IFRS 17: Insurance Contracts

Investor presentation

19 October 2023

Financial Planning | Retirement | Insurance | Health | Investments | Wealth | Credit

CONTENTS

Key messages

Sanlam GEV remains most representative store of group value

- GEV is based on cash earnings so limited impact from IFRS 17
- GEV captures all operations – IFRS 17 only applies to insurance businesses

IFRS 17 not expected to impact Sanlam's ability to grow earnings

- CSM is only one component of VIF[1], growth not expected to be aligned to growth in GEV earnings
- Some adjustments needed to determine CSM for VIF purposes

Specific factors influence the comparability of Sanlam's CSM metrics

- Transition methods – split between fair value vs retrospective
- Contract / product term and mix
- Basis for determining CSM release
- Risk adjustment calibration
- Interest rate environment

Sanlam SHF reserves support sustainable operating performance

- Same objective as discretionary policyholder reserves under IFRS 4 – only the mechanics are different
- Absorb short-term market volatility, non-economic mismatches and other non-cash items to support stable pattern of cash earnings

1. References to VIF in this presentation refer to gross value in-force before cost of capital

IMPACT OF IFRS 17 ON GEV

Sanlam GEV remains most representative store of group value

IFRS 17 had limited impact on Sanlam GEV

Sanlam GEV remains most representative store of group value

GEV continues to be the primary focus of shareholders' value creation and captures all lines of business

Key metrics

Sanlam's current dividend policy continues to be supported by sustainable cash earnings

GEV continues to be the best representation of the profile of cash earnings for the group

% split of GEV by type of business (incl. SHF reserves)

Business	%
Credit and structuring	13%
Investment management	9%
Admin, health & other	5%
Santam (at listed share price)	14%
CB – investment contracts	14%
CB – insurance contracts	24%
CB – shareholders' fund reserves	5%
SEM – GI	16%

Line of business impact

Not impacted

(~ 55% of GEV)

Impacted

(~45% of GEV)

Impact of IFRS 17

- **Limited impact on GEV** and therefore pattern of cash earnings
- **Once-off tax impact** on life insurance businesses (~ 1% of GEV at 1 Jan 23)
- **SHF reserves** were held in policyholder funds under IFRS 4 and implicit in the VIF, they are now explicitly held in shareholders' equity

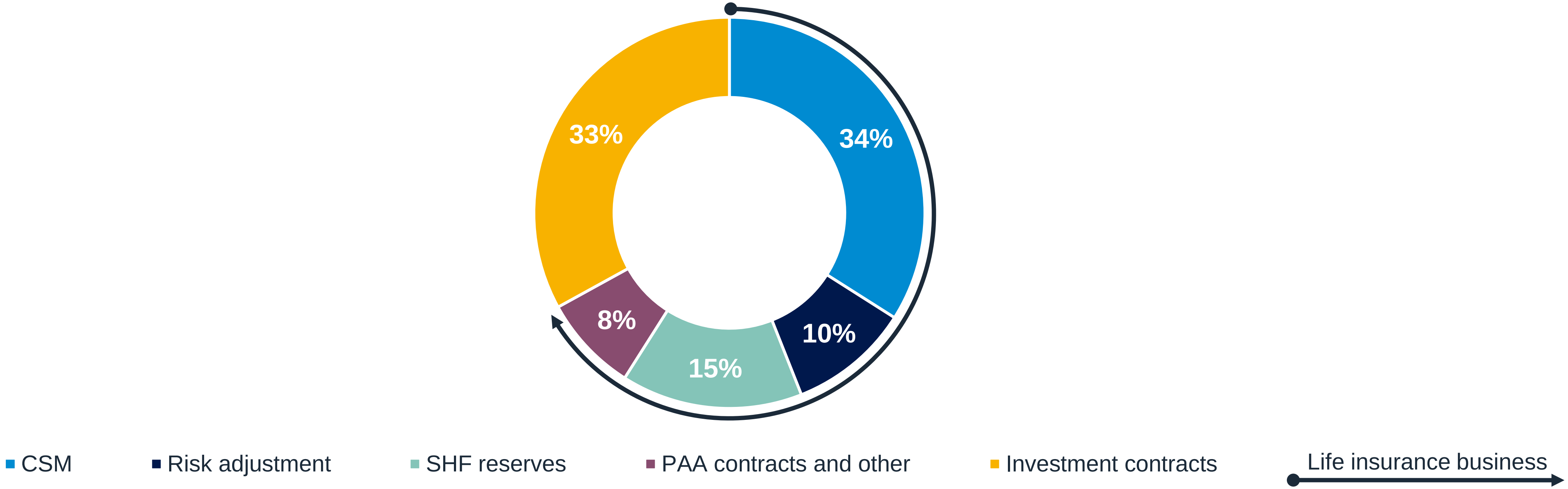
IFRS 17 not expected to impact Sanlam's ability to grow earnings

UNDERSTANDING EARNINGS GROWTH (CSM VS GEV)

Expressing the 30 June 2023 VIF in IFRS 17 terms

IFRS 17 not expected to impact Sanlam's ability to grow earnings

Components of VIF for covered business (approximate split)



- CSM makes up ~50% of VIF for life insurance business[1], and only ~33% of total VIF due to investment contracts included in covered business

1. The contributions to VIF of the different components (e.g. CSM) are after non-controlling interest and tax, and therefore the CSM balances / amounts on the following slides will be higher than the contribution of the CSM to VIF. The effect of the risk margins included in the risk discount rate will also reduce the contribution of the CSM to VIF, all else being equal

Adjustments to CSM contributing to VIF (R billion)[1]

IFRS 17 not expected to impact Sanlam's ability to grow earnings

IFRS CSM
30 Jun 23
R30.8 billion

Santam
R4.4 billion

SEM (not held for sale)
R2.6 billion

SRM
R4.7 billion

SC
R3.5 billion

SRA
R15.6 billion

<u>Exclude</u> Santam amounts because included in non-covered operations for GEV purposes (at listed value)

<u>Include</u> SEM held for sale entities included in VIF for covered business

Sanlam-specific adjusted CSM
30 Jun 23
R29.9 billion

SEM (held for sale)
R3.5 billion

SEM (not held for sale)
R2.6 billion

SRM
R4.7 billion

SC
R3.5 billion

SRA **1**
R5.6 billion

Permanent difference

Composition will change based on future transactions
Namibia and Malaysia entities not held for sale at 30 Jun 23

1. CSM balances and related amounts included in this presentation are before non-controlling interest (100% Sanlam share) and gross of tax, and therefore the CSM balances are not equal to the contribution of the CSM to VIF

June 2023 YTD Change in adjusted CSM

IFRS 17 not expected to impact Sanlam's ability to grow earnings

- Reallocation of unwind of interest on the variable fee for VFA as "Interest accretion" (predictable growth item), reallocated from "Experience variance and assumption changes" (~R0.3bn in 2023 YTD)
- Experience variance and assumption changes include economic impacts for VFA

Growth in CSM is not representative of growth in VIF – analysis on next slide

Sanlam continues to grow GEV earnings[1]

IFRS 17 not expected to impact Sanlam's ability to grow earnings

R billion VIF growth	December 2022	June 2023	December 2022	June 2023
Opening VIF of covered business	49.4	48.8	% of opening	
Value of new business	5.7	2.5	11%	5%
Unwind of interest at RDR	5.9	3.3	12%	7%
Expected transfer of profit to ANW	(8.3)	(4.3)	(16%)	(9%)
Growth in VIF	**3.4**	**1.5**	**7%**	**3%**
Sanlam-specific adjusted CSM growth				
Opening CSM balance	29.2	29.7		
New business	3.0	1.3	10%	4%
Interest accretion	2.1	1.2	7%	4%
Release of CSM	(4.9)	(2.6)	(16%)	(9%)
Growth in CSM	**0.3**	**(0.1)**	**1%**	**(1%)**

Difference relative to CSM (%)		
New business	1%	1%
Interest unwind / accretion	5%	3%
Transfer / release of profit	0%	0%
	6%	**4%**

IFRS 17 has not significantly impacted the VIF growth

Sanlam's focus is on growth in GEV earnings

1. CSM excludes equity-accounted high growth covered business, e.g., India
2. Higher margin business included in VIF but not included in CSM, e.g., some investment contracts and PAA business
3. Interest accretion is lower than unwind of RDR, lowering relative growth rate of CSM

Pace of CSM release is aligned with expected transfer of profit to ANW

1. VIF results for December 2022 are on a pre-IFRS 17 basis. The CSM balances / movements correspond to the adjusted CSM basis as detailed on the previous slide
Opening VIF balance for June 2023 is after the impact at 1 Jan 2023 of transitioning to IFRS 17 and related tax changes

COMPARABILITY OF CSM METRICS

Specific factors influence the comparability of Sanlam’s CSM metrics

Factors impacting CSM metrics

Specific factors influence the comparability of Sanlam's CSM metrics

	General impact (all else being equal)	Sanlam impact
Proportion of business fair valued at transition	• **Lower CSM growth for fair value cohorts initially** due to lower interest accretion and higher CSM release (growth should normalise over time) • Industry typically expects a **smaller CSM based on fair value approach**	• **Slower CSM growth initially** due to significant portion of CSM measured at fair value (~58% at transition) with locked-in discount rates at 1 Jan 22 for GMM contracts
Contract / product term and mix[1]	• **Shorter-duration** (e.g., term assurance/funeral/savings with fixed TTM) **vs longer-duration** (e.g., WoL assurance/open-ended savings) business • **Closed book** business – faster CSM release • **Annuity vs risk** business: slower runoff pattern for annuities due to no allowance for lapses / surrenders – slower CSM release • **Proportion of business with increasing benefits and coverage units (CU)** - slower CSM release for increasing benefits/CU, and vice versa	• **CSM release is accelerated** due to mix of business
Basis for discounting CU	• **Interest rates applied in discounting coverage units** – faster CSM release for higher interest rates due to effect of more discounting	• **CSM release could be accelerated** relative to some peers depending on the basis used
Risk adjustment calibration	• **Size of risk adjustment has direct impact on size of CSM** at transition and for new business – e.g., higher risk adjustments due to higher confidence levels will result in lower CSM	• **Sanlam not expected to be an outlier in terms of risk adjustment calibration**
Interest rate environment[2]	• **Faster CSM release typically expected in higher interest rate environment** • **Slower CSM runoff expected in higher interest rate environment** due to effect of higher interest accretion	• Sanlam's businesses typically operate in higher interest rate environments and **therefore CSM release expected to be accelerated** relative to international peers – however, slower CSM runoff due to offsetting effect of larger interest accretion

1. Refer to the next slide (slide 14) for further details
2. Refer to slide 14 for some further illustrations

CSM release for Sanlam driven by product mix

Specific factors influence the comparability of Sanlam's CSM metrics

CSM interest accretion and release % for SLS (representative of the Group) split between broad product type are summarised below

SLS	Total	Risk products (General Measurement Model)					Savings products (Variable Fee Approach)			
		Risk	Non-par annuities (Individual)	Non-par annuities (Group)	Other[1]	Total	Market-linked	With-profit annuities	Other[1]	Total
CSM interest accretion as % of opening plus new business[2]										
1 Jan 22 - 31 Dec 22	**7.3%**	6.5%	7.2%	7.6%	5.8%	**6.7%**	12.6%	4.5%	9.7%	**10.5%**
1 Jan 23 - 30 Jun 23	**4.1%**	3.6%	4.3%	4.3%	3.2%	**3.8%**	7.2%	2.2%	4.0%	**5.8%**
CSM release as % of opening plus movements										
1 Jan 22 - 31 Dec 22	**14.3%**	15.5%	9.9%	9.4%	16.6%	**14.2%**	11.6%	13.0%	21.2%	**14.3%**
1 Jan 23 - 30 Jun 23	**7.7%**	8.4%	5.4%	4.9%	8.1%	**7.6%**	6.8%	6.9%	10.9%	**7.8%**
CSM balance at 30 Jun 23 (R billion)	**23.8**	13.9	3.4	1.5	0.8	**19.6**	2.7	0.5	1.0	**4.2**

As illustrated in the table above, CSM interest accretion & release % will initially increase from one period to the next as result of:

- moving forward on the increasing yield curve; and
- the mix between fair value and fully retrospective / new business cohorts are yet to stabilise

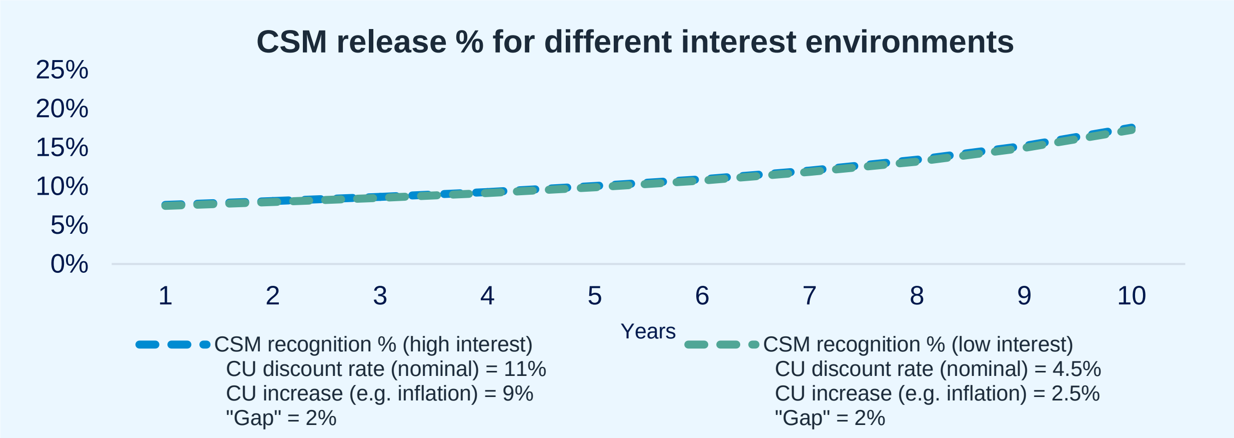
1. Legacy / closed book business providing risk and savings cover, e.g., Universal Life business
2. Interest accretion for VFA is based on the unwind of discount rates on the variable fee and therefore not directly comparable between product types or representative of the current interest rates, because the accretion % is also a function of the size of the variable fee relative to the CSM for each portfolio in each period

Illustration of CSM growth (high vs low interest)[1]

Specific factors influence the comparability of Sanlam's CSM metrics

Scenario 1: benefits / coverage units are increasing and similar gap between increases and discount rates applied to CU

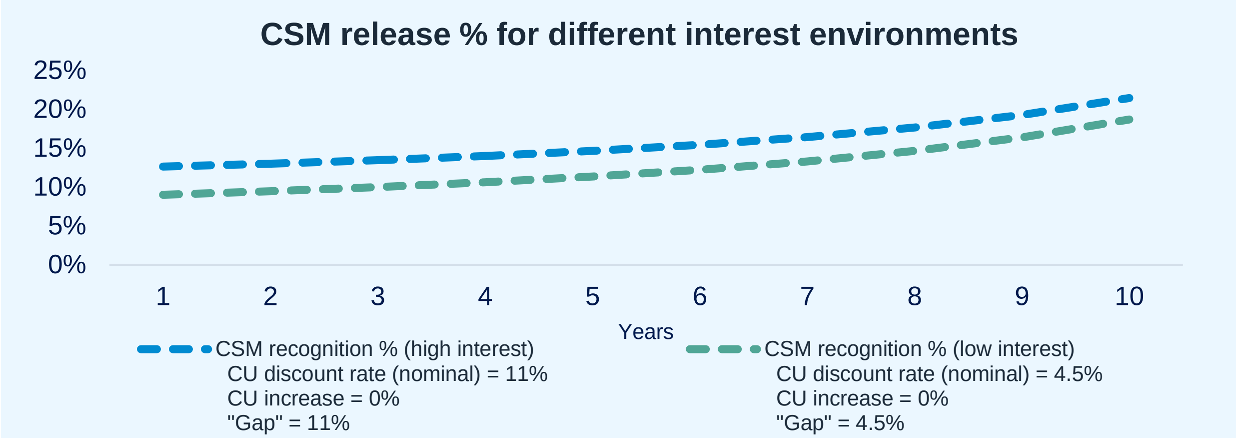
- Significantly slower runoff for higher interest rates due to effect of higher interest accretion and similar pace of CSM release

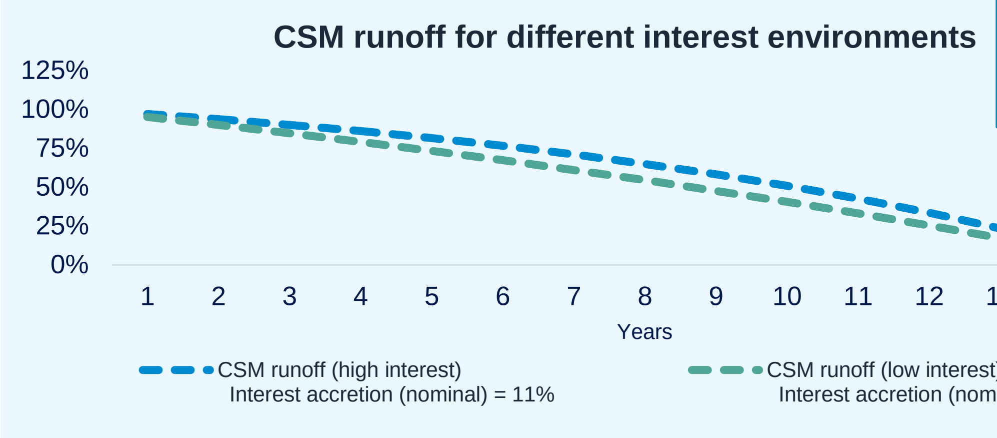


Scenario 2: larger "gap" in higher interest rate environment, e.g., due to benefits / CU being fixed (as per illustration below) or higher real interest rates for increasing benefits / CU

- Slightly slower runoff for higher interest rates even with accelerated CSM release, due to compounding effect of higher interest accretion

Likely scenario in current environment





1. Illustrations are not based on actual results - the illustrative values are based on a group of 15-year term assurance contracts sold on the same terms, with the only difference being the interest rate environment

SANLAM SHF ACCOUNTING

Sanlam SHF reserves support sustainable operating performance

Shareholders’ fund accounting

Sanlam SHF reserves support sustainable operating performance

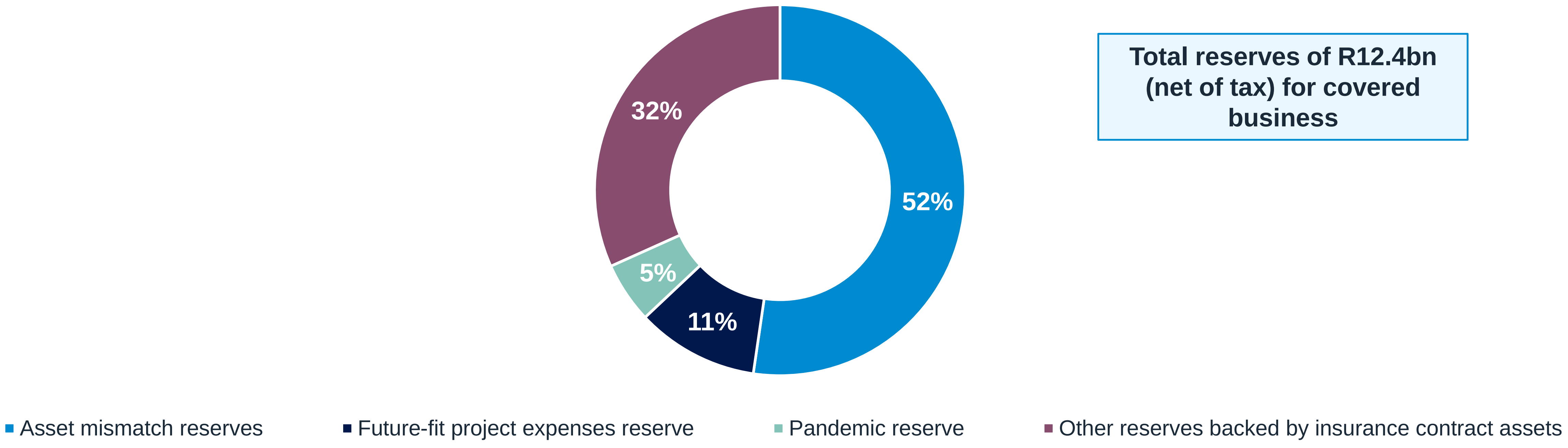
SHF accounting principles not affected by IFRS 17, however specific SHF reserves established and new SHF adjustments applied to achieve the same objectives as in the past

1. **What is it:** Sanlam’s SHF income statement is a different form of presentation of the IFRS information and reflects management’s view of underlying performance from operations
2. **Why do it:** Sanlam’s dividend policy is supported by sustainable cash earnings – as a consequence, earnings from operations are adjusted for:
   - Short-term volatility, e.g., as result of investment mismatches
   - Non-economic mismatches
   - Non-cash impacts such as the capitalisation of certain project expenses and changes in certain insurance contract assets
3. **Control:** Attributable earnings in the SHF income statement is equal to profit after tax attributable to shareholders in the IFRS income statement
4. **Validate:** Reconciliation between the SHF income statement and IFRS income statement is disclosed to maintain transparency to all stakeholders
5. **Assurance:** Although Sanlam-specific, the SHF information is audited / reviewed by external auditors

Analysing the 30 June 2023 SHF reserves

Sanlam SHF reserves support sustainable operating performance

Split of specific SHF reserves for covered business



Total reserves of R12.4bn (net of tax) for covered business

VIF on specific SHF reserves

- **Asset mismatch reserves:** VIF based on approximately 10% release per year
- **Future-fit project expenses reserve:** no VIF
- **Pandemic reserve:** VIF only placed on the investment returns expected to be earned on the underlying assets each year
- **Other SHF reserves:** VIF placed on backing insurance contract assets (i.e., negative insurance liabilities recognised on balance sheet post IFRS 17)

CONCLUSION

Conclusion

IFRS 17 has limited impact on GEV

- By definition value is not affected (tax impact is behind us)

Sanlam is driving the business on cash earnings

- Cash earnings unaffected by IFRS 17
- Profits and value driven by the rate of new business growth, experience variances and asset levels (market performance)

Sanlam's IFRS 17 implementation differs in a few key ways from broader market

- Fewer contracts affected by IFRS 17 as most investment products treated same as previously
- Higher interest rate environment in South Africa / Africa affects the CSM release pattern

ANNEXURE


+6.5%
Trends
78%
Shares
95%
Performance
60%
CTMX 0.45
FTR -0.23 -2.34%
CSCO -1.01 -1.89%
CHK 0.02
AAPL
PRTO
AMZN
TSLA
AVGO
SIRI -0.65

Abbreviations

Abbreviations	Description	Abbreviations	Description
ANW	Adjusted net worth	SEM	Sanlam Emerging Markets
CB	Covered business	SHF	Shareholders' fund
CSM	Contractual service margin	SLS	Sanlam Life and Savings
CU	Coverage units	SRA	Sanlam Retail Affluent
GEV	Group Equity Value	SRM	Sanlam Retail Mass
GI	General insurance	TTM	Term to maturity
GMM	General Measurement Model	VIF	Value in-force
IFRS	International Financial Reporting Standards	VFA	Variable Fee Approach
PAA	Premium Allocation Approach	WoL	Whole of life
RDR	Risk discount rate	YTD	Year to date
SC	Sanlam Corporate		

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In this presentation, Sanlam Ltd (SLM or Sanlam), its subsidiaries and, where applicable, its joint ventures and associates are referred to as “we”, “us”, “our”, “Sanlam” and the “group”.

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In this presentation, we make certain statements that are not historical facts and relate to analyses and other information based on forecasts of future results not yet determinable, relating, among others, to new business volumes and investment returns (including exchange-rate fluctuations). 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”, “expect” 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 document has not been reviewed and reported on by Sanlam’s external auditors.

Information regarding IFRS 17

Sanlam adopted international financial reporting standards (IFRS 17) “Insurance Contracts” effective for years beginning on or after January 1, 2023, to be applied retrospectively. The restated consolidated financial information for the year ended 31 December 2022 in this document has been reviewed and reported on by Sanlam’s external auditors. Audited restated consolidated financial statements for the year ended 31 December 2022 will be included in our 2023 Annual Report.

Non-IFRS financial measures

Sanlam prepares its financial statements in accordance with international financial reporting standards (IFRS). This document includes financial measures that are not based on IFRS (non-IFRS financial measures). Sanlam believes that these non-IFRS financial measures provide information that is useful to investors in understanding Sanlam’s performance and facilitate the comparison of the quarterly and full-year results from period to period. These non-IFRS financial measures do not have any standardised meaning and may not be comparable with similar measures used by other companies. For certain non-IFRS financial measures, there are no directly comparable amounts under IFRS. These non-IFRS financial measures should not be viewed as alternatives to measures of financial performance determined in accordance with IFRS.

Currency

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Sanlam

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