

SANTAM LIMITED
(Incorporated in the Republic of South Africa)
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Bond company code: BISAN
(‘Santam’ or the ‘Company’ or the ‘Santam Group’)

OPERATIONAL UPDATE TO SECURITYHOLDERS FOLLOWING THE SANTAM BOARD MEETING HELD ON 1 JUNE 2022

This is a general communication to Santam shareholders and noteholders (‘Securityholders’) on the business performance of the Santam Group for the four-month-period ended 30 April 2022 (the ‘period’).

Conventional Insurance business

The Conventional Insurance business achieved strong gross written premium growth of 7% in a challenging economic environment.

The underwriting results for the period were significantly impacted by adverse weather conditions in the first three months and the devastating floods in the KwaZulu-Natal province (‘KZN floods’) during early April 2022. The extent of the damage and insurance exposures are still being assessed. The current best estimate of Santam’s gross exposure to the KZN floods is R3.2 billion. Santam’s reinsurance program provided effective protection against this natural catastrophe, limiting the net impact to approximately R500 million, including reinsurance reinstatement premiums. Based on our internal modelling, this is a 1 in 25-year event and by far the largest natural catastrophe in Santam’s history. Santam provided on the ground support to its clients during this trying time, with the deployment of our claims team in KwaZulu-Natal immediately after the event.

Due to the KZN floods, the Conventional Insurance business reported a negative net underwriting margin. Given the short reporting period of only four months, a significant catastrophe event like the KZN floods has a disproportional impact on the underwriting results reported.

Santam has made good progress in finalising the remaining contingent business interruption (‘CBI’) claims relating to the COVID-19 lockdown and associated reinsurance recoveries. No adjustments have been made to the CBI claims provision estimates recorded at 31 December 2021. The outstanding CBI claims provisions will be reviewed at the end of June 2022.

The Santam Commercial and Personal intermediated business reported improved growth in gross written premiums compared to 2021, with various growth initiatives showing positive results. The underwriting results were negatively impacted by several weather-related claim events and a number of large commercial fires during the first quarter of 2022 and the KZN floods in April 2022. Claim trends have also normalised with an increase in vehicle accidents compared to the experience during

the various levels of lockdown in 2021. Underwriting actions to address the increase in claims frequency and claims inflation have been implemented since the start of 2022.

The Santam Specialist business reported strong growth in the travel insurance and liability businesses. Negative growth in the engineering business, due to a slowdown in business flows from outside South Africa, and delayed renewals in the corporate property business, contributed to the overall negative growth in gross written premiums. Excellent underwriting results were achieved by the liability, engineering, crop and travel insurance businesses, partly offset by weaker results from the corporate property business, the latter also affected by the KZN floods.

MiWay achieved subdued gross written premium growth in a challenging operating environment. Continued adverse weather conditions and the KZN floods negatively impacted the underwriting performance during the reporting period. The MiWay management team is actively implementing the necessary underwriting actions to improve the loss ratio in addition to a strong focus on growth initiatives.

Santam Re continued to report excellent gross written premium growth. Underwriting results were impacted by cautious reserving for the most recent underwriting years.

Local and global bond market volatility negatively impacted the investment return on insurance funds. In addition, the higher US dollar component of the investments backing the insurance reserves earned lower interest and has been affected by rising international bond yields.

Alternative Risk Transfer ('ART') business

The ART business segment reported strong operating results with excellent growth in fee income, partially offset by lower underwriting results.

Sanlam Emerging Market ('SEM') partner businesses

The Sanlam Pan Africa General Insurance ('SPA GI') business achieved net earned premium growth of 7% (10% in constant currency) due to good growth in motor business which was partly offset by lower volumes in the health and assistance businesses. The net insurance result of SPA GI was negatively impacted by lower investment return on insurance funds due to the decline in Moroccan equity markets over the period. SPA GI recorded an underwriting margin at the lower end of the 5% to 9% target range, while the investment return on insurance funds was slightly below the target range of 6% to 9%. Higher claims experience on motor and health business in some businesses and weaker performance from certain of the Eastern African businesses detracted from the results.

Shriram General Insurance ('SGI') was impacted by lower sales through the Shriram channels. Prescribed third-party premium increases in India have been approved from 1 June 2022. Although the increase is lower than the historical average, it will bring some relief to SGI's third-party portfolio. The net insurance result from SGI increased significantly compared to the comparative period, mainly due to an improved claims experience and investment returns.

Investment performance

The Santam Group's investment portfolio was negatively impacted by the local and global bond and equity market volatility.

Capital

Corporate activity

In April 2022, KKR, a leading global investment fund acquired a 9.99% stake in SGI from the Shriram Group. KKR's investment will position SGI for continued growth in India's fast-growing general insurance industry. Prior to the transaction, Santam held a 15% economic participatory interest in SGI by way of a target share issued by SEM, and which target share references SEM's effective shareholding in SGI. The transaction diluted SEM's effective shareholding in SGI, resulting in a dilution of Santam's economic interest in SGI from 15% to 14%. The enterprise value attributed to SGI for purposes of the transaction exceeded Santam's internal valuation of SGI as at 31 December 2021. Pursuant to the transaction, Santam received a distribution in respect of the SGI target share at the end of May 2022 amounting to R217 million.

Also in April 2022, Santam increased its stake in Indwe Broker Holdings (Pty) Ltd by acquiring the additional 76% shareholding for R125 million, making it a wholly-owned subsidiary of Santam.

On 4 May 2022, Santam announced that it entered into an agreement with Allianz Europe BV ('Allianz'), in terms of which Santam will dispose of its 10% interest in SAN JV (RF) Proprietary Limited to Allianz. On the same day Santam entered into a 12-month zero-cost collar to the amount of EUR125 million to protect the sale proceeds from the Rand strengthening against the Euro. The structure provides full downside protection below a EUR / ZAR exchange rate of R16.66 and entitles Santam to share in Rand weakness against the Euro up to a cap of R19.16.

Capital and subordinated debt

On 16 May 2022, Santam issued additional unsecured subordinated callable floating rate notes to the value of R1 billion. The effective interest rate for the floating rate notes is equivalent to the three-month JIBAR plus a spread of 159 basis points. The notes have an optional redemption date of 16 May 2027 with a final maturity date of 16 May 2032.

The issuance proceeds will be used for the redemption of subordinated debt issued in June 2017 to the value of R1 billion (with an interest rate equal to the three-month JIBAR plus a spread of 210 bps) which becomes callable in June 2022. Santam's issued subordinated notes will therefore remain at the current target level of R2.5 billion.

The Santam Group's economic and regulatory capital position remained at an acceptable level during the reporting period despite the impact of the poor underwriting and investment results. The economic capital coverage ratio as at 30 April 2022 was closer to the lower end of the 145% to 165% capital target band.

Financial results

This update is based on the four-month period up to April 2022. The results for the remainder of the year remain susceptible to the inherent volatility of underwriting and investment activities.

The financial information included in this announcement has not been reviewed nor reported on by Santam's external auditors.

The next set of Santam results will be for the six months to 30 June 2022, which are expected to be released on SENS on or about 1 September 2022.

Investor Conference call

A conference call for analysts and investors will take place at 16h30 (South African time) today (1 June 2022). Investors and analysts who wish to participate in the conference call should register as indicated below:

Please register at: <https://www.diamondpass.net/1358186> for the call.

Registered participants will receive their dial-in number upon registration. We advise participants to register and dial in 5-10 minutes prior to the commencement of the conference call at 16h30. For assistance, please contact Gloria Tapon Njamo: Santam Investor Relations at +27 21 915 8228.

1 June 2022

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