Y 2012 Earnings Call

Company Participants

- Andre Zeeman, Chief Actuary and Chief Risk Officer
- Johan van Zyl, Group Chief Executive Officer
- Kobus Moller, Financial Director
- Unidentified Speaker

Other Participants

- Unidentified Participant

Presentation

Unidentified Speaker

Right, ladies and gentlemen. Good morning. I mean it's still morning. We might have some people checked in, but I think let's get things going, because this presentation is being broadcast more generally. This morning to hear from Sanlam on their results for the year ended December 2012. Sanlam, as you know, was founded back in 1918, so probably been around longer than some of our members. What I think many members will remember is that in 1998, 80 years later, Sanlam listed on the JSE with an issue of shares to its people that hold their policies and held investments and that demutualization process credits something like 2, 2 million shareholders. If you had a Sanlam policy, issued you free shares.

I see now Sanlam is down to about 520,000 shareholders, of which only about 15% individuals. So it's about 80,000 people, so they credit a lot of shareholders and it would be nice if they stayed in the JSE as shareholders of those -- not only Sanlam, but other shares. But since 1998 Sanlam has been a great success story. It now has a market cap of over R100 billion. One of the things it's done is, it's always reported back since its listing to stakeholders, the society, members on its results.

And I'd like to thank Johan internally seen both for that and for doing this presentation for us here this morning. And if I can then invite Johan to come up and start the presentation, he will introduce the other members of his team. Thank you, Johan.

Johan van Zyl {BIO 4080290 <GO>}

Thank you, Mike [ph]. Good morning, ladies and gentlemen. It's my pleasure to welcome you all here to the annual results presentation of Sanlam. In particular, I'd like to welcome a few people. We have our Chairman, Desmond Smith here today. Desmond, welcome. Of our EXCO we have Kobus Moller and Andre Zeeman here. They will help me with the presentation and answering questions. We have a number of other staff members here. Reporters, thank you for that, thank you for being here and supporting us.

One or two things, our Annual Report and our integrated report has been audited and available on the website. It takes a while to transit, so that will become available, the print copy next week. We've had it too -- at the final Board meeting yesterday, so some people worked through the night to finalize these things. Thank you to them. I think that's a first for us and pretty old for -- also for a South African company.

Ladies and gentlemen, onto the results. We're quickly going to take you through the strategic positioning of Sanlam. We believe a lot of the results have to do with the road that we've chosen. I'll briefly do that and take you through the business environment, talk about strategic delivery and the issues that we focus on. Kobus will then take us through the excellent numbers. I will again finalize with what we see as the priorities, what the outlook is and so forth. And finally, we'll have some time for questions.

Starting up with the strategic positioning, when I started here 10 years ago, ladies and gentlemen, I said it was going to be a relatively boring journey and this slide has been with us for 10 years. This is what we're trying to do. We're trying to get returns up, trying to get it done through growth in the business, to get growth through efficiency gains, entering new market diversification, efficiencies in general and to do that by working the capital base better.

Most of our people work on growth and operational efficiency, a few of us work on capital efficiency, finding new businesses and distributing the excess capital. That has been with us for a while. Recently though 10 years ago we didn't have an international component, we were basically a South African business. Today we're still mainly a South African business, but we use the South African base to optimize a mature -- a relatively mature base. I don't want to say mature because we've achieved tremendous growth over the past few years there.

But using the stable base we've entered into Africa, other emerging markets of India, Southeast Asia and also into niche markets at the high end like the UK, where we play a particular role to provide offshore products for our mainly affluent client segment. So the story for us is, South Africa, which is the biggest part of our business, we make sure that it's sustainable what we do there, a lot of drive about efficient effective management, maximizing returns and the costs, and the cost base is really a big part of that.

Using that surplus money as we owed more capital-intensive policies to mature. We will reap that capital and then we apply it to the highest return areas, the effective capital management being a critical part of this, growth in effective capital management, sourcing new opportunities. And this is where Africa has been looking low for us. We're in 10 countries now, even India, Southeast Asia and we'll expand to an additional one or two countries. The top end of the market is really following our clients, as we see the exchange controls we'll do that, following our clients into the UK, also in Singapore [ph]. So that is really the story and what we're trying to do. So South Africa and international and effective capital management binding those two businesses together.

Within that we have five strategic pillars that we drive, ladies and gentlemen. First is improving performance through top-line earnings growth and this is really increasing markets share in key segments, not across the board, but very focused and diversifying the base. And this diversification is not only in terms of regional diversification, it is there, it is also moving up north and I think the fact that we're presenting the results here make us acknowledge that South Africa is bigger than central Cape Town. It is about playing in different segments in South Africa, the entry-level market, the middle market, the net affluent and the high net worth, the corporate, the SME market and so forth.

It is about distribution platforms, while in the past it's mainly been through intermediaries, increasing the use of different methodologies of distributing our product, affinity being an important one for unions, for church groups and a whole range of these kinds of things. Also we have direct distribution models like MiWay and so forth. But increasingly finding a range of -- a range of ways in which to diversify the base.

A big part of our business, ladies and gentlemen, is about operating and cost efficiencies and we would include the quality of business here. It is relatively easy to grow the business. If you write at a relatively low cost, you give the business away. If you stand at the street corner handing out money, you'll find a lot of people taking. So it is about margin, it is about the ones you had the business making sure that it stays on the books. And it's about how you manage that, the cost efficiencies of the whole process.

And I think one of the core competencies of the Sanlam Group certainly over the past 15 years is to keep costs within inflation. In spite of growing the business, we've been really doing a great job in the costs. And into the future, this will still be a key part of what we do. Then the international position, I've spoken about that really driving high-yielding areas. Capital efficiency is a key part of what we do and transformation of the group, particularly in South Africa is also a pillar. As we do more business in the lower end of the market, it's increasingly starting to reflect in our business, the composition of the population that we see.

If we talk a little bit about the business environment in the past year, the results were achieved in an environment that we see as mainly unsupportive. And starting off internationally, we've seen slow progress in addressing the sovereign debt concerns in Europe. At least we can say that while the world is for a while, there was a debate on whether we will make it economically or not, we've looked into the present first and we've moved on, albeit slowly. So we don't think things will collapse, but it will be a slow recovery.

And emerging markets was impacted by the low demand from the developed world, particularly in Africa we've seen a lag. We've seen generally a low -- very low interest rates environment, which is not good for savings on the one hand, but provides opportunities for product development. And a lot of that was ignored by the investment markets which ran quite hard in the second half of last year all over the world, but particularly in South Africa. In the South African economy, I'll talk a little bit about the four things that really impact us; the growth rates, the interest rates, equity markets and currencies, and I'll also say one or two words on India.

If you really look at the growth, I don't have to tell you too much, it is at a much lower level than what it used to be. It recovered a bit from the credit crunch that we've seen and the international problems there, but not nearly at levels we would like it to be. And weathered those unemployment, also the social pressures and so, so a tough environment certainly going forward primarily.

On the interest rate side, two major trends. On the long-term rates sharply down from 2011, which supported our value of new business, quite startling. On a lot of what we write, we use the nine-year bond yields to discount that on and if the rate is lower, the discounted value is simply higher, the present value of it. Therefore, new business is worth more and the value of in-force in our group embedded value or group equity value, valuations also higher and that had a very positive effect on us.

On the other hand, the low short-term rates continued to impact earnings on working capital and where in the past, we received a substantial slug of our operating income from these interest earnings that we've had on working capital, with each insurance business it's a sizable component. The return on that is now pretty low or much lower, at least half over the past four years or so. And net investment return is also low, so that increasingly people look at other ways to make money, they don't put it in fixed interest and things like that.

The equity markets has been quite buoyant, as you know. It's also impacting the way we look at the business. It was substantially up to equities overall by about 22.7% on average from 2011. And this, of course, provides us with a much higher pace on which we earn the fees. And since much of what we do using the contractual savings area, this provides a much higher fee base and therefore, it impacts very nicely on our -- in our operating income. And therefore, you'll see particularly our life insurance businesses and asset-based businesses getting much higher yields.

With respect to exchange rates, you can see the European, United Kingdom, the USA rates being much stronger than the rand over the period, rand weakening against those rates, which meant that -- which means that the income that we made in the UK, Europe, the USA actually was more in rands and that buoyed with the performance of those businesses, while by and large in the emerging markets there where we're playing Africa, India, Botswana and so, hurray, it's relatively flat, no influence. One or two exceptions there, particularly Ghana and Malawi, where the exchange rates deteriorated quite a bit, against the rand we took a bit of a hit.

If we look at Africa, Botswana in particular, our biggest exposure outside of South Africa and Africa is to Botswana. There the consumer is under pressure. It's an economy mainly dependent on government and diamonds, where a big part of the government income is derived off diamonds. The moment the diamond industry has a bit of a problem, we see the hiccup throughout the economy. Now, the civil service there has for four years not had annual increases and a big part of our business there is amongst civil service. They had an increase after a strike or so a year or two ago, but marginal much lower than the inflation rates. So that in consumer there is under pressure. In Ghana and Malawi, I spoke about the depreciation of their currencies and that hit us by about 100 million since we -- the currency being worthless on the group embedded -- on the group equity value basis.

Rest of Africa, we see low demand from developed economies, with the products impacting a little bit on growth. India also slower growth, but still around 6%, 6.5%, 7%, ladies and gentlemen. And all over the show, we see regulatory changes. So by and large, we've had certain things going our way, particularly with the market, the equity markets and the bond markets, but we've seen a really tough environment in terms of operating conditions with respect to the rest.

This is the environment against which we have to deliver, and I'm very happy to say strategically, we've made progress on all the pillars of our strategy in 2012, and the success is evident in the strong financial results. The highlights what we see as being in the earnings per share, the net operating profit per share increased by 6%. If we take some time out, we separately reported and where we've had a few issues around catastrophes and particularly how.

The net operating profit of the rest of the business is up by about 16%, normalized headline earnings per share up 17%, business volumes -- new business volumes increased by 18%, net fund flows up 23 billion. The net life value of new business up 23% to over R1 billion for the first time and the net margin for life new business 3.22%, up from 3.05%. So that's a great result.

The group equity value at the end of last year came to just over R37 per share, which gives us a return on group embedded value per share of 22%. This is the increase in embedded value plus, of course, the dividends that we pay, which we think is a great result.

If you look at the operational efficiencies, we've seen profitable volume growth. Gross value of new business grew by 23% at higher average margins over the period. When we started off, at least, at some of the lowest margins in the industry, consistently trying to push those up and firstly through the product mix that we have in South Africa doing much more risk business, entering into the lower end of the market, entering into Africa and places like that where the margins are higher, this savings business through the mix but also through expanding the footprint. And you can see the results with respect to that. We've had consistent growth in the value of new business and I think over the 10 years or so, the past 10 years the growth here has been close to 20% on an annualized basis, so it's a great result.

As I've said, the growth comes fairly easy, you can always buy growth. You have to always weigh the growth against the quality of it. And here I'm very happy to say, ladies and gentlemen, again we were able to get the lapses, surrenders and fully paid-ups as a percentage of the in-force per half year down to the lowest level that they've been for any six-month period over the past 10 years.

This is the middle-income market, quite a great good result for us and this is in spite of many, many customers and clients with a lower income segment -- in the middle-income segment being under pressure financially. It shows that we've been able, I think, through prudence over the number of years to select those clients and customers that would stay on the books. Those that aren't shooting for the stars, but who don't like steady returns and who don't change jobs, houses and things like that every year.

In the lower end of the market, it's a similar story. We've have seen in spite of increasing indebtedness, some people talk about the debt bubble, times being or customers being -- the South African retail customer being under pressure. Even here we've been able to get the NTUs, lapses and surrenders down as a percentage of the in-force book. Again, I think hard work we see don't happen by itself, the whole culture being developed over a period of time within the business to focus on quality.

And then again, ladies and gentlemen, outperforming the assumptions that we've said. A key part is that -- within our business is that it's always relative to the assumptions that we make. So it's important to also show how you perform against those assumptions. And again, I think for another year, we've come with a very, very credible positive experience variance in the business, 555 million. This is now becoming a big number year after year after year and to me, together with the growth is one of the reasons why we think we should have the business growth at more than simply the group equity value.

If you look at where we are now as a group, ladies and gentlemen, we are a really diversified group based on the life business in South Africa that gives us stability, which allows us to branch into a number of other financial services in other areas. And the picture gives you some idea of the diversity that we have in the group with respect to that. We operate, as I said, about 80% in South Africa and then about 10% in Africa, 10% outside. Increasingly, we have a South African footprint, big base, emerging markets into Africa, Southeast Asia and India, and we have at the high end an increased presence in the UK, where we're mainly serving South African clients and off that base also do one or two things with clients over there.

If you look at the diversification picture, ladies and gentlemen, two things come to mind here. You've seen that we've grown the size of the business substantially over the past 10 years and we've essentially grown it by doing better in the markets that we were South Africa, but by adding a whole lot of new markets. About 25% of the business we're actually getting now for markets that we weren't in at all a few years ago and the profit that we're making there. I think the second part that you have to look at here is in this period, we bought back close to 30% of our shares. So not only did we grow the profits, we serviced fewer shares and a lot of the value has been created in that process.

If you really look at the diversification more closely in the past year, you see that 25% of our life new volume -- business volume is derived from these new areas and territories, while about half of our value of new business to profit. That goes to show that these areas that we're entering relatively high yielding, less competition, and therefore really adding tremendous value to what we're trying to give.

So on the diversification, we think we have a bit of a competitive advantage. We have a relatively large exposure to businesses outside of South Africa. Relative to other South African insurers, in this extent, we regard of new insurers being in the UK, then they have big operations, of course. We see diversified operations shield group earnings from difficult operating environment in specific countries, so we use a portfolio approach. If something goes wrong in say Malawi, where we've had a devaluation of 50% of the currency, it's only one country in the portfolio and you then see the overall effect.

We're expanding the SA entry-level footprint. Our Shriram Capital transactions were completed. That has not been in the numbers at all, although we did the big deal in October of last year, there's a lag of three months until when we put those numbers into our numbers here. So they will start contributing to earnings in 2013.

We're strengthening our relationships in Africa. In each of the countries we operate, we don't own the whole business. We own between 35% and about 65% of the businesses and in every single country we're trying to up that ratio. In some cases, we've been successful in the past year as opposed to places we're still working on it.

So since the expansion in Southeast Asia is starting, our P&O acquisition in Malaysia is nearing completion and yesterday, the shareholders there voted on approving the transaction. The next steps now is getting the results up till the end of March, to audit them and then if there's nothing wrong to pay that for the business as soon as possible. So you will see a lot of that also coming through in and out in our results.

Finally, the capital efficiency, optimizing the base there. We see -- we have a central allocation model where we optimize the allocation through the business cluster, we make sure that we're driving increased returns and if they're not doing what is required, we pay back some of that capital. The discretionary capital is invested in growth markets as our first preference before we pay it back. And we only return money to shareholders if it's not then to be utilized in a reasonable time frame or if it falls outside of our strategic plan.

An important point here is the investment market generated excess returns of R1 billion on life portfolios in 2012, we've had the special dividend in Santam. So while part of that was planned, it did give us a windfall of around about R1 billion for which we didn't plan at the beginning and in the middle of last year. And therefore, that is the money that has been allocated to a special dividend.

Remainder of the money is allocated to growth opportunities. After year-end, we've already announced 1 billion investment in the Shriram Truck Financing Company in India and since year-end we've also disposed PSG in -- our stake in PSG in the UK that added again to the capital base.

If you want a picture at the end of last year what's happened, we started with 3.9 billion, we had small buybacks at the beginning of the year at below embedded value. Our investments that we've made is about 3.2 billion mainly in Shriram and the money allocated to P&O is also in there, then a few other acquisitions in South Africa and so forth, I think the biggest one being Satrix, our 50% that we didn't own.

We added 2.4 billion of surplus additional capital from illiquid investments, mainly the property portfolio, Santam special dividends, the excess return on the life capital around 1 billion. We have investment return and other stuff, mainly the dividend cover that we didn't pay out and things like that of around 1.2 billion, that gives us 4.2 billion at the end of last year. And from that, of course, we pay a special dividend to the shareholders.

Lastly, and this is my last slide before we get to the numbers, like the fifth pillar that we have is transformation. Just a picture on the changing face of Sanlam. Few years ago, ladies and gentlemen, we really focused on the African middle-market segment and our staff reflected that as we diversified the business. We also diversified the people, mainly in the country to service the markets that we're focusing on and you can see the change there also in Sanlam itself.

Today, we have a much more diverse business, focusing on -- diverse people and staff, focusing on a much more diverse offering that we have across the world. So staff changes are keeping track of what we've been doing elsewhere.

And with that, I would like to ask Kobus Moller, our Financial Director to come and talk to us a bit on the financials. Kobus?

Kobus Moller {BIO 7480143 <GO>}

Good morning, ladies and gentlemen. It's indeed a pleasure to share with you some of the main features of our results for 2012. There is some more detail in the booklet that you have and on the SENS Announcement that Johan also said. For the first time we will be able to give you the full integrated report on our website, so I'm sure you will enjoy reading that at your leisure when you get back to the office.

Just a bit of background to the results, no accounting policy changes during the year and as we've already said at the interim results announcement, we've adjusted for the increase in capital gains tax. That had a negative impact of 174 million on our value of in-force and then another 100 million in the income statement on the NAV side. Because of the low interest rates, obviously, the impact of that in the rest translated views for the Sanlam Life book in the ticker, it was about 140 basis points, down with adjustment of discount rates, better deposit impact on our valuation -- the value of new business and RoGEV. And then also what we've already announced at the interim stages actually upped our inflation assumptions by 1% relative to the rest for your right at the -- that income stage already.

The overall picture of our results, I believe, is very positive and the group equity value of R37, it presents a return of 22% for the year. If you back out the impact of the markets and some other one-off adjustments, the return -- the adjusted return that we calculate was 15%, which is still well above our internal hurdle for 2012 was just within 12% in our margin, , good performance.

The company, the group remained well capitalized with the CAR cover of Sanlam Life being 4.3 times. Net operating profit 7% and as Johan said, if you exclude Santam's performance the last year, the rest of the group businesses actually achieved a 16% increase in net operating profit. New business volumes up 13% and R1 billion in net flows, and our value of the life business increasing by 23% year-on-year.

In terms of the individual businesses, and starting with Sanlam Personal Finance, Sanlam Personal Finance had an exceptional year last year, as you will see from the next flew slides. Starting with new business flows, up by 19% overall. The entry-level market increase of 6%, which itself may sound a bit disappointing, but if you look into the detail there, the individual life business, our core business then grew by about 18%, a good performance safely driven by the business volumes of our advisor force. Then on the group business there, we had some negative volumes than last year, in part driven by the biannual renewal of the ACC scheme that happened in 2011.

In the middle-income, growth of 16%. That is firstly driven by single premiums. Very good growth in our single premium VAT business there. The recurring premium growth around 7%. Then as in the past very strong growth in the affluent market, the Glacier business recording a 21% growth.

On the net flows, which is important to that business, you can see that our businesses are holding up and increasing our net flows from just about R6 billion to almost R9 billion. And although the number is relatively small, very positive for us since the middle-income being positive, so that's the more mature book, which by its nature you would expect to see some EBIT outflows and we have experienced some negative net flows over the last number of years to see a positive number where you believe it's very positive.

In terms of value for new business, very good performance in all the segments within SPF, up 33% in total. Strong growth in entry-level, middle-market and also in the affluent market, has been assisted by the lower discount rates and some economic assumption changes. So maybe a better comparison of the two underlying performance with the -- if you calculate on the 2011 base and then the increase is about 18%. And the margin there has been about 3.%, 3.2%, which is still a very good performance on a like-for-like basis.

In terms of the profit contribution, also another 18% growth both on a gross and a net basis. And again, as you can see there, all the investments have performed exceptionally well. In the entry-level market 27% up essentially based on greater risk experience, claims experience has been very positive. Similar in the middle-income market, also good claims experience, risk experience, but also assisted by the higher levels of the market, obviously, impacting there on our fees front.

Glacier, continue on the growth deck, another 11% growth and then personal loans up 33%. The quality of that book is still holding up. So what you see there is really just the growth in the actual book. It is up from about R2 billion, R2.5 billion at the end of 2011 to plus R3 billion at the end of 2012. And we're still very happy that the levels of bad debts and sort of wins make us at least still well within our own assumptions. And as I said, the quality is holding up in that book. If you look at the group equity value of Sanlam Personal Finance of just more than R32 billion. That represents a return of 24% for the year, which is almost double the target that they had for the year, so it's an exceptional performance from that business.

Equally good performance from Sanlam Emerging Markets, growth of 18% our new volumes, but if you look into the detail, the life businesses had about a 33% growth. In

Namibia, we've see some very strong growth, in particular the entry-level market, the life business stays. So very pleased about that. The Botswana business essentially driven through growth in single premiums. As Johan also indicated, the economy is back in strain then, you can see that coming through some of our recurring business that we would say, but single premium business has been doing very well.

In the Rest of Africa, that's the growth part of that and segment or cluster of businesses very good performance, they increased volumes by 70%. And India also good growth, most of that coming from our general insurance business, the short-term insurance business doing very well in India. Again, you can see that the system fees also holding up in this segment of our business with the net fund flows almost doubling over the last year. And in all businesses, we had seen good persistency levels. Value of new business up by 20% to R267 million with the margin more or less in line with last year and the reason for this slight lower margin is purely changing the mix of business.

Profit contribution of the Emerging Markets up 30%, Namibia a more mature business up 10%, Botswana still delivering a 20% growth notwithstanding the current environment. Good part of that growth was coming from their exposure to credit business, the other business in (inaudible) actually doing very well there. In the Rest of Africa, from a relatively low base, but a very good performance, up 134%, it's up on last year. Some of the countries doing very well.

In Ghana, notwithstanding the currency issues that they had, so they've performed exceptionally well in local currency, but also in rand terms a very good performance from Ghana. And also Kenya and China doing very well. And even our business in Nigeria, although still relatively small, they also broke even for last year, which we believe is a very good performance for that small business.

India is starting to make a bigger contribution in terms of profits and actually -- certainly actually as a three-month lag in the guarding in operations. So this would only be the 26% interest through to the insurance businesses for last year until before the year after 30th September 2012. Next year, the results will account for our exposure to this Shriram Capital Group for the next year, which is September 2013.

The group equity value of 6 billion and that's reflected 2 billion investments in Shriram Capital. So that accounts for the big jump from last year. And it represents a growth in equity value of about 17%. The one thing that we did in this year is to actually capitalize the infrastructure and the corporate infrastructure costs in the Emerging Market clusters, so that had a negative impact on this year's return. Without that the return would have been in excess of 20% and that's now in the base. So in future, we will see a normalized return going forward again. And the 17% is actually a very good return, well above the target as well.

Sanlam Investments, in terms of new business flows, slightly -- in a net basis slightly down on last year's R10 billion. We had a number of -- a few mandates that we've lost, in most cases those were because of rebalancing of clients and one particular decline that actually used our international capacity and got their own capacity that they now use. The big impact on flows is depicted on the project line business. In the life business, employee benefits in particular is down on last year, but you may recall that last year we had a single big client right at the end of the year, that's contributed quite substantial to the flows last year. So that didn't repeat for this year. And excluding that, we've actually seen some good growth in employee benefits in new business. That that reflects in the value of new business, as you can see it slowed down in last year and it's also reflected in the margin that they have achieved for the year.

The profit contribution from the Investment cluster up 7%. Investment management that's both nationally and up by 3%. Two factors impacted on that relatively low percentage increase. In the past, quite a big value, part of the income came from performance fees. Africa for the current year it's down by about R50 million. And in addition to that, we have incurred some restructuring cost in our new acquisition in the UK, the Merchant Securities Company of about R25 million. If you add those two negative items back into the current year results and the increase is about 17%, which is in line with increasing their underlying -- the average underlying assets under management, so more or less what one would expect then to achieve.

Employee benefits up 9%, combination of slightly risk experience, offered a very good year in 2011. But all the other businesses too, they were involving particular the open business, while we are still making some losses there and the value from losses or the size of the losses are coming down. So we're quite happy with that trend in that business. Capital management up 18%, a good performance and as always just by the nature of that business, one of items every year and that may not necessarily repeat in the next year unless we're trying another good year to make some money on. The overall group equity value for that cluster R16 billion and that's return of just about 17% year-on-year.

You then see the Santam results, I mean the impact on their results -- on the underwriting results in particular decreased the capacity claims that they have. If you see, the underwriting margins essentially dropped from about 8% to 4%, and quite a big part of that drop came from the impact of those claims. Obviously, the 8% was at a very high level, so Johan would expect some kind of a drop in the margin over time, but we had a typically difficult year last year.

Not so with our investment in Santam well, and you can see the jump there from just below R10 billion going up to almost R13 billion. There is an increase in the market price. So our investment in Santam yielded a return of 44% for Sanlam last year.

Look at overall business flows just a summary of what you've seen already. You see that, I mean, a 13% jump in growth in our new business volumes to R123 million, with particular our life insurance business doing very well both in South Africa and out of Africa. And grown by 19% with R25 billion net inflows with good contributions in all our businesses and that's marginally up on 2011 notwithstanding some the outflows that we've seen in our investment business.

Overall, the value of new business up by 22%. On a gross basis, the net of minority interest also up about 23%. As mentioned before, the impact of the -- of some assumption changes, that have in particular the risk-adjusted discount rate that is just positively picked on that. I would say if you do the calculation on the 2011 base, about half between 3% to basis changes and ideally the underlying performance is about 11% growth. And most of the margin increases also be to those changes, so the average margin at least achieved on a like-for-like basis slightly up on the 3.05%.

Net operating profit of the group up by 7%, and so if you exclude Santam 16% up. And let me -- just a few words on our dividend and the level of our dividend. And as you know, our policy is pretty clear and our cash operating earnings, Santam as you had seen maintained the dividend growth back and notwithstanding the fact that the actual operating profit is down by 39%, we declared an increased dividend and that obviously reduced the Sanlam cash operating earnings component and that helped us to actually increase our dividend as well.

At the same time, we also get back the ACC impact on our previous dividend, and I think that the same -- I think that's same of the previous year. So the combined effect is that we could increase our dividend from 130 cents to 165 cents a share for this year.

If I look at the balance of the total income statement, the net operating profit up 7% and then the substantial increase was the performance of the equity markets in the third quarter -- well, the fourth quarter in particular. Had a big impact on our net investment return. What we earn in our funds specifically, up by 50% year-on-year and that's -- the combined effect of that is that our normalized headline earnings is actually up by 18% last year. And the headline earnings on an IFRS basis up 15% for those of you understand Santam, so that's really because of the Santam share price being up, that's capped in the policyholders' funds increase and therefore, we had to make a bigger transfer for the IFRS -- on an IFRS basis to pay the policy funds, policyholder funds.

Our total group equity value of 37 cents a share or R75 billion, about R68 billion of that is our group operations and you can see Personal Finance still being a big -- is the biggest part of that. And in the right-hand column if you see the -- that the returns in all those businesses are exceptionally good, overall about a 24%, 25% return from our group operations. And even if you take out the effect of the markets and returns about 17% as of Q4 in all cases. We spend better than our own internal hurdles that we see for those businesses.

On the discretionary capital, you can see that we just about earned nothing. And it's a combined effect of earnings, essentially cash although yielding rights on what we keep as the discretionary capital, but that's the opposite for corporate cost impact of the ACC -- or the ACC payment on the Sanlam dividend, the two major items that actually earned or received out of that contribution. 14 days receivables, that's again next year, so at least that will give us a boost on that line for returns going forward. Overall that a return of 22% on our RoGEV and an adjusted basis at 15%.

And if you look at that R14.3 billion that we added in value for the year, I'm just looking at little bit more detail in the actual column there. The value of new business of R1.2 billion and then as you've seen already in the operating experience variances, another year of major of 555 million. The bulk of that being risk experience, sitting both in the entry-level market, actually there is in the middle market and seen some positive risk experience.

We've capitalized some of that in the assumption changes of R95 million. And then the market area, the major impact is well on the value-added in the year, the investment variance of in-force, that's purely because of the growth in the market and the bigger capacity and fees going forward, R1.3 billion. Government took away 228 because of the CGT, higher CGT rate and then the lower interest rates added another 874 million on a net basis.

And as you can see, we actually picked away those three items when you calculate the adjusted numbers, which was really outside of our control. And similarly on the return on the net worth, the total return was R1.5 billion and our long-term assumption as we actually assume the R1 billion returns for the 460 million was also in excess of that. And similarly sized with our non-life businesses.

The overall return was R6.4 billion when you calculate something at the impact of the markets of about R2 billion which leaves a net return of the R4.4 billion. So both of our life business and our non-life business is seeing the adjusted return is in excess of 15%.

In summary, we continue to deliver on our strategy, maintain our outperformance relative to our target that we said on the return on equity value. Even if we adjust for the markets the 15% was still above that. And our profitable growth been on track, a strong growth in Rest of Africa. The value of new business up by 23% and operating profit also is doing very well with and without the Santam results. And I think one positive of our results is the specification benefits that we start to see the benefit of that strategy, on the one hand increasing contribution from our growth markets, but also then the rest of our businesses are performing well enough that we can actually turn in a year with a company like Santam underperforms the prior year.

On the capital management side, we've added another R2.4 billion to discretionary capital and then if identified, certain opportunities -- will spend some of that. And so with this capital and as we are working on those initiatives, but it left us with a capacity, exceptional performance of the markets and also the Santam dividend, to pay a special dividend of just about R1 billion or 50 cents a share to shareholders.

Now the final slide, just to remind -- of our outperformance and target over time. You can see the blue line being our actual performance through the shaded area and the last year actually just added to the outperformance, margin rates, now well above the target on prices.

Thank you. With that, I give back to Johan.

Johan van Zyl {BIO 4080290 <GO>}

Thank you. Given that last slide that you've seen, of course, if you outperform the target you should trade at more than the equity values (inaudible). So there is rationale in the market. If we talk a little bit about the priorities looking forward and let's take it by business. And now Sanlam Personal Finance business, our biggest business, focusing on retail in South Africa. The real issue is to focus on sales growth and maintaining the margins.

This is really the business that is the biggest and it is not about doing funny things. But really focusing on going steady as it goes forward. We still need to exploit growth and internal synergies by having all these business segments together. Yeah, I think that they can do it together. In the entry-level market in particular in Sanlam SKY, we have to grow our advisor force. That's a core of our business there that's done very well in the past year with growth of 19%.

We need to keep fund on that trajectory. We need to improve the SKY broker channel performance as we're much more discerning about the business that we take, be struggling a bit in the broker market where we appoint our own advisors, we're still doing very well. We have to get the brokers a level back to where we would like them to be. We have to continue focusing on consistency. You've seen the two slides that were still made, we believe a big part of our success in the retail market is focusing on the right time, having the right solutions available and once the plans are on the books is doing a lot to make sure that they stay there.

There are several opportunities of improving operational efficiency within the business. And like you've heard, with other companies reporting in South Africa, we have the same cost pressures in Sanlam in the retail market. This is the big stuff we're managing things, particularly around IT where most of that is imported. With the rand deterioration we have pressures there. We have plans there to keep costs manageable and at the same time to invest in growth opportunities. So much more of the same.

A big part of what we will be doing in this business in the coming year is to meet regulatory obligations. And we have been inundated from every single segment of the business, whether it be in the way we sell and what we disclose and the way we pay commissions and the qualifications of advisors and the way we treat our clients and customers for -- on the capital that we keep for the business, everything is changing.

And a big part of what we do in the business is making sure that we do the right stuff. At lot of this one would expect to normally doing a business like treating customers fairly, a lot of it is in pressures and would like to do it. But there is much more onerous obligations on us to be able to prove that we're doing those things. So there will be a big focus on that.

And lastly in the retail business in South Africa, to make sure as our client composition changes that we also change our business and transform the business to reflect what we're doing for the clients and to stay your employer of choice. We've done a whole lot of work in this area, ladies and gentlemen.

On the front page of the investor presentation, you will see a formula, that formula for success is really looking at staff, the cultural stuff that we have to focus more on, on those issues that we have to do away with. We've been doing massive project with some improvement for success in the last year to make sure that culturally we do the right stuff. I'm very happy to say if you look at the results, we're well on the road.

In our Emerging Markets space, ladies and gentlemen, no change. The focus remains on Africa, India and Southeast Asia. And Africa, it really continued focus on top-line growth and then efficiencies in the current operations. So instead of adding a whole lot of new countries in this sort of thing, it is really focusing on bulking up the operations that we have in the existing countries. In Botswana, the big focus is to review the cost models and efficiencies given lower growth.

For many years, the focus of this business has been on how do we grow the top line. And now with the consumer under pressure in that market, there will be much more emphasis also on cost efficiencies. Something that we've been doing in South Africa for a long time, and there will be a lot visits to Botswana to depart some knowledge on that particular area. We may have to manage cost.

In Shriram, we have now made our investments in Shriram Capital, we bought up to a 10% level in Shriram Truck Finance. We're now in all of these businesses and in the next year we'll have to focus on unlocking the capital -- Shriram's capital synergies. The big value that we've invested in apart from the businesses that we have, the hundreds of so thousands agents, 60,000, 70,000 people that we have working out of 1,400 offices all over India. These people are there, those things have been paid for. It is now utilizing this to sell more and to cross-sell and to grow the business. This is where Sanlam will be playing a role, partly in Shriram in that respect. And that would be a big focus.

We have to bed down a number of IT implementations. We've embarked on renewing our IT base. The biggest part of the thing -- our big system within Sanlam Personal Finance has been done last year. We're taking the things forward now currently for it this year, is supporting Botswana, Namibia, Kenya in particular in changing the IT implementations there using the South African experience again to support our partners.

And then we have to expand the revenue base in Namibia and we have some opportunities there. In the rest of the countries, we have the both-on transactions, deepening of the existing relationships in Africa and India. You've seen the first part investing more into Shriram Truck Financing. We spoke a little bit about Pacific & Orient, which is a general insurance business focusing on the lower end of the market there.

Our investment there, we expect that to be finalized in the next month or two. That said, the shareholders yesterday voted -- overwhelmingly support the transaction. We already have all the regulatory issues banked there. It is just now the final accounting of the numbers, so that we can pay for our business.

We have to continuously refine the organizational capacity to support growth. We do most of the support for these businesses from South Africa, particularly on product development and places like that. It's a difficult business, ladies and gentlemen, definitely

South Africa in particular. It's not easy both ways. We often think it's difficult to travel to Nigeria as though we could travel from Nigeria, just another Africa.

And a big part here is to create a strong governance compliance and reporting culture. We have that in Sanlam and often in many of the countries we're not at those levels with the development of the business and the businesses there struggle often to cater to the very high roof that we sit there. That we have to find a way of getting there.

In Sanlam Investments, the key part really is to maintain credible investment performance and then they have to use that to get improved flows, particularly in the institutional area. And I must -- I'm happy to say that, if we seem to be making headway. Particularly in the retail space, we've seen tremendous net flows into retail products same to same and we want to do more of that.

A big focus looking forward will be the establishment of our African Funds proposition when we look at property funds. We have presence in several countries, utilizing that not only through a pipeline from South Africa and elsewhere in the world on how to invest using on the ground experience above that equity fund, the debt funds, and the range of bands in the process of being executed on.

We have to strengthen our distribution network, particularly at the high end of the market, going into the union space and the parasidal [ph] space. We have to bid down some of the acquisitions particularly in Sanlam, personal investment, and we have to be able -- a number of these businesses are small, to collaborate and drive efficiencies across the businesses. Again here in the investment space, we also see the same cost areas that we see in Sanlam Personal Finance, here maybe a little bit more we've invested some money into new startups and so -- and we'll have to really manage our costs quite closely than before.

Finally, at Santam, ladies and gentlemen, we have to deliver on the diversified growth. Market diversification, we have the specialist business, we have now Santam Re, reinsurance, we have the technical partner role that we play in Santam with our Sanlam Emerging Markets through, where we do have general insurance there. We have to do that. And we have to continue the growth at MiWay. We have to say that they've been enrolled and they are on track.

We have to maintain the size and quality of the risk pool. A big focus this year will be an appropriate premium rates following the catastrophe claims in 2012, but also the lower exchange rate. A lot of what we do is motor business, ladies and gentlemen. And these things are being important parts and so forth.

And often the cars are being sold for on the cost and people didn't try to make up these values later in the cycle of ownership of the car, particularly when you have an accident, so many of us cannot test it. So these costs are going up and so we have to manage that and that will have to result in some premium increases. And a big part of our success there will be our ability to get those premiums, not across the board, but particularly in certain segments of the market too.

Sustainable insurance by addressing systemic risks and these things are important. We're increasing this EBIT, particularly high, the highly affluent building in spots that are prone to water damage, flooding and things like that build on cliffs and I don't know what area. So these things are systemic risks and we have to look at that and try to avoid them. Often you think you have one house or two or three houses in a complex, then you found out that all those places are similar and everything comes down. So these are systemic risks that we have to look at and price properly.

And then drive efficiency throughout the value chain. Focus on cost management, again, you'll see cost management, the key theme here. We see those pressures coming through the duration of exchange rate, high -- relatively high salaries, regulatory prices, electricity, these things going up and the impact on us, there is some impact on us. And within all of this though, there are particularly two auto regulatory requirements that they have to address, there are optimizing -- there are opportunities that we can take.

Finally, the outlook, just two or three things on that. We think the investment market performance are not likely to repeat although in the shorter term, we think there are still lags, ladies and gentlemen. And often we think our shares are expensive, but remember on a relative basis there aren't many places in the world where you get the yield that we still get there. So we see a lot of money coming particularly while we may think these things are expensive.

We have the African growth story, we have a lot of other things going for us. And we will see some of it, but we don't expect these very high investment market performances to be repeated. Economically, we expect slow economic recovery, that remains the best scenario. There will be ups and downs, but we won't necessarily fall flat. But over the next number of years, we will see in our economies in Africa, particularly picking up. That's why we think places like Africa, India and Malaysia, Indonesia are great to be.

We think regulatory changes will be continued to be there all over this place, but particularly in South Africa and there we're trying to do a whole lot of things together. But elsewhere in the world while we've seen pushback, when you talk about Solvency II, these things have been pushed up now, it seems to be to 2016. While we were going to have a single approach within the European Union, it now seems that there will be a country-by-country approach.

We'll make these decisions. This was originally the motivation why we had to look up our things to be part of a unified world economy and so forth. It seems now that that has dissipated and fallen apart. We will still be going ahead with our own Solvency Assessment and Management, something that we think is important. But I think we should just focus on the key issues, treating customer fairly within Sanlam is certainly a key, key driver and into the future. And we're using this regulatory change that we have to achieve it too to also make our business more streamlined and more supportive of or clients.

Ladies and gentlemen, that's our story. We think we've come with a very credible set of results in tough environment. You can see the growth rate, but the more important thing, this is another chapter in a continuing story. And if we look forward -- if we look ahead of us, there's more of this decline. So nothing is going to change this strategy that we've seen. There may be in some areas a bit of an acceleration, some areas we might pull back a little bit. But overall we are now at a diversified base. We have a solid base. We're going to do more of the same and it's in our game, ladies and gentlemen, it's a game about people. I'm very happy to say that most of our key people have been in those positions for quite a while, maybe too long. I'm not referring to myself, but there are more challenges ahead than those that we saw and there are more solutions for us ahead for us.

And if I -- just talking about coming up here and be there amongst the team and the plans and the stuff that we would like to do, I can sense a sense of urgency. And I'm very happy to say that as a management team, we will sit and we would really like to drive the business forward.

So I look certainly forward to another certain year of performance. Thank you. I'll take some questions and I'll invite Kobus and Andre Zeeman up to the podium then. All right. Ladies and gentleman, there are roving mics here. We're going to start off in here and then just find out if people want to phone in or from other sources, we're connected to virtually everybody now. There is a mic, just put up your hands, announce your name. There is somebody over there. Announce your name and institution or affiliation and shoot.

Questions And Answers

Q - Unidentified Participant

Good morning, Johan. (inaudible) from Deutsche Securities. Two questions but they are related. You had made big investments into India and then also Southeast Asia in the past year. And you mentioned that your African strategy is more to bulk up your existing operations rather than expand the footprint. The questions is, the business in Nigeria that broke even this year.

What do you need to see happen in that market for those profits to become a meaningful contribution to SEM? And then if your African operations are more about bulking up and expanding and considering it has been a relatively slow growth story historically. Are looking for the big expansion to come out of Southeast Asia?

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

Yes, it's relative game. I think if you think about Nigeria and increasingly the basis is becoming bigger and so -- and I know analysts don't like things to happen over a three and a five-year period or so. You always look because they wanted to happen tomorrow, if you say this is the strategy. So I came to buy something that is your question.

Yeah, many things we'll sell in Nigeria and you can probably bulk the business up really quickly. But most of those businesses are firstly over for us and they are up for sale, because they don't work. Therefore, we can always try to fix something in another country. So our experience is that it's virtually impossible. So we'd much rather grow in that economy off a small base grow by 102%, and it's amazing what the power of compound -- compounding can actually do to -- particularly if that number is high. And a few years, we said exactly the same in Ghana, we said exactly the same in Kenya. We said that this offshore business of ours, the Emerging Markets business was only about Botswana and so forth.

But for three years in a row, we grew the rest of the businesses in Africa by 50% and now suddenly it's a meaningful contribution. And within the next year or two, you will see what happens there. So I'm not too worried about that, the strategy being much more cautious and not throwing money around. The fact that you have surplus capital doesn't remove the responsibility to make sure that we invest this money into two areas where you get your return from that.

So the second part of the question, we believe Africa is going to make a massive contribution to our profits into the future, but so will be India and the Southeast Asia. It's not the one over the other, rather than Southeast Asia. We just simply had the opportunity there to invest in credible businesses at prices we have from the outset, we can make the price.

And those things don't exist in Africa. So in Africa, we had to use a different strategy to get to the same results of both making. It's not that we've abandoned Africa and say that is more -- if you think eventually, it will be a key part. But because of the investment opportunities through a partnership and we can -- it's akin to a courtship where we've started dating -- started one or two ventures together with Shriram, it took us five, six years before we made the bigger push.

We have now cemented that, there are further opportunities to bulk up. And once the income comes through there, that's going to make a significant contribution. We expect an additional 300 million, 400 million coming from the Indian business alone on to that operating line next year. And that by itself will be a big driver of growth. Of course, we've invested more money in India and so forth.

And similarly, in spite of P&O business in Malaysia and hopefully we'll also be able to conclude later on something in Indonesia. Again, not a big thing, a smaller thing where we are a partner, much more of a technical partner and we're bringing in a little bit of money. This is what can be done. So again, not a big acquisition. So I know it is not the most exciting stuff. It's not the stuff that people can write about. All of these things less than 1% of our market cap by themselves, but that's the way we go, that's the inherent culture and this is the DNA of the way we do business and it's worked for us.

Another question? Yes?

Q - Unidentified Participant

Johan, in your Personal Finance, quite a lot of your business new flows seem to be personal loans. Personal Finance in that form, is a lot of this unsecured or is it secured part of lending? What's your experience in terms of nonperformance and are you having to tie capital up in that business, in provisions and so on, is there anything you can say about that?

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

Yeah. Our unsecured loan business in Personal Finance has a book of around just about 3 billion now. We've slowed down the expansion of that business a little bit. The growth there has been about 700 million, so it's not been a big positive. It looks that the growth of the overall flows of the business is 23 billion on a net basis. So the net growth there is about less than 1 billion, so just up 5%.

But what we essentially do is a lot of the clients' money that all with that -- in the past had to go to back, if they wanted to learn. Yet their whole income statement is with us. We paid them their annuity every month, particularly in some of the places. We know how that thing will unfold, all their money sits with us. The savings, the retirement funds, everything right into the future.

And for that person to go to a bank, where they have to pay some interest rate or so, we after then provide the security against the policy and see this thing is simply very inefficient. So a lot of those guys who are savings positive, these aren't people who are using savings negative like most of the people, so they need money to grow in the younger phases of their life. These guys haven't made payments for 60 years on policies or 60 months. They have 10 times the amount of money in savings with us that we -- that they actually borrow from us and so forth. For those clients, for shorter-term loans, we given an access and that's what we focus on.

So if you look at the provisions we provided, if it's a normal business and we have high expectations of 5% bad debts and that sort of a thing, so we provide on a normal basis. The reality though is that the bad debts run a fraction of that. So this is a very good business for us to do.

In that sense we don't really compete with the banks, because we segmented our debt with South African population. That's part of really great people, those who saved, who've done the right stuff and so forth. And to give them a little bit of unsecured credit, it is unsecured, because we don't link the savings to the loan. But they usually have 10 times more money with us when they borrow from us, relatively small risk and the record tests with us.

Q - Unidentified Participant

(inaudible). To what extent would the operating experience variances be due to an improving age picture in South Africa?

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

Well, I'd like Andre and Kobus to give their views as well. A big part of it is that we -- very conservative, but remember, there are two steps there. One is the -- what actually happens out there. The other one is where we sit our own -- because experience variance is always relative to our own assumption.

And we've always assumed we feel conservative, so we've always assumed something happens -- it's a bad thing, it came to be much worse than what it really is. And it's a good thing to know, it went up. So we don't put too much of that into the business. So the key part for us is really about being conservative and that has not changed. And you will see it in the numbers. A big part, you're right, of that comes from AIDS and a big part of that comes from the risk policies. Andre?

A - Andre Zeeman {BIO 16015264 <GO>}

It's still a lot of that business was written 15, 20 years ago and we haven't changed our assumptions, but the actual outcome was a lot better than we assumed at the time when we got the business. And most of that is because people like HIV positive lives longer than we assumed at that stage.

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

Just one thing on the experience and the way we usually view this. If look in a given year, at our risk profile and then our assumption base, and we've underperformed some of these assumptions that we've said. We've performed worse than that. We assume that is always going to happen and immediately stems from the base. If we outperform we assume that it's a ones-off and we've done stem from the base. So we constantly get the strengthening of the base.

So it's always -- also a result that over time in those areas when the assumptions may be a little bit -- not strict enough or conservative enough, it's to strengthen those. And where there were conservative in that execution in there, the question always arises after a while. If this now is a constant positive, shouldn't I capitalize part of it in there. We prefer -- some people do, but we prefer as a group to use the more prudent approach not to do that. If you see many of our peers in particular, once there has been a positive for a few years, they immediately capitalize it and put to some big number. We haven't done that.

Q - Unidentified Participant

(inaudible). This year we expect sort of market share gains of the maintenance expense, the maintenance that discovery was by market share and maybe cash into Sanlam as one company, it wasn't taking market share from. How do you sort of see the market share dynamic?

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

Obviously, let me give you a more ideal market share. We increase market share and I said it in the presentation. Not difficult. If you stand on the street corner and have money, people will come and take it from you. If you offer products, the 10%, 20% discount where your margin is 2%, people will definitely come and buy those products from you. So the increased market share, I think, is not the way to look at the market. See it's certainly across the board.

We're much more interested in what happens to the margins, what happens in particular areas that you operate in and so forth. And we certainly don't have an across-the-board market share approach. We have niche areas and certain things that we can look. For instance, take the lower end of the market, the entry-level market, we know we can probably grow market share substantially and so forth. If we were to offer loans by some of our peers, so we are here to offer savings products and some of our peers into the lower end of the market. So we only offer this product.

We think they add value to what the customers want and so forth in the clients. We can't see savings product at present, because the cost is substantially more than that value that you add to the client. Those guys and built in to get no return at the lower end. And so we've decided not to offer them. To the detriment of market share in a the whole range of others -- and on the credit side, we don't go there because we can't do in other banks.

And so our market share, it doesn't work well. But look at the profitability and it really adds something to what it is. So we're skeptic of market share and we wouldn't like to just compare market share. But it was the other side as well. We like it if they want to increase market shares in unprofitable segments.

Ladies and gentlemen, anything else? Then we -- anything on the webcast? Nothing?

Operator

There are no questions on the webcast.

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

Thank you. Thank you for being here. Thank you for sharing us the great set of results. And we hope we see you in six months with more good news. Thank you.