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

Operational update for the four-months ended 30 April 2021

The Sanlam Group has continued to deliver on the resilient performance demonstrated in the 2020 financial year, achieving a satisfactory performance in the first four months of 2021, despite the impact of the second wave of the COVID-19 pandemic in South Africa during the period. The Group's performance continues to demonstrate the strength of the underlying operations which is built on a foundation of a sound capital base, robust cash generation and a diversified growth profile. Key features for the period are:

- **Strong recovery in operating profits from 2020.** Net result from financial services increased by 18% on 2020 but remained 7% lower than 2019.
- Sanlam Life and Savings (SLS) **total mortality claims of R4,8 billion** (net of reinsurance) for the first four months of 2021, R2,7 billion higher than 2020.
- SLS **excess claims** (claims above the long term expected level) of R1,2 billion net of reinsurance and positive annuity and disability experience – fully offset by release of discretionary reserves.
- **Strong recovery in new business volumes.** New Business volumes were 20% higher than 2020 and 58% higher than 2019.
- **Strong growth in the Value of New Business (VNB).** VNB was up by 81% on 2020 and 41% higher than 2019, with margins of 2,82% which were higher than both 2020 and 2019 margins.
- **Net client cash flows (net fund inflows) grew strongly.** Net fund inflows were more than double that of 2020 and were 73% higher than 2019.
- **Strong performance from the African General Insurance business.** Pan-Africa general insurance portfolio recorded a net insurance margin of 13,7% (based on net earned premiums) with both the underwriting margin and investment return on insurance funds within respective target ranges.
- **Good progress on strategy execution.** Pending disposal of Nucleus Financial Group plc in the UK and acquisition of a further interest in Saham Assurance Maroc.
- **Group solvency ratio of 181% remains strong.**

Strategy

We made solid progress with the implementation of our strategy of building a fortress position in South Africa, accelerating growth outside of South Africa and strengthening our position where we operate outside of Africa:

- On 3 May 2021 we announced the intention by SAN JV to purchase a further 22,8% of Saham Assurance Maroc (increasing its holding to 84,5%).
- Sanlam Life completed the purchase of a 25% non-controlling minority shareholding in ARC Financial Services Investments Proprietary Limited.

- The sale of Sanlam UK’s holding in Nucleus Financial Group plc is expected to complete in August 2021.

Our strategy is guided by our purpose to empower generations to be financially confident, secure and prosperous. Over the period we launched our new brand promise of helping our customers ‘live with confidence’. This promise will be realised in an expanded product offering, data and digital transformation, inclusive wealth creation, building a future-fit culture, innovation and partnerships.

Results

The key investment markets where we operate followed global trends, recording higher returns in most markets. Long-term interest rates in South Africa, Namibia, Morocco and Ivory Coast reduced relative to 30 April 2020, while increasing in Nigeria and Botswana. Investment return earned on the Group’s capital portfolios benefitted from higher equity market levels, but investment income was negatively impacted by lower dividend income and interest on cash balances. Foreign currency translation losses from the stronger rand exchange rate had a negative impact on net result from financial services of some 4%, largely from the Sanlam Emerging Markets operations.

Overall persistency trends remain steady, benefiting from the data analytics capabilities implemented over the past few years, which provides valuable information for our client retention engagements. The South African operations recorded strong growth in both life insurance and investment new business. Strong single premium growth was a key driver of a significant increase in VNB. The transformation of our third-party asset management business, both through empowerment and product offering, is creating a competitive advantage, with strong gains in third-party institutional flows recorded over the period.

Our Pan-Africa businesses continued to yield positive results, with strong growth in new business volumes and VNB, augmented by a pleasing performance by the general insurance portfolio. This improved operational performance was further supported by the recovery in equity markets in North and West Africa, which resulted in positive investment return on insurance funds, from the losses recorded in the first four months of 2020. Our Pan-Africa as well as Indian life insurance operations were not significantly impacted by higher claims over the first four months of 2021.

Impact of COVID-19

The second wave of COVID-19 in South Africa was more severe than the first wave and had a significant impact on mortality claims in SLS. Mortality claims for the first four months of 2021 are R2,7 billion (gross of tax and net of reinsurance) higher than the corresponding period in 2020. This is mainly due to:

- R1,2 billion claims above the long-term expected level (after positive annuity and disability offsets of R169 million which were lower than the offsets experienced in the first wave in 2020); and
- R1,5 billion is mainly due to a combination of overall book growth and lower than expected claims partly related to the lockdown effect recorded in 2020.

The negative claims experience was fully offset by a release of discretionary reserves of R1,2 billion (gross of tax), neutralising the impact of excess claims on profits for the first four months of 2021.

Impact of higher mortality claims on SLS (net of tax and reinsurance)

R million	Excess mortality*	Annuity & disability offsets	Excess claims
SLS	**1 015**	**(122)**	**893**
Retail Affluent	383	(73)	310
Retail Mass	114	-	114
Corporate	518	(49)	469

** Mortality above long-term actuarial assumptions*

Earnings

Net result from financial services increased by 18% in the first four months of 2021 relative to the first four months of 2020 (the prior period) The weaker mortality experience was offset by higher equity markets levels, further contractions in credit spreads, lower levels of provisions for doubtful debts and improved return on insurance funds from the Pan-Africa general insurance portfolio.

Net result from financial services is 7% lower than the corresponding period in 2019. The main items contributing negatively are:

- 2019 included positive risk experience which was absorbed by the COVID-19 pandemic in 2021.
- Higher new business strain resulting from significantly higher SLS life insurance sales volumes.
- One-off 2019 Shriram General Insurance third party pool reserve releases which resulted in elevated 2019 earnings from that business.
- Lower earnings contribution from the third-party asset management business as a result of the disposal of a 25% stake in the business in 2020 to ARC Financial Services.
- Lower interest income on the dividend pool (due to lower interest rates).

Excluding the above items, net result from financial services was 7% higher than the corresponding period in 2019.

SLS net result from financial services declined by 13% compared to 2020 as a result of unusually positive mortality experience in the equivalent period in 2020 following the lockdown. Excluding the positive risk claims experience in the first four months of 2020, net result from financial services was up by more than 10%. This is substantially due to a relatively stronger investment market performance in the first four months of 2021, which supported higher income earned by Glacier from products where it participates in the actual investment return earned on the underlying portfolio as well as fee income from other investment products due to a higher average level of assets under management.

SEM recorded a particularly pleasing performance, with net result from financial services increasing by 33%. The improved performance is due to the Sanlam Pan-Africa General Insurance (SPA GI) portfolio and higher earnings from the SPA Life portfolio.

- The improved operational performance from SPA GI in 2020 continued into 2021, with the underwriting margin at 6,9% for the four-month period ended 30 April 2021. The investment return on insurance funds was 6,8% for the period compared to negative 14,1% in the prior period. The net earned insurance premium margin was 13,7% with both the underwriting margin and the investment return on insurance funds within their respective target ranges. Most countries in the portfolio recorded stable or improved underwriting margins.

- The SPA Life portfolio recorded strong growth in net result from financial services. North and West Africa earnings increased significantly, benefitting from higher equity market levels in Morocco and Ivory Coast. The Nigerian business benefitted from higher margins earned on savings and annuity business which was further supported by the increased stake in FBN Insurance from the second half of 2020. Southern and East Africa earnings were lower largely due to an increase in mortality claims related to COVID-19.

- The Other International region reported an overall reduction in net result from financial services. This is largely due to the Indian operations with lower earnings at Shriram General Insurance (SGI) and the credit businesses. The SGI underwriting margin, which is driven by reserve releases from claims settlement, was weaker over the period. Courts in India, where most claims resolutions happen, remain closed which impacts the ability to finalise claims. SGI reserves prudently under these conditions due to the uncertainty relating to the eventual claims cost. The business was further impacted by no premium increase in 2020 on third-party business as set by the regulator. SGI's investment return on insurance funds remained high at 27% of net earned premiums. The results from the Indian operations are reported with a three month-lag, resulting in the prior period not including the significant COVID-19 related provisions raised in the first four months of 2020. The credit businesses results for the four-month period ended 30 April 2021 were therefore lower due to higher provisions and lower net interest margins. In Malaysia, net result from financial services increased in both the life and general insurance operations.

SIG's contribution to net result from financial services improved from a loss in the prior period to a profit in the current period, substantially due to a reversal in the marked-to-market losses on local and offshore listed bonds at SanFin. Sanlam Investments (third-party asset manager) reported a decline in earnings, primarily due to the introduction of African Rainbow Capital Financial Services as a 25% minority shareholder from December 2020 and relatively lower performance fees in 2021. Excluding performance fees and the structural change, net result from financial services was up 7%**.** The Wealth Management and International businesses both achieved growth above 20%. Wealth Management benefitted from performance fees and diversification initiatives while the International business benefitted from improved markets, strong net fund inflows and improved stockbroking and trading income.

Santam recorded a satisfactory performance for the four-month period ended 30 April 2021. The Conventional Insurance business achieved a net underwriting margin at the lower end of the target range of 4% to 8%. The crop and liability businesses recorded strong performances but could not offset the impact of some large fire claims. The Santam Commercial and Personal intermediated business achieved solid underwriting results, following few natural catastrophe claims events during the period. MiWay's underwriting performance was negatively impacted by an increase in the loss ratio while Santam Re's underwriting results were negatively impacted by cautious reserving for international and local losses. Investment return on insurance funds was lower during the period, following the low interest rate environment in South Africa and international markets. Santam commenced processing valid contingent business interruption (CBI) claims in January 2021. No significant changes were made to the net CBI provision from that reported at 31 December 2020. Shareholders are referred to Santam's operational update released on 2 June 2021 for more information on their performance.

Net operational earnings increased by 17%, the combined effect of the 18% increase in net result from financial services, 4% lower net investment return and a 49% reduction in project expenses compared to the first four months of 2020. Net investment return on capital benefited from the improvement in equity markets but this was more than offset by lower dividend income and interest earned on cash balances.

Headline earnings and diluted headline earnings per share increased by 1%. The 2020 comparative base included fund transfers of R323 million relative to a loss of R194 million in the current period. The prior period included marked-to-market gains on hedging instruments in the B-BBEE SPV which did not repeat in the first four months of 2021.

Business volumes

Growth/(reduction) in new business volumes for the four-months to 30 April 2021	
Sanlam Life and Savings	**31%**
Life insurance	32%
Investments	30%
Sanlam Emerging Markets	**15%**
Life insurance	30%
Investments	27%
General insurance	(6%)
Sanlam Investment Group	**16%**
Sanlam Group	**20%**
Life insurance	31%
Investment business	20%
General insurance	4%

The operating environment remains challenging with some governments re-implementing lockdowns or curfews during the first four months of 2021. South Africa, Namibia, Morocco, Ivory Coast, Malaysia and India are some of the markets where Sanlam operates that were under some form of lockdown or curfew over the period.

Despite this, new business volumes increased by 20% on the prior period and were 58% higher than the corresponding period in 2019. Life insurance sales were particularly strong resulting in an improvement in VNB (up 81%) and VNB margins.

- Overall new business volumes at **SLS** increased by a pleasing 31% in the first four months of 2021. Retail Mass new business sales grew by 13%, supported by a strong performance from Capitec Bank funeral business (+20%) and a good start to the year for group recurring business in Safrican (including African Rainbow Life). Retail Affluent new business sales grew 39% with Glacier achieving strong sales across most product lines including international products, life annuities and preservation funds. Recurring premium risk sales were supported by Sanlam Indie and MiWay Life that continued their strong growth trajectories. Sales in these two businesses grew 68% and 21% respectively. Individual risk sales from traditional intermediated channels showed an improvement against 2020 and were flat on 2019. Recurring premium savings sales were lower than the first four months of 2020. Corporate's new business volumes were down 6% largely due to lower recurring premiums. Repricing has been implemented on group risk business in response to the negative mortality and disability claims experience. Quote activity in this segment is improving and trending towards pre-pandemic levels.

- **SEM** recorded overall new business growth of 15%. SPA life insurance sales increased 36% with strong growth in all regions. SPA general insurance new business volumes showed good growth in local currency due to improved volumes in the motor and health business lines in Morocco and Continental Re also recording good growth. Asset management business grew 27% off a high base, due to strong inflows in Botswana and Namibia. Other International new business volumes declined 17% largely due to Lebanon not being included in the current period. Life insurance volumes improved in both India and Malaysia, while general insurance volumes were weaker. India general insurance volumes were impacted by lower sales into the credit businesses' client base.

- New business volumes at **SIG** increased by 16% and net fund inflows improved to a healthy R13,4 billion for the period, relative to outflows of R2,5 billion in the prior period. The South African third-party asset manager reported net inflows of R11,9 billion compared to outflows of R3,3 billion in the prior period, supported by strong inflows into Satrix, Sanlam Multi-Manager and retail implemented consulting solutions. The positive net inflow trend from 2020 continued into 2021 in the Wealth Management and International businesses.

- **Santam** achieved satisfactory gross written premium growth of 7% in the conventional insurance business (4% excluding the premium relief support provided to clients in April 2020). The Santam Commercial and Personal intermediated business continued to report low growth in gross written premiums, however, various growth initiatives started to show positive results. The Santam Specialist business reported satisfactory growth in the liability and engineering businesses, however, negative growth in the travel insurance, transport and corporate property businesses contributed to overall subdued growth in gross written premiums. MiWay maintained its positive growth momentum and Santam Re continued to report excellent gross written premium growth.

- **Net VNB** increased by 81% (up 69% on a constant economic basis) and is also 41% higher than the first four months of 2019. Strong improvements in VNB across the portfolio were recorded. SLS's VNB was up 87% while SEM reported a 61% increase. VNB margins were higher in all clusters contributing to an overall improved margin of 2.82% (2.68% on a constant economic basis) for the four-month period relative to 1.96% for the prior period and 2.67% for the corresponding period in 2019.

- Overall **net fund inflows** of R28,2 billion were more than double the R13,5 billion achieved in the comparable four-month period in 2020 and 73% higher than the corresponding period in 2019, despite the large mortality related outflows in SLS. The significant improvement in net inflows at SIG were a key driver of the improvement, augmented by 11% growth at SEM.

Capital and solvency

The Group remains well capitalised. The Sanlam Group Solvency Capital Requirement (SCR) cover ratio amounted to 181% on 31 March 2021 and Sanlam Life at 242% (Sanlam Life covered business at 195%).

Discretionary capital reduced from R636 million at 31 December 2020 to some R480 million at 30 April 2021. The reduction is mainly due to asset management related transactions in the UK of some R200 million and the acquisition of the remaining 49% interest in African Rainbow Life, partially offset by excess investment return on required capital in Sanlam Life.

On 3 May 2021 we announced our intention to increase Sanlam's shareholding in Saham Assurance Maroc, the leading property and casualty insurer in Morocco, from 61.7% to 84.5%, for a total consideration of some R2 billion. Sanlam will initially use short-term bridging finance to fund the transaction. Longer-term funding of the transaction will be determined in due course. This transaction is subject to certain conditions including regulatory approvals from the relevant authorities in South Africa and Morocco. The transaction is expected to close before the end of June 2021.

In the UK, the proposed acquisition of Nucleus Financial Group plc (Nucleus) by James Hay Holdings Limited (James Hay) is being implemented through a recommended take-over offer, as announced by James Hay on 30 March 2021. On 25 May 2021, James Hay announced that valid acceptances stood at 94.4%. The offer has become unconditional, subject only to regulatory approval which is expected to be received by 18 August 2021. We expect the transaction to close soon thereafter. The terms of the acquisition remain unchanged from those outlined in the original announcement.

Sanlam Life has a tranche of R1 billion subordinated debt notes (SLI4) that has a first call maturity date on 15 August 2021. Sanlam intends to redeem these maturing notes subject to approval from the Prudential Authority in South Africa and intends to issue new notes to replace the maturing notes. Further details in respect of the debt programme will be released in due course.

Executive Committee changes

Sanlam Investment Group (SIG) CEO, Mr Robert Roux, has advised Sanlam of his intention to retire by the end of this year 2021. Mr Roux served Sanlam for over 22 years in several senior roles prior to taking the helm at Sanlam Investment Group.

Last week our listed subsidiary, Santam, announced that CEO, Ms Lizé Lambrechts, would retire in 2022. Ms Lambrechts joined Santam as its Group CEO in January 2015 from Sanlam and has also previously served the Sanlam Group in various roles since 1985 with notable successes within the then Sanlam Personal Finance (now Sanlam Life and Savings).

Both Ms Lambrechts and Mr Roux are committed to supporting their respective organisations with a smooth transition and the processes to appoint suitable successors will commence in due course. We wish to thank them for their incredible contributions over many years at the Sanlam Group and we wish them well for the future.

Outlook

The current rate of new business growth is being assisted by the improvement in savings as a result of changed spending patterns caused by the pandemic. In due course we would expect this supportive situation to normalise and therefore expect the growth in new business volumes to moderate at some point.

We have not yet experienced a notable increase in mortality claims from the onset of the third wave of COVID-19 in South Africa, but experience is likely to deteriorate from June. We expect that Sanlam will be able to absorb an increase in claims in the remainder of 2021 from further discretionary margins and other reserve releases together with the positive impact that repricing of group risk business in Sanlam Corporate and SA Retail Mass will have on earnings in the remainder of the year.

The impact of the second wave of COVID-19 in India is concerning and we continue to monitor the developments closely. The key metrics of the Indian operations are likely to be negatively affected. The Pan-Africa operations are also likely to experience further impacts of COVID-19 related mortality claims over the year. Both the Pan-Africa and Indian operations remain resilient and hold reserves to absorb some increase in mortality claims over the remainder of the year.

Significant uncertainty, however, remains around the number and severity of potential further waves of COVID-19 in 2021. 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 2021 and the 2021 full year.

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 2021 are due to be released on 9 September 2021. Shareholders are advised that this is not a trading statement as per paragraph 3.4(b) of the JSE Limited Listings Requirements.

Conference call

Paul Hanratty, Group CEO, will host a conference call for investors, analysts and the media at 17:00 South African time (UTC+2) on 9 June 2021.

Conference call registration

Those wishing to participate in the conference call should click here to register or navigate to: https://www.diamondpass.net/3162688

Registered participants will receive their dial-in number upon registration.

Access Numbers for Recorded Playback:
Recorded playback will be available until 14 June 2021.
Access code for recorded playback: 39655

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Cape Town
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