

Sanlam Limited Group
Incorporated in the Republic of South Africa
(Registration number 1959/001562/06)
"Sanlam", "Sanlam Group", or "the Company"
JSE Share code (Primary listing): SLM
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ISIN: ZAE000070660

Operational update: COVID-19 pandemic

COVID-19 has spread at an alarming rate since its outbreak, being declared a global pandemic by the World Health Organisation. Government and central bank responses globally have been unprecedented to limit the impact of the virus on public health and to stem the unavoidable consequences for economic growth. These events contributed to investment market turmoil not seen since the global financial crisis.

The JSE recently issued guidance in South Africa, requesting that shareholders and other stakeholders be informed of the impact of COVID-19 on the operations of listed companies. In line with this guidance and our transparent communication approach, this update provides information in respect of Sanlam's financial performance for the first two months of the 2020 financial year as well as the possible impact of COVID-19 on Sanlam's operations and financial position.

RESULTS FOR THE TWO MONTHS ENDED 29 FEBRUARY 2020

Consistent with performance trends in the second half of 2019, the Group had a pleasing start to the 2020 financial year, with strong growth in most key performance indicators compared to the first two months of 2019:

- Net result from financial services increased by more than 10%.
 - All clusters contributed strong growth, apart from Sanlam Personal Finance whose operating earnings were impacted by increased new business strain and lower earnings at Glacier. The decline in investment markets in the first two months of 2020 had a negative effect on Glacier's market-related earnings from products in which it shares in the actual investment return earned on the underlying portfolio.
 - The widening of credit spreads related to the COVID-19 outbreak detracted from Sanlam Investment Group's earnings; the overall cluster however still achieved solid growth.
 - The underwriting margin of the former Saham general insurance portfolio showed pleasing improvement compared to the 2019 full-year results, augmented by higher return on insurance funds.
- New business volumes increased by more than 30%. All lines of business reflect strong double-digit growth.
 - All clusters achieved very strong growth, with a welcome improvement in investment business flows at Sanlam Emerging Markets and Sanlam Investment Group's international business.
 - Apart from Lebanon, the former Saham portfolio continued to perform in line with expectations.

- The net value of new covered business (VNB) written increased by some 5% on 2019.
 - Sanlam Personal Finance achieved strong growth, which was partly offset by lower contributions from Namibia, Cote d'Ivoire and Morocco (change in mix of business and lower margins) and Sanlam Corporate (slower start to the year than 2019 in recurring premium life business).

COVID-19 OPERATIONAL IMPACT

The operating environment deteriorated substantially since the end of February 2020 as governments implemented strict measures to control the spread of the virus. Global growth estimates were revised down sharply (a global recession is now predicted by most economists), driving the significant downturn in global investment markets.

The impact on Sanlam's operations is summarised below, based on investment market indicators as at close of business 25 March 2020. Sanlam remains well capitalised and resilient despite the volatile conditions we are facing. This is an outcome of our prudent reserving basis and capital management philosophy, well-embedded and appropriate risk management processes, as well as our diversification across geographies, market segments and lines of business. Shareholders are reminded that conditions remain fluid and uncertain. The financial position reflected in this announcement will consequently change over time.

Business continuity

States of disaster and emergency have been implemented in a number of countries, involving limitations on people movement, with a number of countries imposing lockdowns. South Africa, Namibia, Morocco, Cote d'Ivoire, Lebanon, Malaysia, India and the United Kingdom are some of the markets where Sanlam operates that are currently under some form of lockdown.

The majority of business units within the Sanlam Group have completed their pandemic response plans, aimed at protecting the health and safety of all staff. The main focus of these plans includes:

- Compliance with regulatory restrictions on the movement of people;
- Emphasis on personal hygiene;
- Employee distancing techniques in work environments;
- Limitations around international and domestic travel;
- Maximum use of remote working;
- Self-isolation where staff have travelled or might have been exposed to the virus;
- Access control measures dealing with visitors to worksites; and
- Continuous communication to staff, clients and other stakeholders.

Most of Sanlam's operations in South Africa, including Santam, has been classified as essential services. During the lockdown period, the Group will operate on a limited staff basis, with only core critical staff on site. We should therefore be able to service our clients, albeit not at the usual levels of service. Sanlam Emerging Markets' operations are also operating at limited capacity where restrictions on movement is in place. The ability to write new business is affected, as elaborated on in the Outlook section below.

Financial indicators

The following table reflects year-to-date movements in the key market indicators that has an impact on Sanlam's financial position.

Indicator	31 Dec 2019	25 Mar 2020	Movement
Rand exchange rates			
United States Dollar	13.98	17.41	24.5%
British Pound	18.52	20.48	10.6%
Botswana Pula	1.34	1.50	11.9%
Moroccan Dirham	1.49	1.77	18.8%
Angolan Kwanza	0.029	0.032	10.3%
Malaysian Ringgit	3.44	3.96	15.1%
Indian Rupee	0.197	0.229	16.2%
Equity markets			
South Africa All Share	57 084	43 278	-24%
South Africa Swix	12 037	8 909	-35%
MSCI World (in US\$)	2 358	1 786	-32%
Botswana All Share	7 495	7 550	1%
Morocco All Share	12 172	9 892	-19%
Cote d'Ivoire All Share	3 227	2 455	-24%
United Kingdom Top100	7 542	5 688	-25%
Interest rates – Sanlam reference government bond yield			
South Africa 9-year	9.3%	12.6%	
Namibia	8.6%	11.4%	
Botswana	6.5%	6.5%	
Morocco	2.8%	2.7%	
Cote d'Ivoire	6.5%	6.5%	
India	6.8%	6.4%	
Malaysia	3.3%	3.6%	
United Kingdom	1.2%	0.8%	

The market movements experienced in March are similar to the economic shock scenario disclosed in Sanlam's annual financial statements for solvency sensitivity analyses. The shock scenario includes a 30% decline in equities, a 25% increase in interest rates and a 20% devaluation of emerging market currencies against developed market currencies.

Solvency

Sanlam Life Insurance Limited (Sanlam Life) is the largest life insurance company in the Group and the most significant contributor to Group solvency.

The capital portfolio backing Sanlam Life's R8 billion required capital is invested in zero cost collars. The investment market volatility therefore did not have a significant impact on the value of the portfolio. Pricing to roll the derivatives has, however, deteriorated significantly. As a result, maturing tranches are currently being rolled into cash, which will continue in the near term.

The decline in investment markets had a muted impact on Sanlam Life's Solvency Capital Requirement (SCR) cover ratio. This is attributable to the protection provided by the zero cost collars in the capital portfolio as well as the change in the equity symmetrical adjustment allowed for in the SCR calculation, which dampens the impact of severe investment market volatility. This is in particular the case for the solo entity (regulatory) SCR cover, where the Sanlam Life participations (investments in subsidiaries and associates) provide stability to the solvency ratio. The Sanlam Life solo solvency cover is estimated at 258% on 25 March 2020 compared to 253% at 31 December 2019. The estimate is based on the year-end sensitivity analysis.

The Sanlam Life internal view is used for management purposes, as it represents Sanlam Life's contribution to Group Solvency. It is based on the R8 billion of required capital allocated to the Sanlam Life covered business and excludes the value of participations, any excess capital held on the Sanlam Life balance sheet as well as cash held for dividend payments. A target SCR cover ratio of 170% to 210% has been set for the internal view. At the lower end of the target range (170%), Sanlam Life can withstand at least two economic shocks (refer key features of economic shock above) without breaching the minimum SCR cover ratio of 100%. The internal view SCR cover ratio amounted to 206% at 31 December 2019, at the upper end of the target range. It is estimated at 188% on 25 March 2020, well within the target range. The estimate is based on the year-end sensitivity analysis.

Solvency levels within the other Group subsidiaries remained at appropriate levels, given the relatively larger exposure to cash and fixed-interest securities within these businesses.

Portfolio funding levels

Sanlam Life has the most material exposure to products that provide financial guarantees to policyholders, which include the following main lines of business:

- **Fixed-term guarantee plans**

Fixed-term guarantee plans are matched with appropriate fixed-interest instruments on a cash-flow duration basis. As both the assets and liabilities are valued on a consistent basis, movements in interest rates do not result in mismatch profits or losses. Credit risk is the main financial risk assumed by Sanlam under these contracts.

- **Smoothed bonus portfolios**

These products aim to provide a smoothed return to policyholders over time through the bonus declaration philosophy. The main smoothed bonus portfolios include (policyholder liabilities as at 31 December 2019) the Individual Life Stable Bonus Portfolio (R27 billion), the Group Stable Bonus Portfolio (R11 billion), the Monthly

Bonus Fund (R7 billion) and With-Profit Annuities (R5 billion). The funding levels of these portfolios were between 80% and 90% on 25 March 2020 compared to close to 100% funding levels at 31 December 2019. Should future investment returns earned on the portfolios be in line with the long-term investment return assumptions disclosed in the Group's 2019 annual financial statements, the funding levels of these portfolios can be restored to 100% through the declaration of lower bonuses in the next three years. Should markets deteriorate further or underperform for an extended period, other management actions are available to manage the funding levels in combination with shareholder capital injections. These include the cancellation of non-vested bonuses, except for With-Profit Annuities or fully vesting smoothed bonus portfolios. The balanced mandates of these portfolios from an asset class perspective, together with foreign exposure of some 30%, provide a buffer to funding levels.

Products offering financial guarantees to policyholders within the Sanlam Emerging Markets portfolio are mostly matched by interest-bearing securities. No material mismatch profits or losses have occurred in these portfolios.

Investment-related earnings

- **Sanlam Investment Group**

Credit spreads on listed debt have widened to historic high levels. This contributed to negative unrealised marked-to-market losses year-to-date of some R470 million after tax at Sanlam Specialised Finance (Sanfin) as at 25 March 2020. In the absence of any actual defaults, these unrealised losses will reverse in future as the higher spreads unwind to maturity, i.e. it simply causes timing differences in earnings recognition. Any narrowing of spreads going forward, will accelerate this reversal. The current circumstances are likely to lead to an increase in credit counterparties experiencing distress. These exposures will be proactively managed with an emphasis on obtaining security where possible, and maximising recovery should any defaults actually occur.

All required margins/collateral have to date been received as required in respect of the equity-backed lending business.

Derivative structures (including interest rate, equity and currency derivatives) are requiring an increased need for margins/collateral to be posted by Sanfin. The Group has a well-established liquidity risk management framework to ensure sufficient liquidity during stressed market conditions such as those currently being experienced. All margin/collateral requirements have been and are projected to be met from internal resources, and will continue to be prudently and proactively managed within the liquidity risk management limits of the Group.

- **Sanlam Personal Finance**

As highlighted in the 2019 annual results financial review and referred to above, Glacier's product offering includes a line of business where it participates in the actual investment return earned on the underlying portfolio. This product contributed some R200 million to Glacier's net result from financial services for the 2019 full year. As at 25 March 2020, earnings from this line of business amounted to a loss of some R90 million after tax.

- **Sanlam Emerging Markets**

The weaker equity markets in Namibia, India, Morocco and Cote d'Ivoire have a negative impact on investment variances in the life portfolios. Return on insurance funds held in the Morocco and Cote d'Ivoire general insurance portfolios are also negatively affected given the equity exposure within the asset mix.

COVID-19 is likely to result in a further deterioration of economic conditions in Lebanon, aggravated by the sovereign debt defaults in March 2020, which may require credit provisioning to be recognised in terms of IFRS 9 in finalising the Group's interim results for the six months to 30 June 2020, in addition to the provisions recognised in the Group's 2019 annual results.

Claims and persistency experience

To date we have not been exposed to any major change in claims and persistency experience.

- **Life insurance business**

The development of claims experience will be dependent on, among others, the infection rate in the markets where we provide cover, the ability of the local healthcare infrastructure to cope with the number of individuals requiring hospitalisation and the eventual mortality rate. The swift action taken by many governments, in particular lockdowns, should limit infection rates and mortality experience.

The Group's policy liabilities at 31 December 2019 included a pandemic reserve of R760 million that was created specifically for an event of this nature a number of years ago. This reserve is available to cover increased mortality experience emanating from COVID-19.

Sanlam's geographic diversification also provides resilience.

- **General insurance business**

Santam

Santam is in the process of reviewing all relevant policy wordings in order to assess potential insurance exposure relating to the COVID-19 pandemic and to determine how Santam's policies may respond to any claims made.

Sanlam Emerging Markets

The impact of COVID-19 on general insurance claims is, among others, dependent on governments' response to the pandemic. Some governments are considering requirements for insurers to pay medical costs even if this is not covered under the policy contracts, or to contribute voluntarily to relief funds. Despite limited contractual exposure in many instances, measures implemented by governments may therefore still have an impact.

Business Interruption (BI) Insurance

The vast majority of property policies are written on a named perils basis and do not provide cover for BI. Where BI cover is provided, it is generally restricted to direct

business interruption as a consequence to damage to property (usually fire or machinery breakdown only).

Health Insurance

Exposure to COVID-19 claims is dependent on policy conditions, which vary between countries. These conditions in general exclude pandemics and/or pandemics where quarantine is implemented.

Outlook

Economic growth in all of the Sanlam markets will be lower than anticipated, with some expected to enter recessions, including South Africa. This poses risk to growth in new business volumes as well as persistency experience. Increased pressure on corporate earnings will also heighten credit risk. New business volumes are furthermore restricted by the lockdowns in a number of markets, limiting advisors' ability to conduct business. We do have a number of digital sales channels across the Group, which includes digital enablement of advisors. Sales through these channels will provide some relief.

Equity, interest rate and currency markets are expected to remain volatile in the foreseeable future. Moody's downgrade of South Africa's sovereign rating to below investment grade on 27 March 2020 is expected to add to volatility in the South African markets. 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, operational earnings and Group Equity Value to be reported for the six months to 30 June 2020 and the year to 31 December 2020.

Sanlam is well positioned to weather the current conditions - we have a solid balance sheet, strong operational processes and some of the best expertise available in the market.

The final 2019 ordinary dividend of 334 cents per share that was declared on 11 March 2020 will be paid on Monday 20 April 2020.

The information contained in this announcement has not been reviewed and reported on by Sanlam's external auditors. Shareholders are further advised that this is not a trading statement as per paragraph 3.4(b) of the JSE Limited Listings Requirements.

Forward-looking statements and estimates

In this announcement we make certain statements that are not historical facts and relate to analyses and other information based on estimates and/or forecasts of future results not yet determinable, relating, amongst others, to new business volumes, investment returns (including exchange rate fluctuations), solvency ratios, GEV and actuarial assumptions. These statements may also relate to our future prospects, developments and business strategies. These are forward-looking statements as defined in the United States Private Securities Litigation Reform Act of 1995. Words such as “believe”, “anticipate”, “intend”, “seek”, “will”, “plan”, “could”, “may”, “endeavour” and “project” and similar expressions are intended to identify such forward-looking statements, but are not the exclusive means of identifying such statements. Forward-looking statements involve inherent risks and uncertainties and, if one or more of these risks materialise, or should underlying assumptions prove incorrect, actual results may be very different from those anticipated. Forward-looking statements apply only as of the date on which they are made, and Sanlam does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. Any forward-looking information contained in this announcement has not been reviewed and reported on by Sanlam’s external auditors.

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 www.diamondpass.net/4514082 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 after the conference call until 2 April 2020.

Access Numbers for Recorded Playback:

Access code for recorded playback: **32228**

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