

SANTAM LIMITED  
(Incorporated in the Republic of South Africa)  
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JSE Share Code: SNT & ISIN: ZAE000093779  
A2X Share Code: SNT  
NSX Share Code: SNM  
Bond company code: BISAN  
("Santam" or the "Company" or the "Group")

## **OPERATIONAL UPDATE FOR THE THREE MONTHS ENDED 31 MARCH 2023**

In prior financial years, Santam issued voluntary operational updates to the market in respect of trading results for the four months to April and ten months to October of each year. In line with evolving stakeholder needs, we are amending these coverage periods to the three months ending 31 March and nine months ending 30 September, respectively.

This is a general communication to Santam shareholders and noteholders (collectively the "Securityholders") on the business performance of the Group for the three-month period ended 31 March 2023 (the "period").

The Group retrospectively applied the IFRS 17 Insurance Contracts standard from 1 January 2023 and will restate comparatives for the 2022 financial period. The impact of IFRS 17 on the reported results for the period is, however, not material.

Operating conditions during the period remained challenging, with insurance growth prospects dampened by the impact of electricity supply disruptions on economic growth and pressure on personal disposable income from elevated inflation and higher interest rates. South Africa also remains a highly competitive insurance market. Underwriting conditions during the period were characterised by adverse claims experience, particularly from inclement weather conditions and ongoing power surge claims impacting the property class of business.

Despite these conditions, the Group showed operational resilience and achieved sound financial results for the period. The corrective underwriting actions implemented to date have had a positive effect, with further benefits expected in the coming months. The underwriting performance of the motor class showed significant improvement compared to the comparative period in 2022.

Good progress has been made in rolling out the refreshed FutureFit strategy, including embedding the new operating model effective 1 January 2023. The Commercial & Personal multi-channel business was restructured into three business units to focus on the distribution channels where we interact directly with clients (Santam Client Solutions) through brokers (Santam Broker Solutions) and partnerships (Santam Partnership Solutions). The other client-facing businesses - MiWay, Santam Specialist Solutions and Santam Re continue to provide growth and diversification benefits. Business unit strategies are focused on driving profitable growth and efficiencies, with execution gaining good traction.

### **Conventional Insurance business**

The Conventional Insurance business achieved gross written premium growth of 6%.

The Santam Client Solutions and Broker Solutions businesses achieved good growth in gross written premiums, with both the intermediated and direct channels contributing to the improved growth. The premium-related corrective actions taken in response to high claims inflation and

frequency are being realised at the policy renewal stage. The full impact of these actions will only reflect at the end of the renewal cycle during the latter part of 2023.

The Santam Specialist Solutions business recorded strong growth in gross written premiums, with liability, marine, aviation and travel being the main contributors.

MiWay experienced subdued gross written premium growth in the context of pressure on consumers and a highly competitive market. Good progress is being made with the roll-out of MiWay's strategic growth initiatives. We remain confident that these will contribute to accelerated growth during the remainder of the year.

Santam Re reported steady gross written premium growth following a general increase in reinsurance rates globally. Growth was tempered to some extent by the cancellation of loss-making business.

As highlighted, the Conventional Insurance business was impacted by elevated claims experience following adverse weather conditions and a continuation of power surge claims. This affected the profitability of the Broker Solutions and Client Solutions businesses in particular. Despite these adverse underwriting conditions, MiWay achieved underwriting results in line with its target. The Specialist Solutions business also performed in line with expectations, albeit lower than the comparable period in 2022, which benefited from positive claims development. Overall, the net underwriting margin for the period was below the bottom end of the target range of 5% to 10%. Underwriting actions implemented in 2022 and 2023, which include procurement efficiencies, segmented premium increases, and higher claim excesses, are, however, showing positive results but will only be in full effect at the end of the renewal cycle for all policies during the latter part of 2023. Additional underwriting actions to further address the increase in power surge claims will become effective on 1 June 2023.

Excellent progress was made in finalising the remaining Contingent Business Interruption ("CBI") claims and associated reinsurance recoveries relating to the COVID-19 lockdown. No adjustment was however made to the outstanding CBI claims provisions recorded at 31 December 2022, as the provisions will be reviewed again at the end of June 2023.

The investment return on insurance funds remained volatile. However, it improved significantly compared to the 2022 financial year performance, with the key float portfolio delivering excess returns compared to the benchmark.

### **Alternative Risk Transfer ("ART") business**

The ART business segment reported strong operating results with excellent growth in fee income and underwriting results, as well as improved investment margins.

### **Sanlam Emerging Market ("SEM") partner businesses**

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 to Allianz. The regulatory approvals for the proposed disposal are progressing according to plan, and the transaction is expected to close during the second half of 2023. The expected proceeds from the transaction were hedged on 4 May 2022 based on a spot rate of Eur/ZAR 16.66. The zero-cost collar expired on 4 May 2023 at its cap of Eur/ZAR 19.16. A forward exchange contract was put in place that provides full protection against a strengthening of the Rand compared to the prevailing spot rate of Eur/ZAR 20.14.

Shriram General Insurance ("SGI") gross written premiums in India showed a strong recovery, increasing by 23%. Most of the premiums are written annually in advance, which results in a

lag between premiums being written and earned. Net earned premiums were broadly in line with 2022. SGI recorded weaker underwriting results due to a higher claims ratio in the motor book due to higher inflation and increased claims severity.

### **Shareholder Investment performance**

The weakening of the Rand against the US Dollar since 31 December 2022 resulted in significant foreign currency gains on shareholder investments, which, together with a strong performance by the Group's interest-earning investments, resulted in strong investment performance for the period.

### **Corporate activity**

Santam received Competition Tribunal approval during the period to acquire the MTN device insurance book in South Africa. The transaction is part of the broader strategic alliance between Sanlam and MTN through aYo Holdings Limited, the MTN Group's InsurTech platform. It will enable Santam to retain sufficient underwriting profit to achieve its required return on capital. Santam commenced writing new device insurance business through this arrangement during April 2023. Growth prospects for the venture are promising, to be augmented over time by the roll-out of additional products.

The transfer of the in-force book of business, which will add some 400 000 policies to the Santam license and annual gross written premium of nearly R400 million, remains subject to regulatory approval, which is expected during the third quarter of 2023. Santam's net capital outlay for the acquisition amounts to approximately R60 million.

### **Capital and subordinated debt**

On 6 April 2023, Santam issued additional 5-year 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 150 basis points. Santam also redeemed subordinated debt issued in April 2016 to the value of R500 million, which became callable on 12 April 2023. The issued subordinated notes, therefore, increased to R3.0 billion.

The Group's economic capital position remained well within the 145% to 165% capital cover target band following the final dividend payment in March 2023.

### **Operating Model and Prospects**

The Group implemented its new operating model from 1 January 2023 which will ensure that our FutureFit strategy remains optimal in the current and medium-term environment. Our clients' needs, behaviours, and technologies are constantly evolving, so it is crucial that our operating model adapts to meet the needs of both our current clients and new client segments. We also focus on acquiring and understanding our clients better through the enhanced use of data and connecting with them through this shift to a focused multi-channel approach complemented with ecosystem adjacencies and partnerships at scale.

We continue to grow our international strategy off the back of our tested competencies in the specialist and reinsurance businesses.

Operating conditions are expected to remain challenging, worsened by the increased loadshedding currently being experienced. Operating from a strong foundation and the roll-out of our refreshed strategy and new operating model will enable us to face these challenges and continue delivering superior results.

This update is based on the three-month period to March 2023. 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 or reported on by Santam's external auditors. Santam's results for the six months ending 30 June 2023 are expected to be released on SENS on or about 31 August 2023.

### **Investor Conference call**

A conference call for analysts and investors will take place at 16h30 (South African time) today (16 May 2023). Investors and analysts who wish to participate in the conference call should register as indicated below:

Please register at: <https://www.diamondpass.net/6946608> for the call.

Registered participants will receive their dial-in number upon registration. We advise participants to register and dial in 5 - 10 minutes before the commencement of the conference call at 16h30. Please contact Gugu Mtetwa: Santam Investor Relations at +27 21 915 7933.

16 May 2023

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