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

("Sanlam" or "the Group")

Operational update - October 2020

Sanlam has made solid progress from formulating to implementing the revised strategy which emphasizes the client being at the forefront of everything we do. Our strategy focuses on:

- Deepening customer relationships;
- Increased digitalisation, data usage and direct distribution;
- Collaboration between clusters to improve cross-sell;
- Deepening our relationship with strategic partners, including long-time empowerment partners Ubuntu-Botho and African Rainbow Capital; and
- Strengthening and growing our franchise in Africa outside of South Africa.

To enhance our customer focus within South Africa, we formed the Sanlam Life and Savings (SLS) cluster in, which incorporates the former Sanlam Personal Finance and Sanlam Corporate businesses. In the Sanlam Pan Africa (SPA) businesses, our focus remains on operational execution and reshaping the portfolio to drive consistent growth and a stable return on capital. India remains a strategically important opportunity for Sanlam.

The Group has successfully implemented alternative ways of work during the lockdown periods, with the bulk of our staff working remotely, while maintaining service levels to our clients and advisers. The different group businesses have also made significant strides in applying technology as a key enabler in meeting strategic goals. We continue to assist our clients, intermediaries and partners through various measures including premium holidays, increased engagement and financial support.

Sanlam's operational performance remained resilient in the 10 months to 31 October 2020. Investment business was the key driver of new business volumes and net fund inflows over this period. There has also been an improvement in higher margin life sales over the 4 months since 30 June 2020. Net result from financial services improved marginally since the first half of 2020, impacted negatively by:

- Santam's additional provision for Contingent Business Interruption (CBI) claims of R1,7 billion (R747 million attributable to Sanlam net of tax) following the Western Cape High Court judgement in the Ma-Afrika Hotels matter as reported by Santam Limited on the Stock Exchange News Service (SENS) of the JSE Limited on 20 November 2020;

- Beirut port facility explosion impact of R183 million, inclusive of the exposure in Lebanon and in Saham Re and Santam Re as reinsurers to the Lebanon business; and
- Mortality claims net of reinsurance where COVID-19 has been specified as cause of death, amounting to R229 million (net of tax) at SLS. This excludes funeral and group schemes death claims where the cause of death is not always a requirement when the claim is submitted, resulting in excess deaths which were in line with South African government reported trends. A decrease in mortality claims due to unnatural causes limited the impact to some extent.

Key performance indicators for the 10 months ending 31 October 2020 (relative to the first 10 months of 2019)

- Net result from financial services down 21% (up 22% excluding COVID-19 impacts highlighted below)
- Net operational earnings 33% lower (up 4% excluding COVID-19 impact)
- New business volumes of R248 billion, up 25%
- Net fund inflows of R51 billion, up 17%
- Net value of new covered business (VNB) of R1 350 million, down 21%
- Net VNB margin of 2,30%, down from 2,80% in 2019

The operating environment gradually improved since 30 June 2020 as governments eased the level of restrictions to control the spread of COVID-19, supporting sales from our traditional life insurance distribution channels. Lower average market levels increased pressure on asset management and investment related earnings. Weak equity market performance over the period negatively impacted investment return on capital, return on Saham float and market-related fees of participating products at Glacier. The hedging strategy in place in the South African life insurance capital portfolio limited the overall adverse impact on net investment return. Credit markets partially recovered in the third quarter of 2020, which resulted in a significant portion of the credit spread losses in the Central Credit Manager (CCM) at Sanlam Specialised Finance (SanFin) reversing since 30 June 2020. Credit spreads have however not yet reduced to pre-COVID-19 levels.

Despite a significant increase in COVID-19 related claims after 30 June 2020, year-to-date risk profits remained strong in both the Retail Affluent and Corporate clusters. The Group pandemic reserve has not been utilised to date. This will be considered at year-end based on full-year overall risk experience. Persistency did not deteriorate over the period, but we believe future experience remains at risk due to a markedly lower expected South African gross domestic product (GDP).

The 9-year South African interest rate at the end of October 2020 was 110bps higher and the 5-year interest rate 110bps lower than December 2019. Yield curve movements had a 3% positive impact on VNB in South Africa. In the Pan Africa portfolio, movements in the Nigerian yield curve across all durations had a significant negative impact on VNB.

Volatility in the Rand exchange rate against other currencies persisted in 2020, however, on a net basis, foreign currency movements did not have a material impact on the performance of the Group's non-South African businesses in Rand terms.

Results

Key performance indicator (% growth on comparable prior year period unless otherwise indicated)	**10 months to October 2020**	**H1 2020**
Earnings		
Net result from financial services	-21%	-22%
Net operational earnings	-33%	-39%
Headline earnings	4%	10%
Diluted headline earnings per share	4%	10%
Business volumes		
New business volumes	25%	40%
Net fund inflows	17%	44%
VNB - consistent economic basis	-24%	-25%
VNB - actual economic basis	-21%	-29%
VNB margin - consistent economic basis (October 2019: 2,80%)	2.26%	2.18%
VNB margin - actual economic basis (October 2019: 2,80%)	2.30%	2.06%
Group solvency ratio (* - at 30 September 2020)	188%*	187%

The impact of the pandemic on earnings was acutely felt in the retail credit businesses and those lines of business exposed to the volatile investment market conditions. These are reflected in the table below and have been excluded in determining the growth in key performance indicators excluding COVID-19 impacts.

R million (year-to-date)	**October 2020**	October 2019	**June 2020**	June 2019
SanFin: credit spreads	**(136)**	-	**(227)**	-
Gross movement in credit spreads	**(324)**	-	**(597)**	-
Transfer to asset mismatch reserve	**135**	-	**282**	-
Taxation	**53**	-	**88**	-
SanFin: mark-to-market changes on listed preference shares	**(102)**	37	**(61)**	20
SanFin: change in provision for doubtful debt and credit defaults	**(273)**	(124)	**(266)**	(117)
SLS: Glacier participating products	**(8)**	163	**(20)**	107
SLS: SPL credit provisions	**(196)**	(59)	**(151)**	(39)
SEM: Shriram retail credit provisions	**(701)**	(318)	**(445)**	(189)
SEM: Net investment return on Saham general insurance funds	**(115)**	372	**(145)**	235
SEM: Investment variances North and West Africa life insurance	**(210)**	(2)	**(94)**	(2)

Investment market and credit risk impact on net result from financial services	**(1 741)**	69	**(1 409)**	15

Net result from financial services is up 22% and net operational earnings up 4% for the 10-month period ending 31 October 2020, when adjusted for the following COVID-19 impacts:

- Investment market and credit risk impacts shown in the above table;
- COVID-19 specified mortality claims at SLS and support to intermediaries; and
- Santam CBI provision and motor book improvement.

Earnings

The Group's net result from financial services declined by 21% on the first 10 months of the 2019 financial year.

SLS net result from financial services declined by 5%. The decline is largely attributable to a one-off expense reserve increase, lower participating fee income at Glacier, COVID-19 related mortality and morbidity claims, support to intermediaries and higher Sanlam Personal Loans (SPL) credit provisions. Excluding the negative COVID-19 impacts highlighted above and support to intermediaries, net result from financial services increased by 13%.

Retail Mass net result from financial services declined by 12%, mainly due to higher claims experience in group business, negative investment variances and COVID-19 support to advisers reported at 30 June 2020. Capitec delivered an exceptional result in a difficult environment.

Retail Affluent net result from financial services declined by 5%. Strong growth from the Individual Life risk business and a solid contribution from Glacier were not sufficient to offset the one-off expense reserve and higher credit provisions at SPL. The life businesses benefitted from steady persistency, lower new business strain and overall positive claims experience despite an increase in COVID-19 related claims.

Corporate's net result from financial services increased by 14%, the combined effect of better than expected mortality profits from the annuity book, lower new business strain and administration expenses, and improved performance in the health business. COVID-19 related claims of R157 million (net of reinsurance) detracted from the results.

SEM's result from financial services is 30% and 23% lower than the first 10 months of the 2019 financial year on a gross and net basis respectively. Excluding the impact of COVID-19 on capital markets in SPA and credit provisions in India, net result from financial services increased by 30%.

SPA life insurance gross operating earnings were 26% lower than 2019. A satisfactory performance from Botswana driven by positive mortality experience, lower new business strain and lower expenses were more than offset by negative investment variances (equity markets) in Morocco and Cote d'Ivoire as well as the negative impact of extreme bond yield curve movements in Nigeria.

The *SPA general insurance* portfolio achieved an underwriting margin of 6,0% (7,2% excluding the impact of the Beirut port facility explosion), within the 5% to 9% target range. Investment return on insurance funds improved since June 2020, resulting in a net insurance margin of 6,2%. Morocco achieved a satisfactory underwriting margin, partially offset by negative return on insurance funds. Saham Re's underwriting margin was suppressed by the Beirut port facility explosion. Uncertainty in the run up to the elections in October in Cote d'Ivoire had a negative impact on equity markets and on our investment return on insurance funds which eliminated the underwriting margin of some 2% in this region, following ongoing actions to improve underwriting performance.

Other International reported a significant decline in gross result from financial services compared to the first 10 months of 2019. India was impacted by much higher bad debt provisions given the 6-month debt repayment holiday that ended 31 August 2020. Shriram General Insurance also had a high comparative base which included reserve releases in respect of motor third-party pool business in 2019.

Sanlam Investment Group (SIG)'s contribution to net result from financial services decreased by 42% compared to the 10 months ended 31 October 2019. The average JSE/FTSE SWIX index was 8% lower in the first 10 months of 2020 compared to the same period in 2019.

- *Investment Management SA* net result from financial services was broadly in line with the first 10 months of 2019 from a high base that included one-off income of R60 million in the Alternatives business in 2019. Earnings were supported by improved performance fees, good discretionary expense control and strong net fund inflows.
- The South African *Wealth Management* business grew its net result from financial services by 14%, but the International operations detracted from performance due to project expenses and lower asset-based fee income emanating from depressed market levels.
- A recovery in credit spreads contributed to a R211 million improvement in *SanFin's* net result from financial services since June 2020.

Santam's earnings declined relative to 2019 mainly due to additional provisions raised for CBI claims. Conventional insurance recorded a breakeven net underwriting result, which is inclusive of CBI claims reserves raised of R3 billion, of which R1 billion was paid out as relief payments in August 2020. MiWay produced excellent underwriting results for the period while Santam Re underwriting results were negatively impacted by the Beirut port facility explosion.

Net operational earnings for the Group decreased by 33%. This is the combined effect of a 21% decline in net result from financial services and a decrease in net investment return.

Headline earnings and diluted headline earnings per share increased by 4%. The difference in growth between net operational earnings and headline earnings relates primarily to the inclusion of fund transfers profits of R1,1 billion (2019: loss of R1,5 billion) and equity participation costs of R1 million (2019: R596 million – Broad-based Black Economic Empowerment share issuance market related discount) in headline earnings.

<u>Business volumes</u>

New business volumes of R248 billion increased by 25% on the first 10 months of 2019. Life insurance volumes were 1% below the first 10 months of the 2019 financial year and general insurance volumes improved by 6%. Investment business was the key driver of overall volume growth, increasing by 39% to R170 billion.
Life new business volumes showed a gradual improvement in Q3, especially in the SLS business. The table below expresses new business sales for Q3 and Q2 2020 as a percentage of the average new business written in Q1 2020. The Q3 new business for North and West Africa includes 100% of the new business volumes in Nigeria compared to only 35% in Q1 and Q2. Excluding the impact of the acquisition of the remaining 65% stake in the Nigerian insurance companies, Q3 volumes for North and West Africa amounted to 70% of the Q1 performance.

New business volumes as a percentage of Q1 2020

	Q3 2020	**Q2 2020**
SLS	**90%**	**78%**
Retail Mass	106%	71%
Retail Affluent	97%	85%
Corporate	55%	43%
SEM	**84%**	**90%**
Southern Africa	79%	108%
North and West Africa	107%	96%
East Africa	51%	37%
Other International	92%	89%
SIG	**82%**	**139%**
Santam	**101%**	**93%**
Sanlam Group	**86%**	**112%**
Life insurance	*105%*	*79%*
General insurance	*79%*	*95%*
Investment management	*99%*	*124%*

SLS new business volumes are up 2% on the 10 months ended 31 October 2019. The 8% growth in investment business was partially offset by a 3% decline in life business.

Retail Mass new business sales are down 10%, a significant improvement since June 2020. Individual and group recurring risk sales (excluding Capitec) are significantly down on the first 10 months of 2019. This business is more severely impacted by COVID-19 as distribution is largely based on worksites and face-to-face interaction. Capitec funeral business continued to deliver positive growth.

Retail Affluent achieved growth of 4% on the first 10 months of 2019. Risk business in the recurring premium sub-cluster decreased by 6%. Volumes in the direct businesses, Indie and MiWay Life, showed very strong growth albeit from a low base. Savings business was 21% down, with lower contributions from all product lines. Glacier's volumes grew 6%, supported by good international and annuity sales.

Corporate new business volumes declined by 9% on the comparative 10-month period. Growth of 51% from investment business was not sufficient to offset the 27% decline in life new business sales from a high base in the second half of 2019.

SEM new business volumes are 32% higher than the first 10 months of 2019. All regions contributed to the growth and currency movements had a positive impact of 8% on new business growth.

Life insurance volumes are up 9% on 2019. Southern Africa recorded a 5% decline, with Namibia the main detractor. Nigeria performed well with growth of 142%, which includes the benefit of the acquisition of the remaining 65% interest in June 2020 and supported the overall growth of 17% in the North West Africa region. Morocco volumes were impacted by lockdowns. Kenya and Tanzania were the main contributors to growth of 48% from East Africa. Malaysia and Lebanon reported a pleasing increase in volumes. A decline of 10% from India detracted from the overall life new business volumes growth of 20% from the Other International business.
Investment business new business volumes were 87% higher than the comparable period. Namibia benefited from new flows from the government pension fund, while Botswana also attracted a large new mandate into its fixed income fund. Significant inflows from new institutional mandates in East Africa supported the strong growth.

General insurance businesses achieved growth of 10% on 2019, with all regions contributing to the growth except Southern Africa. The 11% increase in net earned premiums in North West Africa is largely reflective of good growth in most regions, despite extended lockdowns. All countries in East Africa contributed to overall growth of 8%. Good growth of 17% from India, supported by a weaker Rand, was augmented by 7% growth from Malaysia, contributing to an overall 13% increase in Other International. Lebanon achieved satisfactory results in the current challenging environment, with volumes 3% higher.

SIG new business volumes are 42% higher than the first 10 months of 2019. All sub-clusters contributed strongly including some large institutional mandates awarded for index tracking and money market funds.

Santam's conventional insurance business recorded gross premium growth of 4%. Specialist business reported satisfactory growth in the corporate property, crop and engineering classes. MiWay maintained its positive growth momentum and Santam Re continued to report strong gross written premium growth.

Net VNB decreased by 21% (down 24% on a constant economic basis) with margins contracting from 2,80% in 2019 to 2,30% (2,26% on a constant economic basis). The decline in VNB is largely due to lower new life sales over the 10-month period, with the higher margin businesses more severely affected. For the SEM business, a lower yield curve in Nigeria had a relatively large negative impact on VNB and margins in Q3 2020. As indicated in the interim results announcement, lower forecast volumes for the full year and allowance for higher acquisition and maintenance unit costs are taken into account in the year-to-date VNB calculations. VNB margins declined commensurately.

Overall **net fund inflows** of R51 billion were 17% higher than the R43 billion achieved in the comparable 10-month period in 2019. SEM investment flows were the main contributor to growth.

Capital and solvency

All of the major life insurance businesses within the Group were sufficiently capitalised at the end of September 2020. The Sanlam Group Solvency Capital Requirement (SCR) cover ratio amounted to 188% (Sanlam Life Insurance Limited: 201%). Capital coverage ratios remained broadly in line with those reported at 30 June 2020.

There were no major movements in discretionary capital in the 4-month period since the end of June 2020.

Corporate transactions

Conclusion of the sale of an effective 25% economic interest in Sanlam Investment Group's third-party asset management businesses

Shareholders are referred to the announcement released by Sanlam on SENS on 20 August 2020, regarding the proposed sale of an effective 25% economic interest in the Sanlam Investment Group's third party asset management businesses in South Africa, other than the investment management business conducted by Sanlam Private Wealth Proprietary Limited and the Sanlam Specialised Finance division, to African Rainbow Capital Financial Services Holdings Proprietary Limited ("ARC FS") ("the Transaction").

The board of directors advises that all conditions precedent relating to the Transaction have been fulfilled and the closing process completed on 7 December 2020, for a price of R816,8 million (R163,8 million of which was settled in cash from ARC FS' own resources and the remainder by utilising a portion of the preference share facility made available to Ubuntu-Botho Investment Proprietary Limited, which was approved by Shareholders in December 2018).

Other transactions

Shareholders are further referred to the announcement made on SENS on 31 October 2018 when Sanlam announced its package of broad-based black economic empowerment transactions. As part of the package, Sanlam announced that it may potentially acquire a 25% non-controlling shareholding in ARC FS. Sanlam continues to engage on this potential transaction, and should agreement be reached, details will be communicated at the appropriate time.

<u>Outlook</u>

The success of Sanlam ultimately depends on the strength of the economies in which we operate. We are committed to take a leading role in promoting economic recovery in South Africa and the countries where we operate on the continent. We have a number of initiatives across the Group to support job creation and economic growth and will continue to invest for the benefit of all our stakeholders and broader society.

Sanlam remains 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. The cash generation of the underlying group operations, particularly in the life insurance businesses, remains robust.

We continue to actively manage the consequences of the COVID-19 pandemic and any potential second wave. Whilst economic activity is gradually recovering, we expect the operating environment to remain challenging for the remainder of 2020 and into 2021.

Average investment market levels, credit spread movements, potential credit defaults, exchange rate movements, 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 2020 full year.

New business growth for the remainder of 2020 will also be impacted by a high base in the second half of 2019 as expected and highlighted in the 2020 interim results announcement.

The eventual claims experience from COVID-19 remains uncertain, both at Santam as well as our life insurance operations. The potential outcome of an appeal against the Ma-Afrika judgement, including other relevant court rulings on these and other Santam policy wordings may materially impact Santam's assessment of the estimated net CBI claims. The Santam Board made a decision to appeal the Ma-Afrika judgement and await the court's permission on the application to appeal. Santam is of the view that its catastrophe reinsurance will limit the net cost of contingent business interruption claims. However, the extent of the reinsurance recoveries will ultimately depend on the response of reinsurers to the outcome of the legal process. This could result in significantly higher or lower actual claims. Also, the inherent complexity of business interruption claims, as well as bespoke policy wordings for corporate clients, require significant assumptions to be applied to determine the best estimate net CBI claims provisions. The overall possible financial impact of Santam's CBI exposures will take time to finalise.

The information in this operational update has not been reviewed and reported on by Sanlam's external auditors. 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. Those wishing to participate in the conference call should register by navigating to https://www.diamondpass.net/5973592

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 14 December 2020.

Access Numbers for Recorded Playback:

Access code for recorded playback: **37891**

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

Cape Town
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