Q4 2016 Earnings Call

Company Participants

- Anton Gildenhuys, Chief Actuary & Group Risk Officer
- Heinie Carl Werth, Executive Director & Group Financial Director
- Ian Maxwell Kirk, Chief Executive Officer-Designate & Director

Other Participants

- Francois Du Toit, Analyst
- Ian Cruickshanks, Analyst
- Mark Ingham, Board Member

MANAGEMENT DISCUSSION SECTION

Mark Ingham {BIO 17384674 <GO>}

Good morning, ladies and gentlemen, and welcome. My name is Mark Ingham. I'm the Board Member of the Investment Analysts Society of South Africa. And a warm word of thanks to Ian Kirk, the CEO; to Heinie Werth, the FD, and to his executive team, for hosting us today. This is the results for the 12 months ended December 2016. And (00:24) to Ian a very solid set of numbers there too.

Sanlam dates back to 1918 as a company, so it's been around for a century, and what a century it's been for them. The business today is not just a household name, but it's a prime example I think of corporate excellence in South Africa. It's got a market cap of approximately ZAR 150 billion, which makes it quite a leading corporate on the JSE and providing services across four distinct platforms.

In addition to the strong foundation that it's built over a century in South Africa, it has a growing presence in emerging markets in other countries. Group equity value comfortably exceeds ZAR 100 billion as the results show today. And I think presentations such as this are a great opportunity for us all as analysts and fund managers to interact with management and to get a sense of not just the past but also what the future can bring.

The company is known for its excellence in corporate reporting and for the disclosure of information. And it's no surprise that it's got a good institutional shareholder following both domestically and abroad. There will be an opportunity for a Q&A. We are being screened live, there's a webcast, there's an audiocast, and there's live TV as well. And questions may be asked through the live call access numbers and through the e-mail functionality on the website. And I will just ask if you do wish to ask a question that you state your name and the organization that you represent, and could I also ask you to mute your telephones.

Ian, over to you, and we look forward to another great presentation.

Ian Maxwell Kirk {BIO 1778703 <GO>}

Thank you, Mark. Morning, ladies and gentlemen. Thank you very much for your support to the Sanlam Group over the year and thanks for coming down to listen to what we have to say again. Thanks to those analysts we had to - I think we put the figures on the book on the system at 7:00 this morning. So, you can have the results there with the breakfast and we appreciate that. I know it's not easy. It's a difficult time as well the results, and so we appreciate your interest.

I'll talk a little bit about vision and strategy, the operating environment. And then Heinie - I guess, Heinie, it's your first presentation with me, I think, on the results. So, we'll miss Kobus, but Heinie is with us. And also, Anton will take some questions as well at the end. And then some of my colleagues are here to answer some of the more difficult questions if you've got.

Okay. So, let's get straight into it in terms of the vision. And this remains to lead in South Africa client-centric wealth creation, management and protection. So, I think it's the base, as you know, and we've worked off that and they will remain the base certainly for the foreseeable future.

Our position in Pan-Africa is significant now, we'll go through it a bit later. But we have a very, very valuable diversifier in the businesses in India and Southeast Asia. As I've mentioned before, we've dialed down a bit on Southeast Asia but our businesses in Malaysia are very valuable for us.

And then we support that with a niche presence in wealth and investment management in certain developed countries essentially to service our South African base. But of course, to do that effectively, you have to be able to deliver first-class services, which means you have to service the local market as well. So, no change there. And really, if I look at this strategy, just moving straight into that, it's - again, we've got the five-pillar strategy and we've been solid on this for - since 2003. It's working for us. It's around implementation and execution on the strategy, that's what we're focused on.

So, in each of the five pillars that we've had, our businesses are challenged. We challenge them, and they've done exceptionally well. So, the strategy is really working for us here at Sanlam. And that's essentially down to the people that we've got on board. We've attracted excellent people through tough times. We try and position ourselves as the go-to insurance company for talent, and we've retained our people, and that's the key thing for us. And I think you've seen a very solid performance, and that's just down to the execution of the strategy. So, there's not really much to say on that one.

In terms of the footprint, largely in place. I've mentioned before, we're not in Egypt, we're not in Ethiopia. Egypt, we will do in time with Saham. Ethiopia, we'll get in when the time is - when the opportunity is there because up until 2021, the regulations don't allow it. So, we – pretty much everywhere, you see that we managed to complete the second phase of the Saham transaction.

And there is only one Saham, and we would not have been able to complete this footprint without the transactions with Saham. And I think it speaks well for the relationship within a 12-month period they will have before us to go up to 47% that we were able to do. So, that's really the – it's a portfolio of businesses we've got on the continent. Some are obviously going to face headwinds, some are going to find it a bit easier. But overall, I'm really very, very proud of what we've been able to achieve in tough times.

And many South African businesses are currently trying to do this thing. It hasn't been easy. And I realize all of you will understand that. But we've got that footprint in place now. We're comfortable with it. We'll buy up additional parts. If opportunities come up to get us into the one, two, three position in those countries in general insurance, in life, we'll take those opportunities. But I think the key message is the footprint is in place now. And the accelerated organic growth strategy that I've referred to before is going to be the main focus for the Sanlam Group for the next three to five years.

I have to just talk a little bit about the clusters before I hand over to Heinie and the numbers just to give some context. I mean, SPF under Hubert and the team has really done a fantastic, fantastic performance. I mean, people say it's a mature business ex growth; it's not ex growth. It's clearly not the case. Mature, it may be; but ex growth, it's not. And Hubert and the team really set about reengineering. I talked about it in the last presentation, and I'll show you a little bit what's been achieved.

But to go through the extent of change with the re-engineerings, Project Re-Imagine, and to show the results that have been done in a tough time. And you can see relative performance very, very solid here. It's fantastic. The opportunity around BrightRock came up, and I was delighted. That's not something we were necessarily running around. Although, obviously, we knew about BrightRock because we trade in the risk business.

And I'm very proud that we were able to achieve that and the BrightRock people thought that we were the right partners for them. And as I've said before, opportunities will come up for Sanlam, where the business needs to be taken to the next stage or, alternatively, certain – some of the bigger groups exit businesses, so it's very nice for us to be there. Our risk business did very, very well. So, when we see the BrightRock together with our existing matrix offering, I think we're in a very, very solid position. This has been a three-year story now. We're gaining solid market share there.

Sky did extremely well. Under Yuri's (08:26) direction, we really had a solid turnaround there. We tried to get back into the savings market in the previous year, so we had to rejig those products this year. But the funnel, (08:37) the base risk product did very well.

And then, what's very encouraging for me is not just that we can look at this potential disruptor like BrightRock, but also our existing businesses embraced the digital technology and the big data and the analytics. This is a big solid business. It's been going for 98 years, so it's easy to get disrupted. But we really take those things onboard and offered additional benefits as well through Reality synergies.

So, the business is in great shape. I'm sure you will hear later. But just a little bit in terms of the – what it's – how we've ended up. The single premium business that we had in the, what we used to call, the sales business ended with up Glacier, Sky servicing the entry-level market. And then the middle market business, traditional middle market business are now split into risk, into recurring premium savings account, into a closed book capability which is – and really what we've done here is created a very, very clear focus.

So, those businesses are now focused on the market. They know their segments. Their know their capabilities. They know where the business is. They know how to go and get it. They know how to integrate digital and there is face-to-face distribution. So, I think we are in a very good space here, and congratulations to the team that they can manage to do this and right-size and appropriate it. It was a growth re-engineering. It wasn't a cost – although there will be significant cost savings out (10:07) over time. But to do that and to deliver the results that we have, hats off to the team.

Emerging markets was a great performance, 29% increase in the operating profit. So, these are kind of the highlights for the year. We managed to conclude the first phase of Saham obviously in February, then we had the Shriram options and the life insurance and general insurance, the 23% that was done. We took through some nice gains on that in this financial period.

And what I think was nice is some of the challenges that we had in 2015 in some of the territories, which are inevitable. We talked about that from the outset, that the recovery takes place, whether it's collecting the money in India from the equipment finance business, whether it's facing up to the challenges in Zambia or doing a bit better in Kenya. And that's very encouraging for me that we can recover there, and the growth is coming through.

Now, on the African continent, of course, it's tough because, as you know, the commodity currencies in particular came under pressure. The non-commodity currency is doing a bit better as a general comment. But I mean, in countries like Nigeria, we're now number two in life, and we're up and running in general. I mean, it's a very tough environment. And I pick out Zimbabwe. And I mean, I think most of you know how tough it is there, but we had a fantastic performance there. So, this was Heinie's business. Heinie has handed over now to Junior. We are very proud of what they have achieved and very encouraged by what can be done in the future.

Robert and his team also had a good year. Had to do some readjustment in terms of putting together a business that can serve Sanlam and, at the same, build an additional capability in the third-party market. You can see strong flows in retail, about ZAR 16 billion. A refocusing of the Sanlam Capital Markets business largely around the Central Credit Management, which was very successful for us, and we've already had brought some benefits through on that.

So, the UK remains a work-in-progress for Robert and the team, but we're very pleased of what has been achieved there. And just to show, they have also done some of the restructuring, setting up a capability for the Sanlam business, repositioning capital markets, dashing ahead with the wealth management, and also keeping the retail business with a strong capability to attract the money, and then changing a little bit the institutional side where the investment core people now introduce and now deal directly with the institutional market.

So, those are all changes that Robert had to implement. So, I think we're in good space there and times are tough, obviously, when the markets don't deliver. You can see that affects the fee income, but we're pleased with what's been achieved.

On the Santam side, they presented the results last week. This business I know pretty well. And we're very proud, I mean, 6.5% or 6.4%, not bad, not obviously what they achieved in 2015, but that was truly outstanding year and it's well within our expectations for them to achieve that. MiWay growing strongly, 7% growth overall, and the economy is growing at 0.5%, and market share close to 25%. So it's a tough as (13:24) to get that business to grow.

One or two challenges on driving up the value of the Sanlam Emerging Markets investments which they've co-invested along with us. And the business is in good shape and, of course, we were very proud to get a special dividend of ZAR 8 a share, always appreciate that. I think now it's probably really five special dividends in the last 10 years. So I say to Lizé, I don't mind, you can still call it special and give it to us every year. But an ongoing focus on capital management.

And there's Corporate cluster, good year. Employee benefits, we're coming back to our rightful place there. We had slid back a little bit but we're in very solid position. And I think on a relative basis, you can see the results are good there, improvement. Sorry, I forgot to say, in SPF, we had a good improvement in risk experience in the second half of the year. We also had a good improvement in risk experience in EB in the second half of the year. And Afrocentric, which we got involved in in 2015, has done very well, above our expectations. So, overall, a very, very solid performance in tough times.

So, we'll stay the course on this strategy. It's around optimizing the capital base. You'll see in the – and Heinie will go through the detail. There's ongoing opportunities there, balance sheet management, Anton driving that strongly. We have a number of key partners that – and I mentioned African Rainbow, creates a lot of opportunities for us, that's one. But there are other partners too that we will go forward and collaborate with as we build the business, right? Not just in South Africa, beyond South Africa as well. And we're open for disruption in some of the new technologies. So, I think the business is in good shape.

A little bit about the environment. And of course, (15:21) many of you will know, these are just sort of comments from me, many of you will know this. I think 2017 for South Africa is going to be a year to hang in. The Angolas (15:30) that we scored in the past, hopefully, we'll probably score a few Angolas. (15:36) But hopefully, they'll remain small ones in 2017 and the focus of course will be on other territories, how the U.S. will get through with all

Trump there and what's going to happen in Europe and what will be the outcome for the UK trying to exit Europe.

So, those are, hopefully, what will keep the world focus. And if we can just keep it together in 2017, I think the recovery in the economy will stand to our course. We expect 1%, 1.5% on the GDP side, we'll expect some improvement in the inflation. So, it will be better I think for us in South Africa. But these things around the commodity-based economies for Africa, we've also got to keep an eye on because we're in many countries now.

So, I'd say the pressure is there. You can see in the SPF business, there were certainly some pressure on single premium. I don't think the budget is really positive necessarily for that, for the affluent market. So, single premium will remain under pressure. But we're very proud of what's been achieved on persistency and new business growth in the middle market and in the lower income. And you will see now when Heinie does the figures that we're really rock solid on the persistency, which is not the case with all the players in the market.

And then, of course, as business, we have to continue to play our role. There's much to do. Sanlam continues to play its role, but through organized business, through our industry associations, we're under a lot pressure. But the Finance Minister is there solid. He knows what the priorities are and it's our job to continue to support him. So, I think a better - not nowhere near where we should be, but a little bit better than 2016 would be what I'll say.

And in terms of the Rest of Africa, again, some improvement there. I think Nigeria will recover a bit quicker than Angola. Angola is making - it's a bit harder for them because of their over dependence on the oil and some of their political issues in the year. But Nigeria we think will come right. And then the East African countries doing a lot better, not impacted by the commodity strain. So, I think overall, a little bit better is what we expect, but it was very tough in 2016. There's no doubt about that.

India, we'll start doing a lot better there. We started collecting some of the debt that we've had to provide for in 2017, and then there's characters as you might have seen. They pulled this announcement where they took away about 65% of the notes in circulation. They call it demonetization. They were a little bit slow on the remonetization. So, India certainly has had a bit of a tough time from October, November on.

We think maybe one or two, perhaps even three quarters, we'll be a bit soft, but we've got great businesses there. We're very pleased with our partners and I think, over the long term, that demonetization will probably be the right thing for the country, but it has caused a few issues which we don't see in the results, but I think we might just see coming forward a little bit.

On Malaysia, reasonable there. 2016 wasn't the best year. 2017 looking a bit better. The issue really for us in Malaysia is not the economy. We're quite comfortable with the economy. It's the issue around motorcycle sales and we haven't diversified sufficiently in

P&O. And then just the work that's necessary to sort of make sure that we earn the returns out of MCIS.

So, I think that those – all the environments probably recovering a little bit in 2017, but we're looking forward through to 2018. And through this whole thing, the messages, we stay the course. We don't change our approach. We have a diversification. We've got a clear strategy and we'll move ahead on that.

Okay, Heinie, over to you.

Heinie Carl Werth {BIO 7529974 <GO>}

Thank you, Ian. Good morning, everybody. I think Ian have set the scene on the environment. And I think, between the lines, you could already have seen that it's actually a very solid set of results, I really want to say, in very difficult or turbulent times.

The highlights of our results. We got a 10% increase in our operating profit, which we believe is very, very good on the circumstances even if we stripped out our new acquisitions, being Saham; Afrocentric in South Africa and Zimbabwe, it is still 8%. As you would have seen with many of our competitors, everybody have struggled on the investment side and, predominantly, our investment results came down quite a bit as a result of the exchange rates linked to the investments we've got abroad.

Headline earnings, but (20:40) looks good, 6%, but that is really due to certain tax – deferred tax that we had to create. So, we do not see that as part of our sustainable earnings, and that's why it looks good on that line better than what we believe the better line to look is the normalized headline.

We're also pleased with the dividend that we fill (21:04) and even with this dividend, with this cover, we are holding back cash also for further investments, and I'll come back to that. But we do think on the circumstances a very good dividend growth.

Overall business volume is 11% growth in difficult times, very, very good. Very pleasing also, last year, we had difficulties, we had some PIC outflows, we had outflows in the Botswana Pension Fund. Notwithstanding even after we add that back, we had a very, very good net inflow this year. And we did succeed to get quite a bit of the money back in Botswana that we lost a year ago. Value of new business up 18%, also a very good number if we normalize it for the – you may remember, at the end of 2015, we had (21:52) or we had a bit of changes on the Minister of Finance side. It pushed up interest rates. As a result of that, there was pressure on value of new business. This year, that reversed. So, even on a comparable interest rate basis, it's still up 10%, but overall a good one there.

We succeeded to increase the margin slightly. And then the only area where I want to say where we did not meet really the expectations was on the RoGEV, our return on group equity value. We set an internal rate of about 14% and we delivered 11.8%. However, if you add back, and predominantly, it's the impact of the strong rand at year-end, and if you then also take out the benefit of the interest rate which can lower that right, the adjusted one is back at 17.8%. So, on a like-for-like basis, we actually outperformed our hurdle rate by quite a margin.

Ian have already said the difficulties around the economic environment in which we operated, just a few other areas to put perspective before I get to the detailed results. I've already referred we've seen a decrease again in the interest rate, which obviously helped our results. It helped our EV. It helped our VNB. And then – but on the other side, and it was much more worse or detrimental, was the rand. During the year, the rand was still weaker. So, our profits and our VNB was helped as you can see, but then, with the real negative impact going through was on the year-end exchange rate that we used for GEV. And just that alone (23:42) our returns was negative 6%. We are not complaining about a stronger rand. This is just putting perspective on other (23:51) volatility has hit us. So, this is what I refer to, we were helped during the year, but at year-end, the strengthening of the rand has hit us.

Also, the markets were very volatile. So, during the year, the market returns were lower than what we would normally use in our assumptions. You will see it in our GEV returns later. And then we had also the CGT inclusion rate during the year, which caused our investment returns to be about close to ZAR 200 million lower on a comparable basis to the previous year.

We always near knew the transactions were coming on Saham and also on the exercise of the Shriram options. So we had to – we took a deliberate decision to hedge, to help get the money out in dollars, to put structures in place on the Indian rupee. But again, the returns were then lower than what we would have had otherwise because of the returns on those currencies and then back solving (24:52) it to the rand.

Underwriting results, it was not an easy year. You may recall in the first half, like, all our competition and everybody, there were huge pressure on the risk profits and the risk margins. Ian have referred to it. We have started to see an improvement in the second half, and I'll come back later to that as well. And then the Santam story is well-known by now. Also, as you will see in the results, just like Ian, it's the first time that we also report separately on the Corporate cluster.

So, Sanlam Personal Finance, still the biggest business in the group, the 1% volume growth do not do justice to the results. In Sanlam Sky, there was a deliberate decision. You may recall, the previous year, we had issues on the profitability of saving products. So, product changes took place. There was a deliberate effort to change the product mix, and we don't see it here in the results. The funeral (25:55) business did well. Safrican had a few particular good schemes. And when we get down now to the VNB, you will see that, although the 1% on volumes doesn't look great, we are seeing the benefit fully in the value of new business.

Individual Life and Glacier, the main reason why they also only came in at 1% was Ian referred to the pressure on single premiums. Again, stripping out the single premiums, both in Glacier and in the Life license, the rest, we have seen a very, very good performance on the recurring risk business side, which you don't see in this, but in our detailed results, you – in our books, you will see it. Net flows. That is really the impact of the single premiums then impacting on that.

Sanlam Personal saw the value of new business, a very, very healthy 22%. And even if we adjust it for the mature market and mature business, 11% growth is very good (27:00). Margins, you can see the turnaround in Sky especially with the margins moved up quite a bit relative to the previous year.

On the profit side, the only one which could stand out is a bit disappointing, but we really don't see it as disappointing. You don't want to go big in personal loans in difficult circumstances. So, we're also seeing the results there of deliberate management decisions to not go flat out during difficult periods on personal loans. For the rest, a pleasing performance from all the businesses. And overall, we think the 7% – the 7%, we should also put in perspective.

We were (27:43) started various new initiatives which will – (27:45) good for the future. Those new initiatives do cost money. So, we are now seeing the expense side coming through which may lead to the (27:55) profits look a bit moderate, but we are working and the benefits will come through in years to come. And we are already starting to see the benefits on the value of new business. So, overall, a very good return on group equity value and overall a good set of results.

Sanlam Emerging Markets. I must be careful not to be biased, but I really do think it is also a very good set of results in very, very difficult circumstances. The 63% was obviously helped also by the acquisition of Saham. But even if we exclude that, it is still a 40% type of growth in volumes. Net fund flows, I've already referred, we had the (28:41) negative of the BPOPF leaving us in 2015, and we got it back in various different funds, and overall, a very good net fund flow. Namibia, same pattern as in South Africa, it is basically not seeing the single premiums that we used to see.

So overall value of new business, even if I take out the new acquisitions, it's about a 15% increase and the margin remained healthy. Profit, 29% up. If we take out the new acquisitions, it's still up about 18%. Namibia came down, but it's a bit like the Sky story you will see on the next slide. We are seeing the benefits in the value of new business. So we saw the new business strain coming through the year. A year ago or so, we also struggled a bit on the entry-level side, that has turned around again and we are seeing that coming through by putting pressure on the new business strain, but it's coming through in the profit side or on the value of new business side.

Again, as I've said, even if you take out the new acquisitions, 18%, 19% type of growth. The disappointing one for us as management is minus 2% on the RoGEV. If we normalize it just for the exchange rate and interest rate, it is 11%. It is still falling short to our expectations, and there's different reasons for that. We do not talk a lot about it, but we sit with quite a bit of excess capital in these businesses. If the markets then give a good return, there's 1% or 2% that disappears as a result of that.

In addition to that, we really spend money and we are going to see it in other year coming. We invested a lot in the footprint. To provide good support to the footprint, we are now investing also in resources to the opening. I want to say we are not going as extreme as some of the other companies are doing, but we are investing and that is pulling down on the RoGEV. And then, also, we are not taking benefits that we would like to see yet that should come through in the future.

So, I think the good thing is we understand why we didn't deliver to the result, and all of those areas are getting attention. The only one that I really want to say, the two real negatives in the RoGEV was these orders where we had the fraud and the write-offs that we had. And then Ian also referred to it, the one other area that really needs a lot of work still is diversifying P&O, the predominantly motorcycle insurance business in Malaysia. And we have seen good profits there, but we are not seeing the sales coming through. And as a result of that, we took it into account in our valuations.

Sanlam Investments. Again, what we are really seeing here is the retail flows being very, very strong. It was a good drive and a separate focus on the retail flows, institutional flows and Sanlam money on its own. And we are seeing the benefits of the retail strategy coming through. Wealth Management, another good year.

The disappointing one, and this is not just only the rand, the UK did not deliver to expectations. A lot of restructuring happened during the last year. And, yes, we will now have to start to see the turnaround coming through in the next year or two. It is a business that management has spent a lot of time on now to fix it, and now we need to start to see the results. Capital management, not really so much a story here on the volumes, but when we get to the profits now, you will see.

The area that management is looking at, you will see the new business remains small in the UK. And that's a question that all the time have to be answered is our focus on the wealth and investment management side on the life side. And this is something that Robert and his team is working on, and we will have to make calls where we put the focus. But we are not comfortable with the ZAR 7 billion VNB in that business.

Profits, if you take the market conditions, all of that, overall, 9%, good. We really have to compliment Sanlam Capital Markets. You will see there in the outstanding performance. I think for the people from the management team here, it was possibly the best set of results in the history, so really good performance there.

The international side speak for itself, not a good year. And then wealth management doing good. And then the investment management, the reason for the 1% in these markets, we did not get good performance fees, so that is basically what is dragging it down.

Overall, RoGEV also not meeting our overall rates. On an adjusted basis, it is about 10%. So it's still falling short of our expectations, and that's predominantly then as a result of the UK.

This is just showing that our holding (34:18) are still doing a good job in the investment returns. And this is really an important slide when it comes to how you would start to see future flows our clients start to support you and whether they will invest or you need to keep the investment returns going, and we are still above 80%. We would like it closer to the 90% like it was. But this is obviously always a focus in Sanlam Investment Management.

Santam, Ian has referred to it, they have delivered their results, and I'm not going to spend time on that, but also we think a very pleasing set of results. Lower than last year, but still within the mandate or the requirements that we give to them. What I can highlight, a very high Return on Group Equity Value. This is driven by the movement in the share price. So we do not try to be (35:12) on what the share price should be. The previous year, the share price didn't do well. This year, it did very well.

Sanlam Corporate, the first time we report on them separately, and this is the area that we know is still under pressure. We have started to see risk profits improving in the second half. We didn't chase volumes, and I think that's the core reason why recurring risk premiums is down. In difficult times, it's easy to go and lower prices. And, yes, then you have to catch up a year later. I think what we are seeing towards year-end is by us not following suit and dropping prices, yes, we lost out on the top line side but, yes, we are seeing the benefits on the bottom line side on the next slide.

They had a very good year in terms of institutional inflows on the annuity side investment flows. And the margin is not where we want it to be. The value of new business is not where we want it to be, but that's just the result of the recurring premiums. But as I've said, a very, very sound set of results then coming through on profit. And this is where we are now seeing the Employee Benefits business, notwithstanding the issues on the risk premium side, on the volume and on the high claims, we are seeing them doing very well in difficult circumstances.

And then the main reason on the Health side is the first time inclusion of Afrocentric, and also Afrocentric in their first year outperformed what we expected in the business case. Again, the RoGEV doesn't look so great, but if we adjust it for the interest rate movement, they are above the hurdle. They are well into the 14%, so delivering to what the group expect of them.

Pulling that all together in the group results. So, I'm just going to look at bottoms. I've already said we think under circumstances a good set of inflows and a very good set of net inflows in these circumstances.

It was a tough year. In a tough year, as you would expect, more pressure on the retention. Key in our business is not just to get new clients. Key is to retain clients. And this measurement has been placed for years. So in the middle market, you can see that notwithstanding very, very difficult economic conditions in South Africa, the team really succeeded to retain clients. So clients are not leaving us. So even in difficult times, it mean the sale was done to the correct people.

The same on the entry-level market, which is actually even more hit in difficult times. Yes, a slight uptick in the 9.6%. We don't see that as a new trend. We feel that is also well within the historical trend line. We have been at the 9.6% levels before but also here we believe, and when we get to our return on embedded value earnings, you will see on the persistency assumptions actually that things are improving relative to our own expectations.

I've already referred to this, so 18%, all businesses doing very well other than Sanlam UK. And then, on a normalized basis, 10%, and margins holding up. We want this trend line that is starting to show a pick-up again. The end of 2015 was largely driven by the spike in interest rates, but we would like to get this line, the margins up again and to see a steady uptick in our VNB. But again, we think very good results under circumstances.

Profits, I'm not going to go through it again. Solid set of results.

Other lines on the income statement, I've already referred to the operating profit up well. But then in the investment return and the main driver there is the stock market and then also the impact of the rand or money that we invested offshore and bringing it back to rand terms we will get with the exchange rate.

The fund transfers line, please, I must state to you is not a recurring line. With the change in tax legislation, we were able to create a RPF. There were certain movements now there to take place between the individual, the IPF and the RPF. The result of that is that we have to create certain deferred tax assets and it's a one-off. And we don't try to show it in our core results, and that is why it's shown here as part of the fund transfers because it's not sustainable and it's really an accounting matter rather than a business matter. I must be careful there's lots of auditors in the room.

Group equity value, I've already referred to all of them in the different businesses. We fell short to our target. Associated, just correcting it again for the rand, would've added 6% which would have meant we have met our results on a normalized basis.

This is a slide which I think in the June results caused a bit of questions and concerns. And the one line I want to focus on this slide is we've talked about value of new business, there's the expected unwinding of the discount rate, but the operating experience variances. This is the line where there was quite a lot of questions because in June this year we - the market I want to say, we got used to reporting about ZAR 1 billion type of experience variances. And then it came down to ZAR 75 million in June.

And the main reason why it came down was the experience, the difficulties on the risk, the risk business both in SPF and in EV, and I've said that has turned around. So we were now at ZAR 983 million, we are not yet on the risk business where it used to be, but Ian has referred to the balance sheet initiative that Anton embarked on, the new initiative with CCM with Sanlam Capital Markets. We are starting to see benefits coming through. Detail on this is set out, if I remember, on page 63 in the pack. But the story is coming together again and we believe - we don't - we can't guarantee that we're back at the ZAR 1 billion level. But what is nice is that there's a bigger mix of areas contributing to that. And as I say, there is more detail on that.

For the rest, the storyline around embedded value earnings, you will see also on the operating assumption and these are the operating experience variances is to us very important that it is a positive every year. We don't want to go into negative territory. If you go and dug deeper into that one, you will also see that on persistency, yes, we have a very, very small negative persistency which is - but weaker than the previous year. But what was good was when you look forward there to the operating assumption looking forward, we actually improved or we had to release this. So our assumptions, we are actually seeing better persistency than what we have assumed a few months ago.

The diversification is continuing, and I do think the set of results show the benefits of diversification. Yes, you might have a bit of bad times one year in India. You might have it in South Africa in one business. But overall, and the overall portfolio, both in terms of the geographic diversification and both in terms of the product diversification is carrying the group. And the focus will remain to keep on diversifying the business. The intention always is not to get the South African business smaller. We really want them to keep on outperforming, but it is adding to that on the international front and diversifying the way that we are less dependent on life.

Please don't get shocked by this slide. I think people got used to the ZAR 3 billion notwithstanding what we did. (44:04) and Ian and the previous management always got to ZAR 3 billion. We didn't try to get it back to ZAR 3 billion.

What is very important in this ZAR 550 billion is those two lines, South Africa and rest of Africa. South Africa already we have now provided the ZAR 700 million we need to pay for BrightRock. So, the cash is still in the bank. So, we could have showed it lower, but we prefer it is a commitment that we don't have reason to believe the transaction won't happen. And in the rest of Africa, ZAR 2.7 billion is for the Sanlam Phase 2 or the additional 17% we are buying. The money may flow in the second half of this year.

So, the ZAR 550 million one can say looks now very low, but I can assure you, and in our detailed write-up, we do refer to that. Anton and his team have also done more work in terms of the SAM legislation or regulations. And assuming nothing change or that it is implemented as envisaged, we do anticipate that there will be releases of about ZAR 500 million per year for the next four years.

I would also like to think Anton and the team wouldn't go aggressive on things. So, most probably, that is on the lower side. But there is already decisions approved by the board where will see capital releases out of our capital as a result of some (45:38) going to come through.

Other stuff, we are moving assets between Sanlam Capital Markets. We'll start to work more on the Sanlam Life balance sheet. So, there's going to be capital releases. I've already referred to that we are paying out a solid dividend, but we are not paying out all our cash earnings. So, just out of that, there will be another ZAR 500 million plus. So, I just want to give you the comfort that we are not starting to become reckless on capital or that we don't have excess capital left.

In terms of our - given these stuff that I've referred to and looking at our pipeline, our potential transactions, we feel we are well in control of still matching our needs with what we have available in the group.

On that note, that ends I think overall a good set of results in difficult circumstances. Thank you. Ian?

Ian Maxwell Kirk {BIO 1778703 <GO>}

Thank you, Heinie, excellent. It's not so easy with the complexity of the group to be on top of the numbers as Heinie is. So, I'll just take you through now the priorities for the clusters and then just close up in terms of how we see the group in 2017.

Personal Finance, I spoke earlier about how pleased I was with the results in that year of restructuring. So, I think the business is in really good shape there. And we can be pleased that that is the engine of the growth of the group and will continue to be. So, it's about being - making sure that now we turn that to our advantage and being really on top of the various segments of the market and going after the business.

In tough times, I think the stronger businesses get better, and Hubert and the team, they know where the business is. This business now, I mean, you add on the BrightRock offering, we're in very, very strong position there, and the analytics and the big data and digital capabilities that we've invested in.

And I'm really pleased that the way the team have embraced this thing. For a business that's 99 years old, that's been serviced from agents and from brokers to take on board and bring the intermediaries with us with the new digital to create this omnichannel capability. It's not easy. It's easy talk about it, but it's not easy to do it. And I'm really encouraged by how the team has done on that.

The other thing, of course, is you'll be aware of this significant degree of regulatory change, retail distribution review. So, they're not just affecting entrant side of the company; they affect all the distribution side. And that creates challenges, but also our team has really taken it on board and we think that there'll be significant opportunities there around that. So, the businesses are in good shape. They're agile. They're cost-efficient. They're focused in the market and they're out after the business, and it's really encouraging for us.

Emerging Markets, and we talked about this last year, this focus to accelerated organic growth is important. We've said openly where we - the two countries where we aren't, and in time, we'll get there. We'll take additional stakes when they come available. But largely, that footprint is in place and we're comfortable with the footprint and there's no need to do more on that. It's a case of enhancing the businesses and we're busy with that now.

And Heinie has done a fantastic job with his team, he's handed it over now to Junior. And Junior will really get stuck in there and drive and improve, so that we'll have more Sanlam businesses and more Botswana businesses and more Namibia businesses that we've very, very proud of, Ghana as well. It'll just take a bit of time but we'll stay the course, and that's a wonderful opportunity for us.

It's about human resource development, of course, as well, and we're busy on that. You just get better at it. Your own people get more comfortable in travelling and adding value. And then, of course, at the same time, you're building up the skills in country. And this isn't easy to do, but very confident that we're doing that. Of course, governance, compliance and ethics is a non-negotiable as we know and we had that experience in Rwanda so we've worked off that one.

And again, in Rwanda, we've gone after the money. It's something we've just sort of accepted the situation and that speaks a lot. And as I've said before, when opportunities come up to take additional stakes in businesses that we will do that or where partners need some assistance on that. Okay, so in good shape there.

On the Investments side, I think the restructuring around the institutional business has taken place. Retail, we continue to be on a very strong position I've mentioned before. The dial is turning back now and retail flows whether the intermediaries are going for the outcomes base as opposed to trying to play multi-manager, which some certainly did for some period of time and the retail money tended to go away from the Sanlam's and the Life associated investment houses. And that's certainly turning back in our favor and you can see it in the flows. So we're in better position there. And I think in time, we'll grab more of the institutional market.

So, the credit business is fantastic. We were underweight there, and we've gone about that and we have a real capability there. So, that will continue to add. UK, as Heinie mentioned as well, is a work in progress. And the semi-operational efficiencies just because pressure will certainly come on fees, investment fees going forward, particularly on the retail side. So, our business in good shape there. Santam, we've spoken about.

But it's around balancing growth and profit. It's about working with us in the Sanlam Emerging Markets business to drive up the value of the general insurance businesses we have on the continent and make sure we are there for the corporates, offering a consistent level of product and service. Not easy to achieve because of different regulations in every country, but that's what the international intermediaries need and that's why we're there to deliver them. And we've had some success. We can certainly do more there.

We've had two with the downgrade in South Africa. Of course, we've had to put a new reinsurance arrangement in place to make sure that we can offer an A-rated paper to the internationals, international brokers and to their clients. So, that's now in place, and I think that will certainly help us in the specialist areas where we came under a bit of pressure because of the downgrade to our rating as a country. And again, it's working with the municipalities. I don't need to tell you that things are not perfect there. But it affects the risk profile of Santam and we're busy with it.

And again, as I mentioned about Personal Finance, it's very encouraging the way that the Santam people have taken on the digital. They don't want to be disrupted by anybody. If they're going to disrupted, they'll disrupt themselves. And they've taken on this thing and it's really encouraging for me that they bring the intermediaries. And this is an intermediated company, 98 years of getting support from intermediaries. And we've taken the intermediaries with us on this journey around digital as we did back in 2007 when we started MiWay. So, I think you'll find some very interesting transformational stuff that'll come through from Santam in time. I didn't attend Lizé's presentation, but I hope she spoke a little bit on the same things.

Santam Corporate is up and going. We've mentioned before we don't think we're getting our fair share out of South African corporates. We think we can do better in Employee Benefits and in Health. And we've started to show progress already, and the two clusters are working together along with other clusters in trying to get us back to our rightful position there. And that all speaks to our leadership, our desire to be in a leading position in South Africa.

And it's not just about retail. It's also about corporate. And of course, then, the learnings that we get there and how we get better at that, moving that on to the African continent is what it's all about. And the EB guys have been left behind on the digital, they've introduced some very nice technologies so you can - if you're a member of one of the schemes that are under our administration, now you can find out all your stuff. If you want to wake up at 2:00 in the morning and get on to your cell phone and find how much you lost yesterday or made yesterday, you can do all those things. God knows why people want to do it, but I'm told that that's what people need these days, so that's what we're delivering for them. So, it's very encouraging for a business and a legacy business like SEB to be able to do that type of thing.

I'm encouraged by what I've seen from Afrocentric. It's early days for us, but Ahmed is doing a great job there with them for us. And I think there's some exciting things that can be done there and we can sort of try and bash away at closing the gap there in Healthcare, which we've been out of, as you know, we've been out of. We were a leader in the 1990s, lost our way a bit, and then only got back a couple of years ago into that business. But we think it's very important. We're now starting to deliver products into that Healthcare base that we didn't have before. We're starting to use the data that we didn't have before. So all the sort of stuff that we've talked about when we announced that deal last year, we're now starting to deliver on so it's quite encouraging all around.

Okay, so the outlook, and I've talked a little about this earlier. So if you look across all the countries, Africa, India, and Malaysia, the three that we see under pressure, interestingly enough, is South Africa and Nigeria and Angola.

Now, I just want to make the point. It's how organizations adapt under pressure that's important. That's very, very important. And I think Sanlam is adapting well in South Africa, and you can see that in the relative performance. You saw it in 2015. You see it again in 2016. Heinie showed the two halves of the year where we had a bit of pressure on experience variances and how we went about doing that. And as the leadership team that we can't expect more from the people.

Nigeria, very tough one, and look at what has been achieved on the Life side. And that's, of course, because we've got good partners and the insurance penetration in that country is very, very low, which is why we invested there.

Angola will be tougher. We anticipated that. We had some time when we did the Saham Phase 1. We saw the opportunity. It's come through. Look, we will have to improve in Angola by 2018, 2019, but those are the countries that are under pressure. But it's a portfolio.

India, a couple of soft quarters I expect because of the demonetization. I'm sure you've heard about that. It affects all businesses, but in the longer term, I do believe and I agree with them over there that it will come through positively for our business. Malaysia as well as East Africa where we'll be – those three environments are probably the ones that are going to be the most positive in 2017.

So, I've mentioned that the budget will be a bit negative for discretionary savings which was under pressure anyway. And we have to watch the rand. Now, it's great for our international investors. Of course, they've shown fantastic returns on their Sanlam investment. But we have to reflect the results in rands, and that does certainly put us under pressure, and you saw in the Investments cluster in UK in particular and in the SCM cluster the impact of that. I think it's a positive thing overall, but just to note that it does make our – it makes it challenging for us on the RoGEV.

But over the long term, it's not going to – we still believe in the diversification that shows substantial advantage for us. And of course, it is nice. The strong rand is nice for Santam on the claims side, as a contrary to what we've had to challenge with before.

We'll have volatility on investment markets, and one has to be careful how to do that. I mean, our people know how to do it, and it hasn't been so bad that we – industry challenges around disruption and regulations and big data and digital, we're all busy spending money on that intelligently. We're not wasting money on that one. I think the second phase of Saham will finalize BrightRock.

And then the partnerships, I've mentioned some important partnerships that we will have, and that's an important part of the whole omnichannel strategy. One has to accept that customers today can get products from various organizations, not just entirely from Sanlam. They can get Sanlam products from retailers and from banks and even from telcos and all that sort of stuff. So, we've got partnerships, key partnerships in place there, and that's an important part of our omnichannel.

And then capital, as Heinie mentioned, we'll remain focused. Balance sheet management, Anton, his team are busy with that, and the corporate cluster.

So, I think at the end, the business is in good shape. 2016 was tough. We've come through it well. I mean, to get double digit in the main operating metrics, I have to say when asked it here and presented in September, I was unsure whether we'd be able to do that. So, I'm really proud of the team and how they've adapted and dealt with the challenges that we faced. And the business is in good shape. We'll stay the course. No need to change. Some businesses will do better but diversification will continue to work for the Sanlam Group.

So, thank you very much. Thank you for your interest. And we'll open now for some questions. Heinie, maybe you can join. Anton, you can join. And I'll just do the questions. I'll make sure that I can handle the more difficult ones as a team. So, we'll start, if we can start here. Ian, yeah?

Q&A

Q - Ian Cruickshanks {BIO 15916317 <GO>}

Thank you. Ian Cruickshanks, Institute of Race Relations. Just a comment first. This isn't really a question. You mentioned that the situation at municipalities, and I'm sure this extends to the SIEs (01:01:02) as well, it's somewhat less than perfect. Well, I'd just to like to comment that's the biggest understatement I've ever heard. But anyway, what I think is important that you clearly see that is opportunity which, of course, is encouraging, too.

Then, the other point I wanted to ask about was looking at – you want to leverage credit capabilities. Do you see yourselves moving towards, call it, a one-stop all-stop financial services group, whether it's a retail, whether it's an individual, corporate or whoever need to go no further, you'll give them financial services across the board.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

No. we don't define traditional banking, either corporate or retail banking, that's what we do. I think what we're saying there, Ian, is that we've been a bit light on corporate credit, which gets originated by the banks and will continue to do so. And we needed to lift our capability a little bit there in terms of how we've done it. We have an excellent capability in our Capital Markets business to be able to do that. And that's not around the one shop, we're not looking to expand into the banking area. Banks are our partners.

And the fundamental reason there is we don't think we're necessarily going to get the best banking talent into Sanlam. I know some of our competitors might think they will, but that's our view. And by the way, we say to the banks, we don't think they're going to get the best insurance talent into their organizations. And we keep telling the banks that, and they don't always listen but that's our view.

Maybe, Anton, you can also talk a little bit about corporate credit.

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yeah. Basically, like Ian mentioned, it's around corporate credit. And the Sanlam balance sheet has a capability to absorb quite a lot of credit and be rewarded for it. So, we saw the opportunity there to extend our credit presence. And in doing that, not only the Sanlam balance sheet, but actually also contribute to South Africa, investing in infrastructure, corporate expansion, those kind of things.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

But banks are our partners, Ian, we don't necessarily see ourselves doing the origination there. We work with them, and we make our capability available to them. They retain the relationship with the corporate. But as you all know, certainly with the Basel regulations, certainly over the longer term, assets are more suitable for an organization like a Sanlam than under the new regulations for the banks. That just creates opportunity for us.

No more questions? Well, Heinie, you did a great job. Other questions from on line, okay?

Operator

Hi. We have a question from the line. This comes from Francois Du Toit of Renaissance Capital.

Q - Francois Du Toit {BIO 16128719 <GO>}

Hi, Ian. Can you hear me?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Hi. We can hear you, Francois.

Q - Francois Du Toit {BIO 16128719 <GO>}

Excellent. Thank you. My question is just around your capital management. I think you're thinking about 310% STR cover on the new SAM. And obviously, that suits your excess capital currently in the last business in this capital is earmarked for the dividends. But you don't actually mean (01:04:33) at 120%?

I think you've also stated that you expect to operate that business in (01:04:40) capital rather than ZAR 2 billion which is allocated to the (01:04:45) Life business at the moment. So, that release this ZAR 500 million for the year, is that also your growth expectations for (01:04:54) Life that you expect that additional release? And then I guess, on top of that, you get a release from investment return on capital because that's not included in your definition for distributable earnings or earnings that defines the dividends.

So, by my reckoning, it looks like the life business alone should be generating about ZAR 1.5 billion of free surplus over and above what goes into ordinary dividend per year, but not next four years since (01:05:29) if investment returns are around 7% on the capital.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Okay. Francois (01:05:34), I'm going to hand over to Anton. I'll just make two points. The one is that, first off, you may have your own projection models there in Somerset West. But our people have been working on their projection models as well. So I'll ask Anton to speak to that. I know you're both clever actually, (01:05:55) so maybe they can line up the numbers. But it's essentially the ability to project forward which takes into account growth that enables us to come with a comment like there will be surplus coming out of the life business.

The second point I'll make is that, in preparation to the run-up to SAM, we were fairly conservative, Francois, (01:06:14) in releasing that capital out of the life business. So, with those two comments, I'll hand to Anton.

A - Anton Gildenhuys {BIO 4058523 <GO>}

Thanks. Francois (01:06:24), a couple of comments here. You're absolutely right that there's quite a difference between our statutory cover. We disclosed this in balance sheet in our annual report in quite a lot of detail, an internal view (01:06:36) which is at 220%.

When we determine our required capital, we project the balance sheet forward. And as you point out, we do not take into account (01:06:44) new business. So the contribution of capital from new business is not taken into account in our projected capital release. And we also do not take account of growth on the shareholders' funds because that will make our capital releases dependent on investment market.

So, you're right, in good years, it will contribute one and all, but it sounds a bit rich (01:07:02) for me. But there should be surpluses coming out in normal conditions over and above the ZAR 500 million that Heinie referred to. And the reason is (01:07:12) balance sheet is very complex and really dynamic. And we've come to the conclusion anyway to do capital planning and through (01:07:20) projection models and scenario planning and so on to fix our capitalization.

Q - Mark Ingham {BIO 17384674 <GO>}

Okay. Thank you. Just another question around your SAM balance sheet. Your inclusion of Santam at 1 times and excluding all of the surplus capital in Santam, obviously, will make your group capital SCR look a little bit weaker. Is there a move towards a more composite structure where excess capital on the short-term interest balance sheet counts group-wide? Is there other ways (01:07:59) of using the diversification benefit between the two entities at group level?

A - Anton Gildenhuys {BIO 4058523 <GO>}

You're right. We currently (01:08:09) Santam at 1 times cover because we do not regard the surplus as fungible at this point in time. (01:08:17) our group cover actually down quite a lot. But it's a group cover (01:08:20) also around 2.3 times (01:08:22).

Evidently, there's a big constraint at the moment. In terms of a comfortable (01:08:27) accounting consolidation method, we're absolutely thinking about it, but we will have to go through an approval process with the FSB in that regard. So it's not going to be a quick process. But in that aspect, we are currently participating in International Capital Standards which works on the accounting consolidation (01:08:46). FSB is also largely (01:08:47) involved in that.

So, I think (01:08:50) regulator, we are starting to broaden our understanding of where a consolidated balance sheet looks like. And in aggregate, the cover ratio is not that much different if we consolidate. But their surpluses are (01:09:03) balance sheet becomes bigger.

Q - Mark Ingham {BIO 17384674 <GO>}

Okay. Thank you.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Okay. Are there any further questions from the line? Okay. Excellent. So it remains for me to thank you very much for coming down and listening to what we had to say. Thanks for your ongoing interest and support. And thanks to the Investment Analysts Society. And we look forward to spending time with you again in September, hopefully, in our recovery in South Africa. Thank you.