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 10-month period ended 31 October 2021

Key features

Earnings

- **Satisfactory growth in operating profits.** Net result from financial services increased by 24% (32% in constant currency) on 2020 (the prior period) and was 4% higher than 2019 excluding one-off items. The 2020 and 2021 financial years contain significant quarterly movements, with the current level of growth not expected to be maintained for the full year.
- South African, African (ex-South African) and emerging markets **excess mortality claims** (claims above long-term actuarial assumptions, net of tax, reinsurance and annuity and disability offsets) of **R3,42 billion within SLS and R536 million within SEM** respectively.
- The release of discretionary reserves, as part of a package of basis changes, **had a positive impact of R2,85 billion** for the 10 months to 31 October 2021, partly offsetting the impact of excess mortality claims.
- The Sanlam Pan African (SPA) General Insurance portfolio recorded a **net insurance margin of 19,5%** driven by higher return on insurance funds and a net underwriting margin within the target range.

New business

- **Strong growth in life insurance and investment business in all markets.** New business volumes were 17% higher than 2020 (46% higher than 2019). Life insurance volumes increased by 37%, investment volumes increased by 15% and general insurance volumes were up by 3%.
- **Volume growth supported by strong profitability and margins.** Net value of new business (VNB) was up by 55% on 2020 (23% higher than 2019), with a new business margin of 2,65% (2,74% on a constant economic basis), which is higher than 2020 (slightly below 2019 margins).
- **Net client cash flows remain solid despite the increase in mortality claims,** supported by continued strong inflows into Sanlam Investments (our third-party asset manager) and Glacier. Net fund inflows of R61,4 billion were 21% higher than 2020 (41% higher than 2019).
- **Strong performance from the SPA Life portfolio.** SPA Life new business volumes up 22% and VNB up 87% in constant currency.
- Overall **persistency trends** remained excellent.

Strong capital position

- **Group solvency ratio remains strong at 176%** on 30 September 2021. The Group will remain adequately capitalised and well within target ranges after taking account of the actuarial basis changes referred to above.
- **Discretionary capital increased to R1,9 billion** on 30 September 2021, from R537 million on 30 June 2021. Discretionary capital is expected to be approximately R2,5 billion by year-end following further capital optimisation.

Strategy execution progress since interim results

- **Conclusion of agreements with Absa Financial Services** (subject to regulatory approval) to significantly strengthen Sanlam Investments and Glacier and improve the Sanlam Group’s positioning as an investment platform.
- **Announced the intended sale of UK businesses Sanlam Life and Pensions, Sanlam Private Investments and Sanlam Wealth Planning** (subject to regulatory approval), supporting the Sanlam Group’s capital allocation policy. These transactions will support an increase in **discretionary capital** on expected closing in 2022.

- **Announced our strategic intent to significantly expand our presence in the South African private healthcare market** through a range of new products and partnerships through Sanlam Health Solutions.
- **We announced a series of transactions with the NSIA Group to strengthen our presence in Mali** (subject to regulatory approval). We intend to acquire the NSIA life insurance and non-life insurance businesses in Mali. We also intend to sell our non-life businesses in Congo and Guinea, as well as our life operations in Togo and Gabon to NSIA. The Group maintains our leading position in non-life insurance in Togo and Gabon.
- **We announced a number of transactions with the Alexander Forbes Group** (subject to regulatory approval). Sanlam announced the intention to acquire the group risk and life insurance businesses of Alexander Forbes earlier this year. Sanlam plans to acquire the LISP business from Alexander Forbes while disposing of the Group's operations in large standalone retirement fund administration to Alexander Forbes. This will enable the Group to focus on the strengthening of asset management and insurance solutions to the market.

Results

The Sanlam Group achieved strong growth in the life insurance and investment businesses, while modestly growing the general insurance business, over the first 10 months of 2021. The strength of life insurance and investment business sales reflects the Group's strong competitive positioning and recovery to pre-pandemic levels. The modest general insurance premium growth reflects the overall GDP growth of the markets in which Sanlam operates and was also impacted by the lack of prescribed premium increases in our Indian general insurance operations.

The Group continued to make significant strategic progress over the reporting period. The development of Sanlam Investments as South Africa's leading black-owned asset manager and the proposed merger with Absa Investment Managers to create a scaled investment platform offering diverse asset classes, will significantly improve our market offering. Strong client cash flows during the period underline the development of the investment management platform.

The Group launched a new set of health insurance offerings in partnership with AfroCentric to fulfil a market need for affordable health insurance. The proposed transactions with Alexander Forbes will enable the Group to focus on providing umbrella pension fund solutions and a full range of investment and insurance products to the corporate benefits market. This will further strengthen the Group's competitive position in the corporate benefits market over time.

The Group divested from our UK operations outside of asset management, informed by our capital allocation framework and strategic intent to develop the leading African insurance and asset management group.

Sanlam continued to support our clients through this difficult period where a significant number of lives were lost due to the pandemic. The Group paid gross mortality claims of more than R14 billion for the period, across our South African operations (an increase of 88% compared to the first 10 months in 2020). Most of the financial impact of COVID-19 claims were offset by the release of reserves.

The Group's strong operational performance continues to be underpinned by the strength of our financial position, the diversity of operations and the quality and commitment of our employees. The Group utilised this strength to the benefit of clients, employees, shareholders and broader society despite the devastating impact of the pandemic over the period.

Clients continue to place their trust in Sanlam, with significant new commitments to insurance and investment products. The Group remains committed to promoting vaccination to our clients, employees and broader society to help curb the impact of COVID-19. Sanlam continues to provide vaccine access points to the South African public and support business and government initiatives to drive vaccine rollout.

Impact of the COVID-19 pandemic on mortality experience across the Group

The third wave of COVID-19 in South Africa was most intensely experienced in the third quarter of 2021 and was longer in duration than expected. The impact on mortality claims in SLS was commensurately much more severe than expected.

SLS recorded excess claims (net of tax, reinsurance and annuity and disability offsets) of R3,42 billion above our long-term actuarial assumptions (according to our embedded value basis) for the first 10 months of 2021.

Excess claims for the 10 months to 31 October 2021 (net of tax, reinsurance and annuity and disability offsets)

R million	
SLS	**3 419**
SA Retail Affluent	747
SA Retail Mass	482
Sanlam Corporate	2 190

In line with established practice, the Group is conducting an annual review of our actuarial basis for the 2021 full financial year. The intended package of basis changes includes further releases of discretionary reserves, positive persistency assumption changes and a strengthening of the mortality basis to allow for future pandemics. The further release of discretionary reserves was implemented on 31 October 2021, while the remainder of the basis changes will be implemented at year-end. The release of discretionary reserves that have been implemented up to 31 October 2021 had a positive impact of R2,85 billion on net result from financial services for the 10-month period, which partly offset the year-to-date excess claims experience.

The Group has also undertaken an extensive review of product design, underwriting and pricing for the life insurance business in light of the pandemic. To date, group risk business has been extensively repriced with new pricing applicable from policy anniversaries. New underwriting standards have been implemented for retail life insurance, and many retail life insurance products have been redesigned and repriced.

The repricing of group risk schemes, together with further positive impacts from the remaining basis changes that will be implemented at year-end, is expected to largely offset the best estimate excess claims experience on operating profit for the 2021 full year. The various reserve releases and intended risk assumption basis changes at year-end will, however, have a negative impact on embedded value and Group Equity Value. The basis changes will not have a significant impact on VNB or new business margins.

We will consider, at year-end, releasing a portion of the mass lapse assumption change (recognised in June 2020), in light of the continued positive persistency experience. Any such change will partly offset the negative impact of reserve releases on the value of in-force business but will not impact the operating profit for the year because of the Group’s practice of eliminating negative reserves.

Given the financial impacts of the pandemic and the utilisation of the previously established pandemic reserve, the intention to strengthen mortality assumptions at year-end will enable a pandemic provision to be re-established over time from the higher margins that should emerge post the pandemic.

SEM also experienced an increase in mortality in the third quarter of 2021, with the largest impact felt in the Southern Africa region and in India. SEM recorded excess claims of R536 million (net of tax, reinsurance and annuity and disability offsets) for the first 10 months of 2021. SPA Life recorded excess claims of R439 million and India R97 million. SEM holds limited discretionary reserves and will only consider releases at year-end based on full year experience. This, together with repricing implemented on group risk business, is expected to mitigate some of the impact of excess claims over the year.

Earnings

Net result from financial services increased by 24% (32% in constant currency) for the first 10 months of 2021 relative to the prior period. Net result from financial services is 2% lower than the corresponding period in 2019 but 4% higher excluding the impact of one-off items. As a result of the strong performance in the fourth quarter of 2020, coupled with a weak third quarter performance in 2020, the growth rate for the first 10 months of 2021 is expected to be lower for the full year.

SLS net result from financial services declined by 2% relative to 2020. Excluding the impact of excess claims, reserve releases and repricing, net result from financial services increased by 5%. Relatively stronger investment market performance supported asset-based income earned by Glacier and other investment products, which was partly offset by higher new business strain caused by the strong growth in new business volumes.

SEM net result from financial services increased by 26% (+54% in constant currency) driven by strong constant currency growth in SPA GI. SPA GI earnings continue to benefit from strong positive investment returns on insurance funds in the North and West Africa portfolio, which have complemented an underwriting margin within our target range. SPA Life earnings increased despite the impact of higher COVID-19-related mortality claims, driven by a strong increase in North and West Africa due to higher equity and bond markets. India recorded higher earnings in constant currency despite the impact of higher COVID-19-related mortality claims and a weaker performance from Shriram General Insurance (SGI). The SGI underwriting margin, previously benefitting from excess reserve releases, reduced over the period. Indian courts, through which all third-party claims are submitted, only opened partially for priority cases, thus hampering claims finalisation. Reserves continue to be prudent under these uncertain conditions. Investment returns on insurance funds remained strong. Malaysia recorded higher earnings in constant currency.

SIG’s contribution to net result from financial services more than doubled, largely due to the reversal of the 2020 marked-to-market losses in SanFin and strong earnings growth in the Wealth Management and International businesses. Sanlam Investments’ (third-party asset manager) net result from financial services declined due to relatively lower performance fees and higher non-controlling interests relating to the acquisition of 25% by ARC Financial Services. Sanlam Investments' gross result from financial services increased by 9%.

Santam recorded a satisfactory performance for the 10-month period ended 31 October 2021. The Conventional Insurance business maintained a net underwriting margin above the mid-point of the target range of 4% to 8%. Legal clarity was received regarding the length of the indemnity period relating to contingent business interruption (CBI) policy extensions. Santam is making good progress in processing the open CBI claims and has commenced a process of recovery from reinsurers. No adjustment has been made to the net remaining CBI claims estimate of R1,7 billion reported on 30 June 2021, other than subsequent payments made. Shareholders are referred to Santam's operational update released on 1 December 2021 for more information on its performance.

Net operational earnings increased by 36% (45% in constant currency). The 24% increase in net result from financial services was augmented by positive investment returns over the period relative to losses in the prior period and lower project expenses. Investment income in the prior period included the Lebanon expected credit loss compared to zero in 2021. Similar to the net result from financial services, the growth rate for net operational earnings for the first 10 months of 2021 is expected to be lower for the full year.

Headline earnings and diluted headline earnings per share increased by 8%. The current period includes marked-to-market losses on hedging instruments in the B-BBEE SPV relative to gains in the first 10 months of 2020.

Business volumes

Growth/(reduction) for the 10 months to 31 October 2021	Δ	Constant currency Δ
Sanlam Life and Savings	**49%**	**49%**
Life insurance	44%	44%
Investments	55%	55%
Sanlam Emerging Markets	**(5%)**	**4%**
Life insurance	12%	24%
Investments	(11%)	(5%)
General insurance	(7%)	3%
Sanlam Investment Group	**10%**	**11%**
Sanlam Group	**17%**	**19%**
Life insurance	37%	39%
Investment business	15%	16%
General insurance	3%	7%

Sanlam Group new business volumes increased by 17% (19% in constant currency) on the prior period and were 46% higher than the corresponding period in 2019.

Overall new business volumes at **SLS** increased by 49% in the first 10 months of 2021.

- SA Retail Mass new business sales grew by 63% with all business units showing strong growth.
- SA Retail Affluent new business sales grew by 47% with Glacier maintaining strong growth trends across most product lines and recurring premium risk sales recording improved sales trends.
- Sanlam Corporate's new business volumes increased by 58%, with strong growth in recurring risk business and single premium investment business.

SEM new business volumes declined by 5% (+4% in constant currency).

- SPA life insurance sales increased 11% (+22% in constant currency), with good growth in Namibia, Morocco and Kenya.
- SPA general insurance gross written premiums increased by 14% in constant currency (new business volumes increased by 10%), driven by improved volumes in North and West Africa, partly offset by weaker performance from the assistance business due to pandemic-related travel restrictions.
- Asset management volumes are 5% down in constant currency despite large inflows in Namibia and Botswana, largely due to the effect of a high base from significant inflows in the prior period in Kenya.
- India new business volumes declined by 9% but increased by 3% in constant currency. SGI recorded negative gross written premium growth, which was caused by weaker economic activity, lower volumes from the credit businesses and the regulator not allowing any third-party premium increases in 2020 and 2021.
- Malaysia new business volumes increased by 10% (+23% in constant currency).

SIG net fund inflows improved by 62% to R30,0 billion for the period.

- Sanlam Investments reported net inflows of R24,8 billion compared to inflows of R14,7 billion in the prior period.
- International net inflows doubled to R3,2 billion.
- Wealth Management recorded net inflows of R1,9 billion, albeit 12% lower than the prior period.

Santam achieved satisfactory gross written premium growth of 6% in the Conventional Insurance business. The Santam Commercial and Personal intermediated business continues to report low growth in gross written premiums; however, various growth initiatives are showing positive results which should assist growth in future periods. The Santam Specialist business achieved improved growth in the four months since June 2021. MiWay experienced slightly lower growth compared to the June 2021 interim reporting period, while Santam Re continues to record strong premium growth.

Net VNB increased by 55% (+63% on a constant economic basis) on 2020 and +23% on 2019. SEM VNB increased by 117% in constant currency due to volume growth and favourable business mix, which was further supported by the base effect of a negative VNB in Nigeria due to yield curve moves in the prior period, relative to positive movements in the current period. SLS's VNB increased by 49% (+61% on a constant economic basis), supported by strong volume growth.

VNB margins were higher in SLS and SEM, contributing to an overall improved margin of 2,65% (2,74% on a constant economic basis) for the 10-month period relative to 2,30% for the prior period (2,80% for the corresponding 2019 period).

Overall **net fund inflows** of R61,4 billion were 21% (24% in constant currency) and 41% higher than the comparable 10-month periods in 2020 and 2019 respectively, supported by strong SIG net inflows and improved net inflows at SLS (despite the large mortality claim payments).

Capital and solvency

The Group remains well capitalised. The Sanlam Group Solvency Capital Requirement (SCR) cover ratio amounted to 176% on 30 September 2021 and Sanlam Life at 231% (Sanlam Life covered business at 192%). The Group will remain adequately capitalised and well within target ranges after taking account of the discretionary reserve releases referred to above and the basis changes contemplated at year-end.

Discretionary capital increased from R537 million on 30 June 2021 to R1,9 billion on 30 September 2021. The increase is largely due to the net proceeds received from the sale of Nucleus Financial Group plc of some R1,3 billion.

In September we announced the proposed sale of Sanlam UK's 100% shareholding in Sanlam Life and Pensions, Sanlam Private Investments and Sanlam Wealth Planning. The total consideration for the transactions is £179 million. The transactions are subject to regulatory approval and are expected to close in the first quarter of 2022. These transactions will positively impact discretionary capital.

The intended increase in SAN JV's shareholding in Saham Assurance Maroc, from 61,7% to 84,5%, for a total consideration of some R2 billion still remains subject to regulatory approval in Morocco.

Board and Executive committee changes

The Board of Sanlam welcomes Ms Ndivhuwo Manyonga as a newly appointed Independent Non-Executive Director effective 6 December 2021. Ms Manyonga is the first black African female actuary to qualify in South Africa. She is currently the CEO of the Federated Employers Mutual Assurance Company (RF) Proprietary Limited and has a wealth of experience in the financial services industry across a broad range of disciplines including employee benefits, retirement fund and investment consulting, technical consulting, business development and held several senior managerial roles.

On 1 December 2021 Santam announced the appointment of Tavaziva (Tava) Madzinga who will succeed Lizé Lambrechts as the Santam Group Chief Executive. Tava will be appointed as Executive Director of Santam with effect from 1 April 2022 and Chief Executive with effect from 1 July 2022. He will join the Sanlam Group executive committee with effect from 1 July 2022. Tava is a qualified actuary who has worked in the insurance and broader financial services sector spanning life, non-life, asset management and banking for the last 20 years. He has worked in South Africa, Sub-Saharan Africa and the UK, in both technical and business leadership roles at country and regional level.

Digital transformation is a key strategic focus for the Group, with two main goals, namely, the simplification and modernisation of our existing business operations and channels, and the rapid development and growth of digital products and platforms. In support of this strategy, Theo Mabaso, Group Chief Information Officer, has been appointed to the Group executive committee, with effect from 1 January 2022. Theo has been with Sanlam for just over five years and has over 22 years' experience in technology and financial services. He holds a BSc. Computer Science, Masters in Business Administration and EDP (GIBS). He has held technology leadership roles in global and regional technology and financial services entities and has delivered digitalisation projects in many countries across the African continent.

Outlook

The COVID-19 pandemic had a major impact on the Group during 2020 and 2021. The Group had previously established a dedicated pandemic reserve to provide for such an event, but this reserve has proven to be inadequate for this pandemic. During the course of 2020 and 2021 the Group released gross discretionary reserves, including the dedicated pandemic reserve, totalling R4,5 billion to mitigate the direct mortality impacts of the pandemic on the Group's operating earnings and dividend.

Given the scale of reserve releases already undertaken, the Group expects to retain modest discretionary reserves to mitigate any mortality losses after 2021. The Group has also implemented far-ranging management actions to deal with the future impacts of the pandemic on mortality experience. It remains difficult to accurately forecast the extent and timing of future waves and their impact, although the Group has recalibrated our models to reflect all available experience. We believe there will be further waves and that the relevant local vaccination programmes will affect the impact that these future waves have on mortality experience. COVID-19 will eventually become endemic to the world and vaccination will constitute the most significant means of controlling the disease.

The management actions include the following:

- Extensive risk-based repricing of all group schemes on each annual policy renewal;
- Redesign of retail risk product ranges;
- Implementation of new underwriting protocols to complement the new retail risk product ranges, with appropriate allowance for vaccination status and co-morbidities; and
- Intended strengthening of the mortality basis at year-end, as highlighted above.

On our best estimate assumptions, we believe that these management actions should eliminate future mortality losses. However, a large degree of uncertainty still exists with respect to future COVID-19 impacts.

The emergence of the Omicron variant poses new questions for predictions regarding the pandemic and its future impacts. It remains too early to tell if this variant and a fourth wave will require further reserving and pricing actions, but the Group expects to have a much clearer view on this by the time 2021 full year results are published in March 2022.

In addition to the management actions, the Group will maintain a higher level of discretionary capital than is normal for a period of time to provide a buffer should the management actions prove to be inadequate. The development of the fourth wave and clearer scientific evidence regarding the Omicron variant will inform the Group as to a prudent range for such higher discretionary capital.

Such discretionary capital may be used to mitigate the impact of any unexpected COVID-19 mortality experience. Typically, the Group sought to hold a discretionary capital buffer of R1 billion to support small acquisition opportunities. When full year 2021 results are published in March 2022, further information will be available to inform the determination of a suitable range. Further guidance on the discretionary capital buffer that the Group is targeting will therefore be provided at the end of the financial year.

The Group is optimising our capital management structures at present and expects the current level of discretionary capital to be approximately R2,5 billion at the end of the financial year. Receipt of proceeds from the UK disposals expected in 2022 will strengthen this position further.

The Group does not anticipate that holding a higher than usual level of discretionary capital will unduly impact the Group's strategic development and plans.

Economic activity in South Africa has stabilised following the slump caused by the unrest in Gauteng and KwaZulu-Natal in July 2021. Electricity supply constraints are, however, likely to constrain GDP growth in the fourth quarter of 2021. Economic expansion should continue across the Group's Pan-Africa and Indian operations, broadly supporting new business volumes in these regions. New business growth rates over the remainder of the current year are likely to be impacted by the high base from the strong sales recorded in the Glacier business in Sanlam Retail Affluent and the SEM asset management business in the last two months of 2020.

Despite the various negative economic impacts of the pandemic and the impacts of civil unrest and infrastructure issues, persistency experience has remained excellent given the Group's investment in data analytics and reward programmes to support persistency. We will consider releasing a portion of the mass lapse assumption change recognised in June 2020 in light of the positive persistency experience, as part of the year-end basis changes.

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 2021 full year.

The information in this operational update has not been reviewed and reported on by Sanlam's external auditors. Sanlam's annual results for 2021 are due to be released on 10 March 2022. Shareholders are advised that this is not a trading statement as per paragraph 3.4(b) of the JSE Limited Listings Requirements.

The constant currency information included in this review has been presented to illustrate the impact of changes in the exchange rate of South African rand against other currencies and is the responsibility of the Group's Board of directors. It is presented for illustrative purposes only and because of its nature may not fairly present the Group's financial position, changes in equity, result of operations or cash flows. All references to constant currency information are based on the translation of foreign currency results for the 10 months to 31 October 2021 at the weighted average exchange rate for the prior period , which is also applied for the translation of comparative information.

The major currencies contributing to the exchange rate movements are the British pound, United States dollar, Indian rupee, Angolan kwanza, Nigerian naira and the Moroccan dirham:

Foreign currency/ZAR	*Average 10 months to 31 October 2021*	*Average 10 months to 31 October 2020*	*Strengthening*
United Kingdom	*20.18*	*21.14*	*4.6%*
USA	*14.58*	*16.59*	*12.1%*
India	*0.20*	*0.23*	*12.1%*
Angola	*0.02*	*0.03*	*23.0%*
Nigeria	*0.04*	*0.04*	*15.6%*
Morocco	*1.63*	*1.74*	*6.3%*

In respect of the Group's investment in the former Saham Group, the constant currency information only allows for the impact of the change in exchange rate between the South African rand and the Moroccan dirham on the consolidated former Saham Group results. No adjustment is made for exchange rate movements between the Moroccan dirham and the reporting currencies of the former Saham subsidiaries.

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 8 December 2021.

Conference call registration

Those wishing to participate in the conference call should navigate to: [*https://www.diamondpass.net/8339980*](https://www.diamondpass.net/8339980)

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

Access Numbers for Recorded Playback:

Recorded playback will be available until 14 December 2021.

Access code for recorded playback: 41229

South Africa	*010 500 4108*
USA and Canada	*1 412 317 0088*
UK	*0 203 608 8021*
Australia	*073 911 1378*
Other Countries	*+27 10 500 4108*

Cape Town
8 December 2021

Sponsor
The Standard Bank of South Africa Limited