

Sanlam Limited
(Incorporated in the Republic of South Africa)
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ISIN: ZAE000070660
("Sanlam" or "the Group")

Operational Update – June 2018

Operating conditions remained challenging during the first four months of 2018 across a number of markets where Sanlam operates. Despite these conditions, the Group's well-diversified profile enabled us to deliver a satisfactory operational performance for the four months ended 30 April 2018.

Economic growth in many markets remains below longer-term potential, in particular in our large South African and Namibian markets where only modest growth is expected for 2018. In South Africa, business and consumer sentiment improved following the political changes in December and early 2018. As anticipated, it will take some time for the improved confidence to transpire into accelerated economic growth. Economic conditions in Namibia continue to be impacted by liquidity constraints emanating from its twin deficit, while the economies and currencies of Nigeria and Angola remained under pressure. The economic outlook in the other Africa regions where the Group operates is slowly improving, while conditions in India and Malaysia remain robust.

The first four months of 2018 were also characterised by significant volatility in South African and international investment markets. Global stock markets reached record-levels during 2017. The South African market also rallied into December 2017, finding support from the global market performance as well as the favourable outcome of the ruling party's elective conference. Optimism improved further with the appointment of Cyril Ramaphosa as South African president and the subsequent cabinet changes. Indications were that the South African market would continue its rally following these developments, but this was short lived as global markets were halted by fears of an accelerated interest rate hiking cycle by the US Federal Reserve and heightened global geopolitical risk. This spurred a global stock market sell-off and resulted in a decline across investment markets at the end of Q1 2018. The South African equity market recovered somewhat during April 2018, but still recorded negative returns for the first four months of 2018 compared to positive returns in the comparable period, impacting negatively on the investment return earned on the Group's capital portfolio on a relative basis. South African interest rate markets also reacted positively to the political developments, with long term rates declining since 31 December 2017.

The sharp strengthening of the Rand exchange rate in 2017 and 2018 is reflecting in a stronger average exchange rate in 2018 relative to the first four months of 2017, suppressing the overall translated results of Sanlam Emerging Markets as well as Sanlam Investments' international operations.

The acquisition of the remaining interest in Saham Finances is progressing according to plan. The first phase of funding for the transaction was concluded at the end of March 2018 through an accelerated book build equity issuance. An additional 5% equity

raising is planned, with the intention to utilise it as an opportunity to further strengthen the Group's empowerment credentials (refer Capital section below).

Results

The constant currency information included in this operational update has been presented to illustrate the impact of changes in currency exchange rates and is the responsibility of the Group's board of directors ("Board"). It is presented for illustrative purposes only and because of its nature may not fairly present the Group's financial position, changes in equity, result of operations or cash flows. All references to constant currency information are based on the translation of foreign currency results for the four months to 30 April 2018 at the weighted average exchange rate for the four months to 30 April 2017, which is also applied for the translation of comparative information. The major currencies contributing to the exchange rate movements are the British Pound, United States Dollar, Indian Rupee, Botswana Pula, Moroccan Dirham, Angolan Kwanza, and the Nigerian Naira (negative movements in the table below indicate a strengthening in the rand exchange rate):

Currency	Average rand exchange rate – 4 months to 30 April 2018	Average rand exchange rate – 4 months to 30 April 2017	Change in average exchange rate
British Pound	16.74	16.51	1.4%
United States Dollar	12.00	13.27	-9.6%
Indian Rupee	0.186	0.200	-7.2%
Botswana Pula	1.266	1.282	-1.3%
Moroccan Dirham	1.308	1.388	-1.9%
Angolan Kwanza	0.059	0.081	-27.2%
Nigeria Naira	0.034	0.043	-20.9%

The constant currency information has not been audited or reviewed by Sanlam's external auditor.

The salient features of the Group's performance for the four months to 30 April 2018 are:

- *New business volumes* of R69 billion, down 3% on the first four months of the 2017 financial year largely due to lower inflows at Sanlam Investments.
 - Sanlam Personal Finance achieved overall new business sales growth of 11%. Strong growth in the recurring premium sub cluster was augmented by a good recovery at Glacier, which benefited from the improved investor sentiment. This was, however, partially offset by a decline at Safrican in the entry level market from a high base in 2017.

Sanlam Sky's more profitable individual life recurring premium risk business achieved strong growth of 18% on the comparable 2017 period. Group life risk business, however, declined by 59% due to lower new business sales at Safrican. Safrican wrote two large new schemes in the first four months of 2017,

which did not repeat in 2018. Overall risk business sales declined by 15% as a result.

New business volumes in the recurring premium business cluster increased by 29% (16% excluding the structural contribution from BrighRock), the combined effect of 35% and 20% growth in recurring and single premiums respectively. Individual life risk business experienced pressure in the first four months of 2018, increasing by only 1%. The mix within the individual life risk business, however, changed to the more profitable lines of business. New savings business sales grew by 21%, with most product lines contributing double digit growth.

As highlighted above, Glacier new business volumes benefited from renewed investor sentiment and recorded growth of 11%, but with the mix of business changing to the less profitable linked products as anticipated.

- Sanlam Emerging Markets recorded overall new business growth of 19%, including the impact of structural activity (Saham Finances, Sanlam Investments East Africa and Ghana disposal) in 2017. In constant currency, new business volumes increased by 23% (up 17% in constant currency and excluding structural activity). Notwithstanding the difficult economic environment, Namibia had a solid start to the year with 18% new business growth in the first four months of 2018. Strong growth of 31% in investment business was partially offset by a 17% decline in new life business flows. The mix of life business, however, changed favourable towards the higher margin entry-level market.

A recovery in annuity market share in Botswana supported overall growth of 13% in new business volumes from this market (15% in constant currency).

Rest of Africa new business volumes increased by 34% (43% in constant currency and 27% excluding structural activity in constant currency). Most regions contributed to the growth in constant currency, apart from Malawi, which had a slow start to the year. Saham Finances' new business production was in line with the business plan, with the Angola operations in particular holding up well in a difficult environment.

The Indian operations delivered growth of 3% (11% in constant currency) with double digit contributions from both the life and general insurance businesses in constant currency. The life insurance business in Malaysia achieved some traction and reported new business growth of 12% (10% in constant currency) during the first four months of 2018. The Malaysian general insurance business is still performing below its new business expectations, but its profitability improved by more than 20%.

- Sanlam Investments experienced a 16% decline in new business volumes from a high base in 2017. We anticipated that the improved investor sentiment will not reflect in institutional inflows before the end of 2018.
- Sanlam Employee Benefits had a slow start to 2018, experiencing a decline in both life recurring premium risk business and single premiums of some 20%. The future pipeline of new business appears promising.

- Net value of new life business (“VNB”) increased by 2% (broadly in line with 2017 excluding structural activity and on a constant economic and currency basis). The relatively low level of growth is largely attributable to the change in mix of business at Glacier and the lower new business volumes at Safrican and Sanlam Employee Benefits, which resulted in a flat VNB performance from the South African businesses. Sanlam Emerging Markets’ net VNB increased by 14% excluding structural activity and on a consistent economic and currency basis. Namibia and Botswana experienced strong growth from a low base, supported by improved contributions from Saham Finances, India, Malaysia and Nigeria. VNB margins have been largely maintained on a per product basis.
- Overall net fund inflows of R10.1 billion were down on the R12 billion achieved in the comparable four-month period in 2017, due to some large outflows from the institutional business at Sanlam Investments. SPF achieved a marked improvement, reflective of the new business growth at Glacier.
- Persistency experience trends remained in line with 2017.
- *Net result from financial services* increased by 11% on the first four months of the 2017 financial year (up 6% in constant currency and excluding structural activity as well as the de-monetisation related provision in India in 2017).
 - Sanlam Personal Finance’s net result from financial services declined by 2%. This is due to increased new business strain, the first-time inclusion of BrightRock’s operational losses, costs associated with the MiWay Life and Indie new initiatives and lower market-related fee income in Glacier from products where shareholders share in the underlying portfolio investment returns. Excluding these, Sanlam Personal Finance achieved net operating profit growth of 7% on the first four months of 2017.
 - Sanlam Emerging Markets’ net result from financial services increased by 34%, with good growth from most key regions. Namibia was the exception, impacted by new business strain from the strong entry-level market new business performance and persistent high risk claims experience in the group life and affluent markets. The comparative 2017 period included provisions of R110 million (SEM’s share net of tax) relating to de-monetisation in India, which supported the overall growth. Saham Finances delivered good growth in operating earnings and remains in line with the business plan.
 - Sanlam Investments’ contribution to net result from financial services decreased by 4%, attributable to lower performance fees, the impact of the stronger average rand exchange rate and a high comparative base in the capital markets business.

The current status of the Group’s exposure to Steinhoff International is as follows:

1. The local bonds held by the Group were redeemed in full, reversing the unrealised marked-to-market losses incurred in 2017. These realised gains in

2018 are recognised against the spread risk reserve (SRR) in line with the treatment of the 2017 unrealised losses.

2. The pricing of the foreign bonds improved significantly during 2018. We utilised this as an opportunity to substantially exit the EUR26 million exposure by the end of May 2018. The bonds were sold at a realised loss of some R14 million (R10 million after tax) relative to the original cost price. The reversal of the unrealised losses incurred in 2017 was recognised against the SRR in line with the treatment of the local bonds. The realised loss compared to the original cost prices is recognised in net result from financial services, the majority of which was included in the April results.
 3. Collateralised lending granted by Sanlam Capital Markets to the Mayfair group:
 - a. We obtained possession of the 20.7 million Steinhoff shares held as direct pledge for the R804 million loan in 2017. This reduced the outstanding balance of the loan to R655 million (R472 million after tax). 7.2 million of the Steinhoff shares were sold at a profit of R28 million in 2018. Unrealised losses of R37 million have been incurred in respect of the remaining 13.5 million Steinhoff shares based on a share price of R1.92. The net after-tax loss of R7 million has been recognised in net result from financial services.
 - b. We are party to the S155 processes initiated with creditors of Mayfair Holdings and Mayfair Speculators to recover the remaining loan balance. This process to date indicates that the value of net assets held by these entities will be sufficient to repay the Sanlam Capital Markets loan.
- Santam experienced a particularly benign claims environment, compared to the first four months of 2017 that included a number of large catastrophe claims. This resulted in a substantial increase in its underwriting margin for the four-month period to above the 4% to 8% target range. Premium growth was acceptable in a tough economic environment.
 - Sanlam Employee Benefits and Sanlam Healthcare achieved strong growth in net result from financial services, supporting overall growth of 22% for the Sanlam Corporate Cluster. Sanlam Employee Benefits benefited from lower new business strain due to lower new business levels.
 - *Normalised headline earnings* per share increased by 5% compared to the first four months of the 2017 financial year. A relatively weaker investment market performance in 2018 suppressed the solid growth in net result from financial services.
 - *Diluted headline earnings* per share, which include fund transfers recognised in respect of Sanlam shares held in policyholder portfolios, increased by 7% compared to the first four months of the 2017 financial year. The additional share issuance in April 2018 had a marginal impact on earnings per share due to the weighting applied in the year of issuance.

Capital

All of the Group operations remain well capitalised. Sanlam Life Insurance's statutory capital covered its Capital Adequacy Requirements under the current solvency regime 5.4 times on 31 March 2018 after allowing for the annual dividend payment to Sanlam Limited. Under the new Solvency Assessment and Management (SAM) regime being implemented in South Africa, Sanlam Life Insurance's Solvency Capital Requirement cover ratio amounted to 2.85 times on 31 March 2018 after the dividend payment to Sanlam Limited.

The Group had excess capital of R2 billion available for redeployment at the end of December 2017 after allowing for the acquisition of Absa Consultants and Actuaries, which was finalised in the first four months of 2018. No other significant transactions were concluded during the period.

The Saham Finances acquisition remains subject to regulatory approvals, which is expected in the second half of the year.

The discretionary capital portfolio was augmented in the first four months of 2018 by the new share issuance in April (R5.5 billion after allowing for the dividend payable in respect of the new shares), the excess dividend cover relating to the dividend payment in April 2018 (R690 million) and the release of R1.5 billion from the capital allocated to the South African life insurance operations (as indicated in the 2017 results announcement). This increased the level of available discretionary capital to R9.6 billion at 30 April 2018. This capital has been earmarked for the Saham Finances acquisition, which will require cash resources of R13.9 billion based on the average hedged rate of \$1/R13.24. The deficit will be funded from short term debt facilities as previously communicated to the market. A second share issuance of some 5% is planned for the second half of the year, with the intention to use it as an opportunity to further enhance the Group's empowerment credentials. Proceeds from this issuance will be used to redeem the short term debt facilities and to augment the discretionary capital pool. We intend proposing the planned share issuance to shareholders for approval in the fourth quarter of 2018.

Outlook

We expect that the economic and operating environment will remain subdued in our largest markets for the remainder of 2018 with a resulting impact on the Group's key operational performance indicators. The improved investor sentiment in South Africa is, however, expected to support new business growth in Glacier and Sanlam Investments during the remainder of the year.

The change in mix to less profitable lines of business in Glacier is expected to continue. Sanlam Personal Finance's new business volumes and VNB will benefit from the newly concluded funeral and credit life underwriting arrangements with Capitec, an exciting new growth initiative. Sanlam Employee Benefits' VNB performance will similarly benefit from the new business pipeline referred to above.

Average investment market levels, the relative strength of the Rand exchange rate and the level of long-term interest rates are key factors that may have an impact on the growth in net result from financial services, normalised headline earnings and Group Equity Value to be reported for the first half of the 2018 financial year.

The information in this operational update has not been reviewed and reported on by Sanlam's external auditors. Sanlam's interim financial results for the six months ending 30 June 2018 are due to be released on 5 September 2018. Shareholders are advised that this is not a trading statement as per paragraph 3.4(b) of the JSE Limited Listings Requirements.

Conference call

A conference call for analysts, investors and the media will take place at 17h00 (South African time) today. Investors and media who wish to participate in the conference call should register as indicated below.

Audio dial-in facility

A toll free dial-in facility will be available. Please register at <http://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=2850131&linkSecurityString=f1bda05d> for the call. Registered participants will receive their dial-in number upon registration. For assistance, please contact Sanlam Investors Relations at +2721 947 8455.

Recorded playback will be available for three days after the conference call.

Access Numbers for Recorded Playback:

Access code for recorded playback: **13609**

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For further information on Sanlam, please visit our website at www.sanlam.com

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