## Understanding RoGEV – our key financial measure of success

Our primary performance target for measuring shareholder value creation is Return on Group Equity Value (RoGEV), which reflects our success in growing the value of Sanlam's operations over the long term.

### What is RoGEV?

RoGEV is a robust forward-looking financial performance indicator that primarily measures the value we add for our shareholders. Given the direct relationship over the long term between shareholder and other stakeholder value creation, RoGEV indirectly reflects how successfully we create value for our other material stakeholders.

For a business such as Sanlam, where earnings from a particular client solution emerge over a number of years, RoGEV is a more appropriate performance measure compared to traditional return on capital and earnings metrics.

It combines current year earnings compared to expectations (short-term performance) and changes in future expected earnings (long-term performance) in a single performance metric. This makes RoGEV a robust composite value measure for a diversified group such as Sanlam.

### What is GEV?

Group Equity Value (GEV) provides an indication of the value of Sanlam's total business, including life and non-life operations. It does not represent an appraisal value of the Group as it does not place a value on new life insurance business that will be written in future. It includes:

- the value of Sanlam's in-force book of life insurance business;
- the value of non-life operations based on longer-term assumptions; and
- the fair value of discretionary and other capital not allocated to our operations.

The shareholders' information section in our Integrated Report provides sensitivities for key valuation assumptions and a full analysis of change in GEV. The disclosures separately identify the change in value due to differences between actual earnings for a particular period under review and those assumed in the valuation models at the end of the previous period, for future periods. The shareholders' information section also includes the change in value attributable to changes in assumed future earnings. These disclosures provide shareholders with an indication of the accuracy of the assumptions used in determining GEV over time as well as sufficient information to enable shareholders to adjust GEV should they wish to use different assumptions.

### The following valuation methodologies are applied in determining GEV:

**81%** Most of the non-life operations and the in-force book of life insurance business are valued at the discounted value of the future earnings that we expect to earn from these operations. Allowances are made for the cost of capital allocated to these businesses (79% of GEV at 31 December 2019).

**13%** Sanlam's stake in Santam is valued at its listed market value. This represents the market's valuation of this businesses' future earnings (14% of GEV at 31 December 2019).

**6%** Discretionary and other capital not allocated to Group operations is valued at fair value (7% of GEV at 31 December 2019).

## How is RoGEV determined?

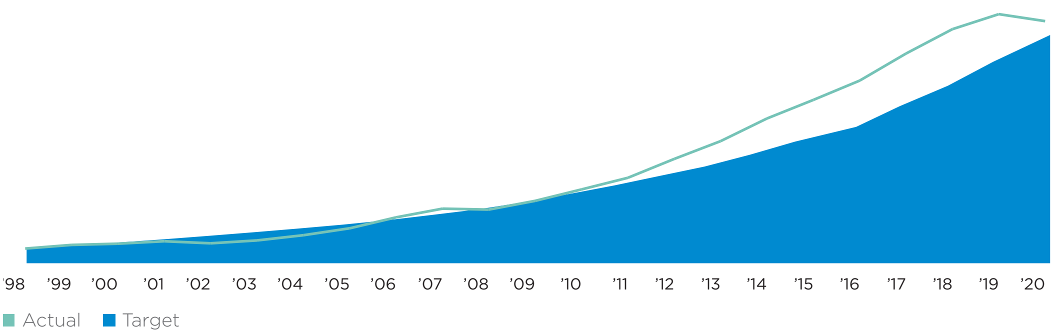
RoGEV is equal to the change in GEV, after adding back dividends paid and movements in share capital, as a percentage of the total of GEV at the beginning of the period and the weighted value of movements in share capital during the period.

RoGEV is therefore a composite measure of growth in the value of Sanlam, with RoGEV for a particular period including both the variance between current year actual earnings and the earnings assumed in the valuation models at the end of the previous year, as well as the change in present value of future expected earnings.

## What is Sanlam's RoGEV target?

Sanlam's RoGEV target is to outperform its cost of capital of i+4%, with i being the South African nine-year risk-free rate. We have outperformed this hurdle on a cumulative basis since listing in 1998.

**Consistent cumulative outperformance of RoGEV target**




**12,6% 10 yr CAGR**

**+4% Target: SA 9yr risk free**

Adjusted RoGEV per share excludes the impact of variances between actual and long-term assumed investment return, interest rate changes and other one-off effects not under management control and assumes normalised exchange rate movements. Adjusted RoGEV also includes the valuation of AfroCentric, Capricorn Investment Holdings and the listed Indian businesses based on the internal models before application of the cap based on the listed share prices.

*As GEV reflects the present value of future Group earnings, the key drivers of RoGEV are the same as those underlying the Group's main sources of earnings.*

## What drives future earnings and RoGEV?

Our main sources of earnings are the net operating profit we earn from our different lines of business (net result from financial services) and the net income we earn from investing discretionary capital and the capital allocated to our operations in the financial markets (net investment return on capital).

**Net investment return on capital equals:**

**Investment income**

plus

**Realised and unrealised investment surpluses**

minus

**Tax on investment return**

minus

**Non-controlling interests**

What are the key drivers of net investment return?

- Investment market returns;
- Investment performance relative to market returns;
- The strategic asset allocation contained in the investment management mandates; and
- The level of capital held.

**Net result from financial services equals:**

| | |
|---|---|
| **Financial services income** | Premiums earned in respect of risk cover provided under life insurance and general insurance solutions; margins earned from savings and retirement products where we provide guaranteed payments to clients; net interest and other margins earned from credit and structuring solutions; and fees charged for investment management, health, administration and other services |
| minus | |
| **Sales remuneration** | Commission and other distribution costs paid to our distribution channels |
| minus | |
| **Underwriting policy benefits** | All payments to clients in respect of risk cover provided under life insurance and general insurance solutions |
| minus | |
| **Administration costs** | All variable and fixed costs incurred in managing the full life cycle of client solutions, excluding sales remuneration |
| minus | |
| **Tax on financial services income and non-controlling interests** | A function of prevailing tax legislation and the interests held by minority shareholders respectively |

## What are the key drivers of net result from financial services?

**Financial services income is driven by:**

- the size of our client base, which depends on the level of new business written and the retention of existing clients;
- investment return earned on the underlying assets managed and administered for clients, which affects the size of the asset base on which we earn investment management and administration fees; and
- the level of fees and margins priced into our solutions.

The main drivers of sales remuneration are the level of new business written and the commission rates payable, which are regulated in most markets.

**Net result from financial services income is also affected by:**

- the level of claims experienced in respect of life insurance risk cover and general insurance solutions to protect clients from unforeseen events. Underwriting policy benefits are volatile in nature due to variances in the frequency and size of unforeseen events occurring;
- the level of fee income earned on investment management and administration services. Investment management fees are volatile in nature due to their link to asset values which are in turn linked to investment market levels; and
- the level of administration costs incurred in running our operating activities.