

SANTAM LIMITED
(Incorporated in the Republic of South Africa)
Registration number: 1918/001680/06
Company code: BISAN
("Santam" or the "Company" or the "Santam Group")

OPERATIONAL UPDATE TO SECURITYHOLDERS FOLLOWING THE SANTAM BOARD MEETING HELD ON 2 DECEMBER 2020

This is a general communication to Santam shareholders and noteholders ('Securityholders') to provide an update on the business performance of the Santam Group for the ten months ended 31 October 2020.

Conventional Insurance business

The Conventional Insurance business recorded a breakeven net underwriting result, inclusive of net Contingent Business Interruption ('CBI') claims reserves raised of R3 billion, of which R1 billion was paid out as relief payments in August 2020. Gross written premium growth of 4% was achieved under the current difficult economic conditions.

Following the Ma-Afrika judgement ((refer to JSE Limited Stock Exchange News Service ('SENS') announcement "Ma-Afrika Western Cape High Court Judgement" released on 20 November 2020)), Santam has increased its net CBI claims provision by R1.7 billion in addition to the R1.3 billion that was raised in June 2020. The increase in the provision is mainly due to the Ma-Afrika judgement which is in favour of the policyholders and the different view taken by the court regarding the indemnity period applicable to the CBI extension. Santam's view is that the indemnity period is limited to three months. The court, however, found that the indemnity period is eighteen months in this particular matter. The potential outcome of Santam's decision to appeal against the Ma-Afrika judgement, including other relevant court rulings on these and other Santam policy wordings may materially impact Santam's assessment of the estimated net CBI claims. This could result in significantly higher or lower actual claims. In addition, the inherent complexity of business interruption claims, as well as bespoke policy wordings for corporate clients, require significant assumptions to be applied to determine the best estimate of net CBI claims provisions. The overall financial impact of Santam's CBI exposures will therefore take some time to finalise. The Company will continue to update the market on changes to its best estimate of CBI claims provisions as more information becomes available.

The Santam Commercial and Personal intermediated business continued to experience reduced growth. The loss ratio benefited from a benign-claims environment, with limited natural catastrophe claims events and lower claims frequencies experienced over several insurance classes following the impact of the COVID-19 lockdown in South Africa. This was, however, offset by provisions for CBI claims.

The Santam Specialist business continued to report satisfactory growth in the corporate property, crop and engineering businesses. Good underwriting results were reported on the back of strong performances in the engineering, crop, liability and transport businesses.

MiWay maintained its positive growth momentum and excellent underwriting results were reported for the period.

Santam Re continued to report strong gross written premium growth. The Beirut port facility explosion negatively impacted underwriting results for the period since 30 June 2020, however, the results are still considered satisfactory.

The investment return on insurance funds was under strain, given the low interest rate environment both in South Africa and in territories outside South Africa.

Alternative Risk Transfer ('ART') business

The ART business segment achieved satisfactory operating results and reported strong growth in income from clients, following improved investment spreads. COVID-19 related claims negatively impacted underwriting results.

Sanlam Emerging Market ('SEM') partner businesses

The Sanlam Pan Africa General Insurance portfolio (SPA GI) achieved a net underwriting margin of 6.0% (7.2% excluding the impact of the Beirut port facility catastrophe), within the target range of 5% to 9% of net earned premiums. Investment returns on insurance funds improved since June 2020, contributing to a net insurance margin of 6.2%.

Morocco achieved a satisfactory underwriting margin, partially offset by a negative return on insurance funds. Saham Re's underwriting margin was suppressed by the Beirut port facility explosion. The election uncertainty in Cote d'Ivoire during October had a negative impact on the investment return on insurance funds and eliminated the net underwriting margin of some 2% in this region, following ongoing actions to improve the underwriting performance.

Shriram General Insurance recorded gross written premium growth of 5%, negatively impacted compared to the prior period by COVID-19. The net insurance result achieved was lower compared to a high comparative base which included reserve releases in respect of motor third-party pool business in 2019.

Investment performance

During the period from June 2020 to October 2020, the Santam Group's portfolio investments achieved satisfactory investment performance, although these were negatively impacted by the lower interest rate environment. The recent strengthening of the Rand against the US Dollar resulted in foreign currency losses on shareholder investments.

On 3 November 2020, the Santam Group renewed its zero-cost collar over listed equities to the value of R1 billion, based on the SWIX 40, to provide continued capital protection in the current volatile market conditions. The structure offers full downside protection from the implementation level and expires on 3 February 2021.

The economic capital coverage ratio of the Santam Group as at 31 October 2020 remains at the bottom end of our target range of 150% to 170%.

On 25 November 2020, the Santam Group successfully raised a further R1-billion of subordinated debt in order to maintain a debt to equity capital ratio of between 25% to 30%. The proceeds from this

issue will be partly used to replace existing subordinated debt of R500 million, that will become callable in April 2021.

Equity, interest rate and currency markets are expected to remain volatile for the foreseeable future. Headline earnings remain susceptible to the inherent volatility of underwriting and investment activities.

The financial information included in this announcement has not been reviewed or reported on by Santam's external auditors.

The next set of Santam results will be for the year ended 31 December 2020, which are expected to be released on SENS on or about 4 March 2021.

2 December 2020

Debt Sponsor
RAND MERCHANT BANK (A division of FirstRand Bank Limited)