Sanlam Limited
(Incorporated in the Republic of South Africa)
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JSE share code: SLM
A2X share code: SLM
NSX share code: SLA
ISIN: ZAE000070660

("Sanlam" or "the Group")

Operational Update – December 2019

The Group maintained a solid operational performance in the 10 months to 31 October 2019, especially in the context of persisting challenging operating conditions in our largest markets. Highlights for the four month-period since the end of June 2019 include continued strong net fund inflows at Sanlam Investment Group (SIG), traction in Glacier's new business sales, as well as a marked improvement in Sanlam Corporate and Santam's risk underwriting profits. Overall new business volumes increased by 6%. The net value of new covered business (VNB) written increased by 13%, supported by a change in the mix of business to more profitable lines of business and a lower comparable risk discount rate at the end of October 2019. Net result from financial services grew by 12%, contributing to a 16% rise in net operational earnings. Saham continues to outperform its top-line target.

Operating conditions remained challenging in South Africa with no major improvement expected in the country's economic growth in the short to medium term. The medium-term budget policy statement (MTBPS) by the Minister of Finance highlighted the need to implement the structural reforms proposed in National Treasury's recently-released economic strategy document. The MTBPS contributed to a downgrade by Moody's of South Africa's sovereign credit rating outlook to negative. The continued policy and political uncertainty weighed on the South African currency and investment markets, which significantly underperformed global markets. Despite these headwinds, we continued to grow strongly in all of our South African businesses, testimony to the quality of our business and our people, their ability to execute in tough times and delivery from the new growth initiatives that we launched in recent years, such as BrightRock, Sanlam Indie, MiWay Life and the Capitec Bank partnership.

The South African equity markets recorded muted growth in the first 10 months of 2019 compared to global indices, with the JSE/FTSE Swix Index delivering a return of 7.1% compared to a negative return of 13.6% in the first 10 months of 2018. Average equity markets as measured by the JSE/FTSE Swix Index were, however, still some 4.9% lower than the comparable 10-month period in 2018.

Economic conditions in the other emerging markets where we operate remained broadly unchanged from the first half of 2019. The exceptions were Angola and Lebanon. The Angolan currency collapsed since the Central Bank removed the band within which it protected the currency, exacerbating inflationary pressure in our general insurance business and contributing to foreign currency translation losses of R111 million since 30 June 2019 on exposure that cannot be settled due to foreign currency liquidity constraints. Pressure on the Lebanese economy and general operating environment intensified following social unrest and political uncertainty. The Indian businesses continue to perform well despite a slowdown in economic growth.

We remain focused on our core competencies: 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 10 months to 31 October 2019 at the weighted average exchange rate for the 10 months to 31 October 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 – 10 months to 31 October 2019*	*Average rand exchange rate – 10 months to 31 October 2018*	*Change in average exchange rate*
British Pound	*18.31*	*17.51*	*4.6%*
United States Dollar	*14.40*	*13.00*	*10.8%*
Indian Rupee	*0.206*	*0.193*	*6.6%*
Botswana Pula	*1.36*	*1.31*	*3.8%*
Moroccan Dirham	*1.51*	*1.40*	*7.8%*
Angolan Kwanza	*0.043*	*0.055*	*-21.8%*
Nigeria Naira	*0.040*	*0.036*	*-11.1%*

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

All comparative information is for the 10 months ended 31 October 2018 unless otherwise indicated. Any reference to the Saham structural impact refers to the impact of Sanlam acquiring the remaining 53% interest in Saham Finances effective 1 October 2018.

The salient features of the Group's performance for the 10 months to 31 October 2019 are:

- *New business volumes* of R199 billion, up 6% on the first 10 months of the 2018 financial year (3% in constant currency and excluding the Saham structural impact).

  - Overall new business volumes at Sanlam Personal Finance (SPF) were in line with 2018, a marked improvement compared to the first six months of 2019.

    Sanlam Sky new business sales grew by 9% (52% excluding the one-off Capitec Bank credit life mandate included in the comparative base). Sales through the traditional individual life intermediated channel continued to perform well, increasing by a healthy 11%. Sales of Capitec Bank funeral business, launched in May 2018, continue to exceed expectations, contributing some R900 million to new business volumes. Safrican and Group Benefits are having a slower year.

    The recurring premium sub cluster, primarily focused on the middle-income market, reflects the pressure on disposable income in this market segment, with new business volumes only marginally up on 2018. Good demand for single premium retirement annuities, the MiWay Life and Sanlam Indie offerings as well as Sanlam Personal Loans credit life was offset by lower sales of traditional individual life recurring premiums risk and savings products.

Despite persisting uncertainty, Glacier experienced a welcome improvement in life and non-life sales, exceeding sales targets in recent months. New business sales for the 10 months to 31 October 2019 were only slightly down on the previous year.

- SEM recorded overall new business growth of 37% (10% up in constant currency and excluding the Saham structural impact). Trends were broadly in line with the first-half 2019 performance. Saham continues to outperform its top-line targets by a considerable margin, partly offset by lower investment business flows in Namibia and Kenya. Nigeria also continued to contribute strong growth.

- New business volumes at SIG increased by 6%, a strong performance under difficult conditions. The value of new mandates awarded to the South African Investment Management and Wealth Management businesses increased by 14% and 34% respectively. The International businesses experienced a 26% slowdown in new business inflows.

- Santam achieved slightly more subdued growth in conventional business gross written premiums compared to the first-half performance.

- The comparative base for Sanlam Corporate includes large one-off mandates awarded in 2018 that were not expected to repeat in 2019. The cluster's new business volumes commensurately declined by 20% despite exceeding the target for the period by a healthy margin.

- Net VNB increased by 13% (up 6% on a constant economic basis) with all clusters contributing good growth. Overall net VNB margins improved by some 21 basis points on a constant economic basis on the comparable 2018 period.

- Overall net fund inflows of R43.5 billion were 20% higher than the R36.2 billion achieved in the comparable 10-month period in 2018. SIG attracted strong net inflows of R18.5 billion compared to R8.7 billion in the comparable period.

- Persistency trends remained in line with the first half of 2019.

* *Net result from financial services* increased by 12% on the first 10 months of the 2018 financial year (up 6% excluding the Saham structural impact and in constant currency).

  - SPF's net result from financial services increased by 7%, supported by strong growth at Glacier. The improved relative investment market performance in 2019 compared to the first 10 months of 2018 benefited fee income from Glacier's participating products.

  - SEM's net result from financial services increased by 36% (12% excluding the Saham structural impact and in constant currency). All key regions contributed strong growth, apart from Namibia where increased new business strain and lower general insurance earnings limited net profit growth to 2%. India in particular continued its strong growth in operational earnings. Claims experience in Saham remains under pressure, with the overall general insurance underwriting margin below the 5% to 9% target range. Saham continues to implement corrective measures, including repricing and improved claims management. The investment performance has, however, been better than expected, which partly offset the lower underwriting result.

  - SIG's contribution to net result from financial services decreased by 6%. The South African asset management and wealth management businesses continued to do well and achieved 30% growth in net result from financial services despite the 4.9% lower average equity markets in the period that suppressed fee income. One-off income earned in the alternative businesses supported the performance, augmented by improved performance fees in the third-party business and diligent cost management. Sanlam Specialised Finance's net result from financial services declined by 16%, largely due to the increased provisioning in respect of certain corporate credit exposures.

  - As indicated above, claims experience improved at Santam since the end of June 2019. Underwriting margin within the conventional business moved well above the midpoint of the target range of 4% to 8%.

  - Repricing of loss-making schemes, combined with improved claims management, are yielding positive results at Sanlam Corporate, with Group Risk profit reflecting a major improvement on the comparable 10-month period in 2018. Actual disability claims experience continued at elevated levels.

- *Net operational earnings* increased by 16%. This is the combined effect of the 12% growth in net result from financial services and a 62% combined increase in net investment return and project expenses. Net investment return benefited from the relatively stronger investment market returns.

- *Diluted headline earnings* per share declined by 20%, but increased by 2% per share if the B-BBEE IFRS 2 charge is excluded. Headline earnings reflect the combined effect of:
  - The 16% increase in net operational earnings;
  - The one-off accounting cost of R1.7 billion recognised in terms of IFRS 2 in respect of the B-BBEE share issuance in the first half of the year.
  - A 185% increase in the amortisation of intangible assets following the first-time consolidation of Saham and Nucleus in 2018.

Capital

The Group's operations remain well capitalised. The Sanlam Group Solvency Capital Requirement (SCR) cover ratio amounted to 216% on 30 September 2019 (Sanlam Life Insurance Limited: 262%).

Discretionary capital available at the end of June 2019 has been fully utilised for corporate transactions amounting to some R770 million. Some R630 million was utilised for the acquisition of the Thesis Group in the United Kingdom (UK) and the capitalisation of African Rainbow Life, which received its insurance licence in July. The Thesis Group augments the scale of the Group's private wealth, advice and asset management operations in the UK. Focus in the UK is now on embedding the recent acquisitions made, with no further transactions planned for the foreseeable future.

Future generation of discretionary capital will be sufficient to fund the planned bolt-on acquisitions across the portfolio.

Outlook

We do not expect improvement in the economic conditions of the major territories where the Group operates in the short term. New business growth potential will commensurately remain under pressure. Investment market volatility is also expected to persist, aggravated by Brexit and the finalisation of a trade deal between the United States and China.

Continuation of the recovery in the South African mass affluent 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. Outside of South Africa, new business growth in other emerging markets is expected to remain strong, supported by the base effect of the Saham structural impact.

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 year to 31 December 2019. Currency volatility in Angola and the weakening operating environment in Lebanon are particular risk factors.

The focus will remain on delivering results from Saham and finalising the third-party asset management B-BBEE transaction approved by Sanlam shareholders in December 2018.

The information in this operational update has not been reviewed and reported on by Sanlam's external auditors. Sanlam's annual results for the year ending 31 December 2019 are due to be released on 12 March 2020. 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 https://www.diamondpass.net/6777665 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: **29407**

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

Cape Town
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