Positioning South African Operations for Growth through Enhanced Empowerment

November 2018
Consolidating our Pan-African leadership

Strengthening South African operations for growth opportunities

Cementing a mutually beneficial partnership

Maintaining balance sheet flexibility to strengthen our strategic options

Ensuring sustainable value creation

Enhancing our competitive position to ensure sustainable value delivery
Contents

- Strategic Rationale
- Summary of Proposed Transactions
- Ubuntu-Botho – Sanlam’s strategic empowerment partner
- New share issue
- Funding of the new share issue
- Ubuntu-Botho Facility and utilisation
- Investment in African Rainbow Capital Financial Services
- Summary of financial impact of package of proposed transactions
- Conclusion
Strategic Rationale

Establishing a leadership position in empowerment together with Ubuntu-Botho in pursuit of our vision to be a leader in wealth creation, management and protection in South Africa

- Since demutualisation in 1998, Sanlam has become the largest insurer in Africa as measured by market capitalisation and our footprint across the continent.
- Saham Finances acquisition consolidates Sanlam’s leading pan-African position and diversifies our earnings base.
- At some 70% of operating earnings, South Africa remains a significant contributor to the Sanlam Group.
- Despite our strong position in South Africa, we do not have a leading position in all segments and lines of business, in particular third party asset management, employee benefits, health and the entry-level market.
- South African institutional clients increasingly look at empowerment at both a listed company and a subsidiary level when awarding business mandates.
- Increasing the number of South Africans who contribute to economic output and consumption is key to improved and sustainable business conditions.
Strategic Rationale

Deliberate, strategic initiatives to support sustainable value creation

- Deepen and leveraging strategic and mutually beneficial partnership with Ubuntu-Botho to ensure continuing growth through enhanced empowerment credentials.

- Enhance sustainability of empowerment with a structure that enables 80% of the proposed issuance to accrue to new broad-based black empowerment participants.

- Strengthen competitive advantage by targeting specific transactions at an operational (business unit) level in key market segments, over and above increased direct black shareholding at a Sanlam Group level.

- The Proposed Transactions are designed to ensure sustainable value creation for Sanlam shareholders in excess of the IFRS cost of the transactions, while also contributing to broad-based inclusive wealth creation (with an emphasis on black women and youth), employment equity and enhanced access to financial services.

- This is deliberate strategic move to enhance the long-term sustainability of Sanlam, both at Group level as well as specific operational business unit level, enabling long term value creation for shareholders.
Summary of Proposed Transactions

I. An issue of 5.0% of Sanlam ordinary shares¹ to an entity held by new broad based black shareholders and Ubuntu-Botho
   - Substantially broadens the base of Sanlam’s empowerment beneficiaries, including black women and the youth.
   - Proceeds from issuance will be used to settle short term debt incurred following the Saham Finances acquisition.

II. Provision of financial assistance to partially fund the subscription for the new shares.

III. R2 billion facility provided to Ubuntu-Botho, our strategic empowerment partner
   - Capitalises on our strategic partnership with Ubuntu-Botho, to assist us in the execution of our South African strategy.

I. Restructure of third-party asset management and introduction of African Rainbow Capital Financial Services (“ARC FS”) as a 25% shareholder

II. Creation of a new black managed financial services business named African Rainbow Life by Sanlam Life, ARC FS and a consortium of key black management

III. A 25% strategic cross-shareholding by Sanlam, or a wholly-owned subsidiary of Sanlam, in ARC FS

¹ Based on issued shares excluding Treasury Shares
Sanlam’s partnership with Ubuntu-Botho has been one of the most successful empowerment partnerships in South Africa.

- Ubuntu-Botho was created in 2004 with an initial main purpose of building black controlled capital by being Sanlam's broad based strategic empowerment partner.

- Transformation in the form of empowerment, specifically the partnership with Ubuntu-Botho, has been a critical factor in Sanlam’s growth and success for decades.

- Value of over R14bn was created when the first ten-year transaction matured (2004 - 2014) and has cemented a successful strategic and mutually beneficial business partnership between Sanlam and Ubuntu-Botho.

- To date, over 1 million people have benefitted from the disbursement of funds through Ubuntu-Botho and the Sanlam Ubuntu-Botho Community Development Trusts.

- The Proposed Transactions is a continuance of the strategic, mutually beneficial relationship between Sanlam and Ubuntu-Botho to implement Sanlam’s South African strategy.
New share issue

Achieving a clear leadership position in empowerment through Sanlam’s partnership business model.

- Issuance of 111,349,000 ordinary shares, constituting 5.0\(^1\) of ordinary shares, to substantially broaden the base of Sanlam’s empowerment beneficiaries.
  - Results in an increase in direct black ownership in Sanlam to a peer leading 18\(^2\).
  - Combined direct and indirect economic ownership will exceed 35%, as measured by the FSC.

- Sanlam will be a Level 1 Contributor, as measured in terms of the FSC.

- The transaction extends the benefits of empowerment to include a broad range of participants, with 80% of the beneficiaries being new broad-based black empowerment participants and with Ubuntu-Botho (or a subsidiary) participating in 20%.

- Net proceeds from the transaction will be used to redeem the short-term debt facilities that were incurred to partly fund the acquisition of the remaining 53.37% of Saham Finances, enabling Sanlam to retain its balance sheet flexibility and strength, in line with its prudent balance sheet management strategy.

\(^1\) Based on issued shares excluding treasury shares; \(^2\) Post issuance, before allowing for settlement of debt
Of the shares issued, 80% will be to **new broad-based beneficiaries, with a focus on black women and youth**. Sanlam and Ubuntu-Botho have identified the following categories:

- professional black women
- rural and urban poor black women groups
- black youth and black youth groups
- black business partners and broad based black groups (including community organisations and black business partners of Sanlam and Ubuntu-Botho)
- employees of the Sanlam Group
The decision on pricing, funding and timing of the transaction will be determined by the Independent Committee¹ and approved by the Board based on prevailing market conditions, the recommendation of Sanlam management team and agreement of Ubuntu-Botho.

Given lead time to execution and the possibility of stock market volatility the use of a price range will allow the Independent Committee to consider relevant share price movements and an optimal funding mix to determine the final issue price within the above range by appropriately balancing the interests of shareholders and other stakeholders at the time of issue.

The 3-day VWAP² of a Sanlam share will be utilised as the reference to determine the Subscription Price and the Independent Committee will not execute the transaction if the 3-day VWAP² is either above R 86.00 or below R 74.00.

The 3-day VWAP aligns with the pricing mechanism used for the third party funding to reduce execution risk

Subscription Price will be at a 10% discount to the 3-day VWAP, being a subscription price between R66.60 and R77.40 per share.

The transaction may be executed at any time prior to 30 June 2019, post the fulfilment of the suspensive conditions.

¹ Committee of Independent Directors of the Sanlam Board; ² Volume Weighted Average Price;
Funding of the new share issue

To enable subscription by the B-BBEE participants for the 111,349,000 shares, the Subscription SPV will require an amount of between R 7,416 million and R 8,618 million, post the application of the 10% discount.

- Quantum of funding required will be determined by the issuance share price.
- B-BBEE participants have secured the funding for the aforementioned amount via the Standard Bank Funding Package and from Sanlam.
- The funding mix will be 50% via the Standard Bank Funding Package and 50% from Sanlam through its subscription for preference shares to be issued by B-BBEE SPV.
- Sanlam will fund the B-BBEE SPV via a combination of discretionary capital and the back-to-back issuance of R900 million of preference shares by a subsidiary of Sanlam in the market.
  - Sanlam will earn a margin on the portion funded through the issuance of back-to-back preference shares.
  - Post the provision of funding to B-BBEE SPV by Sanlam, net cash received by Sanlam will be a maximum of R5,209 million.
As part of Sanlam’s South African strategy and to enhance Sanlam’s empowerment at an operational (business unit) level, Sanlam will make available a R2bn facility to Ubuntu-Botho.

1. R2bn facility to Ubuntu-Botho or its subsidiaries intended to be utilised to strengthen Sanlam’s competitive position.
2. The Ubuntu-Botho Facility will be accessed in multiple tranches and is available until 31 December 2020.
3. Utilisation of Ubuntu-Botho Facility needs to be approved on a case-by-case basis by the Independent Committee.
4. Facility will be utilised by Ubuntu-Botho or its subsidiary for the following:
   - To acquire a direct or indirect interests in certain key operating subsidiaries of the Sanlam Group operating in areas where Sanlam does not have a market leading position
   - To invest in financial services companies that will be complementary to the broader Sanlam Group’s vision and strategy
5. The funding will carry a dividend rate of 85% of the Prime Rate for an initial 7 years period, after which the rate will be reset to market related terms prevailing at the time, should it be extended.
6. Ubuntu-Botho Facility will be funded by the issuance of back-to-back preference shares in the market
   - Sanlam will earn a margin on the Ubuntu-Botho Facility
   - Back-to-back preference share funding has been secured at a rate of 65.5% of prime
In order to enhance the competitiveness of our third party asset management business, we are restructuring our asset management business in South Africa, resulting in Sanlam Investment Holdings (“SIH”) holding these operations.

In-principle agreement has been reached for ARC FS to acquire a 25% stake in SIH.

SIH valued at Sanlam’s internal valuation for the quarter preceding the acquisition with appropriate minority and marketability/liquidity discounts applied for the acquisition. At 30 June 2018, the value of Sanlam’s third party asset management was R5.7bn.

Sanlam is supporting the formation of a new black managed insurance company that will focus on the underserviced lower to middle income market segment as well as small and medium sized businesses.

- Expands client base and increases and diversifies income.
- Sanlam Life, ARC FS and a consortium comprising key black management have incorporated a new black managed financial services business named African Rainbow Life.
  - Target ownership: 51% owned by Sanlam Life, 26% by ARC FS and 23% by management.
- The initial anticipated capital requirement of the business is estimated at some R400 million for the first five years. Approval of insurance licence by Prudential Authority pending.
It is envisaged that ARC FS will assist Sanlam in the execution of its South African strategy and therefore in addition to providing Ubuntu-Botho facility, Sanlam and African Rainbow Capital (“ARC”) have reached in-principle agreement, subject to definitive agreements and such agreements becoming unconditional in accordance with their terms, acquire a 25% stake in ARC FS from ARC

- Assists in further aligning the strategic interests of Sanlam and the Ubuntu-Botho group
- ARC FS will hold the strategic investments acquired via the Ubuntu-Botho Facility as part of the Sanlam and Ubuntu-Botho business partnership

Purchase price based on fair value of ARC FS determined by the board of directors of ARC FS and set out in its audited financial statements at 30 June 2018, adjusted for acquisitions post 30 June 2018

- To be adjusted for a minority discount and a marketability/liquidity discount appropriate for transactions of similar nature and having no negative fair value adjustment or impairment being required in terms of IFRS on initial recognition

Sanlam will pay ARC a management fee in consideration for ARC maintaining its black ownership and managing the investment portfolio of ARC FS in line with the fees that ARC Investments currently pays to Ubuntu-Botho

- Management fee payable in respect of assets acquired from the Sanlam Group by ARC FS will be used, to the extent practical and reasonably possible, utilised to appoint senior black executives to solicit new business flows to the Sanlam Group
## IFRS and economic costs

<table>
<thead>
<tr>
<th>R million</th>
<th>R74-scenario</th>
<th>R86-scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>UBI participation</td>
</tr>
<tr>
<td>Total IFRS cost</td>
<td>1 483</td>
<td>296</td>
</tr>
<tr>
<td>Adjustments to reflect economic benefits not recognised in IFRS</td>
<td>(664)</td>
<td>(230)</td>
</tr>
<tr>
<td>Difference between listed price and market related discount</td>
<td>(412)</td>
<td>(82)</td>
</tr>
<tr>
<td>Margin on B-BBEE facility</td>
<td>(80)</td>
<td>(16)</td>
</tr>
<tr>
<td>Margin on UB facility</td>
<td>(172)</td>
<td>(132)</td>
</tr>
<tr>
<td>Net economic B-BBEE cost</td>
<td>819</td>
<td>66</td>
</tr>
<tr>
<td>% of market capitalisation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRS</td>
<td>0.9%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Net economic</td>
<td>0.5%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

*The other transactions had no impact on costs*
Summary of financial impact of package of proposed transactions

Pro forma financial effects based on the results for the six months ending 30 June 2018

<table>
<thead>
<tr>
<th>Shareholders information</th>
<th>Share issuance at R74 per share</th>
<th>Share issuance at R86 per share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before proposed transactions (1)</td>
<td>% change: Scenario A (2)</td>
</tr>
<tr>
<td>Annualised RoGEV per share (%)</td>
<td>14.3%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Net result from financial services per share (cents)</td>
<td>227.1</td>
<td>-5.1%</td>
</tr>
<tr>
<td>Normalised headline earnings per share (cents)</td>
<td>231.8</td>
<td>-9.7%</td>
</tr>
</tbody>
</table>

**IFRS information**

| Diluted HEPS (cents) | 244.1 | -32.2% | -32.1% | 244.1 | -36.4% | -36.3% |

(1) Information for the **six months ending 30 June 2018** adjusted on a pro forma basis for the conclusion of the remaining interest in Saham Finances on 9 October 2018.

(2) Calculated on the basis that all of the steps to implement the Proposed Transactions have been completed, but before any drawdowns granted in respect of the Ubuntu-Botho Facility have occurred.

(3) Calculated on the basis that all of the steps to implement the Proposed Transactions have been completed, and that a portion of the Ubuntu-Botho Facility has been utilised for the Sanlam Investments Transaction.
Conclusion

These transactions position Sanlam to **consolidate and grow in South Africa**, which is the source of more than two thirds of our earnings. It follows our conclusion of the Saham Finances transaction, which gives us a leading pan-African footprint and diversifies our earnings stream.

These transactions will **enhance Sanlam’s competitive advantage in the financial services market** by building on its pioneering role in transformation and its partnership with Ubuntu-Botho.

On completion, Sanlam will be a **Level 1 Contributor** with a black economic ownership level (combined direct and indirect) as measured in terms of the FSC, in excess of 35% and a direct black economic ownership level as measured in terms of the FSC, of over 18%. This would place Sanlam in a **strong, market leading position in terms of empowerment**.

The cost of the proposed transactions is at the **lower end of the range of comparable empowerment transactions**, and Sanlam believes that, over time, will yield **economic benefits that will outweigh the costs** of the Proposed Transactions, ensuring sustainable value for shareholders.

In line with Sanlam’s **prudent capital management** policy, the transactions allow us to strengthen our strategic position while maintaining balance-sheet flexibility, ensuring consistent dividend pay-outs and a stable credit rating.

Ubuntu-Botho has confirmed that it will not vote on any resolution.
thank you