Y 2013 Earnings Call

Company Participants

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

Other Participants

- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. On behalf the Investment Analysts Society, we would like to thank Sanlam at the outset for hosting here today in the presentation for the results for the year ended December 2013. (inaudible) the executive members of the Board, we thank you.

Sanlam, as is written, it's almost 100 years old. I don't want to preempt anything (inaudible) what happened in 2018. But it was formed in 1918. It was incorporated as an enterprise to mobilize investment savings in South Africa through various investment products. This is -- company has done that over the years, and particularly in the formative years in the 30s through to the 70s when it formed closed investments trust as a medium of investments.

And in that trust it invested in small enterprises. And over the years, those small enterprises are today major enterprises in South Africa. Many of them are listed, some with market capitalization today far exceeding that of Sanlam. Sanlam's market capitalization takes it into the Top 50 companies in South Africa. So there are many ahead and there many unlisted companies and there are many below that owe the origin of capital and investment to Sanlam.

Sanlam has always been a company that's been on the forefront of investment enterprise in South Africa no more so than today as it embraces a new social and economic order. And so, sir, it's with great interest today that we thank you not only for inviting us but to share in the results of what has been achieved over the past 12 months and gain insight as to where the company is going to be in the future and playing such a vital part in the enterprise of all South Africans. Thank you.

Johan van Zyl {BIO 4080290 <GO>}

Thank you so much for that introduction and the advertisement as well. Ladies and gentlemen, it's a pleasure to welcome you all here at the -- our Annual Results Presentation on 2013. Before I really start, I would like to welcome a few special guests, some of our Board members are here, our Chairman, Desmond Smith; other Board members, Flip Rademeyer, Rejoice Simelane, Bernard Swanepoel; a few staff members here from the Exco, Temba Mvusi, Themba Gamedze, and so -- and people who will join me in answering questions and doing part of the presentation here are Kobus Moller, our Financial Director; and Andre Zeeman, Chief Actuary and also Chief Risk Officer. We would like to also welcome some of our other partners here, the FSB, our regulator; SARS, our big partner; and some business people here from our businesses, welcome.

Ladies and gentlemen, our presentation is as usual, we'll focus a bit on the operating environment, which I'll cover, to set the scene for the results. I think the results are meaningless without taking into account what we had to deal with. And then I'll give you a strategic overview of the business, some of the main results and where we're heading.

Kobus Moller, our Financial Director, will talk a little bit about the financials, give you the actual results and the feedback. And I'll end up with the outlook and priorities that we have for this year, things that we'll be tackling, and our vision for the future. Then there will be some question time. And Andre Zeeman, our Chief Actuary, will also join us because I'm sure some of those questions will be fairly technical in nature.

Starting off with the operating environment, I have to from the outset say, it's been a tough year. It is -- the fundamentals remain uncertain and increasingly there is no predictability. If you really look at the operating environment, conditions were quite challenging, slow global recovery, but I must say signs of improvement, but it's not necessarily all well and particularly if you are still struggling.

Some of the big news with respect to the emerging markets of which we won is the tapering of the quantitative easing that is impacting negatively on emerging markets. And we've told it ourselves, but a big part of our focus is also emerging markets and we have re-examine on how we're getting to roll out our strategy there.

We've also seen the low short-term interest rate environment in 2013, and while we've seen some uptick in interest rates this year, in 2013 the short-term rates were still low. And in particular, we've seen a very weak short term insurance spend cycle. And our big business there, Santam, actually felt that, and I'll talk a bit later about that as well.

In South Africa, I'll show you a few slides on the growth which is a bit low. The interest rate [Technical Difficulty] particularly the long rates having gone up quite a bit. The equity market, that's have been very kind to us. And then the currency that's been weakening, but it's been positive for our international businesses and the contribution. And increasingly, we also have to talk about Africa and India because they're also forming a bigger part of our business. So, I'll show you a few slides on that.

If we look at the South African economy, I think the overriding factor is the low growth level. Throughout the year in 2013, it's been lowering, the growth expectation, and we now know that it's just around 2%. I think that hides a big part of the positives of that we see.

Within that low growth rate, there has been a massive redistribution of wealth and a big number of new entrants into the market. If we take the period, 2006 to 2012, for which we have data, we've seen a very large number of people becoming part of the mainstream economy, people who've been excluded in the past. And of course they're under-insured, and in the lower end of the South African market, the entry level, it creates a real opportunity.

So despite the difficult period, which we expect to continue for a while, in spite of elections and things like that, you would expect similars and things like that, it is still a tough area. The big focus and opportunity mainly comes from a high number of people rather than the economy turning around.

If you look at the interest rates, you can see from the -- the short-term rates still being relatively low, but the big move that we've seen from the end of last year till now is really the 9-year sort of bond yield -- bond rate that went up quite substantially, around 140 basis points. And that will have real negative impact on our return on group embedded value and the value of new business growth.

Of course, that is a critical part in the discount factor that we utilize in a big part of our business in the middle market where we still play a dominant role. So overall, higher rate means a higher discount rate, lower present value, that is essentially what it is about there. We've seen that thing pick up quite a bit.

The big story really and a big part for the positive results that we will be talking about just now has been the SA equity market. You'll see the bond market didn't perform well at all in the past year; in fact in the over the year only yielded 0.6%. The equity markets did around 18% and this -- I think the key part of that, it's not only that it grow but it grew off really a higher base that was substantially higher than the previous year. So, our business is involved in asset gathering and we would -- people-paid fees on the investments really did well.

So, it was a positive across the board for us. It was offset a little bit by the weak bond market performance, but overall positive effect. The weakening in the average exchange rate for the rand benefited our non-South African earnings, but it also put pressure on our earnings in South Africa through inflationary effect and particularly a business like Santam struggled with dealing with the quick drop in the rand where you cannot raise the premiums quickly enough, particularly the motor business to adjust for price increases in parts. But you can see against the developed markets around 20 -- between 15 and 20% decrease, so our businesses there did well and then in Botswana, India, Rest of Africa, our major component in the emerging market, changes between sort of 5% and 10%. So overall we've benefited from the strength and that contributed around a 150 million or so positive to our your earnings overall.

If we look at the businesses in Africa and economy there in Botswana in particular which is a big part of our business, the consume a remains under pressure. We have to do a lot of business in the civil service, they haven't had inflationary type increases in salaries there for quite a while, they are falling behind, and that put of course the customers and the clients here on the pressure.

In the rest of Africa, we see a low demand for resources still resource driven economies apart from all but overall the grows the remains higher than in South Africa and we still feel a positive that we doing the right stuff over there. In India we've seen below trend economic growth during last year, but the growth is still just around 5% to 6%, which is substantially higher than elsewhere. And at this growth level we still add big numbers of people to the middle market, which we focusing on.

And so overall we quite positive and bullish not necessarily about the overall Indian economy but what is happening in the market segment that we targeting. We think there is substantial scope and we've seen growth rates that we proud off. So inflation is relatively high we also high rising interest rates there but overall it is benefiting us. And the currency volatility is very similar to that of South Africa within this environment, our results and how we performed.

Firstly, the strategy still focusing on returns, for us, the return measure is much more important than size or any other metric. We have a big focus on growth trying to add value and we growing the profitability through getting new business, through getting diversification to make that growth more robust, but also through cutting cost and making sure that the efficiencies that we run at are really low in terms of low cost producing businesses. And I think in particularly in the cost management, we've done well in the past year, although you'll see the business the flows also increased quite nicely and self worth.

The other big part that we are focusing on is capital efficiency. This has been a central theme optimal application of capital chasing surplus capital at, lazy capital at make it discretionary applying it if we find things paying special dividends and returning to shareholders if we don't use it. Last year we did return some, this year we only pay a normal dividend because we think we have a pipeline of products that may use most of the surplus at the kind of rates and returns that we would like to have.

But if you look back at the past 10 years, these two key strategies, we think added around 50% each half the value -- about half the value in the Sanlam share that we've seen on the increasing value in the last 10 years has come from the growth part of it and around half of it is be -- course of managing the capital substantially better. Of course there is also an interaction between these two, as this slide shows you.

The big part of our business is still South Africa, it's fairly mature, it's stable, it's give quite nourish that our cash, delivers a lot of cash and the key area is maximizing returns efficient in effect of management of what we have and then utilizing the surplus cash through paying dividends and so forth, but what we have over and above that reapplying it through effect of capital management and what we believe is the new growth opportunities, the high yielding areas into Africa, Southeast Asia and some (inaudible) areas that we seen in the asset management industry in the developed world.

So it's been the key part of what we are driving and I think for the first year, this year we can really see that strategy coming to the (inaudible) with particularly the international platform into the emerging markets that we setting up for the future, giving us a really nice kick in terms of profitability and so forth. And if you really look at what's been earned and earnings per share and so forth, you see the net operating profit per share increased by 34%, which we believe is a very credible number given the environment that we're in.

Granted a lot of that was acquisitive growth, businesses that we bought, --, P&O Malaysia, another two businesses in Africa that we acquired, and if we strip that out the growth through organic -- the organic growth was in the order of about 25, 26%, which we think is excellent.

Normalized headline earnings per share up 35%, also a very nice number, on the back of investment markets also helping quite a bit. If we look at business volumes, new business volumes increased 36%, net fund flows up substantially, [Technical Difficulty] value of new business up 12%. The flows were quite nicely up, but because we're using higher discount rates, impacted on that negatively in spite of volumes being higher. The net value of new business margin improved on a constant -- at a discount rate, really flat, if we use the higher rate.

Group equity value, which is really a measure of the intrinsic value of Sanlam, ZAR41.21 cents per share and our return on group embedded value per share of roughly 17%, which gives you an ROE of 23, 24%. It's a bit of a meaningless number in our own case, but it is a substantial number and often people would like to compare that with banks.

So if you really look at the profitable growth, you can see our value of new business on the left side increasing substantially, the sources of that, where it is coming from, and you see also the effect, the margin is the grey line on the slide there. You can see that coming slightly down, mainly through the effect of the higher discount rate.

As I've said, on the entry level market we used the 5-year bond rate, that is, it went up by about 150 basis points from the previous year. And in the middle market and higher end of the market we used the nine-year bond rate which went up around 140 basis points. But if you do that, you get the numbers. But overall, business has been growing something that is very satisfactory.

If we look at the persistency, you can see the numbers there in the middle market. You can also see towards the end there, the picking up of lapses, surrenders and so. Partly it's because the regulatory framework makes it easier for people to [Technical Difficulty] money away and move it between different players.

The second part why we see the pickup is because of the tough economic environment. Now, the important thing there is it is well within our assumption base. We're performing well within the assumption base and we still make persistency profits like you see on the -- in terms of what we'll have. Later on, Kobus will take you through that.

In this graph, you can see when people lost their jobs in 2008 because of the crisis that we've had across the world in 2007 where 1 million people lost their jobs in South Africa, a mild pickup, I think lesser than our peers, where persistency went up a little bit. We've managed to bring it down, but you can see the increasing pressure in the economy now for the first time since then really picking up a little bit (inaudible) well within our assumption base.

And similarly in the lower end of the market, while we're trying to focus on people who are not indebted we've really set ourselves up and so forth, things like the strikes in particular the platinum area have been hitting us. A big part of our business, in fact in the Sanlam Sky, Rustenburg branch is by far out the most productive branch. And when you have a lot of strikes over there, those people don't have income and you'd expect persistency to weaken, and you can see that. Again, we're well within our assumption base and we don't think there is a problem. But we wouldn't like this industrial action to go on for too long. So, we have a big stake riding on it.

Okay. If you look at our investment performance, I think I have to give credit to our -- the team there. If you look at -- on whether you look on a three-year basis or on a five-year basis, we have over 90% of the money that we manage, in this case well over 300 billion (inaudible), making the benchmarks that we've set for ourselves.

We work mainly we fixed Benchmarks, being an insurer we would like to get to certain targets. We've not that good when we run in an open race against everybody else, but where we have a fixed target in retirement and particularly within an insurance company you'd expect us to do well and we've done that. So overall, whichever period you look at, it's been going very well and you can see the uptick there.

Long-term value investors, we call it pragmatic value because we make assumptions there and you can't really see the strategy anymore for us over a period of time.

On experience variances, we've had an exceptional here. For the first time in our history, we've had experience variances -- positive experience variances above ZAR1 billion. And it's a key part, it surprised us with how big it was or it is. And we don't necessarily expect this to continue, because if we expected it to continue it'd have to be capitalized. The source of these experience variances come from several different strategies, which vary a bit from year-to-year. But it also shows the prudence, the consistency and that nothing has changed in the way that we look at the business.

If we look at the diversification of the base on the left hand, you'll really look at our group equity value. You see, we are about 7, 8 years ago, life insurance used to be about half of our business -- 80% of our business, it's roughly half of our business now with other kinds of businesses, short term insurance, investment management, credit and banking, admin and service being the other half.

If you look at the net operating profit, you can see the contribution over there. The life business, that really came to the party well. The asset management I think did particularly well in the past year. Credit banking, particularly Sanlam Capital Markets did particularly well. Short term insurance under pressure, while we have 70% of our assets in there or of our business, it only contributed 7%. And initially we thought it's a bad performance but as more and more of the -- our peers and competitors announced their results, we were feeling much better about what -- how we performed over there. So, overall for the Santam did really well.

If you also look at our footprint, increasingly it's an Africa, Southeast Asia, English speaking regulatory environment that we understand, we can make contributions, we have a team from South Africa contributing and interacting in a partnership model outside of South Africa. So overall, it's working and the contribution from our businesses outside of South Africa has been tremendous.

While we have 20% of our money invested in our international businesses in terms of our value -- our equity value, it contributed 27% of our profits. So it's a sizable number. We haven't made big bets. We've been very cautious about it and we're pretty proud of the performance today. The return on group embedded value in our international business has been net 30%. If you take the effects of the markets out and the operational level and so forth, it's been 26%, it's been a good story for us up till now. And we'd like to strengthen our relationships there and do a bit more.

If you really look at the growth of the business, this diversification story; 10 years ago, 98% South African business, bulk of it in life insurance. We were able to grow the pie quite substantially, and you can see there on the right hand side just in the past two years how we've been able to evolve the strategy, different sources of income and with about a third of it coming from non-traditional areas, places where we -- and businesses that we were not in five years ago, that is really treating us very well because the returns are high and the growth rates are substantially high. So overall, I think a pleasing picture.

And if we just took a bit of a forward looking area, if we look at the life insurance space, South Africa where we were 2003 to where we are now, about half of it coming from the traditional areas and half of it coming from new areas. And this is how the book will look a few years has been now when we see things mature a little bit. So overall, strategy has been in place for a while and is starting to deliver results. I think we're pretty pleased about what's been happening there.

Before we come to the results, one or two remarks on capital. As you know, we are in the process of implementing the Solvency II regime into South Africa, the one that we call SAM over here. We're taking a fairly prudent approach on the capital while we're awaiting the final SAM specifications. One or two areas of uncertainty, we hope that there will be more certainty and clarity towards the end of the year, which means that we'll be able to move forward on the capital story. For the moment, we think we're well capitalized and we're going to change the model substantially until we know exactly where we're heading with the new SAM regime.

We spent about 2.5 billion in new investments in growth markets finalized in 2013. We paid our own (inaudible) of special dividends last year, which accounted for most of the surplus capital that we have. And the discretionary capital that we have left, which is again around 4 billion because we were able to chase some more capital, has been earmarked mainly for Africa, though we'd like not to necessarily substantially a bigger number of countries but we would rather like to deepen the relationships and broaden the relationships with our existing people over there.

And India similarly, not expanding massively and doing more with other companies and so forth, but rather doing more with our clients. In Southeast Asia, we would like to bulk up. We're already in Malaysia where we have a general insurance business. We would like to add some life insurance capabilities to that. And in all those places, there is a solid pipeline of businesses.

Just on the movement, if you look at the discretionary capital there, started with 4.2 billion, we did some transactions, we paid a special dividend, we added substantial monies to that additional capital that we were released of around 2 billion, we had excellent investment returns, we did a few other things and so that added another 700 million. So, we ended the year off with 4 billion. That's a substantial war chest. But we have a pipeline to utilize most of that what we see in the foreseeable future the next year, year and a half and so forth. So, we've working on that.

Just to give you a snapshot of the journey that we've been on, on the capital. You can see the capital that we've being releasing since 2005 over the last 7, 8 years, around R30 billion. Of that, we bought back quite a bit of our shares when we thought we were trading at substantially below embedded value. Here you can see we used about 13, 14 billion for that. We used quite a bit to invest in emerging markets. Selective places we also invested a bit on the developed market, mainly to complement our offering in South Africa and make seamless transfers of monies into the UK and so forth. And we also paid a special dividend and so -- and we have a bit of discussion [Technical Difficulty] discretionary capital at the top.

Just consistent story and it's been adding substantial value for us. We think that we'll continue with that. And if you really look at that, what it's achieved for us, if you look at the picture in 2005 in the group embedded value, we've had a lot of capital, a lot of them -- of it lazy, we had a relatively small in-force and we had a relatively small non-life business.

We essentially sold our Absa stake, which was the biggest part of our life required capital, and we used that money fairly wisely by growing our value of in-force component, by growing our diversification into non-life businesses and by paying out a little bit of the surplus capital and so elsewhere. But overall, it's been a pretty picture. And this change in that composition makes us a much higher yielding business and it's been responsible for a big transformations in terms of the value components of what we've been doing.

I think with those few remarks, I would like to invite Kobus Moller, our Financial Director, up to the podium to come and share with us the actual numbers.

Kobus Moller {BIO 7480143 <GO>}

Good morning, ladies and gentlemen. It's a pleasure to share with you some of the main features of our results from 2013. To start with just a reminder of some of the changes in the disclosure and our results, very similar to what we've done in [Technical Difficulty] adopted IFRS 10, so that required some restatement, we had to consolidate some additional entities that have impact on the presentation of the results but not on the bottom line.

Similarly, we've also made some changes to the investment classification on the face of the balance sheet to be aligned with the SAM requirements or certainly just reporting requirements. STC has been replaced with withholding tax and then we also made some changes in the presentation of our non-life operations to align that with the relatively disclosed life operations in the equity value.

We actually show that the dividends that we expect to receive [Technical Difficulty] from the actual face value of the entities. You want to really refer to the changes in the interest rates and the effect that, that had on our results, in particular the long rates, the effect on the risk discount rate and the value that we put on value of new business and also on some of the other valuations of our businesses.

In summary, the group equity value ended the year at ZAR84 billion, which is ZAR41 per share, which gave us a return of 17.7 on an absolute value and a per share basis 17. If we make an adjustment for the impact of the market, the adjusted return has been 0.6%, which is just marginally below our hurdle available for the period, and I'll come back to that and the reasons for that.

Our operating profits increased by 55% and headline earnings by 36%, and I'll show you some of the details there. Based on the underlying increase in the cash earnings, which we based our dividends on our cash earnings, the Board declared a dividend of 200 cents per share, which is 21% up on the ZAR1.65 that we declared last year. Our new business volumes, if we include the low margin white label business, up 26% with some good net fund flows and a 12% increase in the value of the new business based on the actual discount rates.

If I turn to our individual businesses and starting with Sanlam Personal Finance, SPF; SPF had a very good year in terms of the operational performance, 31% increase in new business volumes. In the entry level markets, we continued to see good growth from our group business, our voluntary group business and also our agency force, growth in excess of 20% today. In line with what -- the trend that we've seen in the past according periods, there's some reduction in the business being written by brokers in that segment of the market, so that is also the case this time around.

Rental income continued to actually see good growth, in particular single premiums but also in fund's annuity business that we write. And in the affluent market, we continued to see very good inflows, in particular on the investment side on to the glacier platform in excess of 50% again for us for the last year. And you can also see that in the net flows we -- on the platform, we had almost a ZAR14 billion net positive inflow in the last year.

In the middle income, we've had some negative flows but that's essentially reflecting the higher markets. The benefit that we pay are actually higher because of the growth in the markets.

The value of new business of Sanlam Personal Finance only up by 5% by the actual discount rate and the comparable rate increased 19% to just more than ZAR1 billion. In particular, when we -- when you write the risk business in the entry level market and do a (inaudible) in the middle-market, changing the risk (inaudible) impact and that is the main reason why we actually showed a minus 4 for entry level where the growth in the volumes was much better than that.

The new business margin is slightly lower if you express it on the actual discount rate. But again, if you apply a comparable rate, margin slightly up on last year. The high level of -- the margin entry level obviously reflects the fact that we only write risk business there where the white is much higher and builds investment business, both in the middle-income market and even more so in the affluent market business.

Operating profit of SPF up 24%, both gross and on a net basis. We still get the bulk of our profit in that cluster from the middle income market, a more mature stable book of business. They have the benefit of higher markets, which actually impacted on some of the fees earned, but a very credible performance from that middle-income market.

The other parts of the business that well -- entry level more than doubled the profit and very good underwriting performance, but also the impact of the markets assisting the Sky business there, so one wouldn't expect -- necessarily expect that level to be sustainable, but an excellent performance there.

Glacier, (inaudible) the market existing there with a 39% increase in their profit. And then personal loans, up 6% from last year, slightly lower growth than in the past, really reflecting some of the pressure that you're also seeing in that book in terms of our bad debt provisions, its well under control. But we do see some pressure on the book, in fact we're doing in fact some actions to address that.

Overall on the -- that cluster, the SPF cluster, we earned just more than 20% return in the last year, excellent return.

Some of the emerging markets actually (inaudible) a 3, 5% drop in total business flows. I think it's very much distorted by the fact it actually sold our unit trust business in Namibia to (inaudible) as part of acquiring a big stake in the holding company of (inaudible) . If you exclude that, business volumes actually did very well in the emerging market, in particular in those profitable areas, the recurring premium life business, you can see that also reflected in the value of new business.

In Namibia we had recurring premium life business growing in excess of 20%, in Botswana by about 30% and the rest of Africa excess of 40%, and that is really what we're targeting, a profitable business. We're very happy with the performance that we've seen from our emerging market business flows.

The India, Malaysia line, for the first time that also includes a contribution from Pacific & Orient that is about R350 million in the R900 million that (inaudible). Overall, the value of new business as such increased by 36% in our emerging markets business. The profit from the emerging market doubled on last year, more than doubled in the case of -- on a net basis with more than a billion for the first time.

A big part of that is required profit where we actually for the first time report some of the businesses in our results. In Namibia, that will be our effective stake in Bank Windhoek and in India and Malaysia, it will be Pacific & Orient and also show the increased holding in Shriram.

If we exclude that, on a net basis, the increase is about 40%, so still a very credible performance by the core of the businesses, both in Namibia and Botswana doing very well, but the businesses in the rest of Africa growing by 85%, and all our businesses did very well, Ghana, Kenya, Zambia and they all performed very well on -- in terms of the profit contribution. And our return on this cluster of businesses was almost 30% for the year last year.

Sanlam Investments, at net investment flows of just 1.7 billion last year and we already alluded to that at the interim stage that we have lost a few sizable mandates during there and particularly the PIC [ph] as a result of some of the mandate adjustments (inaudible) that was done, about ZAR10 billion from SEM, so that had a major impact on the net flows. But if you exclude that, you'll see that the other businesses did exceptionally well in terms of new flows, our wealth management business and some of the product lines, as well as our international business that did very in terms of new business flows.

On the life side, some (inaudible) business, as you can see, about 150% growth, in pound terms, they did very well but if we could translate that into rand, even better. The (inaudible) slightly lower margin than South Africa, so you can also see that in the average margin achieved, that came down slightly over the year and the growth in the valuation business also slightly lower than the actual growth in life business, but still a very good performance in terms of business flows in that cluster.

Profit-wise 30% growth in gross profit, 33% on net basis from the investment cluster. Our investment management business performed exceptionally well with a 36% growth based on the investment performance that you've seen earlier. We'd much higher performance fees than last year, which did make a substantial contribution. But even without that, the growth is 44% last -- year-on-year, so the core of the business performed very well. And that's partly South Africa and the international part of that business.

SEM capital management actually had a very good year. You will recall that we had to provide for our exposure which were struck in the first half of the year that had a major impact on their results. If we exclude that, it's quite a sizable increase in the comparable profit year-on-year for Sanlam Capital Markets. Overall, the return on that cluster -- the return on group equity available for the cluster, 26%.

As to the Santam results, they announced their results and they had another difficult year in terms of particular catastrophe events and some crop losses that impacted their results, particularly the underwriting margin. But as Johan first indicated, given the circumstances and what we've seen from the rest of the industry, they've actually weathered the storm quite well and we're pleased with their results.

What did impact on our -- return on our group equity value is the movement in the Santam share price over the period because we take that into account when we calculate RoGEV for the group. The share price didn't really change end of the year, so that had yielded a 1.5% return on a group level. And if you look at the RoGEV for the group in total, that had a negative impact. But once you see that led us to 44% that we achieved the year before. So, it was quiet a hard base.

Overall business flows of 26%, both life insurance and our investment business strong growth and also on a net basis, even with the fact that we've lost some mandates in investment management side, we still achieved 26% net inflows in our business. The value of new covered business overall net of minority interest up 12% to ZAR1.3 billion. If you -- on a comparable economic basis it's almost ZAR1.5 billion, up 23% on last year, and the bulk of it, the difference, actually is in, as I've mentioned, in personal finance and (inaudible) risk business and the margins more or less staying at a similar level as last year's one.

Total net operating profit, 5.4 billion, up 35% on last year. Johan already mentioned that if you exclude the acquired profit or refer the areas that we account for the first time, a comparable number is a 25% increase. He also mentioned that in the 5.4 about 26% of that is our -- the profit contribution from our international businesses, the non-South African component compared to 16% last year.

I think what is also worth noting is that if you look at the core South African business excluding any of the international component or the impact of the exchange rate, there was still a 20% increase in those businesses, which means that the core South African business also performed exceptionally well, not restraining the fact that we've been adding growth business to (inaudible) point.

On the balance of our income statement, so net operating profit of 35%, we had very good investment returns from our really high base in the year, adding another ZAR3 billion, normalized headline earnings increased by 36% year-on-year to just over ZAR8 billion. And if you account for the IFRS required treatment of Sanlam shares being helped by portfolios, the policyholder portfolios, headline earnings is up by 40% or 38 -- 39% per share.

Our group equity value, I've mentioned, it's up to ZAR84 billion at the end of December, of which about 76% -- ZAR76 billion represents the group operations. In the 84 billion, about 51% will be our life business still, so it's still the biggest part of that, and about 40% will be our other non-life operations with the balance being our discretionary capital of ZAR4 billion and essentially the provision for our final dividend that also sits in the discretionary capital line.

All our businesses with the exception of Santam well exceeded (inaudible) in terms of the return for the year. You can see Sanlam Personal Finance, Emerging Markets, Investments all in excess of 20%, with Santam really affecting the performance of the share (inaudible) . The ZAR13.3 billion value-add was 17.7% on the previous slide. If you break that down just to some of its components, at the bottom you see EV earnings, that's the contribution from our life our business, 9 billion of the 13 billion, and that's a return of 24% -- 23, 24% on our -- from our life business, a very good performance.

Non-life business added 4%, that includes the Santam position, that's about a 14% return year-on-year. So it's at the lower end, but I think under the circumstances quite a good performance. If you drag the EV earnings to the life part down into its compartments, net value of new business ZAR1.3 billion, you've seen the operating experience variances exceeding 1 billion for the first time.

All our businesses achieved positive risk experience as well as positive persistency experience. It's an ongoing trend, a very pleasing trend for us. And then the minus number, the 1.077, that is really the impact of the higher risk discount rate, the net impact of that. What we do to get to an adjusted number is to exclude the impact of the markets and in the last column you see that on a normalizing adjusted basis the return mostly he ZAR8.5 billion, which was about 11% on the absolute value.

In summary, I'm very pleased report that we continue on our strategy. We add -- we continue to add shareholder value by focusing on our return and group equity value, profitable growth on track, as I have mentioned, the core business performing very well and we continue to add to that fast-growing, strong-growing growth market business to get us to a 35% growth in the current period. Our diversification strategy is working for us that we can actually do, (inaudible) this is the normal performance for -- it's up on this year from (inaudible) .

Then we continue to focus on sound capital management in the Group, as Johan also mentioned. Our focus is really to find investment opportunities in growth markets and we expect in the current year that those new positions will be immediately starting to make quite a sizable contribution to our profit number. That's the last slide if you look out over the longer term, the gray with the shaded area is our performance hurdle that we said, and the top line shows that we on a cumulative (Technical Difficulty) outperformed that by quite a margin, you start measuring that from the listing of the company in 1998.

With that back to you, Johan, for the rest at this stage.

Johan van Zyl {BIO 4080290 <GO>}

Thank you, Kobus. Now the results were fairly good and yesterday at the Board meeting, the management continuously wanted to refer back to the results, the Board wanted to know more about this year and next year. So let me share about what we need to do this year. On the personal finance side, which is the biggest business, it's a retail business, individual business in South Africa. The focus there will be -- as you know, we are expecting interest rates to rise further and the focus will be firstly on getting sales and to maintain margins in this market, which will be tougher.

The strategy there to achieve that, is to grow the advisor force in all the market segments, we would like, in the emerging -- in the lower end of the market, the entry level market in our (inaudible) business and quite a bit to that advisor force.

Also in the middle market and then we have a strategy also from people who don't like the added regulation and price (Technical Difficulty)legislation would rather been -- of a bigger brother or sister, to and abandoned being an independent so there is whole strategy they have to grow the -- all the segments. There is a big focus on product innovation particularly in the recurring premium area. I think we've fell behind a little bit, we had big, big IT renovations we renewed our new platform last year and the year before, so we fell a bit behind so there is a whole pipeline of new products been launched and coming on Board. And while we've been doing extremely well, the one area where we been lagging in the personal lines business and in the individual business in South Africa is been the recurring premiums with most of our pears have been growing, so we trying to get back to that, there is a big focus on that, particularly in risk business, getting the right premiums in and growing that.

And Samlam's -- broken channel you would have seen that we didn't grow as we wanted there in fact we got a little bit backwards. Now partly that is because of the economic pressure some of the brokers are under in the lower end of the market, but also its been partly because of our increased -- I think hurdles, the higher hurdles that we have for taking business on Board, we are not taking business from people are already invested (Technical Difficulty) and things like that and so we struggled in this market a little bit.

To there is whole strategy around that where we can support our brokers there through training and range of other issues to run sustainable business there. The second part that we have to do in this market is you would have seen the tight economic conditions that we've been referring you to you and you would have seen this slight uptick in laps and things like that, section 14 transfers out of the book and so forth. We'll be facing tremendous focus like in the past still to focus but tightening our efforts to keep business on the book.

And increasingly there is no point in righting business if its disappear 2, 3 years down the line, so we'll doing a lot to get persistency back to where we are happy with it. I want to state that, we'll within our assumption levels and what we assume, but we will have to do something there. Given particularly the industrial action that we've seen in other things that simply market it easier for people to -- the business. There will be a continued focus on operational and efficiency and cost management.

I think this business has to be commanded on the increase in the cost base across this business. The inflation right is been about 5.8% and so forth. Overall the costs in this business increased but around 5% or so, it's a tremendous effort in a tough environment where there is particularly on getting and retaining good people and so, we have to pay more. We've seen the deterioration in the currency impacting particularly on IT costs, we are heavily into IT here, we spent around a billon rands, 1.2 billion rands here in this business, but really managing that whole cost efficiency will be a key thing.

Because this is a South African business dealing with individual, it is important that we also get the transformation thing going there and retaining the emphasis on that. I'm pleased to announce that we also got a new certificate on our performance in terms of our broad black economic and -- performance, our score card which was audited and approved also in the day before yesterday. We are a level two provider for the first time and we are making progress on all fronts with respect to transforming the business. And increasingly the business is reflecting the demographics outside Africa.

And lastly I think there is a big focus on meeting our regulatory obligations. And these are several; in this particular business it's firstly about treating customers fairly. TCF is embedded in all our processes from the Board level right down. We have been reporting in place to really manage everything and every aspect of the business according to the TCF rules and so forth. And we would like to think that we're certainly a leader amongst our peers in that particular area of TCF in South Africa.

There's also a big focus on the regulatory capital on the SAM process. I've already spoken that we've taken a conservative approach with respect to that. We're not going to change our capital massively in this year until we're certain (inaudible) . For the moment, we are working hard in playing a full role with respect with respect to those things.

And then around the new commissions and the retail -- the focus on retail distribution that we have, quite a few issues that will impact this business. I think we will place to manage them, and by and large we think big businesses like ours will benefit from the regulatory changes that we actually see. People will increasingly move away from being in their own where the regulatory obligations are often onerous, much rather come into the fold of a bigger company with their support and help in order to meet those obligations.

Of course, we're not own a major -- on our own there. Our major peers also have strategy to -- strategies to gain from this. And so, we're working hard to be at the front of the pile. If we look at emerging markets, they've done extremely well this year for the first time contributing more than ZAR1 billion of profit on a net basis. The focus for us will remain on Africa, India and Southeast Asia. We're not going to change our model. We have a partnership model there, mainly using different brands which are well established in these countries. We don't know everything that's going on in these countries. We rely on our partners to help manage client relations, regulatory relations and a whole range of issues but uptil now it's been working fairly well and we would like to remain at focus.

The big focus for us is rather than to expand just in the number of countries that we're in and maybe stretch beyond what we can manage, rather deepen the relationships in the countries where we are. So, it's continue on the topline growth efficiencies and capital, optimization in the current operations.

Botswana, becoming more mature, really looking at costs. For many years, they've simply focused on the growth component of the business, increasingly as this growth is slowing, to also look at more efficiencies. Within Shriram, we have five businesses there, one of them being a big distribution business, two credit businesses, general insurance business, life insurance businesses, lots of synergies between these businesses. And we've been contributing massively towards marking out those synergies, but there's still a lot to do already.

These are a number of IT implementations that we have across Africa, as we grow the businesses, the old platforms that these people have, IT platforms have suddenly become too small to handle volumes and so forth.

We have to upgrade most of the systems. We're busy with upgrades in -- virtually across the board, in Zambia, in Kenya, in Botswana, in Namibia just to name but a few. So we're supporting those businesses from here in order to do those things. We often find that the skills base is not necessarily available in the countries that we deal with, so there's a big dependency on what we can do and the support that we can derive from South Africa.

We would like to deepen our existing relationships with bolt-on transactions. So far this year we announced that one particular one, we acquired Oasis General Insurance together with our partner, First Bank of Nigeria in Nigeria to complement the life business. We've been at the life business three, four years now, it's become a profitable business. It's growing, it's exceeding expectations and we're ready for the next phase and we've added now the general insurance space, we will be integrating that and we will be growing there.

And we'll be doing similar things in other countries in Africa. In India we are trying to get to the synergies deepening the relationships. I have gone on to the board of Shriram Capital there to give some input and to help with those processes from the top end. And Malaysia, we are really trying to, we have a general insurance business we would like to add some life in our other businesses. We've also announced in December that there is a Santam co-investment agreement that provide us with income in emerging markets. We also deal with general insurance. This is an agreement where they bought an economic stake of 35% of what we have in these countries and in return for that they provide us with technical expertise and stuff.

So, it's really to get that done, we're recruiting a number of people from Santam that will come across to manage their investment within Sanlam and to make sure that re-insurance opportunities that do arise from our operations are adequately addressed within Santam and are taken care of.

So there's a big drive to also create synergies and help Santam to grow their business. Then organizational capacity to support growth is critically important as issues arise. We moved people from many -- from -- some on retail business, from our investment business, from Santam to come and join the emerging markets team to strengthen that. Some also on a project basis if we have issues, some others on a more permanent basis, but it's a critical component. And the other issue is their compliance and governance and reporting, we have rigid standards and very high standards in terms of -- that many of the countries we deal with have been exposed to the past.

So, it's quite a journey to make sure that they are reporting the management, the risk management and the other issues that we face within these countries are at the same level and what we have over here in South Africa. So, there is an ongoing focus of training, support and in the years, of compliance, reporting and stuff, so that's going fairly well. On the investment side, the focus is firstly to maintain the investment performance, the good performance that we've seen, most of the value investors struggled in 2012 with momentum investors doing well. We've seen some return to value investments doing better and last year you could see it in our results as well.

So, it's about retaining what we have, particularly we have a fixed benchmark. I think a big area for us is to improve institutional fund flows, to improve retail fund flows where the margins are substantially higher. And so, and in order to effect that, we changed the business quite substantially and separated essentially the product factory, the investment component from the two markets that we have.

So, we've set up a much more client-centric structure that we will be leveraging off. In addition to that, we will expand our African funds proposition and we already have an Africa property fund, we would like to develop our African debt fund in there. We have an African equity fund, listed equity fund and we have other two opportunities not only with our own money but increasingly to grow money in there and so forth and once or twice we get a setback, some of our people have been locked up just before the weekend for not having the right visa, the people behind the counter ran out of time and the last five people and the people, they just said well, we don't time for you guys. You have to sleep in our facility here overnight, not the greatest kind of accommodation you get from there. But overall things going really well.

Cost-effective solutions across the value chain, critical. We bought (inaudible), it's doing well. Optimizing the active versus passive management business models, I think we are doing that really well at the moment, we need to do much better on the passive side. We have paid a fair amount for (inaudible) but we think in South Africa in particular that there is still scope for the ETF for the total ETF space to grow quite substantially.

And then this business depends very much on what happens in the retail business. It depends a lot on what happens in other areas of Sanlam and I think there's a lot of improvement that we can make in terms of collaboration and efficiencies. We don't -- we get small amounts of our own flows into the retail business, if you look at the bigger picture into your own investment business, I think we can do better there. And Santam, the story there is quite clear.

It's been a tough two years. I'm very happy with the progress that we're making in getting the premium increases through and doing better risk underwriting and so forth and already last year as opposed to 2012, we were much better and had smaller exposure to particularly these hail storms and several of the floods and so forth through deliberate actions that we've taken in this business.

I think growth is important in this business, we've seen market diversification. We have a few special projects in place there, the investment in Sanlam's emerging market partners, Santam, the specialist businesses. And then my way, which has really been making a tremendous contribution towards growth in the personal lines market. The size and quality of the risk pool, we do much better. We are really addressing a whole range of things there. There are a number of key projects that we implemented to better underwrite on a scientific way.

Uptil now it's been major groups and so forth, we have a project that we would like to take the scientific underwriting that we follow in the direct model and implement some of the key characteristics of that also in the personalized broker market. So we're working on that. There is a big drive through the value chain to get efficiencies going, focuses on cost. I think we can do much better on the claims side still. We're already optimizing a lot of that, but it requires a new look particularly now that the rand is weak and a lot of what we have to replace is something important stuff. And then we have the number of strategic projects also that I've already mentioned going to that.

So overall, there is more than enough to keep us busy and we think you know that it can make a tremendous impact for the year. So the outlook for the rest of the year, we're getting the improved traction in the developed economies, the two fold impact. It will be supportive of economic activity in emerging markets, maybe not immediately we've already seen this sort of the year lag when it happens. But we're fairly positive that eventually with the increased traction in developed markets we'll have a trickledown effect to our sales.

But more importantly, in the shorter term the tapering of quantitative easing will result in volatility in the currency. We think the weakening of the currency has been overdone. The investment market performance is on a high with a relatively expensive and we don't necessarily expect the same kind of returns going forward. In fact, we're much more cautious about the future.

For us big focus is betting down new acquisitions. We've been investing quite a bit and we'll be pulling quite a few people from our existing businesses SPF and so to strengthen the team that we have within our major markets business. So making sure that we actually get what we planned.

Big issue in South Africa is regulatory, I think it would be the regulatory pressures and changes that we see. Retirement reform was a big issue, you would have heard the Minister of Finance speaking in the budget about cost in retirement form. As an industry, we've agreed that if we can get certain things in place, particularly compulsion and particularly if we can keep preservation by keeping the retirement funds on the platform without it being disappearing every six months with people moving jobs and so forth.

We can drive down costs quite substantially. We'd like to do that. The big beneficiaries will be of course the client [ph], but also businesses like ours where you get compulsions in country like Chile and Australia and so forth private sectors benefited tremendously from what's happening there. So we really work with the regulatory authorities in particularly Treasury there to create an environment, that everybody is better off.

Commission changes a critical thing for us because it affects the people that we deal with, we're working on that. Fees independents type agents and these kinds of things. So it may have some impact on us. I think we replaced with the models that we have in place. TCF I've already spoken about, it is finalizing our approaches, making sure that the stuff is better done and properly entrenched. And then the big sort of, you know, few questions still around Solvency Assessment and Management, which is all around capital. We think there will be more clarity on how it will impact us (inaudible). And once we have the results of those, we can get a gauge on the results on the industry and how it will impact the industry and so forth. So quite a few things. Ladies and gentlemen and that brings the end to our story.

I think in summary, very good results, as team we've been together for quite a while. I've been, as you know, I think it's the 11th time -- 11th year that I've been up here reporting on our performance. Certainly within the life and savings industries, it's the best performance that we've had.

We've been carried many years by Santam, this year we were able to carry them, and in spite of what's been happening there, we're pretty proud of the results and we think it's fairly solid. I would like to open the floor now for questions on a few things and Andre, if you and (inaudible) can join us there on the chairs, I'd really appreciate that.

If you have a question please put up your hand people will get to you with the microphone and then introduce yourself and we -- and fire away. Alright. I am a bit like here, in spot light here. I can't see too well. There is a question there.

Questions And Answers

Q - Unidentified Participant

Hi. (inaudible). I have two questions, the first one is, I just like to know whether the Board debated a special dividend. And if yes, what was the pros and cons of going with a substantially increased, normal dividend instead?

The second question is little more technical, you mentioned that there is one or two major issues in San outstanding. Could you maybe explain on what the major issues are and what's the relevance of those to Sanlam?

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

Okay. I think the first one on the special dividend, Board ever year, over the past ten years have debated the issue of the special dividend because we've always had surplus capital. The issue was to invest it in other opportunities and so forth. We don't see the normal dividend and the special dividend being related to at all because the normal dividend simply refers to the cash flow of our operations in that given year. And we try to pay out as much as possible with this sort of an increase with the dividend coverage of around 1.1, and that is how we arrive at that dividend, the normal dividend of ZAR2. So it's supported by the cash flow from the business and what we expect into the future and that will be rising.

The special dividend simply refers to the 4 billion of surplus cash that we have available, and then we measure that amount relative to the opportunities that we have, share buybacks or investing more into shares of that partners and partnering businesses, what sort of return can we get on that investing into new business growth or returning it to shareholders.

We think, we have a good pipeline of projects, and available opportunities for the full volume that we have that justifies nothing special dividend. And the time frame of that is such that in the foreseeable future that we'll be able to spend the 4 billion. That was sort of Board decision and how we divide. The previous year, we paid a special dividend where we had 4.2 surplus.

We saw a good pipeline, but we knew that some of the projects would be further down the line, we'll be adding capital for that and instead of sitting on the surplus, we've decided to pay a special dividend of $0.50, which is around ZAR1 billion. (inaudible) number, but this year we think the other opportunities with higher sort of returns by the stuff that you've been seeing. So that's the special dividend story. Kobus, would you like to add anything?

A - Kobus Moller {BIO 7480143 <GO>}

No, I agree with you on efficacies at [ph] data point.

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

Happy that we think the same.

A - Kobus Moller {BIO 7480143 <GO>}

First, I'll take the SAM question. Yeah, I think in general, as the basis developed up to now I think we can live with it, in general terms, there is a couple of things that's been pasted in page 3, and after we've seen the industry results some decisions will be taken and that I think for us, probably the major one of the items that pasted is whether you love any diversification benefit for participations and as you know I mean since we leveraged (inaudible) Group picked participations in some, some things like that.

So, I think that will have an impact on how big the (inaudible) label will be in the end. I don't think it will be crucial this way or that way what would -- it will impact on sort of the how the numbers will look.

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

Yes. And just to give a bit more, I think first and let's answer this. We don't necessarily have to get any diversification benefits from the same process. But as a business, we will just say, over and above that with this amount of capital, because we're well diversified, we don't think we have to have the same cover as the business that doesn't have that. So and we'll specify that ourselves and looking at (Technical Difficulty) as we understand the proceeds is (inaudible) it doesn't really matter on this side or that side. But demand [ph] optics do drive a lot of the process and we have to understand what's going on.

We don't want to be seen as having network capital available to some of our peers and therefore being more risk. And those are the kinds of issues that we will have to debate and address. At this moment in time, there are a number of issues that are simply up in there. We would expect more without the FSB people being here working with us on San, they understand, where we're going and we're in this together, if we see that also as a partnership.

No other question?

Q - Unidentified Participant

Good morning. Yuhan Luis [ph] from Barclays. In your emerging market businesses, we saw relatively modest growth compared to some of what we've seen in priors on the present value of sales. But you're modeling increase quite nicely, it went from 5.6 to 7.4. And then you also took quite a nice bump in the new business profit. Can you mainly give us a little bit of color as to which countries and which products are really coming through that affected that.

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

Kobus, would you like to.

A - Kobus Moller {BIO 7480143 <GO>}

I think as I indicated mainly that, we did see substantial growth on the recurring premium life business. In most of the areas, we saw those businesses, those startups. That reflects the increase in the value of new business as well. And what you should now realize of what we report is a combination of investment business, short-term business, and life business in those numbers.

So that just -- world is tilted somewhat. In particular where we saw bulky single premium business also just goes the year-on-year comparison of the overall number, in particular in Namibia, where we have very lull [ph] margin interest business, and that is no longer in the comparison.

So, but the profitable business, the recurring life business is really what it reflects in the (inaudible).

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

And in the areas where we would like to continue and focus on life exactly, the new recurring business and particularly the risk part of it where we're getting healthy margins, that part has been growing very, very well for us across the board.

Any other question? Right, do we have anybody? No questions there, nothing? What is left then is to thank you, ladies and gentlemen --

Operator

Gentlemen, we have questions on the line.

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

Appreciate your support. We work hard during the year to produce a set of numbers. It's been a pleasure to share that with you, we're very proud of what has been achieved in the past year. We think it will be a tough act to follow in this coming year, but we have a few things up our sleeves. And I think we will set to continue in this journey. In particular, I think that the strategy is fairly robust, we're well diversified in terms of regions, we're well diversified in terms of how we reach clients. Not only mediated although it's still the main focus, but we have direct businesses, we have good schemes, we have affinity businesses, we are in different areas and markets in South Africa, we've been able to increase our footprint and so forth.

So overall in terms of products, methodology of distribution, market segment and so forth we feel pretty good that we can whether a lot of the storms we see coming our way. Always a few jokers in the pack, particularly the regulation, increasingly we see the things that we get in the UK spreading over to South Africa, in fact many of the policies are simply copied, and implemented here or at least discussed from that level.

I think we have a good working relationship together with the rest of the industry to try and make and create a good business that's better for clients and the first customers. But also for the businesses, if they do the right stuff and we're fairly confident and happy with the progress that's being made. And so we look forward to another set of results for this year. Thank you for the support.