FINANCIAL REVIEW
2019 ANNUAL RESULTS

Key performance indicators

Earnings

- Net result from financial services increased by 9%
- Net operational earnings increased by 14%

New business

- Net value of new covered business up 15% to R2,3 billion
- Net new covered business margin of 2,98% (2,67% in 2018)
- New business volumes increased by 12% to R249 billion
- Net fund inflows of R57 billion compared to R42 billion in 2018

Group Equity Value

- Group Equity Value per share of R64,36
- Return on Group Equity Value per share of 6,4% (2018: 11,6%)
- Adjusted Return on Group Equity Value per share of 11,9% (2018: 19,4%)

Capital management

- Net R4,5 billion raised through share issuance
- R593 million surplus unlocked from operations
- R2 billion invested in Group operations
- Discretionary capital of R220 million at 31 December 2019
- Sanlam Group SAM cover ratio of 211% (2018: 215%)

Dividend

- Dividend per share of 334 cents, up 7,1% (3% real growth)

Salient results

for the year ended 31 December 2019

		2019	2018	Δ
SANLAM GROUP				
Earnings				
Net result from financial services	R million	**9 674**	8 890	9%
Net operational earnings	R million	**10 798**	9 455	14%
Headline earnings	R million	**7 481**	9 162	(18%)
Weighted average number of shares[1]	million	**2 090,0**	2 077,3	1%
Adjusted weighted average number of shares[1]	million	**2 208,5**	2 098,8	5%
Net result from financial services per share	cents	**438,0**	423,6	3%
Net operational earnings per share	cents	**488,9**	450,5	9%
Diluted headline earnings per share	cents	**357,9**	441,1	(19%)
Business volumes				
New business volumes	R million	**249 323**	223 029	12%
Net fund inflows	R million	**56 766**	41 539	37%
Net new covered business				
Value of new covered business	R million	**2 280**	1 985	15%
Covered business PVNBP[2]	R million	**76 446**	74 378	3%
New covered business margin[3]	%	**2,98**	2,67	
Group Equity Value				
Group Equity Value	R million	**143 271**	134 052	7%
Group Equity Value per share	cents	**6 436**	6 341	1%
Return on Group Equity Value per share[4]	%	**6,4**	11,6	
Adjusted Return on Group Equity Value per share[5]	%	**11,9**	19,4	
Solvency cover				
Sanlam Group	%	**211**	215	
Sanlam Life Insurance Limited	%	**253**	264	
Sanlam Life Insurance Limited covered business[6]	%	**206**	221	

Notes

(1) *Weighted average number of shares excludes Sanlam shares held directly or indirectly through consolidated investment funds in policyholder portfolios, as well as Sanlam shares held by the Group's broad-based black economic empowerment special purposes vehicle (B-BBEE SPV) that is consolidated in terms of International Financial Reporting Standards. These shares are treated as shares in issue for purposes of adjusted weighted average number of shares in issue, which is the base to determine net result from financial services per share and net operational earnings per share. Diluted headline earnings per share is based on the weighted average number of shares.*

(2) *PVNBP = present value of new business premiums and is equal to the present value of new recurring premiums, at the relevant risk discount rate for each business, plus single premiums.*

(3) *New covered business margin = value of new covered business as a percentage of PVNBP.*

(4) *Growth in Group Equity Value per share (with dividends paid, capital movements and cost of treasury shares acquired reversed) as a percentage of Group Equity Value per share at the beginning of the year.*

(5) *Adjusted Return on Group Equity Value = Return on Group Equity Value excluding investment market and currency volatility, changes in interest rates and other factors outside of management's control.*

(6) *Excludes investments in subsidiaries and associated companies, discretionary capital, cash accumulated for dividend payments and the net asset value of non-covered operations.*

Constant currency information

The constant currency information included in this review has been presented to illustrate the impact of changes in the South African rand exchange rates 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 year to 31 December 2019 at the weighted average exchange rate for the year to 31 December 2018, 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 (negative movements in the table below indicate a strengthening in the rand exchange rate):

Currency	Average rand exchange rate – 2019	Average rand exchange rate – 2018	Change in average exchange rate
British pound	18,42	17,60	4,6%
United States dollar	14,43	13,17	9,6%
Indian rupee	0,206	0,194	6,1%
Angola kwanza	0,041	0,053	(23,6%)
Nigerian naira	0,040	0,037	9,1%
Moroccan dirham	1,52	1,42	7,0%

In respect of the Group's investment in the 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 Saham Group results. No adjustment is made for exchange rate movements between the Moroccan dirham and the reporting currencies of the Saham subsidiaries.

Sanlam's external auditor, Ernst & Young Inc., issued an independent reporting accountants' assurance report in terms of ISAE 3420 (Assurance Report on the Process to Compile Pro Forma Financial Information Included in a Prospectus) in respect of the constant currency information in terms of section 8 of the JSE Listings Requirements. The independent reporting accountants' assurance report is available for inspection at Sanlam Limited's registered address.

Structural information

The Group acquired the remaining 53,4% interest in Saham Finances with an effective date of 1 October 2018, with the results of the Saham Finances Group consolidated from this date compared to an equity-accounting basis up to 30 September 2018. This impacts on the comparable growth rates for the 2019 financial year. Where relevant, structural information is provided to quantify the impact of the change in accounting treatment of Saham Finances on growth in the Group's key performance indicators. The structural information included in this results announcement 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.

Comments on the results

Introduction

The Sanlam Group's International Financial Reporting Standards (IFRS) financial statements for the year ended 31 December 2019 are presented based on and in compliance with IFRS. The basis of presentation and accounting policies for the IFRS financial statements and shareholders' information are in all material respects consistent with those applied in the 2018 Integrated Report and Annual Financial Statements, apart from the following:

- First-time adoption of the new leases standard (IFRS 16). The standard requires lessees to capitalise all significant lease arrangements at recognition of the lease as a right-of-use asset with a corresponding finance lease liability. The Group applied the standard using the modified retrospective approach with effect from 1 January 2019. Right-of-use assets and corresponding finance lease liabilities of R2 billion were recognised on this date. The adoption of IFRS 16 did not have a significant impact on the Group's earnings for the 2019 financial year.
- The introduction of "Net operational earnings" as earnings metric in the shareholders' fund income statement. Net operational earnings is the aggregate of net result from financial services, net investment income, net investment surpluses and net project expenses. It incorporates the two key areas of strategic focus from an earnings perspective, namely operating profit and investment return earned on the Group's capital base (including discretionary capital), in driving our objective to optimise Return on Group Equity Value (RoGEV). Normalised headline earnings is discontinued as an earnings measure with effect from the 2019 financial year as it does not represent a key performance indicator from a strategic perspective.

The Group achieved a solid operational performance in 2019, with growth of 14% and 15% respectively in net operational earnings and the net value of new covered business (VNB) written. The 37% increase in net fund inflows is a particular highlight. RoGEV, however, did not meet our expectations for the year, impacted by currency movements, pressure on the share prices of Santam, AfroCentric and our listed businesses in India and Namibia, lower net fund inflow assumptions at the South African wealth and investment management businesses, as well as a decline in the Saham valuation to allow for the current weak claims experience in Africa and the deterioration in the Lebanese economy. A prudent approach was followed for the valuation of the Angolan and Lebanese businesses through the application of the parallel exchange rates in these countries instead of the official rates. Adjusted RoGEV, which excludes volatility in investment and currency markets, as well as other factors not under management's control, of 11,9% also lagged the target of 13,5% for the year. The integration of Saham is progressing well, with specific focus on continuously improving the financial control environment in the smaller businesses, in line with the approach elsewhere in the group.

We recognised from the outset that we will face a number of headwinds in 2019. Low economic growth in some of our key markets, heightened global geopolitical risks as well as volatility in investment and currency markets did not bode well for growth in our key performance indicators (refer Economic and Financial Market review from page 37 for further information on the operating conditions in the countries where we operate). The South African economic environment in particular disappointed. A lack of progress in addressing critical structural reforms and the sustainability of key state-owned enterprises, contributed to depressed business and investor confidence, low economic growth and increased levels of unemployment in this, our largest market. Persistently high claims experience across the SEM African general insurance businesses also impacted on our overall performance.

Our diversification across geographies, market segments and lines of business, supported by a highly motivated and skilled human capital base, allowed us to navigate these challenges to continue to deliver strategic value to Sanlam shareholders.

Highlights and lowlights for the year include the following:

Highlights	Lowlights
Strong growth in key earnings and new business performance indicators	Adjusted RoGEV per share of 11,9% did not meet the target of 13,5%
Record net fund inflows into SIG third party asset manager	Adverse claims experience across SEM general insurance portfolio in Africa
Value through partnerships: Capitec Bank funeral business policies sold since launch in May 2018 reached 1,4 million	Deterioration in Lebanon economic environment; currency depreciation in Angola and Zimbabwe
Turnaround in Sanlam Corporate underwriting profit and Glacier new business performance since 1H19	Weak SA operating environment: • Increased credit-related provisioning in Sanfin • Pressure on Glacier and middle-income market sales
Santam underwriting margin of 7,7% at the upper end of its target range	Operational underperformance at Sanlam UK's wealth planning and advice businesses
Quality of earnings: Continued positive experience variances and resilient persistency despite difficult operating conditions	Decline in Côte d'Ivoire value of in-force covered business
7,1% increase in Sanlam dividend (real growth of 3%)	

The acquisition of the remaining interest in Saham Finances in the latter half of 2018 is the only structural activity that had a significant impact on the results for the year ended 31 December 2019.

All references to 2018 relate to the 2018 financial year, unless otherwise stated.

Operating environment

Economic conditions

Economic conditions in a number of the markets where we operate were not conducive to growth, as elaborated on from page 37.

Equity markets

The South African equity market delivered a relatively stronger performance with the FTSE/JSE Swix Index (inclusive of dividends) recording a return of 9,3% for the year to 31 December 2019, compared to a negative return of 11,7% in the comparable period in 2018. On average, the Swix was still 3% lower in 2019. The MSCI World Index total return in rand of 24,1% was well in excess of the 6,1% return in 2018. Absolute investment return earned on capital portfolios benefited from the relatively stronger performance. The lower average market levels in South Africa during 2019, however, continued to place pressure on growth in fund-based fee income. Negative equity market returns in some other key markets such as Côte d'Ivoire, also detracted from operational earnings.

Interest rates

The South African nine- and five-year interest rates decreased by 20 and 50 basis points respectively since the end of 2018. The South African All Bond Index return of 10,3% in 2019 compares to a return of 7,7% in 2018. Long-term interest rates also declined in a number of the SEM markets as well as the UK. Movements in interest rates commensurately had an overall positive impact on growth in VNB and RoGEV for the 2019 financial year.

Foreign currency exchange rates

The South African rand experienced significant volatility throughout 2018 and 2019. On an average basis, it weakened against most of the currencies where the Group operates in 2019, despite being marginally stronger at 31 December 2019 compared to 31 December 2018. The Group's translated rand operating earnings and new business metrics benefited from the weaker average exchange rates. RoGEV was, however, negatively affected by the absolute appreciation year-on-year.

Foreign currency/ZAR	United Kingdom	USA	Botswana	India	Morocco	Angola	Rest of Africa (weighted)
	GBP	USD	BWP	INR	MAD	AOA	
31/12/2018	18,32	14,38	1,37	0,21	1,51	0,05	
31/12/2019	18,52	13,98	1,34	0,20	1,47	0,03	
(Appreciation)/depreciation	1,1%	(2,8%)	(2,2%)	(4,9%)	(2,6%)	(37,3%)	(15,3%)
Average 2018	17,60	13,17	1,32	0,19	1,42	0,05	
Average 2019	18,42	14,43	1,36	0,21	1,52	0,04	
(Appreciation)/depreciation	4,6%	9,6%	3,3%	6,1%	7,0%	(23,6%)	(5,2%)

Group Equity Value

GEV amounted to R143,3 billion or 6 436 cents per share at 31 December 2019. Including the dividend of 312 cents per share paid during the year, a RoGEV per share of 6,4% was achieved in 2019. Group operations yielded an overall return of 6%, the combination of 16,6% return on covered business and -1,8% on other Group operations.

Group Equity Value at 31 December 2019

	GEV		RoGEV	
R million	2019	2018		%
Group operations	**133 517**	132 658	7 970	6,0
Sanlam Personal Finance	**47 141**	43 185	8 640	20,0
Sanlam Emerging Markets	**40 731**	44 659	(3 186)	(7,1)
Sanlam Investment Group	**20 050**	18 703	1 452	7,6
Santam	**19 675**	20 102	290	1,4
Sanlam Corporate	**5 920**	6 009	774	13,4
Covered business	**60 156**	56 234	9 351	16,6
Value of in-force business	**45 179**	41 456	9 021	21,8
Adjusted net worth	**14 977**	14 778	330	2,2
Other operations	**73 361**	76 424	(1 381)	(1,8)
Group operations	**133 517**	132 658	7 970	6,0
Discretionary capital and other	**9 754**	1 394	521	65,4
Group Equity Value	**143 271**	134 052	8 491	6,3
Per share (cents)	**6 436**	6 341	407	6,4

The underperformance against a target of 13,5% for 2019 is largely attributable to the following:

- The appreciation in the rand exchange rate against most currencies where the Group operates during 2019 impacted negatively on the valuations and RoGEV of the non-South African operations in rand terms. Angola and Zimbabwe detracted most on a relative basis given the significant weakening in these currencies. In addition, the Group also applied the parallel market exchange rates of 2 200 and 620 to the US$ respectively for the valuation of the Lebanese and Angolan operations. The difference between actual and expected exchange rate movements across the Group detracted 3% from RoGEV (SEM: 10%).
- Pressure on the listed share prices of AfroCentric in South Africa, CIH in Namibia and the credit businesses in India placed a cap on the valuation of these businesses in terms of the Group's valuation methodology, resulting in some R3 billion lower valuations compared to the internal models. This had a 2% negative impact on RoGEV (SEM: 6%; Sanlam Corporate: 3%). These businesses are all included in GEV at price/earnings ratios below 10 times.
- The SEM result includes an update to modelling for Côte d'Ivoire life business. The original acquisition models have now been updated to reflect the current profitability of the in-force books, which is lower than estimated at the time of the acquisition, partly due to a reduction in future investment return assumptions following recent market performance. The weak economic environment in Lebanon and a write-down of the Zimbabwe operations to zero also impacted results. This is reflected in negative modelling and other assumption changes of R546 million being recognised in RoGEV from SEM covered business, after a partial offset of R283 million relating to overhead expenses that are now allocated to non-covered business. The current weak claims experience across the Saham general insurance portfolio was allowed for in the medium-term cash flow projections of the non-life operations, suppressing the returns from these operations. The weak economic environment in Lebanon also resulted in a sovereign credit downgrade, which required IFRS 9 credit provisioning of some R340 million after tax.
- A low return of 1,4% was earned on Santam, which is valued at its listed share price. This return is in line with the general weak performance of South African financial shares in 2019.

Adjusted RoGEV per share, which 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 assuming normalised exchange rate movements, amounted to 11,9%. Adjusted RoGEV also includes the valuation of AfroCentric, CIH and the Indian businesses based on the internal models before application of the cap based on the listed share prices. The underperformance against target was largely due to the following:

- Despite the Santam share price delivering a return in line with the financial services index, it substantially underperformed the Group's JSE/FTSE Swix/Capped Swix benchmark, which benefited in 2019 from strong returns on commodity shares.
- The lower net fund inflow assumptions applied in the valuation of the SIG wealth and investment management businesses in South Africa given the current challenging economic environment, as referred to above.
- Allowance for the current operational experience in the Saham portfolio in the medium-term cash flow projections used for the GEV valuations.

The return on covered business was well in excess of the hurdle rate, reflecting strong returns at SPF and Sanlam Corporate of more than 20%. The return from these clusters benefited from their new business performance (refer business volumes section below), positive operating experience variances and assumption changes as well as, for SPF, positive economic assumption changes emanating from the lower long-term interest rates. SEM's return was negatively impacted by the factors highlighted above. The return on SIG covered business was also affected by the stronger rand, aggravated by lower than expected credit spread experience variances at Sanfin due to the strengthening in credit provisions.

The main components contributing to the return on covered business at a consolidated Group level are summarised below:

Return on covered business for the year ended 31 December 2019

%	2019	2018
Expected return – unwinding of the RDR	**9,4**	9,2
Value of new covered business	**4,1**	3,7
Operating experience variances	**2,4**	3,9
Operating assumption changes	**(0,4)**	0,6
Economic assumption changes	**0,5**	(1,4)
Expected investment return on capital portfolio	**1,8**	1,7
Investment variances	**(0,6)**	(5,1)
Value of in-force	**0,6**	(4,9)
Capital portfolio	**(1,2)**	(0,2)
Foreign currency translation differences and other	**(0,6)**	(1,6)
Return on covered business	**16,6**	11,0

- Expected return on covered business was in line with the comparable period in 2018 given comparable risk discount rates at the start of the periods.
- Return from value of new covered business increased in 2019 following strong growth at SPF and Sanlam Corporate (refer business volumes section below).
- Operating experience variances declined in 2019, attributable to the following:
  - The comparative base in 2018 included a one-off decline in cost of capital of R292 million following a reduction in the capital allocated to the Sanlam Life covered business operations.
  - Slightly lower risk claims experience variances from a high base in 2018, in particular at SPF, in line with the phasing in of best estimate risk assumptions over the past four years.
  - Weaker persistency experience at Sanlam Sky and SEM, partly offset by improved experience at Sanlam Corporate.
  - Lower credit spread experience variances in Sanfin as referred to above.
- The deterioration in operating assumption changes is largely due to the negative modelling changes in the Saham portfolio, as elaborated on above.
- The decrease in the risk discount rate in 2019 due to lower long-term interest rates in a number of markets had an overall positive impact on economic assumption changes.
- Actual investment return earned on policyholder portfolios exceeded actuarial assumptions in 2019, resulting in positive investment variances on the in-force book of covered business. The South African capital portfolio, however, marginally underperformed long-term assumptions, aggravated by the IFRS 9 charges recognised in Lebanon. This contributed to negative investment variances on adjusted net worth. The overall improvement compared to 2018 reflects the relatively stronger investment market performance in 2019.
- Foreign currency translation differences and other largely reflects the impact of movements in exchange rates on the rand-based valuations of non-South African covered business.

Other Group operations delivered a negative return of 1,8%.

- The 16% return from SPF's non-life operations reflect the combination of an overall solid underlying operational performance as well as lower risk discount rates.
- The SEM non-life operations recorded negative RoGEV of 8.7%. The largest contributors to the negative return are Saham and the credit businesses in India. The stronger rand exchange rate against the basket of Saham currencies had a significant negative impact, which included the official Angola kwanza devaluation as well as moving to the parallel exchange rates for Angola and Lebanon. The valuation of the Saham portfolio also allows for the current weak general insurance claims experience across the portfolio. The return on the Shriram Capital investment was negative 7,9% in rand terms. This is essentially due to currency translation losses and the impact of pressure on the share prices of the listed Indian credit businesses, as highlighted above. Good claims experience at Shriram General Insurance contributed positively to operational results.
- SIG achieved an overall RoGEV of 6,8% from its non-life operations. Future growth assumptions for its South African investment and wealth management operations were reduced in the current challenging operating environment, which more than offset the benefit of lower risk discount rates. Similar to SEM, the returns from non-South African operations were depressed by the stronger rand exchange rate.
- The cap applied to the AfroCentric valuation contributed to a 31% negative return for Sanlam Corporate's non-life operations. Based on the internal valuation, Sanlam Corporate's return on other operations was negative 11%, which allows for lower future cash flow assumptions in the context of the persisting difficult economic environment.
- The Santam RoGEV reflects the investment return of the listed share price.

Earnings

Shareholders' fund income statement for the year ended 31 December 2019

R million	2019	2018	△
Net result from financial services	9 674	8 890	9%
Sanlam Personal Finance	4 265	4 033	6%
Sanlam Emerging Markets	2 632	2 038	29%
Sanlam Investment Group	1 070	1 152	(7%)
Santam	1 217	1 196	2%
Sanlam Corporate	590	580	2%
Group office and other	(100)	(109)	8%
Net investment return	1 254	701	79%
Project expenses	(130)	(136)	4%
Net operational earnings	10 798	9 455	14%
Amortisation of intangible assets	(766)	(400)	
Equity participation costs	(596)	(5)	
(Loss)/profit on disposal of subsidiaries and associates	(6)	2 773	
Impairments	(339)	(305)	
Net non-operational equity-accounted earnings	19	3	
Normalised attributable earnings	9 110	11 521	(21%)

Net result from financial services (net operating profit) of R9,7 billion increased by 9% (up 7% in constant currency), with solid contributions from all major businesses, apart from Sanlam Investment Group's (SIG) wealth and advice businesses in the United Kingdom (UK), AfroCentric within the Sanlam Corporate portfolio and Saham.

SPF grew its net result from financial services by 6%. A prior year tax adjustment of R70 million at Sanlam Personal Loans (SPL) had a positive impact on the after-tax results, with gross result from financial services increasing by 3%. Excluding higher new business strain emanating from the strong new business growth at Sanlam Sky, BrightRock, Sanlam Indie and MiWayLife, net result from financial services increased by 10%. This is a particularly pleasing performance from a mature business operating under challenging conditions in South Africa.

SPF net result from financial services for the year ended 31 December 2019

R million	2019	2018	△
Sanlam Sky	1 339	1 268	6%
Recurring premium sub cluster	2 511	2 780	(10%)
Glacier	1 566	1 190	32%
LISP	513	539	(5%)
Life investments	1 053	651	62%
Strategic business development	387	374	3%
Sanlam Personal Loans	388	422	(8%)
Other	(1)	(48)	98%
Gross result from financial services	5 803	5 612	3%
Tax on gross result from financial services	(1 570)	(1 636)	4%
Non-controlling interest	32	57	(44%)
Net result from financial services	4 265	4 033	6%

- *Sanlam Sky* achieved 6% growth in its gross result from financial services; up 15% excluding additional new business strain incurred as a result of strong growth in its new business volumes (refer business volumes section that follows). This growth reflects the increase in the size of the in-force book over the last number of years. Improved investment and expense variances largely offset some weakening in mortality and persistency experience.
- Gross result from financial services of the *Recurring premium sub cluster* declined by 10%. This is largely attributable to higher new business strain (R120 million) and negative actuarial basis changes of R198 million (2018: positive R210 million). Excluding these, gross result from financial services increased by 10%. Growth in the size of the in-force book of risk business supported the contribution from this line of business, augmented by lower operating losses at BrightRock. The actuarial basis changes in 2019 primarily relates to a strengthening in the allowance for one-off project expenses incurred in respect of the IFRS 17 implementation programme and the roll-out of the business intelligence platform.
- *Glacier*, which incorporates single premium life investments and the Linked Investment Savings Plan platform (LISP) recorded a 32% increase in gross result from financial services, the combined effect of a 5% decline in profit from the LISP business and a 62% rise in the contribution from life investments. Earnings from the LISP business were adversely affected by below-inflation growth in fee income and lower rebates earned from investment fund managers. Market-related fee income from products where Glacier participates in actual investment return earned on the policyholder portfolios supported the increase in profit earned from life investments by some R280 million, in line with the relatively stronger investment market performance in 2019. Guaranteed plan profits benefited from mismatch profits and a release of excess expense reserves (cumulative R86 million).
- *Strategic business development* includes SPL, Sanlam Trust, Multi-Data and Sanlam Reality. SPL's gross result from financial services declined by 8% from a high base in 2018, which included one-off earnings recognised upon the introduction of IFRS 9. The performance of the book remains sound. The lower net loss from other businesses largely reflect reduced expenditure.

SEM grew its gross result from financial services by 47%. An increase in the effective tax rate and increased participation by non-controlling interests reduced growth in net result from financial services to 29%, including the Saham structural activity and exchange rate differences (11% excluding structural activity and in constant currency). The cluster's effective tax rate increased from 29% to 32%, largely attributable to a one-off reversal of deferred tax in Botswana of some R40 million and the introduction of a 2% social tax in Morocco. The increase in non-controlling interest participation is mostly attributable to the structural impact of the Saham acquisition.

SEM net result from financial services for the year ended 31 December 2019

R million	2019	2018	Δ
Southern Africa	**1 776**	1 491	19%
North and West Africa	**1 515**	884	72%
East Africa	**218**	40	445%
Other international	**2 223**	1 487	49%
Corporate costs	**(184)**	(129)	(43%)
Gross result from financial services	**5 548**	3 773	47%
Tax on gross result from financial services	**(1 788)**	(1 109)	(61%)
Non-controlling interest	**(1 128)**	(626)	(80%)
Net result from financial services	**2 632**	2 038	29%
Saham	**730**	510	43%
Other	**1 902**	1 528	24%

Line of business analysis

SEM's operations are managed within two sub clusters, namely Sanlam Pan Africa and Other international. The Sanlam Pan Africa portfolio is in turn managed along lines of business to ensure appropriate focus across the wide footprint. Sanlam Pan Africa Life is responsible for all life insurance, asset management and credit businesses in Africa, while Sanlam Pan Africa General manages all of the general insurance operations.

R million	2019	2018	Δ
Sanlam Pan Africa Life	**1 830**	1 544	19%
Sanlam Pan Africa General	**1 679**	871	93%
Other international	**2 223**	1 487	49%
Corporate costs	**(184)**	(129)	(43%)
Gross result from financial services	**5 548**	3 773	47%

Sanlam Pan Africa Life exceeded its target for the year. Botswana and Nigeria delivered solid growth in line with expectations. Namibia's results included increased new business strain and showed only marginal growth. Côte d'Ivoire results disappointed, impacted by negative investment variances caused by significant unrealised fair value losses, in particular on the equity exposure in the policyholder portfolios. The Moroccan life business delivered strong growth in operating earnings, contributing to an overall outperformance of the 2019 target by the former Saham life operations.

The Sanlam Pan Africa General portfolio had a difficult year with claims experience remaining elevated in key countries. With effect from 2019, overhead expenses incurred in South Africa and Morocco to support these businesses are allocated to the Life and General portfolios. Excluding overhead expenses, the portfolio achieved an underwriting margin of 3,2%, which compares to 3,8% in 2018. Including the allocation of overhead expenses, the underwriting margin amounts to 2% (former Saham portfolio: 2%), well below the 5% to 9% target range. Good return on insurance funds, in particular in Morocco, supported a net insurance margin of 12,9% (former Saham portfolio: 13,9%), which exceeded the lower end of the target range of 12% to 18%. The risks covered by the former Saham businesses are longer term in nature, given the exposure to third party bodily injury lines of business. Insurance fund (float) balances are commensurately high (more than 100% of premiums) with return on insurance funds forming a pronounced component of the net insurance margin (target range of 7% to 9%). This return is, however, volatile in nature given the exposure to equities and properties within the float portfolios. This exposure is appropriate to optimise RoGEV over the longer term given the nature of investment markets in West and North Africa and low interest rates in a number of countries.

Other international growth of 49% in gross result from financial services is largely reflective of strong growth in India, in particular at the general insurance business.

Further commentary is provided in the regional analysis.

Regional analysis

Southern Africa gross result from financial services increased by 19%.

- The *Namibian* businesses grew their gross result from financial services by 8%. Life insurance earnings increased marginally, with an improvement in Group life claims experience largely offset by higher new business strain. The challenging economic conditions in Namibia contributed to severe price competition in the general insurance market. Santam Namibia profit was flat on the previous year as a result. Earnings from banking operations increased by 6%.
- The *Botswana* operations' growth in gross result from financial services was 23%. Life insurance earnings increased by 9%, supported by strong growth in Group funeral business, favourable term assurance claims experience and mortality profit from the annuity book. Letshego's profit grew by 31% from a low base in 2018, benefiting from a significant increase in post-write off recoveries following increased focus on collections.
- Gross result from financial services from other Southern African countries increased by 12%. Sterling growth in Group new business volumes and favourable claims experience contributed to a more than 28% increase in Malawi's contribution. Zambia also experienced a significant improvement from a low base in 2018, which included losses relating to the previous healthcare administrator. Saham's MCI Care business manages the health book with effect from 2019.

  Angola had a weak 2019 with a combined ratio in excess of 100%. The Angolan currency collapsed following the removal of the band within which the Central Bank managed the exchange rate. The cost of imported motor parts and medical inflation soared as a result, placing significant pressure on claims experience. Repricing implemented in response provided some relief, but do not fully reflect in the 2019 earnings given the delay caused by annual renewals. The mix of business was also skewed towards the less profitable medical line of business in 2019. Further repricing and a stabilisation in the currency should improve earnings in 2020.

A deterioration in Saham Re's claims ratio reflected the second order impact of the elevated claims experience in Morocco, Angola and Côte d'Ivoire. Saham Re is based in Mauritius and therefore reported as part of Southern Africa.

North and West Africa gross result from financial services increased by 72% to R1,5 billion. The main contributors to this region are the former Saham operations in Morocco and Côte d'Ivoire, and FBN Insurance in Nigeria.

- High motor claims experience persisted in Morocco, in line with industry experience. Repricing and claims management improvement processes implemented during the year will take some time to reflect in the underwriting margin. The return on insurance funds exceeded targets for the year, with the equity and bond portfolios outperforming benchmarks. This contributed to a net general insurance margin of 17%, well within the target range, despite a below-par underwriting margin of 0,8%. The Moroccan life business performed well in excess of its target for the year, benefiting from good Group life mortality profit and positive investment variances.
- Operating earnings from Côte d'Ivoire disappointed. A number of mid-size fire claims, elevated medical inflation and a strengthening in reserves impacted on the Côte d'Ivoire general insurance underwriting results. The life insurance business also experienced lower than expected profitability due to negative investment variances, the combination of negative equity market returns and an underperformance against benchmark. The portfolio construction is currently under review with the assistance of Sanfin.
- A number of large claims impacted on Continental Re's underwriting margin. These included exposure to losses from the Mozambique cyclone, oil and gas claims in Lagos, fire and accident claims in Gaborone as well as marine claims and the loss of a refinery in Douala.
- FBN Insurance increased its gross result from financial services by 27% to exceed R100 million (Sanlam's 35% share) for the first time, an exceptional performance for this greenfields operation that was started in 2010. Strong new business growth supported the Nigerian results.

The East Africa 2019 earnings include a R85 million positive one-off impact (R33 million after tax and minorities) relating to a relaxation in the regulatory reserving basis in Kenya. Tanzania general insurance earnings recovered from restructuring costs and particularly negative claims experience in 2018.

Gross result from financial services from the Other international region (India, Malaysia and Lebanon) increased by 49%.

- Gross result from financial services in India increased by 72% to R2 billion. The credit businesses achieved growth of 20%. Pressure on disbursements due to liquidity constraints in the Indian market and lower new vehicle sales limited growth in the size of the loan books. This was offset by an improvement in the net interest margin at both Shriram Transport Finance Company (STFC) and Shriram City Union Finance (SCUF). SCUF's earnings were in addition supported by improved arrears collections.

  Shriram General Insurance achieved exceptional growth of 126% from R387 million in 2018 to R875 million in 2019. This is due to a major improvement in the performance of the third-party liability book. This line of business benefited from lower claims frequency (an improving trend over the last few years) as well as strategic focus on claims management that is yielding results through better fraud detection and faster settlement of claims at a lower ultimate cost per claim. This contributed to a lower reserving basis in 2019.

  Life insurance profit was negatively affected by lower new business generated from the credit businesses' client bases, in line with the lower level of disbursements.
- Gross result from financial services in Malaysia declined by 17% to R78 million. The life business had a good year, increasing its profit contribution by 32%. Diligent expense management, increased profit earned from participating business and mismatch profits more than offset high medical, disability and critical illness claims experience. High claims experience persisted at Pacific&Orient, the general insurance business. Management expenses were also elevated, due to increased marketing expenditure and system development costs incurred to support an expansion in the number of agents in pursuit of its motor strategy. This contributed to a disappointing 60% decline in general insurance gross result from financial services.
- Lebanon contributed gross result from financial services of R138 million (2018: R68 million). Operating conditions deteriorated significantly in Lebanon towards the end of 2019 in the face of a major slowdown in the economy and wide spread social unrest. Positive claims experience enabled the general insurance business, which contributes some 80% of the Lebanese profit, to outperform its target for the year, despite the economic challenges. Attractive interest rates offered by local banks, aggravated by the weak economy and severe pressure on disposable income, contributed to low new life business volumes and weak persistency. Life insurance profits were commensurately under pressure. In the context of the sovereign risks and downgrade, these results are not considered sustainable.

SIG's net result from financial services declined by 7% (10% lower in constant currency). All major businesses delivered satisfactory growth, apart from the UK wealth and advice businesses, which were impacted by lower fee income and one-off transaction and project related expenses. The effective tax rate for the cluster increased due to the consolidation of Nucleus, prior year tax adjustments and some non-deductible expenses in the UK.

SIG net result from financial services for the year ended 31 December 2019

R million	2019	2018	△
Sanlam Investments (3rd party business)	536	377	42%
Wealth Management	186	170	9%
International	355	515	(31%)
Corporate services	(28)	(16)	(75%)
Investment management	1 049	1 046	–
Sanlam Specialised Finance	510	496	3%
Sanlam Asset Management	214	204	5%
Central Credit Manager and other	296	292	1%
Gross result from financial services	1 559	1 542	1%
Tax on gross result from financial services	(392)	(326)	20%
Non-controlling interest	(97)	(64)	(52%)
Net result from financial services	1 070	1 152	(7%)

- The *Sanlam Investments 3rd party asset manager's* gross result from financial services increased by 42%, a stellar performance under difficult conditions. The strategic focus on alternative asset classes contributed considerable earnings in 2019. The closure of the Climate Investor One Fund at $850 million generated one-off income of R68 million in the Alternatives business. Sanlam Properties' operating profit increased by 54% from R39 million to R60 million, with the business generating strong fee income from property acquisitions and developments. Performance fees, stringent cost control and solid net fund inflows supported fee income in the other business units. The investment team had a good year, with more than 85% of portfolios exceeding their benchmarks, supporting an increase in net performance fees from R17 million in 2018 to R71 million in 2019. The Large Manager Watch Global portfolio attained a 2 out of 10 ranking.
- *Wealth Management* gross result from financial services increased by 9%. Fee income rose by some 10%, attributable to net inflows in the prior year and a favourable change in mix of business. Brokerage income, however, lagged in general due to lower overall trading levels in the uncertain environment.
- The *International* business was impacted by lower brokerage income in the wealth business, lower advice fees, bad debt provisions of some R30 million and one-off expenses incurred in respect of acquisitions, restructuring and other projects. These more than offset an otherwise strong underlying performance, with the asset management businesses benefiting from higher assets under management.
- *Sanlam Specialised Finance* (Sanfin) did well to increase its gross result from financial services by 3%, despite difficult conditions in 2019. The Sanlam Asset Management business (incorporating Sanlam Portfolio Management and Sanlam Structured Solutions) achieved 5% profit growth, a resilient performance in light of lower average equity markets and the redeployment of capital by Sanlam for corporate transactions that had a negative impact on the business' asset base. Sanlam Capital Markets (including the Central Credit Manager (CCM)) managed to increase its operating earnings by 1% despite significant corporate credit provisioning. Management of the Sanlam Corporate inflation-linked annuity portfolio was transferred to the CCM with effect from 1 January 2019, which added R38 million to the CCM profit in 2019. The CCM had to raise provisions of some R185 million against a number of South African credit exposures (excluding Mayfair), reflective of heightened credit risk. The exposure to Mayfair declined from some R800 million at the time of the collapse of the Steinhoff share price in 2017 to R381 million including interest at 31 December 2019. A provision of 25% was held against the investment at 31 December 2019, implying a net carrying value of R286 million. Including funding cost, the Mayfair exposure detracted R11 million from earnings in 2019.

Santam's net result from financial services increased by 2%.

- Santam's 2018 financial year was characterised by a particularly benign claims environment that contributed to a 9,2% underwriting margin for conventional business. The favourable claims experience did not persist in the first half of 2019, contributing to a decline in the underwriting margin for conventional business to 7,7%, albeit still at the upper end of the 4% to 8% target range. The underwriting result for conventional business commensurately declined by 12%. The liability line of business recorded a strong recovery, which included claims relating to the listeriosis outbreak early in 2018 in the comparable base. The core motor book delivered growth of 1% on the high base in 2018, while engineering achieved 5% growth in underwriting profits. This growth was, however, partly offset by a significant weakening in the property and agricultural lines, which were impacted by a number of fire, flooding and hail events in 2019. The alternative risk transfer business had a good year, more than doubling its contribution to operating earnings to R64 million.

- Investment return on insurance funds (float income) increased by 15%, driven by improved investment returns as well as higher float balances.
- Santam's share of earnings from the SEM general insurance businesses increased by 77%, supported by a strong performance from Shriram General Insurance. Santam's participation in the Saham earnings increased by 22%, including the increase in Santam's effective shareholding during 2018.

Sanlam Corporate's net result from financial services increased by 2%, a major improvement since the first half of 2019 when results were under pressure. Gross result from financial services increased by 3%. Excluding from the comparable base the inflation linked annuity portfolio transferred to Sanfin and the health operations sold to AfroCentric in 2018, gross result from financial services increased by a credible 14%. Repricing in response to the elevated Group risk claims experience is yielding results, with a major improvement in this line of business despite a high level of claims persisting. Group risk profit doubled to R210 million in 2019. Good traction in the conversion of standalone funds to the Sanlam Umbrella Fund is benefiting the earnings of the administration, advice and investment units. One-off expenditure and a decline in investment return following the deployment of capital for acquisitions limited AfroCentric's profit growth to 4%.

Net operational earnings of R10,8 billion are 14% up on 2018. This is the combined effect of the 9% increase in net result from financial services, a 4% decrease in net project expenses and a 79% increase in net investment return. Net investment return includes IFRS 9 credit provisioning of some R340 million following the sovereign credit rating downgrade of Lebanon, to a large extent offsetting the benefit from relatively stronger investment market performance in a number of other countries in 2019.

Normalised attributable earnings decreased by 21%, suppressed by the following:

- Net amortisation of intangible assets increased from R400 million in 2018 to R766 million in 2019, attributable to the amortisation of the value of business acquired intangible assets recognised in 2018 upon Saham and Nucleus becoming subsidiaries.
- Net equity participation cost includes a one-off charge of R594 million in 2019 in respect of the 5% B-BBEE share issuance. The total one-off IFRS 2 charge amounted to R1 686 million. R594 million is recognised in normalised attributable earnings, representing the economic cost to Sanlam shareholders from issuing the shares at a higher-than market-related discount. The remainder is recognised in fund transfers.
- Net profit on the disposal of subsidiaries and associates of R2,8 billion was recognised in 2018 in terms of IFRS as a result of the first-time consolidation of Saham and Nucleus. These were one-off earnings that increased the comparative base.
- Impairments of R339 million were recognised in 2019 compared to R305 million in 2018. Pressure on the listed share prices of Bank Windhoek and Letshego placed a cap on the GEV valuation of Capricorn Investment Holdings (our Namibian associate that holds a stake in Bank Windhoek) and Letshego, resulting in impairments of R88 million and R74 million respectively. An impairment of R44 million was also recognised to reduce the carrying value of the Zimbabwean operations to zero. The underperformance at Pacific&Orient required an impairment of R55 million.

Headline earnings decreased by 18%. The difference between normalised attributable earnings and headline earnings relates primarily to the exclusion of impairments (R339 million; 2018: R305 million) and profit on the disposal of subsidiaries and associates (-R6 million; 2018: R2 773 million), and the inclusion of negative fund transfers of R2 billion (2018: positive R106 million) in headline earnings. Fund transfers include:

- Non-economical mismatch profits and losses recognised in terms of IFRS through the elimination of Sanlam shares held in policyholder portfolios as treasury shares and the recognition of deferred tax assets in respect of assessed losses in policyholder portfolios (R267 million net loss).
- The difference between the R1,7 billion IFRS 2 charge recognised in respect of the B-BBEE share issuance and the R594 million recognised in normalised attributable earnings (R1 092 million expense).
- Consolidation of the B-BBEE SPV, which results in the recognition of interest paid on external funding in the SPV and administration costs incurred by the SPV in Sanlam's earnings (R601 million net expense).

The number of shares used to calculate headline earnings per share is reduced by the 5% shares held by the B-BBEE SPV, as these are treated as treasury shares on consolidation and written down to zero against reserves in the IFRS Statement of Financial Position.

Business volumes

New business volumes increased by 12% despite low investor confidence in South Africa and lower investment inflows in the UK, Namibia and Kenya. Life insurance new business volumes increased marginally, investment business inflows grew by 14% and general insurance earned premiums were 22% higher.

SPF achieved a strong second half performance, with Glacier in particular finding renewed traction. Overall new business sales increased by 1%, up 2% excluding the Capitec credit life business written in 2018 that did not repeat in 2019.

SPF new business volumes for the year ended 31 December 2019

R million	2019	2018	△
Sanlam Sky	**2 726**	2 494	9%
Recurring premium sub cluster and Strategic business development	**3 429**	3 412	1%
Savings business	**2 204**	2 209	–
Risk and new initiatives	**1 225**	1 203	2%
Glacier	**55 658**	55 065	1%
Life investments	**9 406**	10 082	(7%)
LISP	**46 252**	44 983	3%
New business volumes	**61 813**	60 971	1%

- *Sanlam Sky's* new business increased by 9%, up 41% excluding the 2018 Capitec Bank credit life business of R566 million that did not repeat in 2019. The Capitec Bank funeral product, launched in May 2018, continues to exceed expectations, reaching new business sales of R1,1 billion in 2019. The newly launched African Rainbow Life business had a maiden contribution of R13 million.

  Sales through the traditional individual life intermediated channel rose by a satisfactory 10%, contributing to 50% overall growth in individual life new business inclusive of Capitec Bank funeral business. Safrican experienced a softer year, suppressing Group recurring new business growth to a marginal 1% excluding Capitec Bank credit life.
- The *Recurring premium sub cluster and Strategic business development* grew new business volumes by 1%, the combined effect of flat new business volumes in the Savings business and 2% higher sales at the other business units. Demand for single premium retirement annuities remained strong, with most other lines of business experiencing lower new business sales. This reflects the pressure on disposable income in the middle-income market and a consequential highly competitive environment. MiWayLife and Sanlam Indie contributed strong growth from a low base.
- *Glacier* found renewed traction in new business sales in the second half of the year. Investment business ended 2019 with growth of 5%, while life business declined by 3%. Overall new business sales increased by 1%. Healthy demand for discretionary savings products, guaranteed annuities and the investment linked life annuity (ILLA) was largely offset by lower volumes across other lines of business.

The low demand for single premium life business had a negative impact on SPF's net fund inflows, which decreased by 7% from R10,3 billion in 2018 to R9,6 billion in 2019.

SEM new business volumes increased by 33%, benefiting from the Saham structural activity (up 8% excluding structural activity and in constant currency). All of the major Saham territories exceeded their volume targets for the year, apart from Angola, Côte d'Ivoire and Lebanon. Overall general insurance new business volumes in the former Saham portfolio increased by 15% on a fully consolidated basis for both 2018 and 2019. Gross written general insurance premiums increased by 13% on a similar basis.

SEM new business volumes for the year ended 31 December 2019

R million	2019	2018	△
Southern Africa	15 695	13 992	12%
North and West Africa	12 666	6 979	81%
East Africa	2 362	1 868	26%
Other international	4 086	3 385	21%
New business volumes	34 809	26 224	33%
General insurance	15 604	9 873	58%
Life insurance	8 343	6 410	30%
Asset management	10 862	9 941	9%

Southern Africa new business volumes increased by 12% (up 11% in constant currency).

- New business volumes in Namibia declined by 14%. New life business increased by 20%, with strong growth in both entry-level and affluent market sales. New investment business, which is volatile in nature and more severely affected by the economic conditions in Namibia, decreased by 25%.
- In Botswana, a number of large mandates lifted new investment business volumes by 57%. New life business also achieved healthy growth of 16%, supported by good Group funeral scheme sales. Overall new business sales were up 43%.
- New business volumes across the other Southern Africa territories increased by 13%. Angola underperformed against its rand-based target, attributable to the impact of the weaker kwanza exchange rate and an adverse change in mix of business from motor to health. Saham Re in Mauritius's growth was impacted by lower premium flows from Angola due to the weak currency exchange rate. Zimbabwean new business declined by 59% to R158 million, the aggregate impact of the significantly weaker currency exchange rate and lower volumes in local currency under challenging economic conditions. All other countries achieved strong growth across all lines of business.

New business volumes in the North and West Africa region increased by 81%. The largest contributors to this region are (percentages indicate contribution to new business volumes): the Saham businesses in Morocco (59%), Côte d'Ivoire (9%) and Nigeria (12%) as well as FBN Insurance in Nigeria (5%). The Saham businesses achieved overall new business volumes broadly in line with the target for the year. FBN Insurance continued to grow strongly at 24%.

Within the East Africa region, all countries achieved growth in excess of 20%, apart from Kenya. Kenya's new business sales continued to disappoint, ending well down on target, albeit 17% up on 2018. Low individual life volumes are the main detractor from the new business performance.

India continues to be the main contributor to the Other international region. New business volumes in this region grew by 21%.

- New business production at the Indian life insurance business was under pressure as a result of the liquidity crunch in India and declined by 2% on 2018. The general insurance business experienced much stronger growth of 15%, contributing to overall growth of 12%.
- Malaysian new business volumes increased by 29% to R778 million. The turnaround at the life business is persisting with sterling growth of 43% in new business volumes. The mix of business also changed to the more profitable non-participating lines of business. General insurance new business increased by 11%, which was still below expectations.
- The Lebanon businesses contributed new business of R698 million under particularly difficult operating conditions. Life new business of R134 million were well down on targets for the year, impacted by the challenging conditions as highlighted above. The general insurance business did remarkedly well to end only slightly down on target, with the more affluent broker business more resilient in the challenging economic environment. This is, however, not considered sustainable.

Net fund flows increased by 31% from R8,6 billion in 2018 to R11,2 billion in 2019, with the Saham structural impact the main contributor.

SIG's new business volumes increased by a sterling 14%, the aggregate of 24% growth at the South African asset and wealth management businesses, partly offset by a lower contribution from the international portfolio. New business performance was broad based in the South African asset management business, with pleasing institutional, retail and alternative flows. The Alternative business reported strong inflows as Climate Investor One Fund had a final close in June 2019 of $850 million. Retail funds reported strong inflows across solutions and products with Implemented Consulting, with the SIM collective investment scheme range and Satrix funds all achieving good inflows. Wealth management flows improved in the second half of 2019 and ended the year with growth of 38%. Net fund inflows are a particular highlight for the year, increasing by 194% to R21,2 billion. The strong new business flows at the South African asset management businesses also reflect in their net fund flows contribution, which almost tripled. Wealth management experienced lower net inflows, down 28%, while the international business also underperformed with a 75% decline in net inflows from R2,3 billion in 2018 to R579 million in 2019.

Gross written premiums at **Santam** increased by 8%. Motor and property, which contributes 68% of total gross written premiums, increased by a combined 6% in a challenging environment of low economic growth and competitive pressures. Motor business increased by 4%. Strong growth at MiWay of 10% was tempered by marginal growth in the intermediated commercial book. Property business grew by 9%, following good growth at Santam Re, Niche and Commercial. Engineering (20%) and alternative risk business (14%) also reported strong growth.

Sanlam Corporate grew its new business volumes by a strong 14% from a high base in 2018 that included a few large mandates. Both recurring and single premium business increased strongly. The umbrella fund and non-life investment lines of business contributed most of the growth.

Overall net fund inflows of R56,8 billion in 2019 is a particularly satisfactory performance given the challenging market conditions.

Business volumes for the year ended 31 December 2019

	New business			Net inflows		
R million	**2019**	**2018**	△	**2019**	**2018**	△
Sanlam Personal Finance	**61 813**	60 971	1%	**9 593**	10 294	(7%)
Sanlam Emerging Markets	**34 809**	26 224	33%	**11 239**	8 607	31%
Sanlam Investment Group	**113 236**	99 696	14%	**21 221**	7 214	194%
Santam	**24 227**	22 812	6%	**9 146**	8 986	2%
Sanlam Corporate	**15 238**	13 326	14%	**5 567**	6 438	(14%)
Total	**249 323**	223 029	12%	**56 766**	41 539	37%
Covered business	**53 927**	53 815	–	**15 989**	16 814	(5%)
Investment business	**155 565**	136 529	14%	**25 596**	11 779	117%
General insurance	**39 831**	32 685	22%	**15 181**	12 946	17%
Total	**249 323**	223 029	12%	**56 766**	41 539	37%

Value of new covered business

The discount rate used to determine VNB is directly linked to long-term interest rates. The 20bps and 50bps decrease in the South African nine- and five-year benchmark rates respectively in 2019 compared to the end of 2018 resulted in a commensurate decrease in the risk discount rate, with a 4.,6% positive impact on VNB growth. Changes in mix of business, good cost control and pricing initiatives supported an overall increase in VNB margins.

Net VNB increased by 15% at actual interest rates and by 10% on a comparable economic basis (CEB).

SPF achieved overall growth of 17% (12% on a comparable economic basis). Sanlam Sky VNB grew by 24% (17% on a comparable economic basis), supported by the exceptional Capitec Bank funeral business performance as well as the strong growth in individual life new business written through the traditional intermediated channel. The comparative base includes Capitec Bank credit life VNB of R36 million that did not repeat in 2019. Recurring premium cluster VNB rose by 34% (26% on a comparable economic basis), benefiting from repricing implemented in 2018, a favourable change in mix of business, a solid increase in BrightRock, MiWayLife and Sanlam Indie's contribution and some actuarial basis changes. Glacier's VNB declined by 8%, reflective of its new business performance.

Net VNB at **SEM** increased by 1% (down 2% in constant currency). Namibia, Botswana and Malaysia achieved credible growth of 9%, 20% and 64% respectively. Namibia and Malaysia's performance is largely in line with the growth in new life business volumes. Botswana's VNB growth benefited from the weaker average rand exchange rate as well as the good Group funeral business sales. Despite good growth in Kenya's life business, it still lagged expectations with a reduction in policy count placing pressure on acquisition and maintenance unit costs. Nigeria's VNB contribution was impacted by negative economic assumption changes and declined by 28%. India's 20% decline in VNB is attributable to the lower new business volumes and the inclusion of distribution expansion costs. Margins in Morocco and Côte d'Ivoire declined due to a change in mix to less profitable group business in Morocco and negative modelling changes in Côte d'Ivoire. Lebanon VNB also declined, reflective of the weak life new business performance.

Sanlam Corporate's VNB increased by 22%, the combination of strong new business growth and product mix.

Value of new covered business for the year ended 31 December 2019

R million	2019	2018	△	CEB
Net value of new covered business	**2 280**	1 985	15%	10%
Sanlam Personal Finance	**1 763**	1 504	17%	12%
Sanlam Emerging Markets	**343**	338	1%	(3%)
Sanlam Investment Group	**–**	–	–	–
Sanlam Corporate	**174**	143	22%	23%
Gross of non-controlling interest	**2 542**	2 187	16%	12%
Net present value of new business premiums	**76 446**	74 378	3%	3%
Sanlam Personal Finance	**49 269**	48 790	1%	–
Sanlam Emerging Markets	**10 242**	8 366	22%	21%
Sanlam Investment Group	**3 410**	3 334	2%	2%
Sanlam Corporate	**13 525**	13 888	(3%)	(3%)
Gross of non-controlling interest	**81 540**	78 085	4%	4%
Net new covered business margin	**2,98%**	2,67%		2,88%
Sanlam Personal Finance	**3,58%**	3,08%		3,44%
Sanlam Emerging Markets	**3,35%**	4,04%		3,24%
Sanlam Investment Group	**–**	–		–
Sanlam Corporate	**1,29%**	1,03%		1,30%
Gross of non-controlling interest	**3,12%**	2,80%		3,00%

Capital management

Discretionary capital

The Group started the year with negative discretionary capital of R3,7 billion, after payment for the Saham acquisition. A number of transactions during 2019 affected the balance of available discretionary capital, which amounted to R220 million at 31 December 2019.

Discretionary capital at 31 December 2019

R million	2019
Discretionary capital at 31 December 2018	(3 678)
Excess dividend cover	380
Excess investment return - Sanlam Life	391
Release of surplus capital	593
Sanlam Personal Finance	211
Sanlam Emerging Markets	382
Capital raised – cash component	4 450
Total capital raised	7 794
Net vendor funding	(2 997)
Dividends paid in respect of new shares	(347)
Investment return and other	51
Corporate activity	(1 967)
South Africa	(331)
Other emerging markets	(1 022)
Developed markets	(614)
Discretionary capital at 31 December 2019	**220**