

Group Chief Executive's report

2020 was an incredible time of change and challenge for humankind.

COVID-19 caused pain for our employees, clients and communities. We lost loved ones, friends and colleagues. Many people remain concerned about their financial situation, their employment and health. Sanlam has been there to provide support and advice. Our own financial position remained strong throughout the year as we stood ready to help our clients and other stakeholders to ensure a resilient future for all. Our purpose remains to help our clients live with confidence.



This was our resolute message in all the moments of uncertainty that clouded 2020. More than just words, Sanlam was one of the top monetary contributors to alleviate health and economic pressures in each country in which we operate.

In South Africa, our COVID-19 contributions were channelled through independently administered organisations like Business for South Africa, the government's Solidarity Fund and similar organisations. The Exco and the Board made individual voluntary contributions to the Solidarity Fund, joined by our employees. The Group matched these contributions rand for rand, with funds going to the Sanlam Foundation's COVID-19 initiatives such as food relief programmes.

In addition to the efforts above, our South African general insurance subsidiary, Santam, paid out R1 billion in early relief payments to nearly 2 500 small and medium-sized businesses in hospitality, leisure and non-essential retail services with CBI policies. This has been an extremely difficult process for our clients whose businesses were devastated by the COVID-19 pandemic. The type of insurance cover for such business interruptions was not designed for pandemics and globally the insurance sector has been grappling with how to deal with the issue. Acquiring legal certainty over insurance coverage was an important part of the overall process but has

unfortunately created enormous stress among our clients. The legal certainty required to deal with claims has finally been achieved and considerable support will be available to clients who have suffered high levels of loss.

Sadly, the pandemic has resulted in a large number of COVID-19-related deaths and Sanlam paid over R531 million in excess claims in 2020 (including COVID-19).

Our clients required substantial advice during this period, and we invested heavily in equipping our financial advisers with technology to enable them to advise clients. Our business model has adapted considerably during the year as we sped up the digital transformation. Our investments in data analytics have paid off during 2020 as we were able to anticipate many of our clients' needs proactively.

Another truly remarkable highlight for me was the effort and dedication of our employees and the executives across the Group, despite the pressures they have all faced during the year. We have begun to look at new ways of working and managing our business to fully utilise the benefits of technology, and we believe that are well placed to realise efficiencies in the future based on some of our learnings from 2020.

Group Chief Executive's report continued

Our revised strategy

We made solid progress formulating and implementing the revised strategy, which continues to emphasise the client at the forefront of everything we do.

We are moving our business to one that has much closer collaboration between clusters. This will support our drive towards integrating client propositions and improving cross-sell. Technology is a key enabler of our strategy, and we are emphasising digitalisation and data usage across our business. Synergies and co-operation between the clusters will be driven at a Group level, together with key functions including guidance on market and environment-related developments, managing human capital, driving digital innovation, and better co-operation in execution of our strategy.

We restructured our Exco in 2020 and brought in some new executives. Our Exco is now well constituted to ensure sufficient capacity to deliver on opportunities to create and unlock value.

South Africa is Sanlam's home and original base. This market presents a significant opportunity for Group equity value outperformance by further strengthening the businesses where we have market leading positions, and by partnering to grow those businesses where we do not. We therefore remain focused on building and strengthening the base locally, in partnership with UBI and ARC.

To enhance our client focus within South Africa, we formed the SLS cluster, which incorporates the former Sanlam Personal Finance and Sanlam Corporate businesses. Sanlam Personal Finance was further split into two business clusters; SA Retail Mass and SA Retail Affluent. We believe this will facilitate a better focus on specific important client segments and strong co-operation between different parts of the business – thereby better serving Sanlam's South African clients.

Deepening of client relationships is critically important. Underpinned by digitalisation and the adoption of data analytics, our ambition is to develop a simple, intuitive and integrated client proposition and sell more products to existing clients to bolster new business. The new structure supports this ambition and we will further leverage learnings from two of our newer businesses, MiWay and Indie.

In 2020 we established a new client experience unit and launched two new strategic client experience projects:

- A new digital model for underwriting, which includes enabling clients to complete a digital health questionnaire privately and schedule an appointment. For savings clients, it entails the design of an end-to-end engagement model to deliver a differentiated savings journey experience.
- A new product category model, which includes, for example, a client journey analysis to determine business and back-end systems requirements for new application tracking and creating onboarding videos to remind clients about the specific details of their savings goals.

Across the various distribution channels, the focus remains on reducing adviser turnover, improving the adviser value proposition as well as improving and enhancing digital enablement.

We are also focused on the simplification and rationalisation of our core set of administration systems, which we cannot change as quickly as our front-end client facing systems. Over the next few years, we will therefore focus on efficiency and making things simpler for the business to support better client experiences and outcomes. We continue to make the necessary investments in cybersecurity, although it is challenging to stay ahead of threat actors in this area.

Progress in Africa outside South Africa was excellent during 2020 as operational improvements took effect. The COVID-19 pandemic impacted our financial results and the Group made significant impairment charges in recognition of the fact that, due to the pandemic, it would take longer to realise the full potential of our operations. Beyond the border of South Africa, Africa remains a long-term focus for the Group, with a great set of businesses that will yield excellent returns for shareholders.

One of our ambitions is to improve our reach in Africa. We are developing innovative solutions using technology and partnerships to reach clients who would otherwise be underserved. Outside of Africa, India remains strategically important and we continue to explore opportunities to strengthen the partnership with Shriram Capital and to enhance Sanlam's involvement.

Ultimately, our strategy remains guided by our purpose, which we are confident can carry us through despite obstacles or changes in the world around us. The past year demonstrated the importance of ensuring that people are secure and equipped to navigate the tough environment we find ourselves in. It is against this backdrop that Sanlam can shine. In addition to pursuing fantastic client service and delivering consistently superior returns to shareholders, we want to invest in local economies. This includes ensuring local ownership and investment in all businesses so that the benefits of our success create value for clients and communities and drive economic growth across the continent and in India.

Sanlam's performance in 2020

-2,8% Return on Group Equity Value per share

-13% Net result from financial services

R311 billion New business volumes

R1 921 million Net value of new covered business (VNB)

2,58% Net VNB margin

In the face of unprecedented business disruption Sanlam delivered solid financial results that reflect the diversity of our business and the underlying resilience of the Group's businesses. We implemented alternative ways of working, with the bulk of our employees working remotely, while maintaining service levels to our clients and advisers. We helped our clients, intermediaries and partners weather the storm and adapt their financial plans for a new world. We did this through various measures, including unprecedented levels of client communication and review of clients' financial plans where required, premium holidays and direct financial support.

Sanlam continued to manage capital prudently and the Group remained strongly capitalised throughout the year despite stock and bond market turbulence. The Group solvency cover ratio was 191% at 31 December. This positions us favourably to take advantage of opportunities that may emerge from the current challenging environment.

Net result from financial services declined by 13%, impacted by the downturn in equity markets across many of our markets, a general widening in corporate credit spreads, an increase in doubtful debt provisions in respect of our institutional and retail credit books, Santam's CBI claims experience, higher mortality claims from the COVID-19 pandemic, as well as substantial COVID-19-related relief offered to our clients and intermediaries. These are direct outcomes of the COVID-19 pandemic.

New business volumes of R311 billion increased by 25%, supported by strong investment business sales. The Capitec partnership continued to deliver positive growth and is an example of the mutually beneficial partnerships Sanlam seeks to build. Sanlam Glacier remained especially resilient and attracted strong client flows in a challenging environment. Our direct business, Sanlam Indie, gained significant traction over the year, albeit of a small base, delivering some early gains on our digitalisation journey that can be rolled out to the broader business.

In Sanlam Pan-Africa we maintained a very good underwriting margin and achieved one of the best years in terms of new asset management flows. Our focus remains on operational execution and optimising the portfolio to drive consistent growth and a stable return on investment.

Despite difficult operating conditions, we experienced resilient persistency. This shows us that clients are aware of the importance of our products and services, particularly during tough times, and see the benefit of retaining their policies and plans with Sanlam even when affordability is challenged.

Sanlam has increased its dividend each year since listing in 1998. 2020 proved to be a challenging year in terms of earnings for the reasons outlined above. Despite the difficulty in the environment, the Board has decided to pay a dividend of 300 cents per share for 2020 (only 10% lower than prior year), reflecting the ability of the Group to withstand turbulent and challenging conditions.

Value-creating partnerships

Sanlam made a significant contribution to transformation by creating South Africa's biggest black-owned investment house this year.

Additionally, Sanlam announced that it will acquire 25% of a new subsidiary of ARC Financial Services, subject to certain suspensive conditions.

Transformation has been a critical factor in Sanlam's growth journey, particularly in the past 20 years. Specifically, the partnership between Sanlam and UB has been one of the most successful empowerment partnerships in South Africa.

We are pleased with progress we are making to implement the package of B-BBEE transactions approved by Sanlam shareholders in 2018. We will continue to update our stakeholders about initiatives to realise the full implementation of those transactions. This will place Sanlam in a strong, market-leading position in terms of empowerment.

Group Chief Executive's report continued

Collective voices, distinct culture

Historically, Sanlam has been a primarily South African business. Our expansion across the continent and investment in India requires us to embrace different cultures to be successful. We are also moving into a fast-changing world, shaped by technology. Innovation and an ability to take calculated risks will be critical in tackling new challenges. We saw the importance of this during the pandemic, which forced us to make rapid, high-impact decisions in response to the shifting dynamics and an uncertain operating environment.

We therefore need to ready our people and culture to operate in a different way to ensure we remain a future-fit organisation, now and in the long term. Accordingly, we started on a culture journey this year to understand the collective, Group-wide imperatives to successfully compete in a dynamic world. The first step was to conduct a culture survey across the Group.

In total, 71% of the employees in all our operations across the Group participated, enabling us to set a baseline on which to improve in coming years. The findings indicate that we have a great foundation to enhance the employee experience and to enable business performance and competitiveness.

Our immediate focus will be on integrating the refined Group values and purpose with the culture and making sure our plans result in a strong performance culture.

Safeguarding and enabling sustainable value creation

Sanlam has a unique role to play in creating an inclusive society where people have confidence in their financial prospects. Sanlam's size in South Africa, and our increasing footprint in Africa and presence in India mean that we can serve a growing number of clients, policyholders and other stakeholders.

COVID-19 tested Sanlam's resilience in many ways. Our Resilience Report expands on our material resilience themes, which focus our attention on matters that enable Sanlam to create value. Our Resilience Report also provides insight into the agile social support we provided, which anchored Sanlam and our stakeholders in a difficult year.

Ethics awareness initiatives and training were conducted across all business clusters during the year. We are pleased to report that there were no major breaches of ethics during the year.

As a financial services group we have a direct contribution to make through investments and the way we do business. One example of this is Climate Investor One, a fund in which we own a substantial stake that is committed to investing US\$71,2 million in a near-shore wind power project located in Vietnam.

We remain particularly proud of Sanlam's partnership with World Wide Fund for Nature - South Africa (WWF-SA). A R10,5 million contribution from Sanlam to the Freshwater programme assisted in leveraging co-funding of R101 million to protect water source areas in South Africa. Sanlam has invested more than R75 million in the partnership with WWF-SA over the past 13 years, supporting WWF-SA with conservation activities on water-related projects.

Our SES committee strengthened its role as custodian of the Group's social responsibility. The SES committee needs to be relevant in this changing world. COVID-19 brought humanity to the fore and emphasised that we need to think about resilience beyond financial wellbeing. We need to think about all stakeholders and the environment in a way that will restore harmonious interaction.

Looking ahead

Despite a tough 2020 and the realisation that we have much to do to reposition the Group, we are optimistic about what we can achieve in 2021. The environment will continue to be extremely difficult but we have a strategy, committed people and some momentum behind our strategic plans.

Forecasting economic growth and recovery is difficult. Fiscal and capital account positions remain vulnerable in South Africa, as well as many other countries.

We continue to proactively manage the consequences of the COVID-19 pandemic. The eventual claims experience for COVID-19 remains uncertain, both at Santam for CBI claims and in the life insurance operations. The second wave of COVID-19 infections in South Africa and second or third wave of infections in other markets where we operate will likely further disrupt economic recovery. The reintroduction of lockdown measures will also disrupt economic activity and directly impact our business through new business volumes, claims, asset levels and persistency of policy contracts.

We remain confident in the long-term growth potential of all the markets in which we operate, and that we can continue to deliver value to our shareholders and other stakeholders. Sanlam is strongly capitalised and well positioned to take advantage of opportunities. We have resilient businesses and the demographic fundamentals of our markets are good, with young, growing populations and rising wealth.

Sanlam hopes that as our various stakeholders reflect on the past year, they will remember the positive and winning moments and that these will serve as a powerful reminder of what we have overcome and the opportunities that we should seek to embrace in 2021. As a Group, we will have to be agile, innovative and work hard to achieve success, and we are confident that we will be able to add value to the lives of all our stakeholders.



Paul Hanratty
Group Chief Executive