Beyond the Euphoria: Sanlam’s views on growth aspects for our business given the new dawn in South Africa

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Group Chief Executive Officer
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Agenda

- Operating Environment
- Group Strategy
- Pan-African opportunities for Sanlam
- Cluster Priorities
- Conclusion
Operating Environment
H1:2018
Slow growth in Namibia amidst job losses, tax increases and a weak credit environment

Modest growth in Angola and Nigeria, but higher oil prices are supportive

Economic recovery continues elsewhere with strong growth in low income countries

Global economic growth peaking

Tightening global financial conditions

Escalation in trade protectionism between the US and China

- Low growth and high unemployment
- Investment market volatility
- Rising interest rates
- Currency volatility

- Strong growth relative to ROW
- External risks manageable
- Modest policy tightening expected
Business environment: South Africa

**Consumer Debt levels**
- Households have deleveraged reducing their debt level from 85.7% of personal disposable income in 2008 to 71.3% currently
- Household savings increased from -2.3% of personal disposable income in 2007 to +0.4% currently
- Real disposable income growth fell 1% annualised in 2Q18
- Credit extended to households is flat in real terms

**Debt levels**
- Debt-to-GDP ratio approaching unsustainable levels
- Including Treasury guarantees made to SOC’s and other contingent liabilities (RAF) the percentage is 70%
- In aggregate SOCs are in a cash deficit position given weak operational performance
- 13.6% of Main Budget revenue is used to service debt

**Unemployment**
- Real GDP growth of 5% required to reduce historically high structural unemployment rate of 27.2%
- Population growth of 1.5% exceeds expected real GDP growth of 0.7% in 2018
- Real GDP per capita is declining and living standards have stagnated
Business environment: South Africa (continued)

Rating
• Government revenue numbers on track in the fiscal year to date
• Ratings risk has eased, but has not been eliminated
• The focus should shift from preventing further downgrades to ratings improvements
• National Treasury’s intention to boost capital expenditure relative to consumption is a step in the right direction

Inflation
• The spike in fuel prices has added 1% to inflation and eroded consumer purchasing power
• Core inflation is contained at 4.2%, but risk is skewed to the upside
• Reserve Bank’s goal of targeting an inflation rate of close to 4.5% and currency volatility precludes loosening of monetary policy

Exchange rates
• The Rand is undervalued
• But, amidst tightening global financial conditions, the currency is vulnerable as investors focus more keenly on EM fundamentals
• This underlines the importance of a flexible exchange rate and the Reserve Bank’s independence
• South Africa requires uninterrupted access to global capital markets, given its relatively low level of foreign exchange reserves
Business environment: South Africa (continued)

Four key factors influencing investor sentiment

**Expropriation with no compensation**
- Land reform needed for redress and economic inclusion
- Constitution allows for expropriation within boundary of just and equitable compensation
- Requires reinforcement of property rights
- Clarity required to foster investment

**Levels of Corruption/Irregular expenditure**
- SOCs, municipalities and government departments are focal points
- Fiscal resources misused with no accountability
- Services delivery impaired
- Investor trust and confidence weakened

**SOC finances**
- Several SOCs in financial distress
- Improved liquidity, but uncertainty over Eskom as a going concern
- Infrastructure bottlenecks a risk
- SAs announced investment drive must target economic infrastructure capacity

**National Health Insurance**
- NHI must be linked with fiscal sustainability
- Revamp of public health system needed
- Risk of demand overwhelming supply
- Co-opt the private sector
RamaReality

No short term solution to fixing the economy

- Economy entered a technical recession
- Battle to regain control of captured state institutions delaying much needed progress
- Factional infighting in the ANC resulting in economic paralysis
- Shrinking economy leaving President Ramaphosa vulnerable to rivals both in and outside of the ANC
- Promoting ANC unity hampers the President from taking all necessary steps to grow the economy
South Africa - Three-year forecast

Year-on-year

Growth rates (%)

Exchange rates

Source: Sanlam Investment Management
Key income drivers

Constrained household income

Population growth coupled with low levels of employment

Positive correlation between economic and insurance growth

Population growth

Increase in productivity/GDP

employment

Household savings ratio (lhs)

Household wealth (rhs)
Proportion of households by income group

Source: CRA, SAIRR
Progress we make under tough economic conditions

- Joined Plug&Play on Insurtech
- Indiefin (agile platform enabling partnerships)
- Telco’s

Sanlam Strategy

- IFA survey rate Sanlam/Santam 1st
- Santam 1st or 2nd in all categories
- Testimony to good customer service, broker support and products
- Preferred insurer should IFA’s become tied agents

Our strategy on BrightRock is yielding results. Now nr 1 in risk segment

In the mass market space we increased market share from 22% to 30% y-o-y influenced by Capitec
Group Strategy
A strategy that supports sustainable performance

A key focus is to deliver on the Pan-African opportunity

**Our vision**

To **lead** in client-centric wealth creation, management and protection in South Africa

To be a **leading** Pan-African financial services group with a meaningful presence in India & Malaysia

To play a **niche** role in wealth and investment management in specific developed markets

**Our strategic intent**

Sustainable value creation for all our stakeholders

<table>
<thead>
<tr>
<th>Strategic pillars</th>
<th>Transformation</th>
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<tr>
<td>Profitable top-line growth through a culture of client-centricity</td>
<td>Enhancing resilience and earnings growth through diversification</td>
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<tr>
<td>Extracting value through innovation and improved efficiencies</td>
<td>Responsible capital allocation and management</td>
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Our long term strategic execution

Optimising shareholder value with a meaningful cash component

Target is to increase cash generation from SEM operations over time; also need to deliver returns on recent investments, in particular Saham Finances
Diversification
Resilience through line of business

Line of business (as at 30 June 2018)

- Group Equity Value: 42%
- Net result from financial services: 59%

Line of business incl. Saham (as at 30 June 2018)

- Group Equity Value: 2%
- Net result from financial services: 3%
Diversification

Resilience through geographic diversification

Geographic (as at 30 June 2018)

- Other international
- Malaysia
- India
- Rest of Africa
- South Africa

Geographic incl. Saham (as at 30 June 2018)

- Other international
- Malaysia
- India
- Rest of Africa
- South Africa
Striving for leadership in South Africa

To remain relevant we have to adapt and diversify

**South Africa**
- Retain our leadership position
  - General insurance
  - Mass affluent investments
  - Index-tracking investments
- Close the gap
  - Entry-level life
  - Employee Benefits

**Rest of Africa**
- Number 1, 2 or 3 position in market share

**India/Malaysia**
- Diversifiers

**Developed markets**
- Health
  - 3rd party asset management

**Niche offering for EM clients**
Pan-African opportunities for Sanlam
An unmatched Pan-African footprint

Diversification within Sanlam financial and operational capability
Pan-African GDP growth

Driving accelerated organic growth over the medium to long term

Source: World Bank

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<tr>
<td>World</td>
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<td>EM</td>
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<td>South Africa</td>
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<td>Ethiopia</td>
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Source: World Bank
Pan-African insurance penetration

Leveraged organic growth over the medium to long term
Key drivers of insurance penetration

A building block to our game plan

Underlying economic growth (GDP)

New technology opens the market and enable the distribution of products and services

Regulatory change, e.g. compulsory retirement savings and general insurance coverage will increase opportunities

Low insurance penetration presents opportunity for growth – nascent markets

Africa’s demographic dividend – population growth and urbanisation
SEM Pan-Africa Operating Model

Lines of business (excluding South African operations)

SEM Group CEO & SEM Group functional support

SEM Life
Focus on:
- Life insurance
- Asset management
- Retail credit

SEM General Insurance
Focus on:
- General insurance
- Health business

Santam
Focus on:
- Reinsurance
- Specialist Insurance classes

Collaboration on Reinsurance
Cluster Priorities
## Cluster Priorities

Strategic objectives over medium term

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<tr>
<th>Sanlam Personal Finance</th>
<th>Santam</th>
<th>Sanlam Investment Group</th>
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<td>• Digital transformation of the whole value chain</td>
<td>• Retain market leadership in South Africa</td>
<td>• Diversify into higher margin Alternative asset classes</td>
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<td>• Close the gap in entry-level life</td>
<td>• Strategic focus on Saham Finances opportunity</td>
<td>• Enhance capability to attract 3rd party inflows</td>
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<td>• Implement and manage impact of RDR on intermediary remuneration and business models</td>
<td>• Deliver on the opportunity for growth in international markets - specialist and reinsurance</td>
<td>• Transformation as a key driver to attract inflows from institutional clients</td>
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<td>• Launch Glacier DFM in partnership with Sanlam Investment Group</td>
<td>• Focus on staff retention and transformation</td>
<td>• Continued focus on transformation and people development</td>
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<td>• Manage business enablers</td>
<td>• Balancing growth and profit in the intermediated South African business, Commercial &amp; Property and specialist segments</td>
<td>• Continue to optimise Sanlam balance sheet through Sanlam Specialised Finance</td>
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<tr>
<td>• Omni-channel and expanded distribution footprint</td>
<td>• 4th industrial revolution</td>
<td>• Align full value chain through cooperation with Glacier</td>
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<td>• Cost leadership through value optimization</td>
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<td>• Strengthening the turn-around of Sanlam UK, positioning the business for growth and enhancing wealth and asset management offerings for our African client base</td>
</tr>
<tr>
<td>• Balance operating profit growth with new transformation initiatives</td>
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Cluster Priorities
Strategic objectives over medium term

### Sanlam Emerging Markets

- Grow SEM General Insurance portfolio in conjunction with Saham Finances
- Grow Saham Finances Life Insurance portfolio
- Drive growth in specialist classes and re-insurance in conjunction with Santam
- Internal reinsurance optimisation through SAHAM Re, capturing additional profit streams
- Saham Finances synergies are a priority, with a focus on growth synergies
- Become the go-to partner for multinational companies in Africa
  - Pan-African footprint enables multinational offering including General Insurance and Employee Benefits
- Driving organic growth with existing partners, banks, telco’s and multinational brokers and insurers

### Sanlam Corporate

- Drive growth in Employee Benefits and Health to achieve a fairer market share
- Provide a coordinated ‘One Sanlam’ solution to targeted corporates by addressing Employee and Employer Income Statement and Balance Sheet levers
- Implement strategy, bed down operations and leadership
- Drive collaboration opportunities (Employee Benefits + Health + other) to increase clients’ employee value propositions
- Profitable growth: balance cross-cluster pricing to win and retain business with need to maintain adequate margins
- Partner with SEM to provide in-country support for clients with an African footprint
Conclusion
Our competitive positioning into the future

Our execution capability has set us apart from our peers and will continue to do so.

Employ some of the best and most experienced skills in the industry

Competitive and diversified financial solutions

Track record of responsible and efficient capital allocation

Leader in BBBEE ownership in South Africa

Presence in all forms of distribution channels

A strong and trusted brand

A compelling offering through our African footprint

A set of capabilities that enable us to execute effectively

Our diversification creates resilience while offering growth opportunities grounded in our culture of client-centricity.
Outlook for remainder of 2018

- Economic environment not likely to improve over the short term in South Africa – will continue to hamper growth in most lines of business

- Investment market and currency volatility to persist in environment of heightened global geopolitical risk

- We will continue to execute on the strategy;
  - deliver on Saham Finances acquisition
  - well positioned for growth in Africa over the medium term
  - drive collaboration opportunities both internally and externally

- Strong focus on extracting synergies and generating target return from Saham Finances acquisition

- Obtain shareholder approval for BBBEE share issuance and broader BBBEE strategy
thank you