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

Operational Update – June 2019

The Group achieved a satisfactory operational performance in the four months to 30 April 2019, despite persisting headwinds in South Africa, our largest market, and international political and economic turmoil affecting emerging markets in general. Pleasing organic growth was augmented by the impact of the Saham Finances acquisition in the second half of 2018, contributing to 10% growth in the value of new covered business (VNB) written (17% on a constant economic basis), 30% rise in net fund inflows and a 9% increase in net result from financial services. There is continued progress in bedding down the Saham Finances acquisition.

Operating conditions remained challenging in South Africa with subdued economic growth as anticipated. A favourable change in corporate investment confidence and foreign direct investment flows, key drivers of economic activity and employment, are inextricably linked to the future policy direction of the newly elected South African government and realistic proposals to resolve the governance, operational and financial challenges faced by state-owned enterprises, in particular Eskom. Our mass affluent and high net worth client segments remained cautious in the run-up to the May elections, the announcement of the new cabinet and any potential policy announcements. This was consistent with our experience in the last three quarters of 2018.

The South African equity markets recorded robust growth in the first four months of 2019 in line with global trends, with the JSE/FTSE Swix Index delivering a return of 12.1% compared to a negative return of 2.7% in the first four months of 2018. May saw some reversal of this performance. Average equity markets as measured by the JSE/FTSE Swix Index were, however, still some 8% lower than the comparable four-month period in 2018. After a benign claims environment in 2018, Santam experienced an elevated level of claims in 2019.

Apart from Namibia, economic conditions in the other emerging markets where we operate are more conducive to growth. India in particular is expected to maintain strong economic growth with the renewed mandate provided to the governing party in recent elections providing some policy certainty.

As announced early in March 2019, we concluded the 5% share issuance to the new Broad-Based Black Economic Empowerment (B-BBEE) entity as approved by Sanlam shareholders in December 2018. The shares were issued at a price of R70 per share, representing a discount of some 10% to the 3-day volume-weighted average price (VWAP) at the time. The issuance raised total capital of R7.8 billion, with a net cash component of R4.8 billion after allowing for the net vendor funding provided by Sanlam.

Participation by the new shares in the recent Sanlam dividend reduced the net cash proceeds to R4.5 billion.

Sanlam is now positioned as the foremost-empowered insurance and investment management group in South Africa. The issuance also restored the discretionary capital portfolio to an appropriate level.

As communicated in the 2018 circular to shareholders, the issuance impacts on earnings per share in 2019 through both an increase in the number of shares in issue as well as the R1.7 billion one-off accounting cost recognised in headline earnings in terms of International Financial Reporting Standards (IFRS 2 *Share-based Payment*).

We remain focused on our core competencies in our centenary year: delivering shareholder value under challenging conditions while at the same time executing future growth strategies. This is founded in our diversified profile as well as a federal management model that supports dual focus on operational and strategic delivery.

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 2019 at the weighted average exchange rate for the four months to 30 April 2018, 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 2019*	*Average rand exchange rate – 4 months to 30 April 2018*	*Change in average exchange rate*
British Pound	*18.29*	*16.74*	*9.2%*
United States Dollar	*14.04*	*12.00*	*17.0%*
Indian Rupee	*0.200*	*0.186*	*7.8%*
Botswana Pula	*1.35*	*1.27*	*6.8%*
Moroccan Dirham	*1.47*	*1.31*	*12.7%*
Angolan Kwanza	*0.045*	*0.059*	*-23.7%*
Nigeria Naira	*0.039*	*0.034*	*14.7%*

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 2019 are:

- *New business volumes* of R72 billion, up 7% on the first four months of the 2018 financial year (3% in constant currency and excluding Saham Finances).

  - Overall new business volumes at Sanlam Personal Finance (SPF) declined by 9% due to lower demand at Glacier.

    Sanlam Sky experienced strong growth of 90%. Sales through the traditional individual life intermediated channel increased by a healthy 12%, augmented by good growth at Group Benefits and Safrican as well as an exceptional performance of the Capitec Bank funeral product. The Capitec Bank credit life business was not renewed effective 1 May 2019. Unlike the strategic multi-year arrangement to distribute products through Capitec Bank's retail footprint, the credit life business is subject to annual renewal based on a competitive bidding process. Sanlam Sky's quoted pricing in 2019 reflected an expected heightening in claims risk given the prevailing distressed environment, which proved uncompetitive. The R566 million of credit life new business and related VNB of R36 million written in 2018 will therefore not repeat in 2019.

    The recurring premium sub cluster experienced marginal growth of 1% in new business sales. Good demand for single premium retirement annuities, the MiWay Life offering and Sanlam Personal Loans credit life was offset by flat sales of traditional individual life risk products and lower sales of other lines of business.

    Investor confidence in Glacier's target market remained under pressure, in line with trends experienced since the second quarter of 2018. This contributed to a 12% decline in Glacier's new business volumes from the high base in the first quarter of 2018.

  - SEM recorded overall new business growth of 34% (4% lower in constant currency and excluding Saham Finances). The Pan Africa and Other emerging markets portfolios grew by 36% (6% lower in constant currency and excluding Saham Finances) and 21% (11% in constant currency) respectively. Good growth was achieved in most countries and lines of business apart from investment business in Namibia and Kenya. Excluding these, as well as Saham Finances, new business volumes in the Pan Africa portfolio increased by 16% in constant currency.

    New business volumes in Namibia declined by 14%, attributable to lower investment inflows. New life business grew by more than 20%, with the entry-level market segment continuing to perform well.

    Strong growth in investment business supported overall growth of 21% in Botswana new business sales (14% in constant currency). Life business had a slow start to the year, reflecting a decline of some 6% combined with a change in mix to savings business.

    Saham Finances' new business contribution increased by 173% (142% in constant currency), supported by the structural activity in 2018. The year-to-date performance reflected a pleasing outperformance of targets.

Rest of Africa (excluding Saham Finances) new business volumes declined by 15% (25% lower in constant currency) due to the lower investment management mandates in Kenya. Excluding this, new business volumes increased by some 30%, with strong growth in most regions.

The Indian and Malaysian businesses achieved double-digit growth, with Malaysian life business finding particularly satisfactory traction.

- New business volumes at Sanlam Investments Group (SIG) increased by 8% (6% in constant currency), a strong performance under difficult conditions. The value of new mandates awarded to the South African Investment Management and International businesses increased by 7% and 11% respectively. Growth at Private Wealth was subdued, reflecting investor caution in the high net worth market.

- Within Santam, the conventional insurance business achieved acceptable growth in gross written premiums, while the alternative risk transfer business recorded strong growth, specifically relating to the risk financing lines of business.

- Sanlam Corporate had a strong start to the year, more than doubling its new business contribution. Both recurring and single premium sales achieved exemplary growth.

- Net VNB increased by 10% (up 17% on a constant economic basis) with all clusters contributing good growth. Overall net VNB margins improved by some 27 basis points on a constant economic basis on the comparable 2018 period.

- Overall net fund inflows of R15.9 billion were 30% higher than the R12.2 billion achieved in the comparable four-month period in 2018. SIG attracted strong net inflows of R8.4 billion compared to R3.5 billion in the comparable period. Net fund inflows at SPF declined due to the lower single premium inflows at Glacier.

- Persistency trends remained in line with the second half of 2018.

- *Net result from financial services* increased by 9% on the first four months of the 2018 financial year (up 3% excluding Saham Finances and in constant currency).

  - Sanlam Personal Finance's net result from financial services increased by 17%, supported by strong growth at Glacier and Sanlam Sky. The improved relative investment market performance in 2019 compared to the first four months of 2018 benefited fee income from Glacier's participating products. Sanlam Sky's contribution reflects higher profit releases from the growing in-force book, as well as positive mortality experience and improved investment variances.

  - Sanlam Emerging Markets' net result from financial services increased by 51% (25% excluding Saham Finances and in constant currency). The Pan Africa and Other emerging markets portfolios grew their net operating earnings by 62% (25% excluding Saham Finances and in constant currency) and 37% (25% in constant currency) respectively.

Saham Finances' net result from financial services were below target, due to persisting high motor claims experience in Morocco, fire claims in Ivory Coast and some exposure to the cyclone damage in Mozambique, which resulted in an overall underwriting margin at the lower end of its 5% to 9% target range. The claims experience in Morocco is in line with industry experience, with repricing and claims management key areas of focus. We have seen an improvement in float return in some markets. Good progress has been made in evaluating the optimal strategic asset allocation of the float balances in Morocco and Ivory Coast.

Most other businesses in the Rest of Africa portfolio achieved good growth.

The Indian operations are the largest contributor to the Other emerging markets portfolio. Indian net result from financial services increased by some 40% (28% in constant currency), supported by strong growth in the credit and general insurance businesses. The credit businesses benefited from an increase in lending books as well as lower provisions following an improvement in credit quality. Shriram General Insurance's operating earnings were supported by a relaxation of claims reserves in the third party motor book based on recent claims experience.

- Sanlam Investments' contribution to net result from financial services decreased by 15% (19% in constant currency). The South African asset management and wealth management businesses did well to achieve 1% growth in net result from financial services despite the 8% lower average equity markets in the period that suppressed fee income. Investor caution also impacted negatively on brokerage income. Provisions in respect of credit exposures in Sanlam Specialised Finance and the International businesses had a negative impact of some R70 million gross of tax.

- As indicated above, claims experience weakened at Santam following a benign claims environment in 2018. The first four months of 2019 were characterised by a number of significant catastrophe events, including fires in the Betty's Bay area in January, hail damage in Newcastle in March and the storm and flood damage in Kwazulu-Natal during April. In addition, significant crop insurance losses relating to hail were experienced. These events negatively impacted the net underwriting margin of the conventional insurance business, which ended slightly below the bottom end of Santam's target range of 4% to 8% of net earned premiums. The operating results of the alternative risk transfer business were positively impacted by growth in net income from clients with solid contributions from both Centriq and Santam Structured Insurance.

- Claims experience at Sanlam Employee Benefits also weakened compared to the first four months of 2018, in particular lump sum disability claims. This had an adverse impact on profitability at Sanlam Group Risk, contributing to an overall decline in Sanlam Corporate's net result from financial services.

- *Diluted headline earnings* per share declined by 40%, but increased by 9% per share if the B-BBEE IFRS 2 charge is excluded. Headline earnings reflect the combined effect of:
  - The 9% increase in net result from financial services;
  - A 79% improvement in net investment return earned on the capital portfolios in line with the relatively stronger investment market performance in the first four months of 2019 compared to the same period in 2018;
  - A one-off accounting cost of R1.7 billion recognised in terms of IFRS 2 in respect of the B-BBEE share issuance, which is in line with the financial effects disclosed to shareholders in the 2018 circular. Of this cost, only R594 million constitutes an economic cost to Sanlam shareholders in management's view, being the excess discount granted to the B-BBEE investment vehicle above what would have been a market-related discount of some 5% for a normal private placement of shares.
  - A 5% increase in the weighted number of shares in issue following the share issuances in 2018 and 2019.

Capital

The Group's operations remain well capitalised. The Sanlam Group Solvency Capital Requirement (SCR) cover ratio amounted to 2.3 times on 31 March 2019 (Sanlam Life Insurance Limited: 2.5 times).

The Group started the year with a negative discretionary capital balance of R3.7 billion. The portfolio was augmented in the first four months of 2019 by inflows of some R5.1 billion, which included the capital raised from the B-BBEE issuance, excess dividend cover in respect of the 2018 dividend paid in 2019 and excess investment return earned on the Sanlam Life covered business operations. The latter represents investment return earned up to the end of April 2019, which is subject to investment market volatility. A few small bolt-on transactions were concluded during the period, which utilised some R124 million of discretionary capital. These cash flows contributed to a discretionary capital balance of some R1.3 billion at 30 April 2019.

Outlook

We do not expect a major recovery in the economic conditions in South Africa and Namibia for the remainder of 2019. New business growth potential will commensurately remain under pressure. Investment market volatility is also expected to persist, aggravated by increased tensions in the trade war between the United States and China.

A recovery in the South African mass affluent and high net worth new business performance is largely dependent on developments in the political environment. New business growth in the South African entry-level market will be impacted by the diminishing base effect from the launch of the Capitec Bank funeral product in May 2018 and the loss of the credit life business. Outside of South Africa, new business growth in other emerging markets is expected to remain strong, supported by the base effect of the Saham Finances acquisition in the last quarter of 2018.

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 six months to 30 June 2019.

The focus will remain on delivering results from the Saham Finances acquisition and to deliver value from the package of B-BBEE transactions approved in December 2018, once implemented.

The information in this operational update has not been reviewed and reported on by Sanlam's external auditors. Sanlam's interim results for the six months ending 30 June 2019 are due to be released on 4 September 2019. 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 dial-in facility will be available. Please register at http://www.diamondpass.net/2702813 for the call. Registered participants will receive their dial-in number upon registration. For assistance, please contact Sanlam Investor 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: **25289**

South Africa	010 500 4108
USA and Canada	1 412 317 0088
UK	0 203 608 8021
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Cape Town
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