Sanlam Limited
(Incorporated in the Republic of South Africa)
Registration number 1959/001562/06
JSE share code: SLM
A2X share code: SLM
NSX share code: SLA
ISIN: ZAE000070660
("Sanlam" or "the Group")

Operational Update – June 2020

The Group had a solid start to the 2020 financial year as communicated to shareholders in the Covid-19 update released on the JSE Stock Exchange News Service in March 2020. Most of the operational trends experienced in the second half of 2019 persisted in the first two months of 2020. The operating environment, however, deteriorated substantially since the end of February 2020 as governments implemented strict measures to control the spread of Covid-19. These included the declaration of states of disaster and emergency in a number of countries where we operate, involving severe limitations on people movement and preventing face-to-face sales in most of our businesses. These were in line with similar measures implemented globally. Global growth estimates were revised down sharply, driving significant volatility in investment markets across the world.

Despite these headwinds, we achieved acceptable results for the four months to 30 April 2020, testimony to the resilience afforded by our diversified operations and the skills and exemplary dedication of our employees under difficult conditions.

The Group responded rapidly to the lockdown enforced in South Africa, our largest market, from midnight 26 March 2020 as well as the lockdowns and curfews implemented around the same time in our other markets. Close to 90% of our office staff were enabled to work effectively from home. We will continue to carefully manage employees returning to work in line with the amendments to lockdown levels, with the health and safety of our staff being the priority. Our aim is for the majority of our employees to continue to work from home for the foreseeable future to reduce the risk of infection and to prepare the business for a new way of work post Covid-19.

Our designation as an essential service in South Africa excludes our tied and independent advisors in line with the measures in our other markets. As a result, new business volumes were significantly impacted since the last week of March in the absence of face-to-face sales. Our investment in digital businesses such as MiWay and Sanlam Indie, as well as digital sales tools for our advisors, alleviated this pressure to some extent. The available digital sales tools are, however, more targeted at the middle-income and affluent market segments. The Sanlam Sky intermediated distribution channel and many of our other emerging markets channels are still predominantly based on personal interaction, with a commensurately more pronounced negative impact on new business sales in these areas. Sanlam Personal Finance (SPF) accelerated the development of digital tools for Sanlam Sky, which will be launched in the near future. Accelerated digital enablement is also a key focus for Sanlam Emerging

Markets (SEM). The slowdown in economic activity following the introduction of the lockdowns places further pressure on new business growth potential.

The key investment markets where we operate followed global trends, recording negative returns across the board. Long-term interest rates in South Africa increased substantially, while reference interest rates in our other key markets were more stable.

	April 2020 year-to-date	March 2020 year-to-date
Equity markets – change in indices		
South Africa All Share	-11.8%	-22.1%
South Africa Swix	-13.9%	-23.8%
MSCI World (in Rand)	15.0%	0.8%
India Sensex	-18.3%	-28.6%
Botswana All Share	-0.9%	-0.1%
Morocco All Share	-22.8%	-20.3%
Cote d'Ivoire ICXCOMP	-15.3%	-6.7%
United Kingdom FTSE 100	-21.8%	-24.8%
Interest rates – Sanlam reference government bond yield		
South Africa 9 year (Dec 2019: 9.3%)	11.2%	11.8%
Namibia – 7 year (Dec 2019: 8.6%)	9.6%	11.9%
Botswana (Dec 2019: 6.5%)	6.5%	6.5%
Morocco – 10 year (Dec 2019: 2.8%)	2.9%	2.7%
Cote d'Ivoire (Dec 2019: 6.5%)	6.5%	6.5%
India – 10 year (Dec 2019: 6.8%)	6.1%	6.1%
Malaysia – 10 year (Dec 2019: 3.3%)	2.9%	3.4%
UK – 15 year (Dec 2019: 1.2%)	0.4%	0.5%

The investment market volatility impacted our financial results in four main areas:

- Investment related fee income at Sanlam Investment Group (SIG) and SPF were suppressed by negative investment market returns and commensurately lower assets under management.
- Increasing credit spreads and volatility in the share prices of listed preference shares are reflected in marked-to-market losses at Sanlam Specialised Finance (SanFin).
- Credit risk is rising as a result of the deteriorating economic environment, requiring an increase in corporate credit provisioning at SanFin.
- Investment return earned on insurance funds at SEM's general insurance businesses in Africa was adversely affected by negative investment market returns.

Investment return earned on the Group's capital portfolios were also affected, but this was to a large extent alleviated by the hedging strategy in place in the South African life insurance capital portfolio as well as foreign currency translation gains from the weaker Rand exchange rate.

The weaker average Rand exchange rates did not have an overall material impact on the Group's operational earnings for the four-month period due to offsetting positive and negative foreign currency translation differences. The latter primarily relates to the negative investment return on insurance funds in SEM and the weaker Angolan Kwanza.

Results

All comparative information is for the 4 months ended 30 April 2019 unless otherwise indicated. Information presented excluding the impact of investment market volatility has been adjusted to remove those financial impacts separately identified in this announcement.

The salient features of the Group's performance for the four months to 30 April 2020 are presented in the table that follows. Growth in key performance indicators for the three months to 31 March 2020 (compared to the first three months of 2019) is also provided in the context of the significant impact that Covid-19 lockdowns and curfews had on the Group's new business sales from 26 March 2020 to the end of April 2020.

Key performance indicator (% growth on comparable prior year period unless otherwise indicated)	April 2020	March 2020
Earnings:		
- Net result from financial services	-21%	-32%
Excluding investment market impact	13%	16%
- Net operational earnings	-26%	-40%
Excluding investment market impact	2%	1%
- Headline earnings	40%	123%
Excluding investment market impact	105%	308%
- Diluted headline earnings per share	44%	128%
Excluding investment market impact	111%	316%
Business volumes:		
- New business volumes	33%	43%
- Value of new life insurance business (VNB) - consistent economic basis	-18%	3%
- VNB - actual economic basis	-22%	-12%
- VNB margin (margin for the period) (April 2019: 2,67%) - consistent economic basis	2,02%	2,33%
- VNB margin (margin for the period) (April 2019: 2,67%) - actual economic basis	1,96%	2,05%
- Net fund flows	-17%	-38%
Solvency – at end of period:		
- Sanlam Group (December 2019: 211%)	n/a	201%
- Sanlam Life Insurance Limited (December 2019: 253%)	n/a	269%
- Sanlam Life internal management view (December 2019: 206%)	n/a	194%

The lines of business most significantly impacted by the volatile investment market conditions are reflected in the table that follows. These have been excluded in determining the growth in key performance indicators excluding investment market impacts in the table above.

R million	**April 2020**	April 2019	**March 2020**	March 2019
SanFin: credit spreads	**(328)**	-	**(361)**	-
Gross movement in credit spreads	**(912)**	-	**(1 003)**	-
Transfer to asset mismatch reserve	**456**	-	**501**	-
Taxation	**128**	-	**141**	-
SanFin: marked-to-market changes from listed preference shares	**(100)**	14	**(120)**	17
SPF: Glacier participating fee income	**(58)**	135	**(141)**	104
SEM: Africa General Insurance: net investment return on insurance funds	**(304)**	130	**(277)**	86
Investment market impact on net result from financial services	**(790)**	279	**(899)**	207

Earnings

Net result from financial services declined by 21% on the first four months of the 2019 financial year. Excluding the negative investment market impact highlighted above, net result from financial services increased by a pleasing 13%.

- SPF’s net result from financial services declined by 13%. This is largely attributable to lower income from life investment products in Glacier where the business shares in the actual return earned on the underlying portfolios (refer table above). Excluding this, net result from financial services increased by 5%. Risk profits in the Recurring Premium business increased strongly, supported by growth in the size of the book as well as continued positive claims experience. No Covid-19 mortality claims have been received up to the end of April 2020. A small number of sickness benefit claims were lodged. The Glacier LISP platform also performed well, with the decline in investment markets more than offset by strong net fund inflows. Lower investment markets suppressed fee income in the Savings business, contributing to only marginal earnings growth. Sanlam Sky experienced a decline in net result from financial services, attributable to Covid-19 support to advisers, higher new business strain and negative expense assumption changes. The latter two relate to higher assumed acquisition and maintenance unit cost due to the negative impact of Covid-19 on new business volumes and expected in-force units at the end of 2020. Sanlam Personal Loans increased its bad debt provisions by some R50 million (Sanlam’s share after tax) to allow for increased credit risk under prevailing conditions.

- The decline in equity markets and lower valuations for unlisted properties in North West Africa adversely affected investment return earned on SEM’s general insurance funds in Africa (refer table above) due to the approximate 40% and 30% respective exposures to equities and properties in the portfolio. This more than offset an otherwise satisfactory performance. Net result from financial services declined by 27% as a result. Excluding the general insurance float returns in Africa, net result from financial services increased by 29%. Life insurance earnings from the Africa portfolio declined slightly on 2019, with satisfactory growth in Botswana, Namibia and Nigeria countered by negative investment variances in North West Africa. The African general insurance portfolio had a good start to the year from an underwriting perspective, achieving a margin within the 5% to 9% target range. All key markets delivered improved performances compared to 2019. The negative return on insurance funds, however, contributed to an overall negative net insurance margin for the four-month period. The Other international region achieved overall strong growth. All major businesses in the region contributed to the performance, including continued strong profit growth from Shriram General Insurance. It should be noted that Sanlam reports the Shriram Capital results with a three-month lag. The impact of Covid-19 and regulations in India that allows credit clients a 6-month repayment holiday therefore does not yet reflect in these results.

- SIG's contribution to net result from financial services decreased by 134% (up 19% excluding the impact of investment market volatility on SanFin as highlighted above). The asset management and wealth management businesses achieved sterling growth of 20% despite the pressure on assets under management (the average JSE/FTSE Swix index was 10% lower in the first four months of 2020 compared to the same period in 2019). Earnings benefited from increased performance fees, strong net fund inflows at Sanlam Multi Manager and Satrix towards the end of 2019 and start of 2020, high demand for currency, equity protection and bond derivatives at Sanlam Structured Solutions, increased brokerage income at Sanlam Private Wealth and stringent expense management. SanFin experienced a decline in net result from financial services from R82 million in 2019 to a loss of R350 million in 2020, due to rising credit spreads and marked-to-marked losses on listed preference shares (refer above), as well as additional credit-related provisions of R175 million after tax as credit risk rose in the wake of deteriorating economic conditions. The latter includes the first default of R100 million net of taxation. In terms of the Group's accounting policies, 50% of the movement in credit spreads in 2020 was transferred to the asset mismatch reserve held in respect of non-participating policyholder business. This portion of the movement in spreads is attributed to changes in illiquidity premiums that should reverse over time. In line with the asset mismatch reserves held in respect of SPF and Sanlam Corporate, the SanFin asset mismatch reserve is recognised in future earnings at a rate of 16% per annum.

- Santam's earnings for the period were also affected by the Covid-19 pandemic. A number of claims for Events Cancellation and Travel Insurance were covered in terms of its policies and are in the process of being settled in line with the policy conditions. A small minority of commercial and corporate policyholders have cover that includes protection against contagious or infectious diseases. This cover is provided under either the Contingent Business Interruption (CBI) or the Cancellation of Bookings sections of their policies. CBI insurance covers the interruption of a business as a result of a localised outbreak of a contagious or infectious disease that has directly impacted the business's operations and caused a loss. Losses as a result of governmental restrictions on activity, such as a national lockdown, or the existence of a global pandemic, are however not covered. This view is in line with the majority of counterparts and reinsurers in the general insurance industry, both locally and globally. Provisions for claims from these policies were raised based on best estimates of the exposures; however, given the lockdown and the complex nature of these claims, significant uncertainty exists over the quantum of the claims provisions.

The lockdown resulted in an otherwise very subdued claims environment for the month of April 2020, notably impacting the motor class of business. Santam and MiWay respectively provided premium refunds and discounts on motor policies as well as other premium relief support to personal and commercial policyholders amounting to R327 million. Support of R42 million is also provided to SMME and other suppliers.

Despite these discounts, pressure on top line growth in the current environment and the Covid-19 provisions, Santam's conventional business still managed to achieve an underwriting margin at the midpoint of its 4% to 8% target range.

- The management actions implemented by Sanlam Corporate in the past 18 months in respect of the repricing of loss-making schemes and improved claims management continued to yield positive results, with Group Risk profit reflecting a major improvement on the comparable four-month period in 2019. Sanlam Corporate's net result from financial services increased by a particularly satisfactory 34% as a result.

Net operational earnings decreased by 26%. This is the combined effect of the 21% decline in net result from financial services and a combined decrease in net investment return and project expenses from R633 million in the first four months of 2019 to R320 million in 2020. As indicated above, net investment return on capital was shielded from the full impact of the investment market downturn by hedging strategies applied to the South African life capital portfolio and foreign currency translation gains.

Headline earnings increased by 40% (44% increase in diluted headline earnings per share). The decrease in net operational earnings was more than offset by a low 2019 comparative base, which included the one-off accounting cost of R1.7 billion recognised in terms of International Financial Reporting Standard (IFRS) 2 in respect of the B-BBEE share issuance. Excluding the IFRS 2 charge from the comparative base, headline earnings declined by 22%.

Business volumes

New business volumes of R96 billion increased by 33% on the first four months of the 2019 financial year. The lockdowns and curfews imposed since the end of March 2020 and throughout April had a significant adverse impact on new business sales performance. This is reflecting in the table below, which expresses new business sales in April 2020 as a percentage of the average monthly new business written in the first three months of 2020. At a Sanlam Group level, overall new business volumes in April 2020 were 12% lower than the average for the three months to 31 March 2020. Sanlam Corporate was the most severely affected cluster as trustee activity largely stalled in the first few weeks of the lockdown. The level of engagement and quotes found some traction recently. The impact of the lockdowns and curfews are not yet fully reflecting in these results due to timing differences between the writing and recognition of new business. New business production in April and May were in general between 50% and 70% lower than targets across many businesses. Sanlam Sky was more severely impacted as highlighted before, with new business sales some 90% lower than target.

April 2020 new business volumes as a percentage of average new business volumes for the 3 months to 31 March 2020	
Sanlam Personal Finance	**90%**
Life insurance	95%
Investments	84%
Sanlam Emerging Markets	**85%**
Life insurance	82%
General insurance	93%
Investments	80%
Sanlam Investment Group	**93%**
Sanlam Corporate	**47%**
Life insurance	61%
Investment	34%
Sanlam Group	**88%**

- Overall new business volumes at SPF increased by a healthy 18% in the first four months of 2020.

  Sanlam Sky new business sales grew by 19%, supported by Capitec Bank funeral business, a good start to the year for group recurring business and R37 million of new business sales contributed by African Rainbow Life. The lockdown since the end of March 2020 had a severe impact on the traditional individual life intermediated channel, which is primarily focused on worksites and face-to-face sales. New business volumes through this channel declined by 5%, with a further deterioration expected in the months to follow.

  The Recurring Premium sub cluster, primarily focused on the middle-income market, reflects the pressure on disposable income in this market segment, aggravated by the Covid-19 lockdown. New business volumes increased by 1%, with strong growth at BrightRock, Sanlam Indie and MiWay Life largely offset by lower sales of traditional risk and savings solutions.

  Glacier grew its new business sales by 19%, benefiting from sound demand for traditional life annuities, living annuities and international products. Glacier's money market fund also experienced favourable demand.

- SEM recorded overall new business growth of 43%. The African general insurance portfolio exceeded its budget for the period, which allows for a more muted growth target as focus remains on the quality of new business. This includes the non-renewal of loss-making schemes that cannot be repriced appropriately. Life insurance and investment new business volumes in Africa increased markedly on 2019, with the latter benefiting from large new mandates in Kenya and Namibia. North West and East Africa were the main contributors to the growth in new life business. The Other international region achieved double-digit growth in life and general insurance business, exceeding targets for the period. Shriram Life and General Insurance continued to contribute strong growth. Pacific&Orient achieved reasonable results under difficult circumstances, as was the case in Lebanon, where the country is facing major economic and political challenges. MCIS in Malaysia had a slow start to the year, with the mix of business also changing to lower margin group business.

- New business volumes at SIG increased by 42%, with the value of new mandates awarded to the South African Investment Management business increasing by 33%, while Wealth Management delivered more than double the 2019 level of new business. New business at the International businesses exceeded expectations and rose by 59%.

- The lockdown and economic slowdown negatively impacted premium growth at Santam. Despite these conditions, satisfactory growth in gross written premium was achieved, excluding the premium relief noted above. The Santam Commercial and Personal intermediated business continued to experience strained growth in the current economic climate exacerbated by the impact of Covid-19 on new business acquisition in April 2020. The Santam Specialist business reported strong growth in the corporate property and engineering businesses, while the growth in the travel insurance, aviation, transport and marine businesses were negatively impacted by Covid-19 in March and April 2020. MiWay maintained its positive growth momentum up to the start of the lockdown, after which new business growth was negatively affected. Santam Re continued to expand its third-party business and foreign currency premium growth benefited from the weakening Rand.

- Sanlam Corporate achieved 68% growth in new business volumes for the four months to April 2020 despite a marked slowdown in April 2020 due to the Covid-19 lockdown. Sales were, however, skewed towards low margin business.

- Net VNB decreased by 22% (down 18% on a constant economic basis) largely due to lower new life business sales during the lockdown periods, with the higher margin businesses such as Sanlam Sky more severely affected. Lower forecasted volumes for the full-year increased allowance for acquisition and maintenance unit costs in the year-to-date VNB calculations. VNB margins declined commensurately.

- Overall net fund inflows of R14 billion were 17% lower than the R16 billion achieved in the comparable four-month period in 2019. Net inflows at SIG declined due to some large client withdrawals, while all other clusters experienced higher net inflows.

- No marked changes in persistency trends were experienced in the first four months of 2020.

Capital and solvency

The Group remains well capitalised. The Sanlam Group Solvency Capital Requirement (SCR) cover ratio amounted to 201% on 31 March 2020 (Sanlam Life Insurance Limited: 269%). The reduction in the Group cover level from 211% as at 31 December

2019 is largely reflective of the adverse investment market returns in 2020, which depressed funding levels in the smoothed bonus and participating annuity portfolios. Funding levels for the larger portfolios were between 84% and 94% at 31 March 2020 but has since recovered to between 92% and 101% in line with the recovery in global investment markets.

Discretionary capital increased slightly from end-December 2019 to some R360 million, with no significant movements in the first four months of the year. Future generation of discretionary capital will be sufficient to fund any planned bolt-on acquisitions.

SEM announced at the beginning of June that it acquired the remaining stake in the Nigerian insurance business FBN Insurance from its partner, FBN Holdings Plc (FBNH). This gives the Group 100% ownership of FBN Insurance Limited (FBNI) and its subsidiary, FBN General Insurance Limited. FBNH held 65% of FBN Insurance, while Sanlam held 35%. The effective date for Sanlam taking full control of FBN Insurance was 1 June 2020. The acquisition price was funded from available debt capacity to further enhance the return on the investment. This is not a categorised transaction in terms of the JSE Listings Requirements.

This transaction is in line with our business strategy to deepen our presence in our existing markets and highlights and enhances our long-standing commitment to the Nigerian market. Sanlam exercised its pre-emptive right to acquire the remaining shareholding of FBNI and in line with our partnership philosophy that underpins our business model, we will introduce local shareholding at an appropriate time in the future. The transaction reflects our belief and confidence in the value and future of the business as well as the skilled management team and staff. Moreover, we are committed to Nigeria and view it as a key market on the continent. The African continent as a whole remains important and an integral part of Sanlam’s future growth.

Outlook

We continue to actively manage the consequences of the Covid-19 pandemic. Our priority remains the health and safety of our employees. We are also providing support to our clients, intermediaries and vulnerable suppliers across our businesses.

The impact of the pandemic on the communities and economies where we operate can only be managed effectively through concerted efforts between government, business and labour organisations. We are actively providing our support through the relevant business associations. In addition, we have to date contributed more than R200 million to solidarity and other Covid-19 relief funds across our footprint.

We are well positioned to weather the headwinds with a robust balance sheet and solvency position, diversification across geographies, lines of business and market segments, and an admirable depth of skills in our businesses as well as at a Board level. Paul Hanratty and Abigail Mukhuba joining Sanlam as Chief Executive and Financial Director respectively will further add to the years of experience at an executive level.

We are, however, cautious about prospects for the remainder of the 2020 financial year given uncertainty around the eventual impact of Covid-19. The position remains fluid, but the gradual lifting of lockdown requirements in a number of markets, including South Africa, should provide some relief to economic activity. Average investment market levels, credit spread movements, potential credit defaults, the relative strength of the Rand exchange rate, the level of long-term interest rates and the level of new business production are some of the key factors that may have an impact on the growth in net result from financial services, headline earnings and Group Equity Value to be reported for the six months to 30 June 2020 and the 2020 full year. Potentially lower valuations of strategic investments at the end of June 2020 may also require impairment of intangible assets in terms of IFRS.

- New business growth potential and persistency risk remain under pressure in the context of anticipated deep economic recessions in many markets as well as continued limitations on engagement opportunities for our advisors after the end of April 2020. The current level of new business growth is therefore not expected to continue with downside risk to VNB.

- Investment market volatility is also likely to persist that may, together with rising corporate and retail credit risk from the economic fallout, further suppress earnings.

- The eventual claims experience from Covid-19 also remains uncertain, both at Santam as well as our life insurance operations. Our pandemic reserve of some R760 million is available to absorb any increased claims due to Covid-19 at the life insurance businesses.

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 2020 are due to be released on 10 September 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/8462781 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 until 15 June 2020.

Access Numbers for Recorded Playback:

Access code for recorded playback: **10034921**

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Cape Town
10 June 2020

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