me to have all the answers. I have been obviously associated with the group since 2006, but I'm going through this transition phase, it's being well structured by the Board and by Johan and I going -- Johan is with us for the rest of the year. And I'm getting into it on an appropriate basis. One of the biggest mistakes I think I could make in this job is to assume I know the stuff because I've been in the industry for long and I have been associated with the group. So this is a very important process of hand over.

And second thing is, the business is in good shape. You can see from the results over a period of time strategy is well set. It's been well executed there are no branding platforms. There are challenges, there's no doubt, there are challenges. Mainly the external challenges, Johan is going to talk about it a bit, at the front he is going to talk a bit about at the end and of course the challenges associated with the base.

But the business is in good shape. So there's no dramatic need to get stuck in and make changes. The other important point I think, I'd like to make upfront is that don't assume a new CE equates to new strategy. I've been involved with this, it does happen, it can happen, it has happened in financial services not necessarily happen at some amount to make that point upfront. Whatever happens, will evolve over time it will be a team effort. And just with regard to that, just to mention Hubert, Hubert has joined us from Imperial 1st of January.

So it's also a nine weeker like myself. And he's experience in banking and subsequently the investment banking. Johan and I are not directing Hubert in any particular direction, but obviously he is looking at the capital, he is looking at the strategy and we'll hear from him next month as we go forward. Okay, just a word about the priorities for these business as we go forward. The SPF business has done really well, you see the results on the risk side in the year they sold profitable business over a period of time. But we do see some opportunities to get the volumes up in that regard, some new players have come into the market with some new ideas and some new changes.

The team have been busy. Towards the end of last year, I've come up with some new ways of doing the business. So we think in the risk business, we can do better. On the sky side, we're predominantly selling the general business, we resisted in selling savings plans into that on the back of the TCF guidance and also the fundamental principle at Sanlam, that we need to offer value to customers in the savings products, some of the competitors have not done that.

We think of some new opportunities there around tax free savings and some other things that we've come up with so I think we'll be expanding that product range and as well as a bit distribution footprint. We are strong in certain areas, we have some opportunities in other geographies in the country.

On the Glacier side there's some new opportunities around savings products on the international side as well and we can sell some of more risk business into that base on the glacier side. MiWay is a different venture as you all know, it's been done by others in South Africa and around the world. MiWay now has a short-term insurance base of around 250,000 clients, which is a great achievement of Sanlam insurance.

But you will be interested to know that on the database it's substantially more than that, in fact many of you in the room here are probably on the database. So, they've got a huge database and now we can use that base and the skill that's been set up, there will be a jackup on MiWay on the life side but not as substantial as we were starting from scratch. And so I think it's a nice opportunity there and that's a different segment, it's a different market, different lifestyle that type of experience in direct. It won't be as in short-term where that a significant part of the retail market will be direct, but the number is growing. We've looked at this, we've looked at what the brokers are delivering, we've looked at what the agents are delivering and we've looked at how that growth in direct is coming up. And it will mirror that.

Tax free is an opportunity for us through the intermediaries and also on the direct basis. You know the legislation is coming effective on March. So we are busy with that. We're not going to sleep, we've got our product range. In fact I'm sure there are a few agents and if you go online sanlam.co.za, you can start buying now some of the products, tax free savings products and I think that's a nice opportunity for us.

It's a big mature business, we'll need to continue to look at the operational efficiencies in the distribution side and the network and on the operation side. And of course regulatory form is significant. SAM, you all will understand, we've talked about that before TCF is rather big one now for us of course is the retail distribution review there's some significant changes. We're busy with that, we've identified what we think needs to change.

We think the regulator here will be responsible. We know what's happened in the UK, we know what's happening in Australia. We've seen that, they have also seen it. We're working through a system. So we think we -- when we trust we hope if any of the regulators are here, we trust that they will be responsible in how we deal with this issue. So, we see some opportunities there, not just the downside.

On the emerging market side, you've seen from Johan and from Kobus what's been achieved. It's fantastic. It's really has been a great story, but that story is not, is not over weaken. It's about deepening the relationships, the opportunities that arise as Johan indicated about India and the legislation changes that opportunity we get a chance to lift the equity. The same opportunity exists in Africa and obviously in Southeast Asia as well.

And it's about deepening that product range, particularly in the asset management side, on the pension funds, et cetera. We're strong on the life side, we're strong on the general side in many of the countries, some of the general companies we need to lift a bit. And that there's a considerable opportunity. It will remain on Africa, India, Southeast Asia for structural growth, no doubt. We're looking at Francophone and Lusophone, Mozambique is the first entry there.

We're tended to move also a bit, not get too active in that, in the initial years because of the culture and because of language et cetera, the regulatory system little bit not the same as in the English speaking countries. But our team has got a bit more confidence there now. Shriram will be introducing the Piramal investment into the Shriram group has created a lot of capital opportunity there as well and so we will look with Shriram in some of the opportunities in Southeast Asia.

And the -- I think a very important thing that will take place over the next few years is how we will vest the Sanlam brand in the mind of consumers and the intermediaries. We've got obviously also move into Pan African scenario and importantly for the employees that being part of Sanlam Group means something different. So they are not just sitting in the subsidiary or in the associative company in Malawi, they actually feel part and parcel. I'm not saying we're going to transition to a multinational. But we will become more of a certainly a Pan African play.

And that is important, I think for the clients, for the intermediaries and for us now. So, that's a good story and lots to do there. On the investment side, I mean, Johan kind of may have said it time and time again, priority one, priority two and priority three in this business is investment performance. Johan has taken you through some of the stats there as to where we've positioned ourselves.

And that's been good. And if it's not good, it's very, very difficult to sell. And we've had that experience many years ago. So that the focus will remain on that. Having said that, with the refresh brand now that's been done around the world (inaudible) I'm sure you have all seen that creates some opportunities. Johan has restructured the business last year in terms of the retail, retail positioning and an institutions positioning, the teams are in place now, they know where the money is, they know where the flows are. Of course the open architecture within the SPF base has created some challenges in terms of the flows that go into other platforms, not just under the Sanlam platform.

So we need to turn that on its head a little bit and get the flows on the other open platforms back into the semi structure. Diversification of the asset base that's important, new investment strategies around private equity some Africa debt and new things that come along. Africa is a big opportunity, we think both for money that's going to come into Africa we want to be there as the go to investment destination investment has for the African money that's coming in looking in for the opportunity as well as for the money that's created and needs to be invested out of those countries.

And of course in South Africa there has to be the retention are focus on the operating environment. And transformation of this country is very important in the institutional space. So Johan and his team are continuing on that transformation journey, made a lot of progress there and also on the people development.

On the Santam side this one I can speak a little bit about note fairly well. I've always said that any fool can sell a two buck ice cream for one buck and some people in the short term industry are quite good at that. I think Sanlam over a period of time as Santam has demonstrated that it knows how to balance this issue of growth and profit.

And to achieve the growth if you strip out the sale business to achieve 12% almost 25% market share in these tough times is an incredible achievement given that the margin also moved up well above the top end of the target range. So, business is in good shape, far more diversified now it's got a good, very strong positioning in the traditional intermediated space, in the specialist space. It's got unique positioning moving that into Africa and they got the direct business which we started with the short-term insurance. Now moving into the small business insurance and into the life. And then that model as won't just be a South African story it will also be a story in Africa.

And I think this move into Africa and into India, Southeast Asia on the specialist business side is also very important. And on the Santam side, it's a three-legged stool, so the investment is made. Then we moved the specialist business in there. And then we moved the reinsurance business in there as well. And you can see, if you strip out and if you look at the results of Santam, you'll see the significant increase in business has been sourced into the Santam group from the strategy from outside of South Africa.

But of course, the focus has to remain on pricing accuracy, on managing the supply chain, on improving the risk management on the ground in the specialist businesses in particular, you've got to make sure that you're on the good risks and that you are not on the bad risks. Because if you're on the bad risks at the wrong rage you can really get covered and that can be seen as well.

And that's why it's important to work with other stakeholders. We're pleased to see the new minister now taking control in corporate governance and traditional affairs. He's talking about the back-to-basics strategy, he's talking about pairing up the particularly distressed municipalities with the stronger ones.

Of course some of the political guys have jumped on to that. But we know from the discussions with the -- from the, with the minister and from the local government authorities that there's a real need to move these very weak municipalities with the stronger ones that pairing is very, very important and it's a critical component for us in the Santam business as you know because the risk on the ground is influenced by storm water drainage systems and building protection systems and et cetera or (technical difficulty) to that. So, that -- those are really the priorities, the business is in good shape and the strategy as well indoctrinated within the business of staff I think you are aligned around that.

So I'll now hand back to Johan to take us through the outlook.

Johan van Zyl {BIO 4080290 <GO>}

Thank you, Ian. Not bad for seven weeks, nine week sorry. I missed the two might have been the last two weeks. I have only one slide and I need to talk a little bit, ladies and gentlemen on the outlook and what we see. We don't expect a massively quick increase in the economic growth expectations in most regions. In fact, we believe that we are in for a tougher period with a lot of volatility, and particularly commodity-based economies will struggle people like ourselves. And therefore, you know we have to set the business up to be able to deal with some of these headwinds. In conjunction with what is happening in the economy, we've had tremendous investment market returns of the past four, five years and certainly since 2009, we're well above the average.

We think the ratings are becoming much more demanding and from here forward, it will be quite tougher to again achieve those sort of returns. Therefore, we think we're in from a bit more volatility looking forward and therefore, you know we are likely to decrease our exposure in terms of simple equity exposure. But a big part of our business is still based on average value of assets under management and things like that. And we think there will be some headwinds there, but we are preparing for that and I think we're well placed with the diversified based different countries and so to take quite a bit of this expected strain out of our results.

A big focus is on the growth areas in the world. And that will, two or three pockets in South Africa but increasingly into Africa, the emerging markets and then two or three niche areas also in the high end of what we're doing. In these cases, we still think, in spite of the headwinds we can grow our offshore base quite substantially by investing a bit more money, as we have, but increasingly by growing our existing investments. We already have substantial -- you look at the group equity value of over 20 billion outside of South Africa. If we keep on growing this close to 30% it will have a massive effect on carrying the whole of sum of return towards a higher base.

And I think we're priced for that, but we see a lot of that happening. So there is a big focus on rather getting to grow the business, increasingly the deal that we've done with Santam in taking the 35% equity stake in our general insurance, a deal with getting our people from Salnam investments involved in growing our businesses into Africa. And so increasingly getting in a scheme on the table and growing things I think will be a key part.

And if I look at the challenge that Ian will have and his new team that he will set up in the next few years, it's in a way summarizing a lot of these investments that we've done in the past year, may corporatizing little bit more, getting more of our people in there so that we can not only drive the relationship part of things, but also the actual result to the excellence and levels of excellence that we're used to here in South Africa. There's a number of investment opportunities under consideration, we know that and we've been waiting for a long time to increase our stake in India.

You would have seen our Indian partners are for the first times in their 40 years or so of cash flush through the Piramal injection of money into that business. So we'll be partnering them in the area surrounding India. They have a lot of capital, great people there and then expanding our showroom base into some of the surrounding countries into Southeast Asia. I think that's a good strategy for us. Where we're becoming Salnam people, we've added close to 15 countries that we're operating in the past four, five years and from most South African companies would be a bit of a stretch coming from (inaudible), maybe more so, but we've done pretty well.

We have this first mover advantage and is really capitalizing on that. And then the last word, ladies and gentlemen is on regulatory change. And we know it's part and parcel of where we operate. And we can't hide behind the fact that South African economy is well governed, I mean we haven't fallen over or you know in 2007, '08 we have massive failures of companies because of that management and these kinds of things. But in spite of that we have what is happening the rest of the world. You know citizens bring brain for blood and it reminds me of my friend GP Farrera [ph] who often talks about when I say the brain for blood.

He says amigo [ph] likes to talk much more about his mother the horse than his father the donkey. So people only talk about the great things that they've achieved and so forth. In our own case I think we have a solid thing. We've had great things, in spite of that we also have to look at the downside, which is what is happening elsewhere and has become part and parcel for the course. We have SAM many of these initiatives that we've been talking about and planning for many years are now on us. From next year onwards, this is how we'll run the business. This year onwards we have a dual SAM measurement and the old basis of looking at how we calculate solvency and economic capital and so forth. And we're feeling our way towards that, we don't know yet.

And therefore, on the capital side, we haven't been massively you know expansive on how we treat Capital. We've been treating this we think very responsibly and conservatively. We have enough capital, but we're not going to run around and do stupid things now only a year later to say, well, we need some of that capital back, it's a key part of how we operate. And the rest of the year will be used to sort that out. The TCF regime that has been with us for a while and that we've been battling with, particularly conflict of interest the whole area about do we pay commissions, do we pay fees and a whole range of things. What sort of product do we have, do we expand into savings, even though we know at the lower end for small amounts there is no value to the client. But in South Africa, we need to save, it's an imperative. We've chosen for a long time, not to go into areas where we can't clearly illustrate to the plan is value.

These are things that we have to look at. Now there are new opportunities we've, got Treasury to agree that we need at least in the lower end of the market, you know a product that is very tax friendly low fees to really get the sales right. So we'll be pushing part of that. And then on the retail distribution review, which has been announced. We are in negotiations with the government there is a lot of doing and throwing, there's a massive slew of regulations. We believe from industry side by focusing on four or five top things like what we do in business.

We can achieve, maybe about 90% of the result instead of trying to drown ourselves in regulation and so forth. I think we've made good progress on this. Within Sanlam, we've already done a lot of work and we've prepared ourselves over the past five years, we have the business in the UK, where we can see what is coming our way. Therefore, nothing is new to us. It's simply the implementation there. but it takes time away from focusing on the future and it gets a lot of our efforts and focus on time focusing on the past. It is becoming more difficult to do business, we know that.

But within this framework it is not trying to out run the line, I think it's been faster than the competition and we've done a lot that work. I think we're well set and thinking about the opportunities really going forward. We have a solid base many moving parts and lot of auction value in this moving forward.

With those few remarks, ladies and gentlemen. I want to end off that we're very proud of our results, I think the operational part is great, but of additional of new business strain that we've encountered because of the high growth levels and -- but overall a very solid result across the board.

I would now like to invite a few people to come and help me for answering questions. Kobus Moller on results, Andre Zeeman on the actuarial stuff and Ian on some of the general issues and (inaudible). Please come and join me here in the front.

Questions And Answers

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

And you do have a question ladies and gentlemen. Just ask your name -- announce your name and fire away. Who is first I see Larisa [ph] I see other questions there. Larisa.

Q - Unidentified Participant

Good morning, Larisa from Barclays. Two quick questions please. The first one, Salnam Sky announced a drop in volumes as you explained, but the margin was actually up quite appreciably from it was 8.6 to 9.5. Were those efficiency related benefits and can we expect more going forward or will the margin be volume driven going forward?

The second question pertains to the rest of Africa, you touched on some difficulty in economies a lot of economy is being oil driven. Are you seeing a strain on the Life side or have Life sales this fall being disconnected from the ties of the GDP growth to the whole process?

A - Kobus Moller {BIO 7480143 <GO>}

Okay (inaudible) can give some more detail, but essentially a change in mix of business, which is the we had the 18% or 14% growth in the agency force -- from agency force but the Group business is actually down by 30% and our margins is actually in the retail part of the business so that's just a change in the mix there.

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

On the African side and what we see, there are two main drivers of the African opportunity. The one is relatively high growth rates and this is certainly where your question comes from, you know do we see with oil prices done, we see a bit more volatility the oil prices and the resources in general commodities in general impacting the exchange rates quite negative not massively relative to South Africa.

So there has been a bit of a drag, but what is really driving the African opportunity is not so much the GDP in the shorter term. But really I think the low level of penetration. If you think about relative to South Africa penetration as a percentage of GDP in terms of insurance around 15%. In Africa, those numbers are closer to 1%.

So there is a massive pent-up demand there, and that is not so much dependent on the GDP. So no, we don't see anything in the short-term about the growth rates and that's sort of thing having a negative effect on the consumer yet. Simply because so many of the consumers don't have the product yet.

There's a question here, if you can just get the mic in please.

Q - Unidentified Participant

(inaudible) on sales you stated that you will (inaudible) your results. I can only say once again that you and your team deserves to be congratulated, results certainly (inaudible). In your outlook, you mentioned briefly the expectations of investment returns into the future and you certainly suggested that they may very well be muted or they didn't use those terms. With all the pluses that I see in the report, I founded somewhat disconcerting to see one line that had a statistic with brackets around it. Now I'm referring to the tables on page nine and the net investment return which shows a 41% decrease, Now, I found the reasoning for that on the income statement which is on page -- which appears on pages 24 and 25. And it's under the line other investment surpluses which shows that all the segments except corporate with a substantially reduced statistic from the year before, that I cannot find an explanation for that. So rather than get a long detailed story from me, would you care to give me the detailed story.

A - Kobus Moller {BIO 7480143 <GO>}

The answer is really on, on the slide on page 10. And last year we had a 21% growth in equity market returns and this year it was only 10%. So although, we still have positive returns on our investment returns and investment returns that we show on that line is what we earn on our shareholder funds. So it's just a lower level of returns relative to last year. So it's 41% lower than last year but it's still positive returns.

Q - Unidentified Participant

Is there some arithmetic somewhere in the report because I can't find anything to explain how you arrived at the numbers?

A - Kobus Moller {BIO 7480143 <GO>}

Or it should is roughly, we've got about ZAR17 billion, ZAR18 billion in shareholder funds and last year we had a 20% return in that number and this year we have a 10% return in that number and it's really the difference between the two.

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

Yes. The 10% is still more than the long-term expected return. But it's lower than the previous year and, that is where the base actually starts to matter or really matters. Results, unfortunately, if you look at the growth numbers and so forth aren't only in the absolute sense, it's also relative to the previous year. So you have a high base, an extraordinary high base of return that we can't -- we would love to have another 20% at the year, but that is the point. Already, we haven't had one last year and going forward, we think it may be even more strained.

Q - Unidentified Participant

And this is despite the fact that 2014 in the marketplace was a good year for returns.

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

Yes it was good.

A - Kobus Moller {BIO 7480143 <GO>}

Just lesser than the year before.

Q - Unidentified Participant

Lesser than the year before to the extent as shown.

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

Yes. Exactly that. It's a big number. And that shows to what an extent the life insurance companies are actually influenced by markets. We have positive effects in the markets and high returns, we do well, we have the win from behind.

Q - Unidentified Participant

I thank you.

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

(inaudible).

Q - Unidentified Participant

Good morning gentlemen. Craig Wood [ph] from Marvel Davis [ph]. Just two questions if I may. And firstly, Botswana is quite a significant piece of your emerging market exposure. That's quite (inaudible). And just in terms of going forward. It will probably get smaller in the significance given capital deployment and relative growth rates, but are you finding it easy to sell business on a savings basis and immunize those liabilities and that's question one. And just the growth in Botswana.

And I wonder if you could just sort of discuss the high level long-term rationalization for the investment into med scheme. Is it going to be completely integrated in terms of an additional product to sell for your agents or is it going to sort of drive the employee benefits business and if you can give some sort of high-level comments on that. Thank you.

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

Okay. Botswana is high and increasingly we're selling a lot of annuities into that space. And in the past, we've had once or twice to stop sales because we couldn't find the assets to balance those liabilities. So, we don't like to run risks outside of the country where you have additional balance it with the South African base, the reason are the 100%

correlation between the (inaudible) and the rand and therefore it is, it's quite difficult in a relatively small country to find the right kind of assets, would you like to add to that.

A - Kobus Moller {BIO 7480143 <GO>}

Yeah. So what we do is, we budget the sales on the assets that we can get. So, if we can't get the assets, we can't do the sales.

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

I think the second part of Botswana that over estimates its contribution in terms of our results comes through our exposure to the shareholder is an excellent credit business, of which about half of the exposure in Botswana. But half in the growing component of it is in places like Namibia, Mozambique, Tanzania and so forth.

And it comes up as because the holding company sits in Botswana is if the profits originating in Botswana actually comes from other areas. So it bloats the contribution from Botswana but and you're right in future it is likely to, it already is a bit smaller than what it appears and in the future, it will be a bit more in Botswana.

The med scheme opportunities comes from the way we see that there's sort of a win-win between ourselves and med scheme. All the open schemes and the med scheme is of course not a they have one and does a whole range of others schemes that they do manage there. Most of those schemes struggled to grow and on our side, we have a big distribution force with no clear product set to really punt.

And if we can make that marriage work for us, we keep our clients by selling them another very important part of what they require, health product. Med scheme gets the distribution to continue to grow in a very competitive environment. And the marriage is essentially made from this. Of course we have the essential additional opportunity for us is that it brings around 1.5 million lives, principle lives in a whole bigger number that when we starts selling some of our products into that base, that is a big opportunity for us.

And within that, we think it's a very good business, which we can make our hurdle from the investment by itself. We certainly think that the synergy is down the line and what it can bring and so will drive that up to an investment of well over 20% which in South Africa is tough to achieve on anything of scale very quickly. And this is where we are.

Q - Unidentified Participant

Thank you.

Hi, (inaudible) from Standard Bank. I assume to see the dividend discussion and the Board was a bit more interesting than usual. I think you are fully aware that the consensus expectation was I think double the growth in dividend that what you had. Now looking at the numbers, I think the cash cover went up marginally from 1.1 to 1.2 times.

Secondly, the gap between the operating profits and the cash earnings seems to have widened a bit. So the question really is I mean how shall I look at the emerging markets earnings going forward. Because obviously that's where the gap is opening up from what I mean, should I just take the emerging market earnings and assume some lower percentage like 20%, 10% been distributable? Should I ignore it totally.

A - Kobus Moller {BIO 7480143 <GO>}

Yes you have to look at the different country. In some countries that are fairly mature, like Botswana and Namibia, you can expect a bigger number, but it's much more like some time we don't get the full operational profit as a dividend. We only get the declaration of a divided. So the cash component of what is being paid is relatively small and you have to discount that even in the fairly mature countries and the countries that's growing we reinvest all of the profit into growth.

That's our strategy and that's what we would like to do. When you look at the cash, the cash available from operations, this is how we discuss the dividend and it wasn't a long discussion because the amount in spite of Santam having done not very well they didn't increase the dividend massively. So it wasn't a long discussion. The cash available fairly limited and we take a longer term view expecting to grow that thing consistently and so we thought it fairly prudent to within pipeline, within whatever we are doing to declare the dividend of what is still consistently you know a higher number.

Q - Unidentified Participant

(Technical difficulty)

A - Kobus Moller {BIO 7480143 <GO>}

No, that is towards the high end.

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

We said around just 1.1 and so in time that may come down. For the moment we're comfortable with the 1.2 level.

Q - Unidentified Participant

(inaudible) leading on from that last question, and I am not an expert on accounts of the company such as yours and I'm obviously within the group equity values and embedded values and the flows that your especially account and it's quite hard to find a simple cash flow statement and how much capital have you guys really got sitting down the unencumbered to help finance your expansion. I know you said that you often use your profits in the countries in which you are in to the finance expansion. But if you're looking at the acquisition strategy that you might be pursuing, do you believe the group is -- has sufficient capital to really make a big difference.

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

Yes, we have, we have 3.3 billion, we've pulled it up in the capital slide and so forth. If you really squeeze things then maybe more. But we would be inopportune to do that now because we change in the whole capital regime from one that we've been using for 20 years or longer to one that we will be using next year.

And while we are, we think we're adequately capitalized, we simply don't know because it's a new way and we don't go into the new regime which is risk base for people to have less capital, I can guarantee you that. The idea from government and from the regulations is to have more capital. So let's cross that bridge when we get there, we don't know by you know towards the middle and the end of this year, how that thing will pan out and then we will show you exactly where we are.

At this moment in time, we're adequately -- I don't expect too much. It is a new place and we've seen across the world in Solvency II, which is our same environment that people have to carry more capital. The 3.3 is more than adequate we think. We already existing exposure that we have offshore in about 15 billion in the emerging markets, the 3 billion will add us another 20%, that's a big jump in one year. We don't want them on a run or hit for --. There's another question here. O'Brian [ph] at the back.

Q - Brian Mushonga {BIO 16209522 <GO>}

Good afternoon. It's Brian Mushonga from Credit Suisse. We've seen a lot more players, who is interested in acquiring assets in Africa and being prepared to pay eye-popping sort of prices. How's that affected your own expansion strategy in Africa and is that why you looking to Lusophone and Francophone countries now versus your strategy in the past.

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

As in most of the android phone countries we already have a foot print. We are very happy with the partners that we have and we may have one or two blocks missing like investment management or maybe pension funds business or general insurance business or whatever. And we will still buy those things but the big focus for us is really using and growing what we already have and the big reason for that is simply because what does happen in the past two years, we have seen massive flows coming from private equity funds from some of our competitors into Africa and prices are four times book not been off the scale at all. In fact, that is, certainly in the past six months or so become the norm.

We struggle to see how you can make those things work, certainly in the next 20 years from that base. And yet people rushing and they want to be part of the African story and they sell it to the clients and so forth. And therefore, I think we have a big first mover advantage and while everybody will be, you know wondering what they bought because often those things that are available we have looked at the in the past 10 years and some of them we wouldn't have touch at all. And still they go at four times --. It tells you the story, write a full and its money.

Q - Brian Mushonga {BIO 16209522 <GO>}

Sorry, one more question if I may, for Ian and Zeeman. And Zeeman, it's obviously very exciting going in behind the specialized lending into specialized and -- specialized business South Africa and how far long are you in terms of progress that making showing, show that you know what programs you are on and duplicating exposure. I know it takes while to build those system get the data but I suppose that's success or failure reinsure at the end of the day.

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

Yeah, I think we're making solid progress, great. We are not rushing, we not rushing we realize that this are different markets, the new markets for us. We've been amazed with the amount of data and amount of modeling information that we have, be able to get in fairly short period of time. But we don't set them targets from the Santam side, they go out and they decide what they can do. And if it's within the risk appetite, you will ride [ph] the business. You can see from -- looking at the numbers that is progressing quite nicely. But building a reinsurance business, you don't have to rush the thing, it's going to take time. And we're talking five to seven years story. But I mean we are making very acceptable returns at the moment relatively to the hurdle and I think it's a very important diversified within the overall Santam story.

Alright, ladies and gentlemen, we have one question on the webcast. Can you read it for us please.

Q - Unidentified Participant

The question comes from (inaudible). He said your persistency levels have improved and have been on the downward trend since 2007. How can you improve these levels further and what are your views on incentivizing policyholders to remain loyal?

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

Well, if you are selling the right product they will stay with you. If you sale for us the thing, the whole issue about persistency is before you issue the policy, making sure that this client, this is exactly what the client wants and so forth. And I think we've said it many times, a big part in running that is the modeling, you know in bank they have a credit score in modeling before you give your credit. In your own case it be around the odds model that determines by looking at, how long you've been stable job, what's your income or your available income. Would you be able to keep this policy on the books for a number of years and not to sell things that don't work.

I think that is the critical thing and that is how you manage it. Second part of it, and this is what Ian will tell you is simply management information once the client is on the book really keeping close to that. By knowing when to run your debit run order, debit that went to do the debit run. For some people it's on the 13th of the month, for others on the 21st and others you'll know a day before the other people get paid. So, these things are critical, but that means (inaudible) staying close to the client.

And that information is where we have done a much better job than in the past. And clearly, we can always do better. We think the numbers where we are relative of course to what we've assumed is where we make great money. We can lift the hurdle a little bit but then lose a lot of business by not writing that off. We think we are relatively close to the sweet spot. But it's always persistency is always the number that you keep relative to what you've seen. That's where the really sweet spot is it's not our persistency of 10%. You know losing 10% of our book relative to our peers who might lose 15%. It is relative to what we assume will and that will come through any positive experience variances of these kind of things. That's really the key and of course.

A - Kobus Moller {BIO 7480143 <GO>}

And knowing that's your brain as well. Yeah and of course to keep the client you need consistent good investment performance and good services and things like that as well.

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

But that goes to my mind actually without saying, people have choice and if you compare the companies in South Africa. They are pretty competitive bunch, I'd like for them to be useless but they are not, they come with incredible offering and on the service side and so you have to what the difference are essentially marginal between us. You know it's a bit like a repute teams marginal difference and often there refer advance of the pull that returns the outcome, not necessarily the player.

Ladies and gentlemen any last question. With that, thank you so much for the support like always, it's been a pleasure to share with you. I haven't said anything about our new building it is brand new, there's still you know a bit like, it feels a bit like Kimberly coming year with the whole on the side area where they are putting up another building.

But we really appreciate you coming up and it's part of our drive to you know around, our new brand that we've consolidated and we've consolidated in lot of our businesses in this building. We would like to increase our presence here in (inaudible) in Johannesburg in particular and then use this also has a base and its very visible base into Africa. Where a lot of our African peoples. So thanks a lot for supporting us and good luck.