Sanlam

Group results

for the year ended 31 December 2000

Salient features

		2000	1999	%
New business volumes	R million	**37 700**	25 810	46
Net inflow/(outflow) of funds	R million	**777**	(10 427)	107
Headline earnings based on the LTRR[1]	R million	**3 478**	2 721	28
Headline earnings per share based on the LTRR[1]	cents	**130,9**	102,1	28
Operating profit before tax	R million	**1 924**	1 722	12
Embedded value of new business	R million	**209**	101	107
New business embedded value as % of APE [2]	%	**8,0**	5,7	40
Embedded value per share	cents	**1 035**	1 004	3
Dividend per share	cents	**30,0**	25,0	20

[1] LTRR = Long term rate of return
[2] APE = Annual premium equivalent

Group income statement

for the year ended 31 December 2000	Note	2000 R million	1999 R million	%
FUNDS RECEIVED FROM CLIENTS	2	**46 926**	35 768	31
Operating profit before tax	3 & 4	**1 924**	1 722	12
Tax on operating profit		**225**	204	-10
Operating profit from ordinary activities after tax		**1 699**	1 518	12
Minority interest		**357**	451	21
NET OPERATING PROFIT		**1 342**	1 067	26
Investment return		**1 348**	2 936	-54
Tax on investment return		**(225)**	(245)	8
Minority interest		**(36)**	(190)	81
Net long term rate of return adjustment	8	**1 049**	(847)	224
NET INVESTMENT RETURN **based on the long term rate of return**		**2 136**	1 654	29
HEADLINE EARNINGS **based on the long term rate of return**		**3 478**	2 721	28
Short term investment fluctuations		**(1 049)**	847	-224
Other net investment surpluses and adjustments		**(220)**	(131)	-68
Attributable earnings		**2 209**	3 437	-36
Diluted earnings per share:		**cents**	cents	
• **Net operating profit from ordinary activities**		**50,5**	40,1	26
• **Headline earnings based on the long term rate of return**		**130,9**	102,1	28
• Headline earnings as previously disclosed		**90,6**	73,4	23
• Attributable earnings per share		**83,1**	129,0	-36
Dividend per share		**30,0**	25,0	20

Group balance sheet

at 31 December 2000	2000 R million	1999 R million
ASSETS		
Non-current assets		
Fixed assets	**256**	328
Goodwill	**1 711**	–
Investments	**150 452**	151 635
Deferred tax	**115**	37
Investments held for resale	**1 213**	1 460
Current assets	**24 318**	22 108
Total assets	**178 065**	175 568
EQUITY AND LIABILITIES		
Shareholders' funds	**18 222**	17 677
Minority interest	**1 215**	2 387
Non-current liabilities		
Policy liabilities	**133 952**	134 319
Term finance	**4 698**	4 062
Deferred tax	**284**	693
Current liabilities	**19 694**	16 430
Total equity and liabilities	**178 065**	175 568
Segregated funds not included in the above balance sheet	**45 572**	40 356
Total assets under management and administration	**223 637**	215 924
Tangible net asset value per share (cents)	**779**	771

Cash flow statement

for the year ended 31 December 2000	2000 R million	1999 R million
Net cash flow from operating activities	**4 954**	23 040
Cash flow from investment activities	**(1 328)**	(21 888)
Cash flow from financing activities	**628**	(1 536)
Net increase/(decrease) in cash and cash equivalents	**4 254**	(384)
Cash, deposits and similar securities at beginning of year	**4 870**	5 254
Cash, deposits and similar securities at end of year	**9 124**	4 870

Financial ratios

for the year ended 31 December 2000	2000 %	1999 %
Returns		
• Operating profit before tax [1]	**8,2**	7,7
• Operating profit after tax [1]	**7,2**	6,4
• Headline earnings based on the long term rate of return [1]	**18,7**	16,3
• Return on embedded value [2]	**5,1**	24,4
• Annualised return on the Sanlam share price since listing	**27,0**	41,0
Group administration cost ratio [3]	**29,7**	29,8
Group operating margin [3]	**17,4**	17,9

Notes
[1] Calculated as a percentage of the average monthly shareholders' fund for the year.
[2] Growth in embedded value (before dividends paid) as a percentage of the embedded value at the beginning of the year.
[3] Calculated as a percentage of income earned by the shareholders less sales remuneration.

Notes

	2000 R million	1999 R million	%
1. NEW BUSINESS			
Long-term insurance business			
Individual business	**9 795**	7 704	27
• Recurring premiums – indexed growth	**525**	527	0
– other	**1 149**	749	53
• Single premiums (including continuations)	**8 121**	6 428	26
Employee Benefits	**4 399**	2 633	67
• Recurring premiums	**219**	139	58
• Single premiums	**4 180**	2 494	68
Total long-term insurance business	**14 194**	10 337	37
Other business	**23 506**	15 473	52
• Unit trusts	**9 342**	8 154	15
• Segregated funds	**7 973**	2 310	245
• Linked products	**1 687**	1 706	-1
• Short-term insurance	**4 504**	3 303	36
Total new business	**37 700**	25 810	46
2.1 FUNDS RECEIVED FROM CLIENTS			
Sanlam Personal Finance	**24 704**	21 906	13
Individual insurance	**15 630**	13 980	12
Recurring premiums	**8 401**	8 310	1
Single premiums	**4 989**	4 046	23
Continuations	**2 240**	1 624	38
Unit trust inflows	**9 074**	7 926	14
Linked products	**2 449**	2 346	4
Sanlam Employee Benefits	**6 658**	5 299	26
Recurring premiums	**2 883**	2 850	1
Single premiums	**4 146**	2 449	69
	7 029	5 299	33
Transfer to segregated funds	**(371)**	–	–
Santam	**3 836**	2 603	47
Sanlam Health	**668**	700	-5
Gensec segregated funds	**8 149**	2 534	222
Sanlam Namibia Limited	**462**	380	22
Total funds received from clients	**46 926**	35 768	31
2.2 PAYMENTS TO CLIENTS			
Sanlam Personal Finance	**24 521**	22 258	-10
Individual insurance	**15 952**	15 560	-3
Surrenders	**3 672**	3 444	-7
Other policy benefits	**12 280**	12 116	-1
Unit trust outflows	**8 569**	6 698	-28
Linked products	**1 133**	737	-54
Sanlam Employee Benefits	**12 006**	16 841	29
Fund termination	**7 271**	11 060	34
Other policy benefits	**5 765**	6 311	9
	13 036	17 371	25
Transfer to segregated funds	**(1 030)**	(530)	94
Santam	**2 763**	1 823	-52
Sanlam Health	**640**	673	5
Gensec segregated funds	**4 848**	3 318	-46
Sanlam Namibia Limited	**238**	545	56
Total payments to clients	**46 149**	46 195	0
2.3 NET FLOW OF FUNDS	777	(10 427)	107

Notes

continued

	2000 R million	1999 R million	%
3. SEGMENTAL ANALYSIS OF OPERATING PROFIT			
Sanlam Personal Finance	1 044	781	34
Sanlam Employee Benefits	202	168	20
Gensec	683	747	-9
Sanlam Health	15	11	36
New Business Development	(23)	2	–
Santam	100	59	69
Net corporate income	93	197	-53
Corporate costs	(190)	(243)	22
Total operating profit	1 924	1 722	12
4. OPERATING PROFIT			
Financial services income	12 566	10 988	14
Sales remuneration	1 505	1 353	-11
Income after sales remuneration	11 061	9 635	15
Underwriting policy benefits	5 480	4 569	-20
Administration costs	3 289	2 875	-14
Operating profit before exceptional items	2 292	2 191	5
Exceptional items	368	469	-22
Operating profit after exceptional items	1 924	1 722	12
5. CORPORATE EXPENSES			
Corporate marketing	45	62	27
Shareholder costs	28	52	46
Corporate functions	84	75	-12
Shared services and other	33	54	39
Total corporate costs	190	243	22
6. INCOME TAX			
Income tax before one-offs	804	611	
• Operating profit	455	347	
• Investment income	349	264	
Tax one-offs	(354)	(162)	
• Operating profit	(230)	(143)	
• Investments income	(124)	(19)	
Total income tax	450	449	
7. GROSS LONG TERM INVESTMENT RETURN			
Investment income	950	922	
Absa equity accounted earnings	423	327	
Investment surpluses	(25)	1 687	
Actual investment return	1 348	2 936	
Gross long term investment return adjustment (note 8)	1 255	(816)	
Gross long term investment return	2 603	2 120	
8. NET LONG TERM RATE OF RETURN ADJUSTMENT			
Gross long term investment return adjustment	1 255	(816)	
Tax	(23)	(21)	
Minority shareholders' interest	(183)	(10)	
Net long term rate of return adjustment	1 049	(847)	
9. CAPITAL ADEQUACY REQUIREMENTS (CAR)			
CAR for life business (R million)	6 996	5 925	
Times CAR covered by Sanlam Life Insurance Limited shareholders' fund	2,4	2,7	

Embedded value

for the year ended 31 December 2000	2000 R million	1999 R million
EMBEDDED VALUE		
Sanlam group shareholders' net assets (per balance sheet)	18 222	17 677
Revaluation of shareholders' interest in Santam and Gensec to fair value[1]	2 290	2 786
Sanlam group shareholders' adjusted net assets	20 512	20 463
Net value of in-force life insurance business	6 726	6 193
• Value of in-force life insurance business	7 900	7 774
• Cost of holding prudential reserves	(1 174)	(1 581)
Sanlam group embedded value	27 238	26 656
EMBEDDED VALUE EARNINGS		
Embedded value from new life insurance business	209	101
• Value of new life business	245	132
• Cost of holding prudential reserves	(36)	(31)
Earnings from in-force life insurance business	1 330	1 056
• expected return	1 173	1 219
• operating experience variations	137	(101)
• operating assumption changes	20	(62)
Embedded value earnings from life operations	1 539	1 157
Economic and other (including asset mix) assumption changes	289	521
Tax changes	(22)	(512)
Investment variances	(304)	408
Growth from life insurance business	1 502	1 574
Investment return on shareholders' adjusted net assets	(130)	3 794
Total embedded value earnings	1 372	5 368
APE for embedded value purposes[2]	2 618	1 757
Embedded value of new life business as a percentage of APE	8,0%	5,7%
Growth from life insurance business as a percentage of beginning value of in-force	24%	30%
PRINCIPAL ASSUMPTIONS	%	%
Pre tax investment returns		
• Fixed interest securities	13,1	14,1
• Equities and offshore investments	15,1	16,1
• Hedged equities	12,1	13,1
• Property	14,1	15,1
• Cash	11,1	12,1
Inflation	6,6	7,6
Risk discount rate	15,6	16,1
Investment return on assets supporting prudential reserves	14,1	14,5
Assumed long term asset mix for funds supporting prudential reserves		
• Fixed interest securities	10	33
• Equities	54[3]	32
• Hedged equities	18	17
• Property	16	10
• Cash	2	8
	100	100

(1) A fair value of R32.48 per share was placed on Gensec at 31 December 2000 based on its constituent businesses and assets. This value is determined taking cognisance of current market values and does not place a value on the longer term strategic value as was required for the acquisition of the Gensec minorities.

(2) APE is equivalent to new recurring premiums plus 10% single premiums.

(3) The long term asset mix for prudential reserves largely reflects the actual change in asset mix which occured simultaneously with the acquisition of the Gensec minorities.

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Overview of financial results

We are pleased to report that Sanlam achieved most of its financial growth targets set a year ago as reflected in the highlights and salient features and discussed further below.

New business

Total new business grew significantly by 46%. Life insurance new business grew by 37% to R14 194 million and contributed towards the healthy growth in the embedded value of new business. New business from non-life activities such as unit trusts, segregated funds and short term activities grew at an even greater rate of 52% to R23 506 million largely due to the increase in segregated funds from R2 310 million in 1999 to R7 973 million in 2000. This was as a result of innovative product offerings and the re-engineering of our investment process to world class standards.

Net inflow of funds

A primary target was to turn the net outflow of funds of R10 427 million in 1999 around and we are pleased to report that we have succeeded and achieved a net inflow of R777 million in 2000 – a turnaround of R11 204 million. We are not yet satisfied with the level of net inflows but are confident that the turnaround has established a basis for continuing improvement and aim to report improvement in 2001. Most businesses contributed to this turnaround but Sanlam Employee Benefits (SEB) and Sanlam Investment Management (previously Gensec Asset Management) showed major improvements. The significant growth in new business mentioned above and a specific focus on retaining the funds of existing clients through service excellence and continuation options contributed to this turnaround.

Operating profit before tax

Sanlam Personal Finance (SPF) experienced a good year and grew its operating profit by 34% to R1 044 million. Risk profits and market related income showed 15% and 23% growth respectively from continued favourable underwriting results and an improvement in the performance of the annuity portfolio. SPF's exceptional costs (including system and project costs) reduced by 36% as restructuring costs in 1999 were not repeated at the same levels in 2000.

SEB also posted a very satisfactory 20% growth in its profits to R202 million also largely attributable to good risk profits. Group corporate expenses were reduced by 22% to R190 million.

These results were tempered by Gensec's profits of R683 million for 2000 which were 9% lower than in 1999. This is in line with expectations published at the interim stage as their results in the first half of 2000 were substantially lower than the corresponding period in 1999. The second six months however, showed significant improvement with profits of R411 million which is 51% higher than the first half.

Corporate income, which consists largely of profits earned on leveraging assets using structured finance arrangements reduced by 53% from R197 million in 1999 to R93 million in 2000. This decrease is largely attributable to increased competition from similar products and pressure on margins due to the lower level of interest rates in 2000.

These varying successes resulted in the group operating profit increasing by 12% to R1 924 million.

Administration costs – excluding Santam's costs, which were distorted by the inclusion of Guardian's figures as a result of its acquisition by Santam in April 2000 – increased by 8% (14% including Santam) largely due to a 26% increase in Gensec's costs resulting from building its international capabilities and continued growth in Gensec Bank. The group administration ratio remained constant at 29,7%.

Exceptional costs decreased by 22% to R368 million and include restructuring costs of R33 million at Gensec following the acquisition of the Gensec minorities and R79 million at SPF in respect of a further phase of the restructuring of its sales function. Expenditure on new systems and projects aimed at improving client service, product development and administration capabilities amounted to R231 million.

The group operating margin declined to 17,4% from 17,9% in 1999 largely due to Gensec's margin which decreased to 49,2% from 59,9% in 1999, but SPF and SEB registered improvements compared to 1999.

Gross long term investment return

The gross long term investment return grew by 23% from R2 120 million to R2 603 million in 2000. As discussed below, a long term investment return of 13% was assumed for both years. The average monthly fair value of the asset base on which the long term return is calculated, was on average 8% higher in 2000 compared with 1999 and contributed to this growth in investment return.

Absa's equity accounted earnings before tax (based on their earnings for the twelve months ended 30 September 2000) increased by 29% from R327 million to R423 million largely due to its improved interim results for 30 September 2000 and an increase in the shareholders' fund interest in Absa from 13,8% to 14,8%. Investment return was also impacted by the creation of an investment provision of R53 million in 1999 and its subsequent reversal in 2000 as it was no longer required. (The lastmentioned items are not subject to the long term return basis.)

Income tax

The tax charge for 2000 includes a deferred tax reversal of R354 million in respect of our Life business. The provision was raised in prior years on the financial soundness valuation basis in terms of the previous tax dispensation for long term insurers. This dispensation was amended with effect from 1 January 2000 to bring the actual tax charge more in line with the accounting provision. The 1999 tax charge also includes other one-off credits of R162 million (R110 million after minorities). At 31 December 2000 the balance of the deferred tax liability amounted to R284 million, the application of which will be considered when outstanding assessments have been received.

Santam

Sanlam holds a 59% interest in Santam, of which 36% is held by the Sanlam shareholders' fund. Santam acquired 100% of the shareholding in Guardian National Insurance Company Limited in April 2000 and is now South Africa's leading short term insurer.

Santam's underwriting profits increased significantly by 69% to R100 million and their total contribution to the Sanlam group headline earnings on the long term rate of return basis used by Sanlam, amounted to R139 million compared with R107 million in 1999. Their earnings for 2000 included non-recurring integration benefits of R37 million.

The favourable Santam results achieved in 2000, supported by a balanced insurance portfolio after the successful merger with Guardian, have created a solid platform for future growth. Shareholders are referred to the full set of Santam's results which were published recently.

Headline earnings based on the long term rate of return

The Board has decided to use the long term rate of return (LTRR) for the determination of headline earnings as it is of the view that there are significant benefits in this practice. The application of the LTRR basis has become standard practice in the United Kingdom. Using a long term rate of 13%, our LTRR headline earnings for 2000 increased by 28% to R3 478 million (130,9 cents per share) compared with R2 721 million in 1999 (102,1 cents per share). If we calculate the earnings per share prior to taking account of the tax one-offs mentioned above, our LTRR headline earnings amount to 117,6 cents, which reflects growth of 20% on 1999. We have clearly succeeded in exceeding our target of 10% real growth in 2000.

Headline earnings on the previous basis increased by 23% to R2 406 million (90,6 cents per share) compared with R1 955 million (73,4 cents per share) in 1999.

Embedded value

The embedded value of new business more than doubled to R209 million in 2000 compared to R101 million in 1999. In our 1999 annual report we set the target to achieve an embedded value of new business in excess of R200 million by no later than 2001. We are pleased that this has been achieved one year earlier.

This improvement was achieved largely as a result of increased new business volumes (embedded value of new business annual premium equivalent (APE) increased by 49% on 1999) and increased margins (new business embedded value as a percentage of APE was 8,0% compared with 5,7% in 1999). Our target for 2001 is to continue this good growth pattern.

The embedded value increased by only 2% to R27 238 million largely because of the poor investment return earned on the shareholders' net assets due to the difficult stock market conditions in 2000 compared to 1999. However, the value of existing life insurance business (value of in-force) grew by a satisfactory 24% during the year.

Dividends

The Board has declared a dividend of 30 cents per share payable on 16 May 2001 to shareholders registered on 20 April 2001. This represents a 20% increase on the 25 cents declared in 1999, of which 10 cents was paid as a special interim dividend in October 1999.

Strategic focus for 2001

Growth

Sanlam has set itself a growth target of 10% in real terms which will primarily be measured by growth in headline earnings. This requires similar growth in operating profit and top-line growth.

Organic growth

To achieve our objectives we intend ensuring that our product offering and client service continue to improve. A concerted effort is being made to achieve greater penetration of the emerging black salaried market. Further penetration of the higher end of the market will be pursued through Innofin, our joint venture with Macquarie Bank of Australia, as well as the conventional SPF channels and Sanlam Investment Management's (SIM) (previously Gensec Asset Management) private clients.

The development of synergies between the various businesses will be pursued. Gensec Bank's abilities in structuring products and SPF's distribution capabilities have already achieved considerable success.

The increasing importance of individual choice in the markets serviced by Sanlam Employee Benefits offers significant opportunities. The people and technological capabilities developed within SEB position us well to exploit these opportunities and we are targeting this market as a source of growth in future.

The re-engineering of SIM's investment process to world class standards has been completed and is well on its way to full implementation. The goal is to achieve consistent positive long term investment returns, which will contribute to our objective of growing our flow of funds and improving profitability.

Structural growth

Innofin expects to launch its first product aimed at the high net worth market in the first half of 2001 and with SP^2, our linked product provider, will grow its participation in this fast developing market. SIM completed the acquisition of Punter Southall in the United Kingdom, which will extend and improve its capability there. The expansion of its private client business through the purchase of the ABN Amro's South African private client business will improve its offering in South Africa and should contribute to growth in 2001.

Capital efficiency

The acquisition of the Gensec minorities will enable us to improve capital efficiency. We are revisiting our capital model, which will increase the focus on operational and investment efficiency within the Group whilst allocating the responsibility for returns to its line authority.

Improving returns obviously starts with operational performance and improving margins, but ultimately, should a business, or a part of the business, not be able to deliver sustainable returns, we will sell it or close it down. Greater capital efficiency requires measuring returns as well as revisiting capital allocation to the businesses and consideration of the restructuring of the assets backing the capital.

Repositioning

Sanlam is intent on further strengthening its position as a truly South African group in its full sense which will require a measure of repositioning. Although we have made good progress with our employment equity programme, this is not nearly satisfactory enough and will require a concerted effort across the spectrum of the group. Mentoring and developing of empowerment appointments will be a priority.

Employer of choice

The financial services industry is particularly dependent on its people and our future achievements will be inextricably linked to the further development and retention of employees and to attract people of the highest calibre. Success in this area will be measured by whether Sanlam will be recognised as the employer of choice.

This will depend on whether we create a culture and working environment that will provide challenging opportunities for all employees. It clearly also requires compensation commensurate with performance and an alignment of employees' objectives with those of our shareholders.

Internationalisation

The drive for internationalisation will come from our businesses in line with our decentralised management philosophy. The successes achieved in local operations indicate that our businesses are ready to pursue international initiatives.

The information technology, administrative capabilities and operational efficiencies of Sanlam's traditional business are of a First World standard and could be exploited outside South Africa. Both SIM and Gensec Bank will continue to focus primarily on the developed markets to satisfy their international aspirations. We will approach these initiatives with the primary requirement of achieving a return on equity commensurate with the risk.

Prospects

Sanlam has set itself a target of 10% real growth and is confident of meeting this target in respect of its net operating profit.

Directorate

The Board announced the appointment of Messrs TS Gcabashe and BP Vundla and professors AF Perold and J van Zyl to the Board of Sanlam.

Appreciation

Professors Kate Jowell and Flip Smit and Mr Murray Grindrod retired as directors in March 2001 and the Board expresses its appreciation for their service over a number of years.

A special word of appreciation goes to executive director George Rudman who will retire after 37 years of commendable service and achievements. George did us particularly proud in his leadership role in the demutualisation of Sanlam.

In conclusion, to all the staff of Sanlam, a sincere thank you for your continued efforts to achieve our group's objectives.

For and on behalf of the Board

MH Daling
Executive chairman

P de V Rademeyer
Financial director

7 March 2000
Cape Town

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