



# SUBORDINATED DEBT ISSUANCE

R4 BILLION UNSECURED  
SUBORDINATED CALLABLE  
NOTE PROGRAMME

APRIL 2022

PRESENTED BY:  
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# CONTENT



1. Introduction to Santam
2. Group strategy and priorities
3. Environmental, Social & Governance
4. Financial performance
5. Capital management
6. Risk management
7. Debt capital market offering



# INTRODUCTION TO SANTAM

# THE SANTAM BUSINESS PORTFOLIO



## Conventional



- Santam Commercial and Personal
- Santam Specialist
- Santam Re
- MiWay

## Alternative Risk Transfer (ART)



- Centriq Insurance
- Santam Structured Insurance

## Santam's Strategic Investment Partnerships inclusive of SAN JV (Saham)



Santam's share of the insurance results of the SEM general insurance businesses, including SAN JV (Saham)





2022

57%

89%

99.96

+9.91

-87.12

+7.01

-54.23

+4.59

-26.34

43.21

72.66

## GROUP STRATEGY AND PRIORITIES

# FUTUREFIT SANTAM

## OUR BUILDING BLOCKS FOR CREATING STAKEHOLDER VALUE

- Extend leadership position in South Africa through intermediary enablement, digital innovation and partnerships
- Deliver Insurance good and proper: most trusted, relevant and purpose-driven brand
- Client experience: creating intuitive client journeys enabled by technology
- Help build resilient societies: through transformation, financial inclusion and P4RR
- International and African diversification: building the Pan-African specialist business and selectively building other international business through Santam Re and Santam Specialist
- Talent and culture: empowering our people and evolve our culture to be competitive in a rapidly changing world
- Enabling insights-driven insurance and informing strategic direction through trusted data
- Build technology as an enabler and driver of innovation, efficiency, and optimal decision-making
- Optimise our financial performance: deliver sound results, stewardship and diversification





# STRATEGIC PRIORITIES 2022

## DELIVERING ON FUTUREFIT SANTAM

- Executing and implement on growth initiatives
  - Cross-selling initiative with Sanlam
  - Strategic partnerships
  - Tactical acquisitions
- Continue to strengthen our digital and data capabilities
  - Improving our digital E2E insurance offering
  - Go live with Guidewire claims module for the motor book
  - Drive adoption of digital capabilities such as self-service
  - Embed client experience process and measure customer satisfaction
  - IFRS17 readiness and compliance
- Grow Pan-African specialist business with Sanlam Pan-Africa
- Implement new ways of work
- Smooth handover with the new CEO





**ENVIRONMENTAL  
SOCIAL GOVERNANCE**



# OUR ESG COMMITMENTS

## CONTRIBUTING TO A SUSTAINABLE AND TRANSFORMED ECONOMY

### Employee safety and wellbeing

- We have **adopted a hybrid model**, with employees transitioning back to the office
- Driving and supporting the **vaccination adoption** and roll-out across the country in partnership with Sanlam and Afrocentric
  - We formulated a policy for **mandatory employee vaccination** against COVID-19
- Promote a diverse and inclusive workforce
  - Creating employment for **more than 6,000 people**
  - Certified **Top Employer** for the sixth consecutive year.
- Maintained **Level 1 BBEE rating** in terms of the financial sector
- Continued with the five-year **Santam Intermediary Growth and Development Programme (SIGDP)**

# OUR ESG COMMITMENTS

## SUPPORTING COMMUNITY RESILIENCE AND ESG COMMITMENTS

- We settled **R24.5 billion** in claims during 2021
- We now support 63 municipalities through **Partnership for Risk and Resilience (P4RR)**
- Continued as a constituent of the **FTSE 4 Good index series** and **FTSE/JSE Responsible Investment Top 30 index**
- We continue to support the UN Environmental Principles for Sustainable Insurance (PSI) with a particular focus on Africa
- We **adopted TCFD recommendations and published our first TCFD report** to signal our commitment in understanding climate-related risks and opportunities
- We published the **Human Rights Position Statement** to entrench our corporate citizenship role





# FINANCIAL PERFORMANCE







# SANTAM - 31 DECEMBER 2021

## KEY FACTS

- Conventional insurance gross written premium growth of **5%**
- Underwriting margin for conventional insurance business of **8.0%** (2020: 2.5%)
- Revision of target net underwriting margin to **5% to 10%**
- Alternative Risk Transfer operating result of **R276 million** (2020: **R165 million**)
- Headline earnings per share increased to **2 495** cps (2020: 905 cps)
- Return on capital of **28.5%**
- Economic capital coverage ratio of **169%**
- Final dividend of **790** cents per share and special dividend of **800** cents per share declared

# CONTINGENT BUSINESS INTERRUPTION COVER

## CURRENT STATUS

- Legal clarity obtained on length of indemnity period in October 2021
- Santam reviewed its provisions for CBI claims at 31 December 2021 and the net CBI provision was reduced by R450 million mainly due to
  - claims experience to date being lower compared to initial estimates
  - positive feedback from Santam’s reinsurance panel on its catastrophe reinsurance claim
- Uncertainty will remain over ultimate liability – until process has been finalised
- Steady progress in finalising the open CBI claims – gross CBI claims paid of R3.2 billion to end of December 2021, inclusive of relief payments of R1 billion in August 2020



# CONVENTIONAL INSURANCE

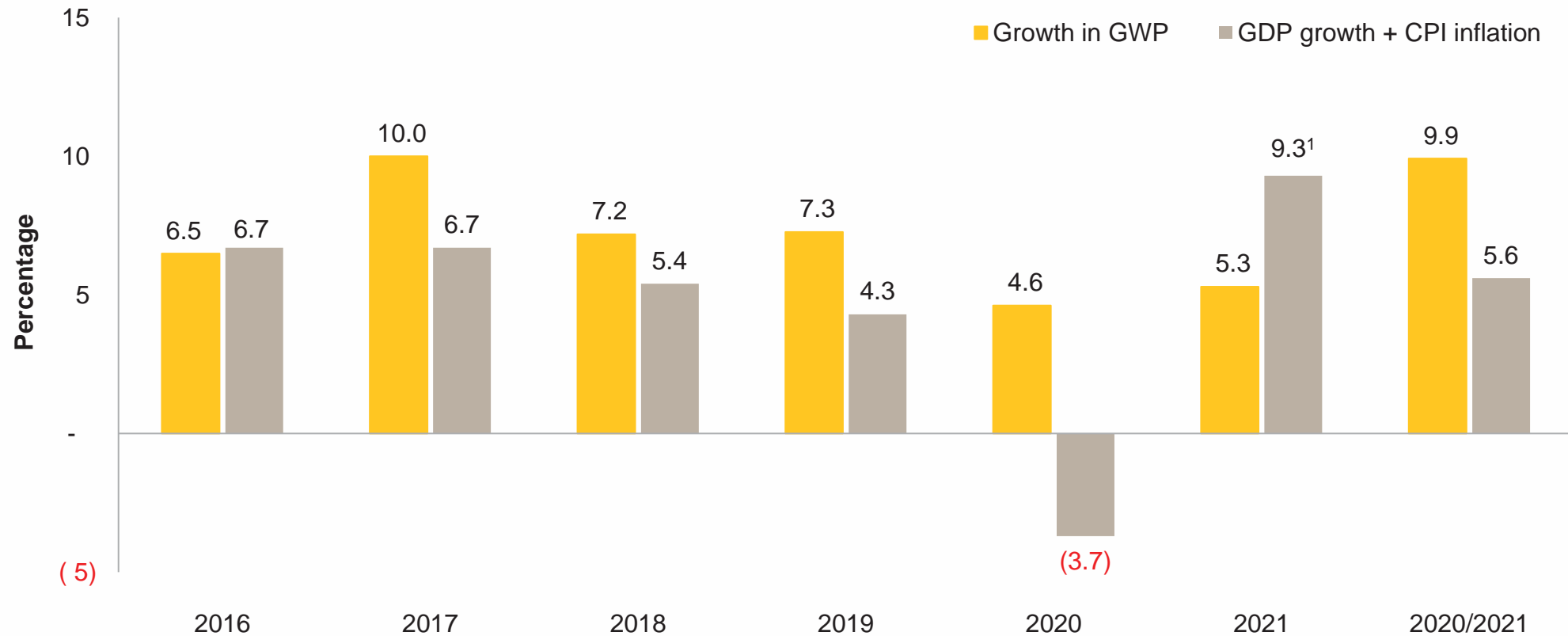
## NET INSURANCE RESULT

	2021 R'm	% of NEP	2020 R'm	% of NEP	2021/ 2020	5 Yr ave %	10 Yr ave %
<b>Gross written premium</b>	32 745		31 098		5%	6.9	7.8
Net earned premium	25 858	100.0	24 320	100.0	6%	6.1	6.2
Net claims incurred	16 023	62.0	16 593	68.2	(3%)	63.7	64.5
Net acquisition cost	7 771	30.0	7 112	29.3	9%	29.6	28.9
<b>Net underwriting result</b>	2 064	8.0	615	2.5	>100%	6.7	6.6
Investment return on insurance funds	400	1.5	501	2.1	(20%)	2.2	2.4
<b>Net insurance result</b>	2 464	9.5	1 116	4.6	>100%	8.9	9.0
Combined ratio		92.0		97.5		93.3	93.4



# CONVENTIONAL INSURANCE

## GROSS WRITTEN PREMIUM VS CPI + GDP GROWTH



<sup>1</sup> Year-on-year real GDP growth for 2021 of 4.8% per SARB

<sup>2</sup> The 2020/2021 column shows 2020 and 2021 combined

# ALTERNATIVE RISK TRANSFER INSURANCE

## COMBINED RESULTS NET OF NON-CONTROLLING INTEREST

	2021 R'm	2020 R'm	2021/2020	5 Yr ave %	10 Yr ave %
<b>Gross written premium</b>	9 385	7 175		17%	32%
Income from clients	470	385	22%		
Participation in underwriting results	70	34	>100%		
Administration expenses	(264)	(254)	4%		
<b>Operating result after NCI</b>	<b>276</b>	<b>165</b>	<b>67%</b>		

# SAN JV (SAHAM)

## RECONCILIATION OF SAN JV CARRYING VALUE AS AT 31 DECEMBER 2021

	R'm
<b>Carrying value at 1 January 2021</b>	<b>1 823</b>
Equity accounted profit	8
After tax operating profit	43
Amortisation of other intangible assets	(31)
Other – consolidation adjustments	(4)
Statement of changes in equity	18
Foreign currency translation differences	18
<b>Carrying value at 31 December 2021</b>	<b>1 848</b>
<b>Fair value at 1 January 2021</b>	<b>2 034</b>
Valuation increase in constant currencies	137
Foreign currency translation impact	92
<b>Fair value at 31 December 2021</b>	<b>2 263</b>



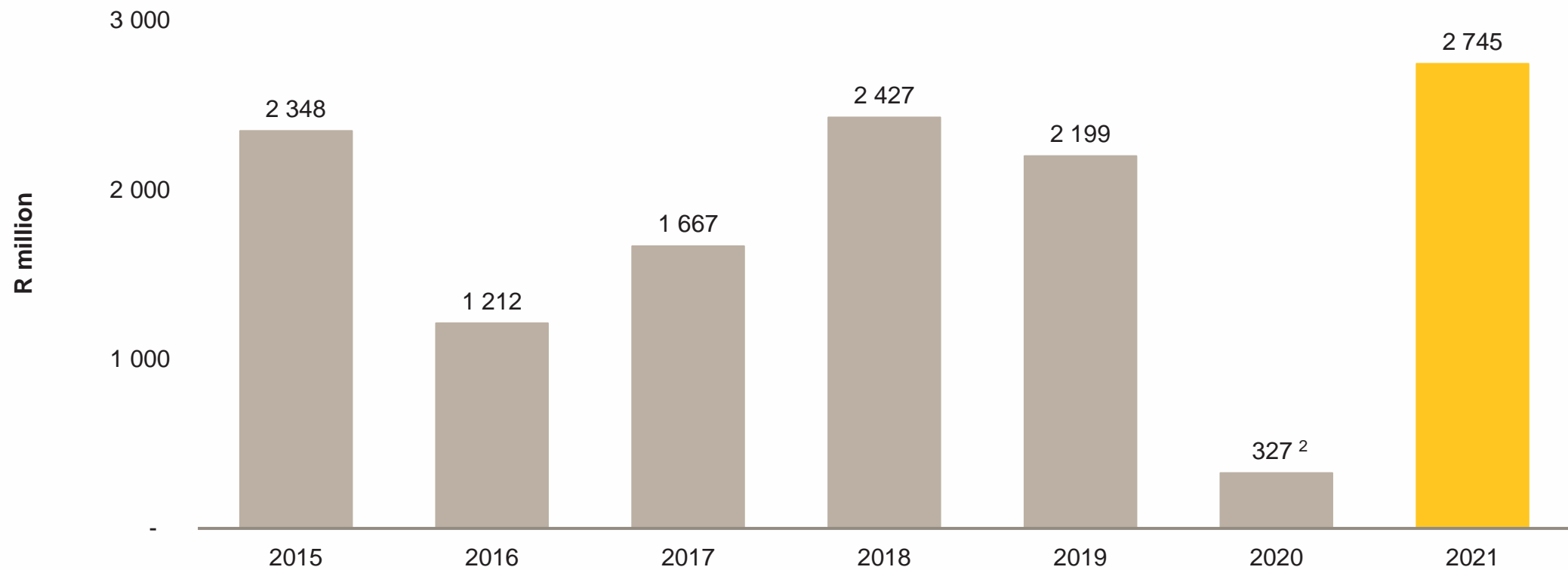
# SEM TARGET SHARES

## ANALYSIS OF SANTAM'S SHARE OF NET INVESTMENT IN SEM TARGET SHARES

Region	Carrying value 2020 R'm	Additions R'm	Change in exchange rates R'm	Change in valuation R'm	Carrying value 2021 R'm
Africa	109	1	6	18	134
Southeast Asia	136	-	6	(4)	138
India	1 293	-	88	38	1 419
<b>Total</b>	<b>1 538</b>	<b>1</b>	<b>100</b>	<b>52</b>	<b>1 691</b>

# HISTORICAL EARNINGS

## SOLID PERFORMANCE OVER TIME

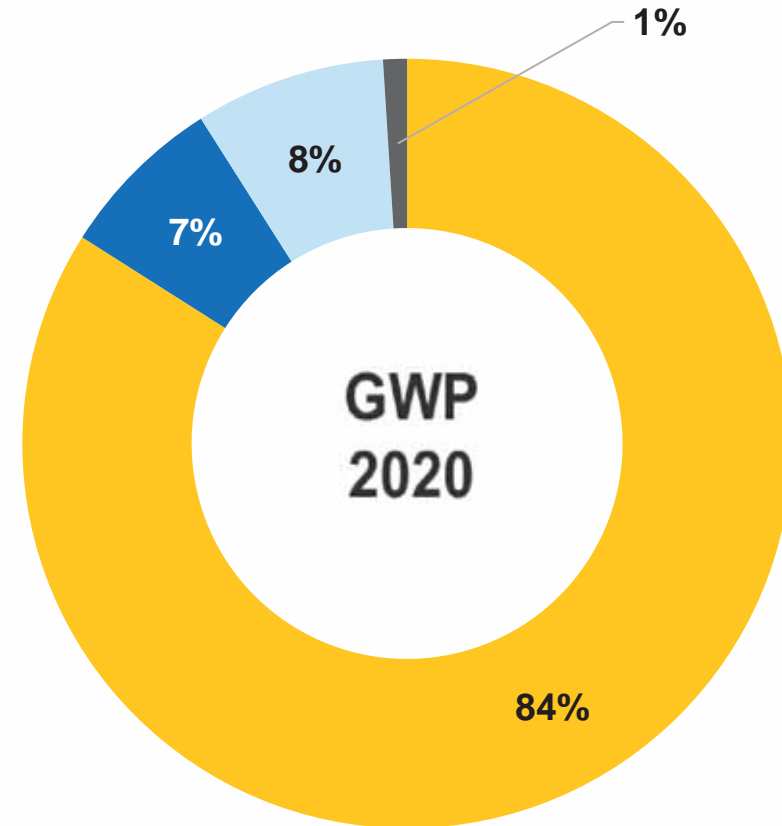
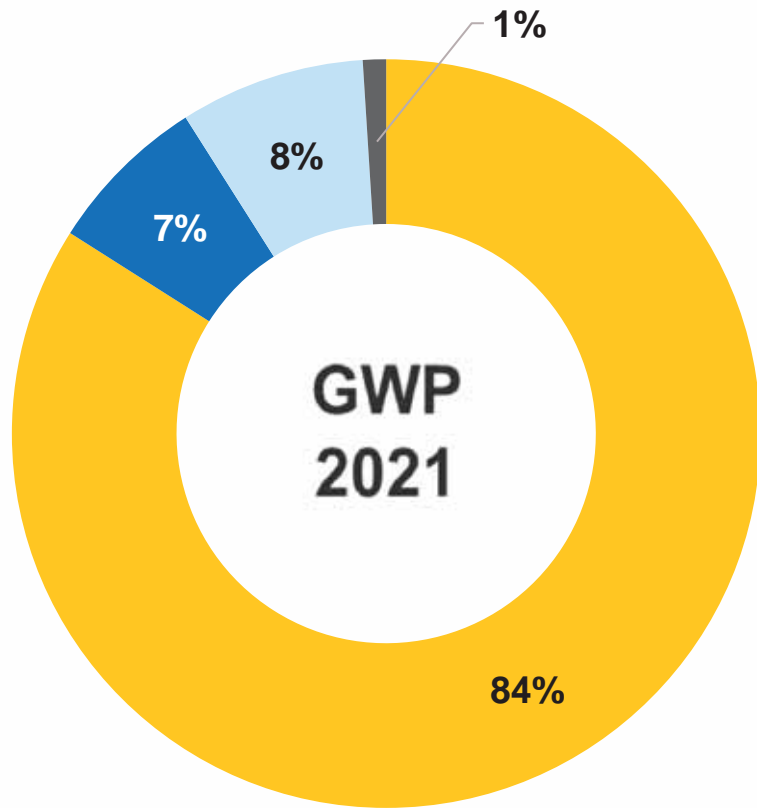


<sup>1</sup> Historical earnings consist of profit for the year, after tax and non-controlling interest

<sup>2</sup> The 2020 earnings were impacted by net CBI claims provisions of R2 billion, in addition to R1 billion interim relief payments

# GEOGRAPHIC DIVERSIFICATION

## CONVENTIONAL INSURANCE



■ South Africa

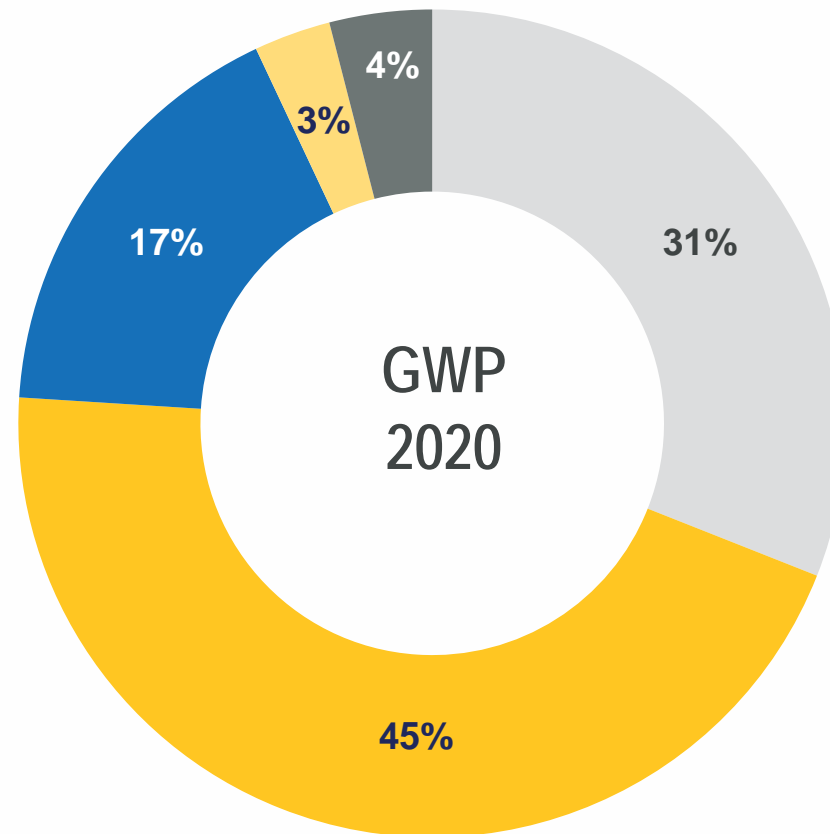
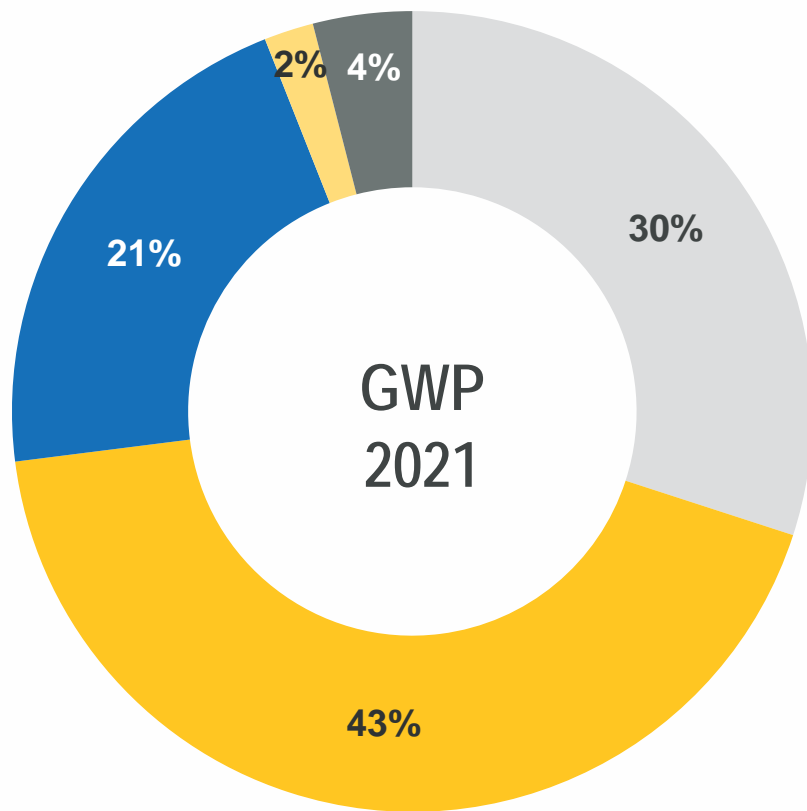
■ Rest of Africa

■ Southeast Asia, India, Middle East

■ Other

# GROWTH DIVERSIFICATION

INCLUDING SEM PARTNER BUSINESSES



■ Personal

■ Commercial

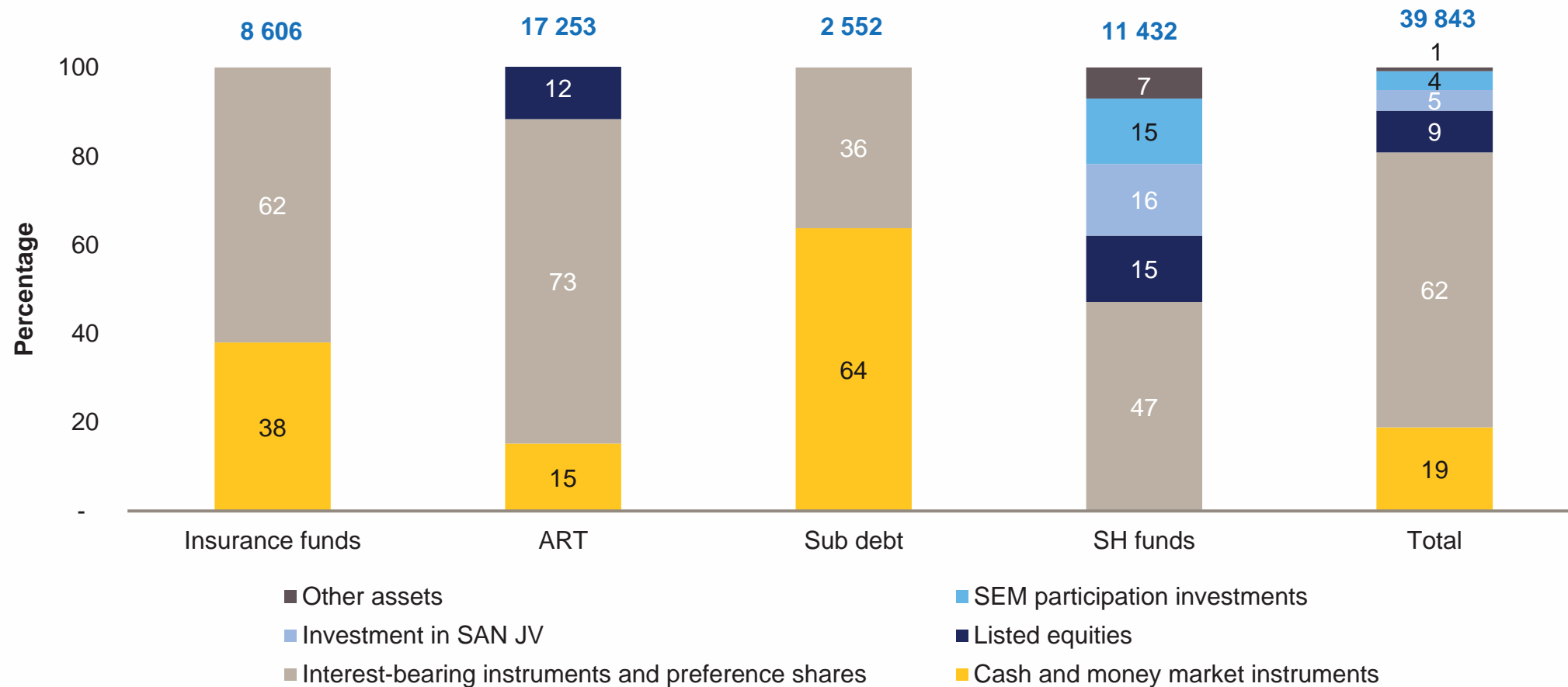
■ ART

■ SEM

■ Saham

# ASSET LIABILITY MATCHING

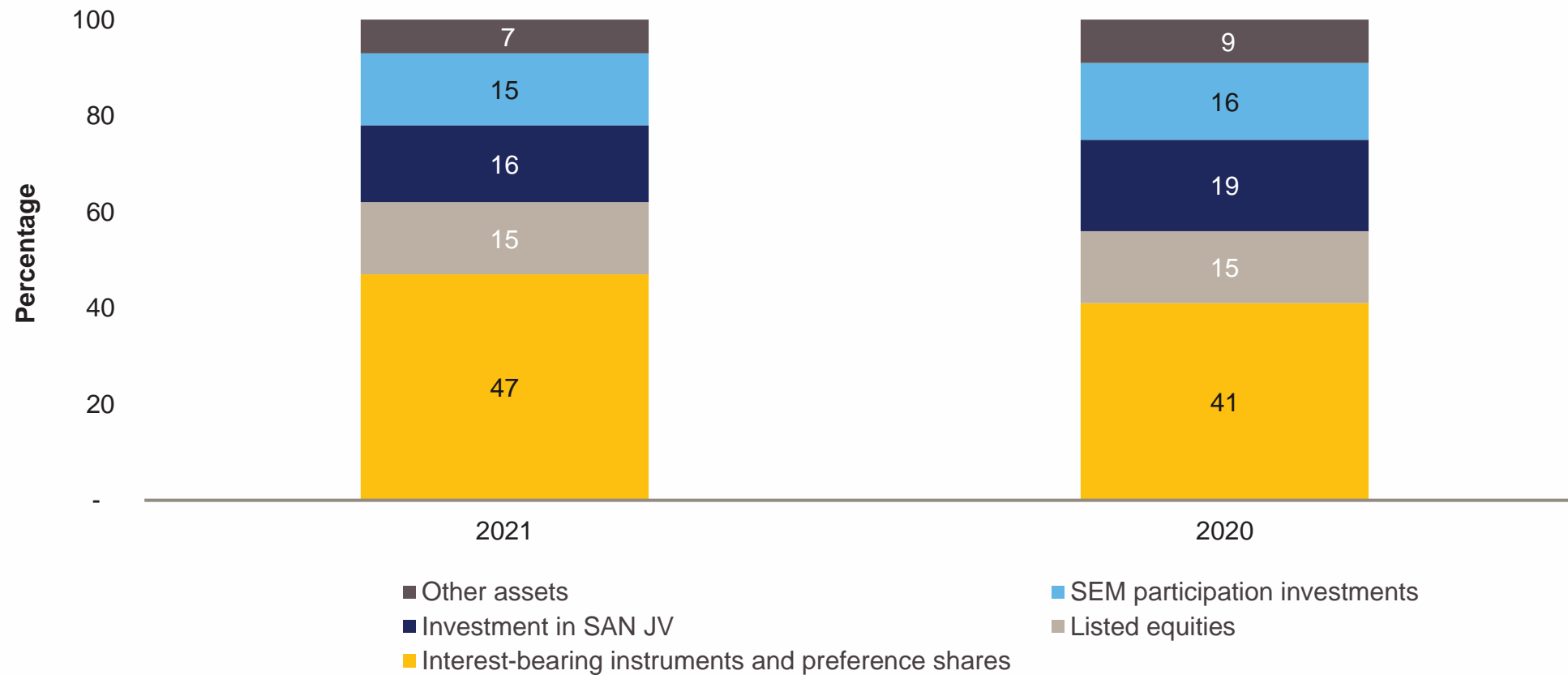
## GROUP CONSOLIDATED ASSETS AT 31 DECEMBER 2021





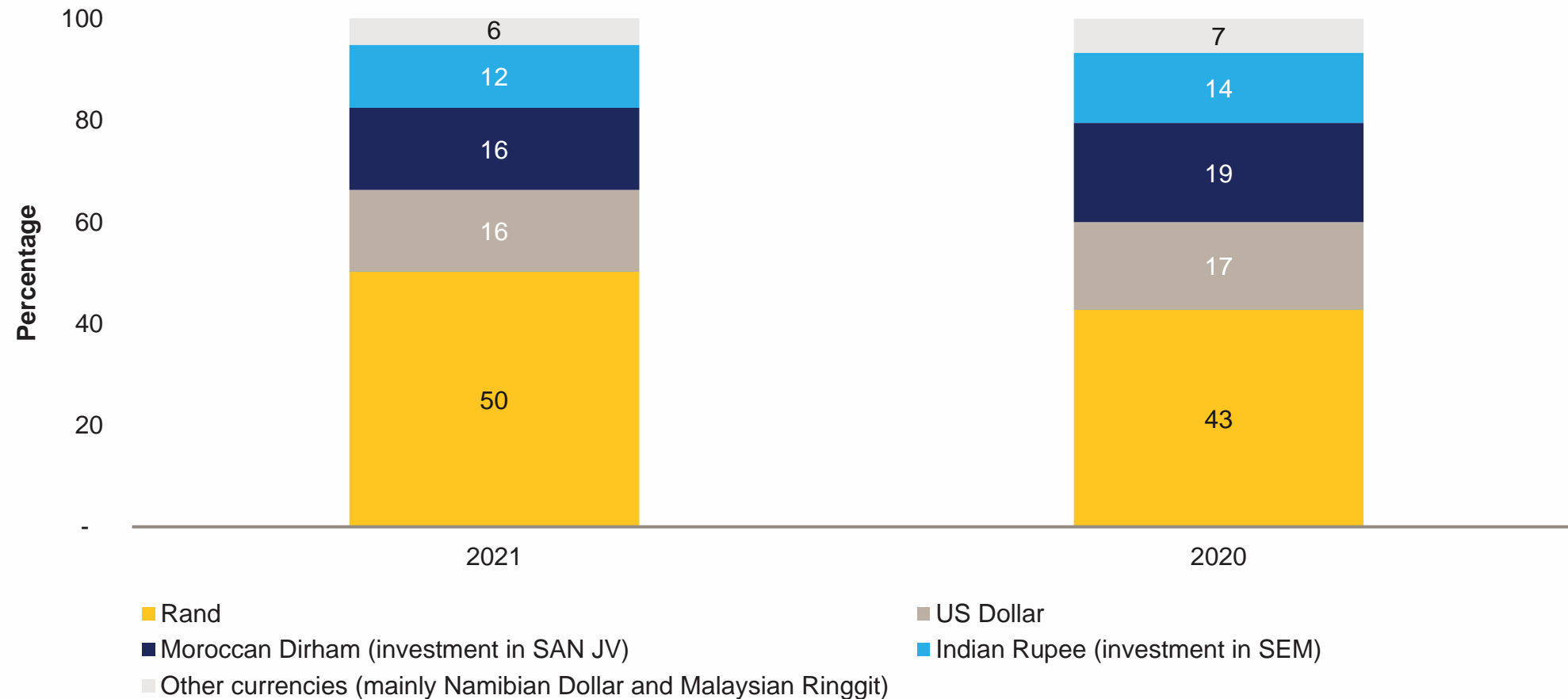
# SHAREHOLDER FUNDS

## ASSET MIX



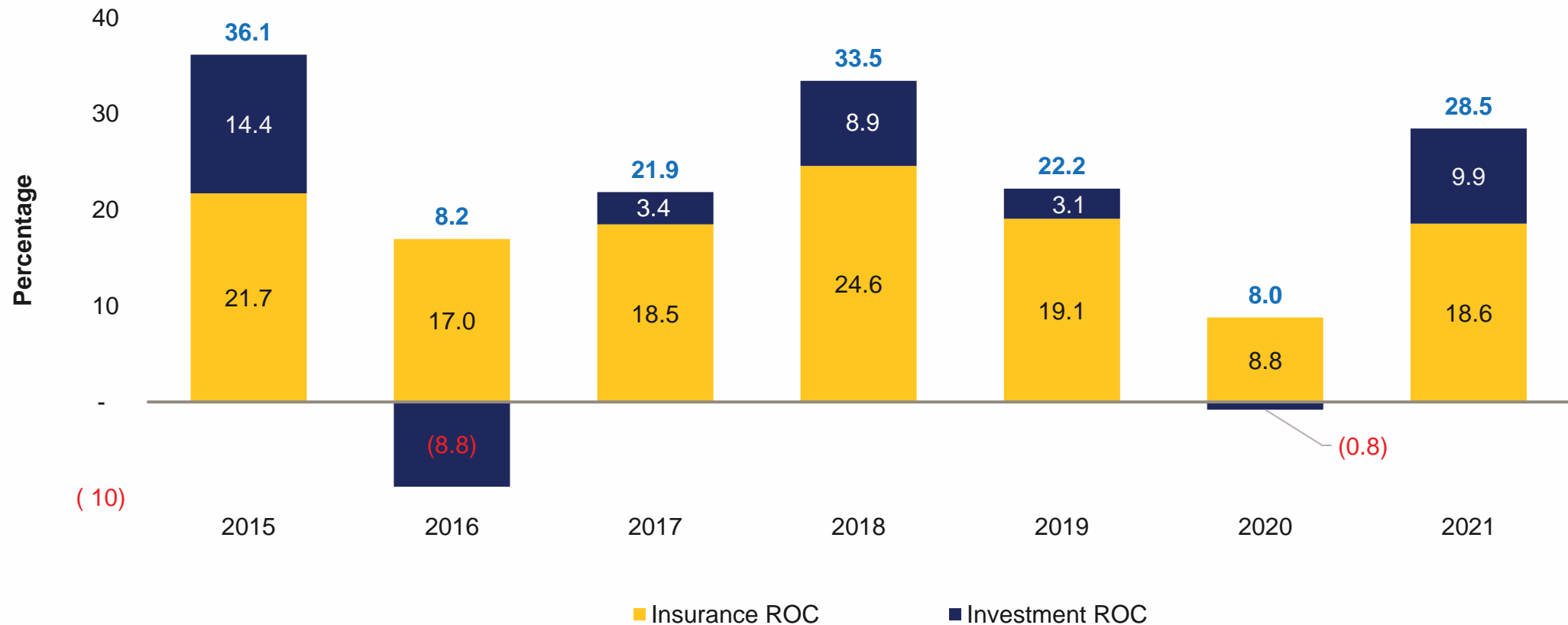
# SHAREHOLDER FUNDS

## CURRENCY MIX



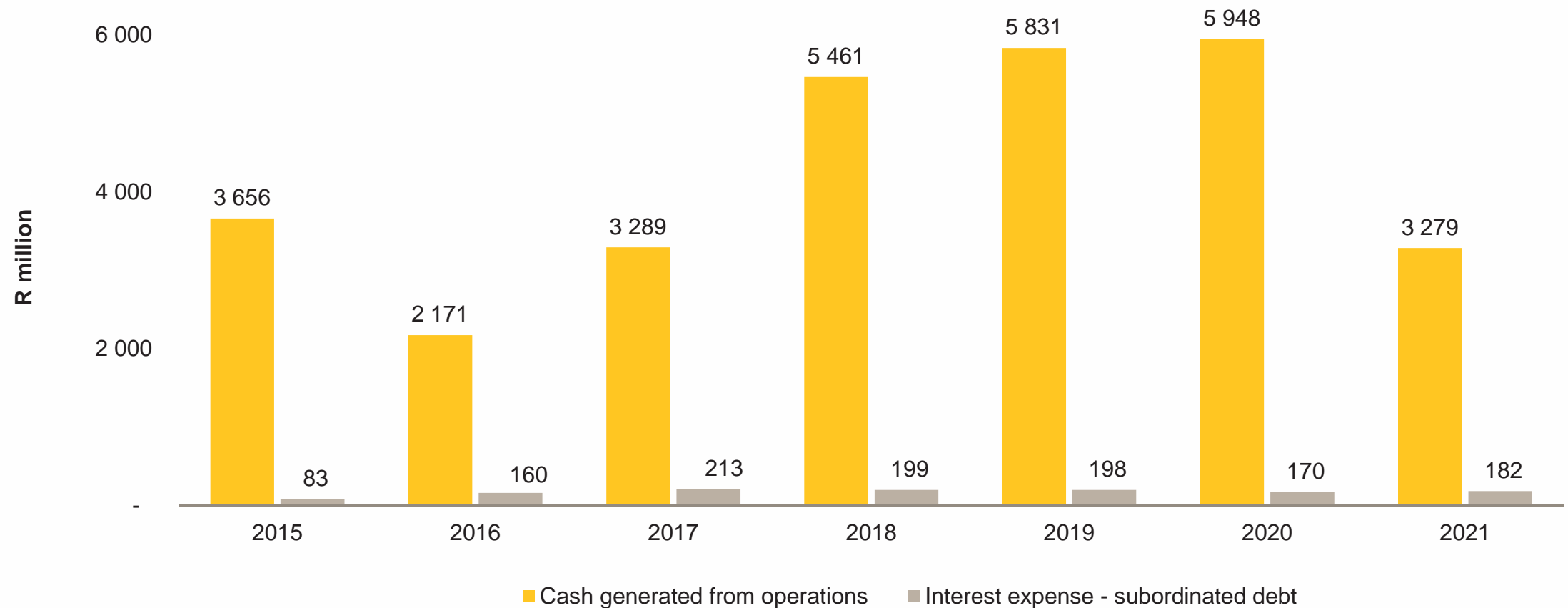
# RETURN ON CAPITAL

## TOTAL COMPREHENSIVE INCOME EXPRESSED AS % OF WEIGHTED AVERAGE SHAREHOLDERS' FUNDS



# INTEREST COVERAGE

## CASH GENERATING BUSINESS THROUGH THE CYCLES





# CAPITAL MANAGEMENT



# CAPITAL REQUIREMENTS: SHORT TERM INSURERS

The Prudential Authority implemented the SAM framework during the second half of 2019:

- Insurance industry uses the standard formula to calculate its regulatory capital requirements
- Solvency capital requirement set at a 1-in-200 year loss level over a 1-year time horizon
- Insurers can use their own internal model if approved by the Prudential Authority

The Prudential Authority approved Santam's partial internal model application during the second half of 2019:

- Santam's own underwriting risk calculation is used for regulatory capital requirements
- Initial capital add-on of 20% of the benefit of model approval was granted
- During 2021, the Prudential Authority reduced Santam's regulatory capital add-on from 20% to 10%
- Santam's regulatory internal model capital requirement is R1.6 billion lower than the standard formula capital requirement (> 20% improvement in regulatory capital coverage ratio for Santam Ltd)



# SANTAM CAPITAL BASES

**Santam uses two capital bases to guide capital management decisions**

## **Economic Internal Model (EIM):**


- Based on own assessment of risk
- Determined using own internal model

## **Regulatory Internal Model (RIM):**

- Underlying structure based on SAM standard formula
- Use economic assessment of “Insurance Risk” otherwise use SAM standard formula
- Only applicable to Santam Ltd license, all other licenses use SAM standard formula

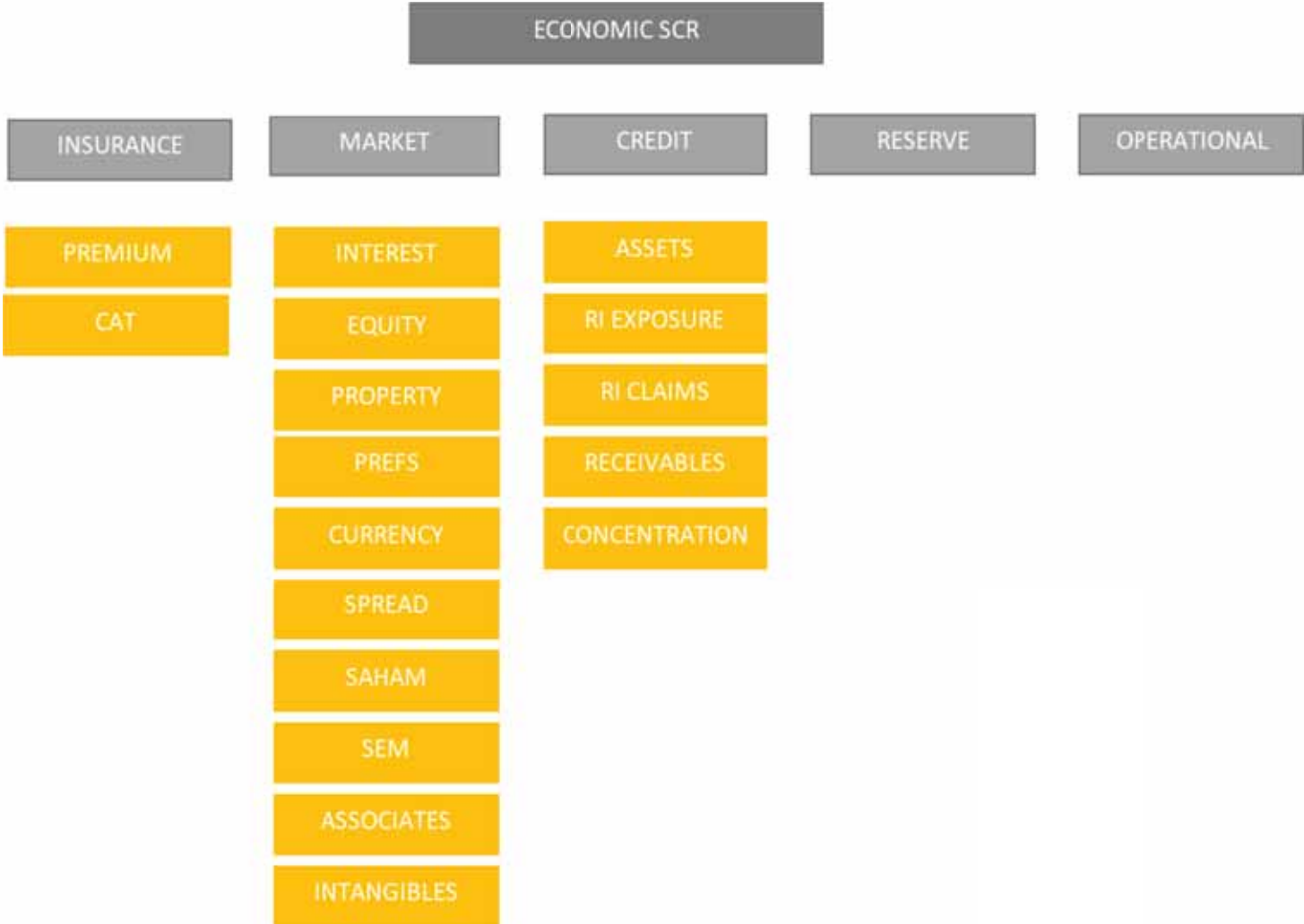


# CAPITAL MANAGEMENT PHILOSOPHY

- 
- Ensuring policyholder security is the highest priority
  - Maximising the return on shareholders' capital within an appropriate risk appetite framework
  - Other considerations include:
    - Buffer over current regulatory capital requirements
    - Maintaining Santam's insurer financial strength credit ratings
    - Funding business growth
    - Allow for any corporate actions
  - Santam revised its target group economic capital coverage ratio band from between "150% to 170%" to "145% to 165%"
    - Reduction in capital add-on provided additional capacity above internal regulatory thresholds allowing us to shift our economic capital target band downwards
  - In addition, the regulatory capital coverage ratio must exceed predefined threshold levels

# ECONOMIC INTERNAL MODEL

## SANTAM LTD MODEL STRUCTURE



# CAPITAL COVERAGE RATIOS

- The capital coverage ratios for the Santam Group and Santam Limited license at 31 December 2021:

<b>Economic Capital</b>	<b>Santam Group</b>	<b>Santam Ltd</b>
Available Own Funds in R'm	13 985	12 692
Solvency Capital Requirement in R'm	8 255	7 384
<b>Capital Coverage Ratio</b>	<b>169%</b>	<b>172%</b>

- Regulatory capital coverage ratio for Santam Ltd is in line with the economic capital coverage ratio




# ECONOMIC CAPITAL REQUIREMENT

SANTAM LTD - 31 DECEMBER 2021

Risk Module	Capital R'm	Capital %
Market Risk	3 345	33%
Underwriting Risk	3 470	34%
Reserve Risk	881	9%
Credit Risk	1 425	14%
Operational / Other Risk	966	10%
<b>Sub-total</b>	<b>10 087</b>	<b>100%</b>
Diversification Benefit	(2 703)	
<b>Economic Capital</b>	<b>7 384</b>	
Capital Base	12 692	
<b>Capital Coverage Ratio</b>	<b>172%</b>	

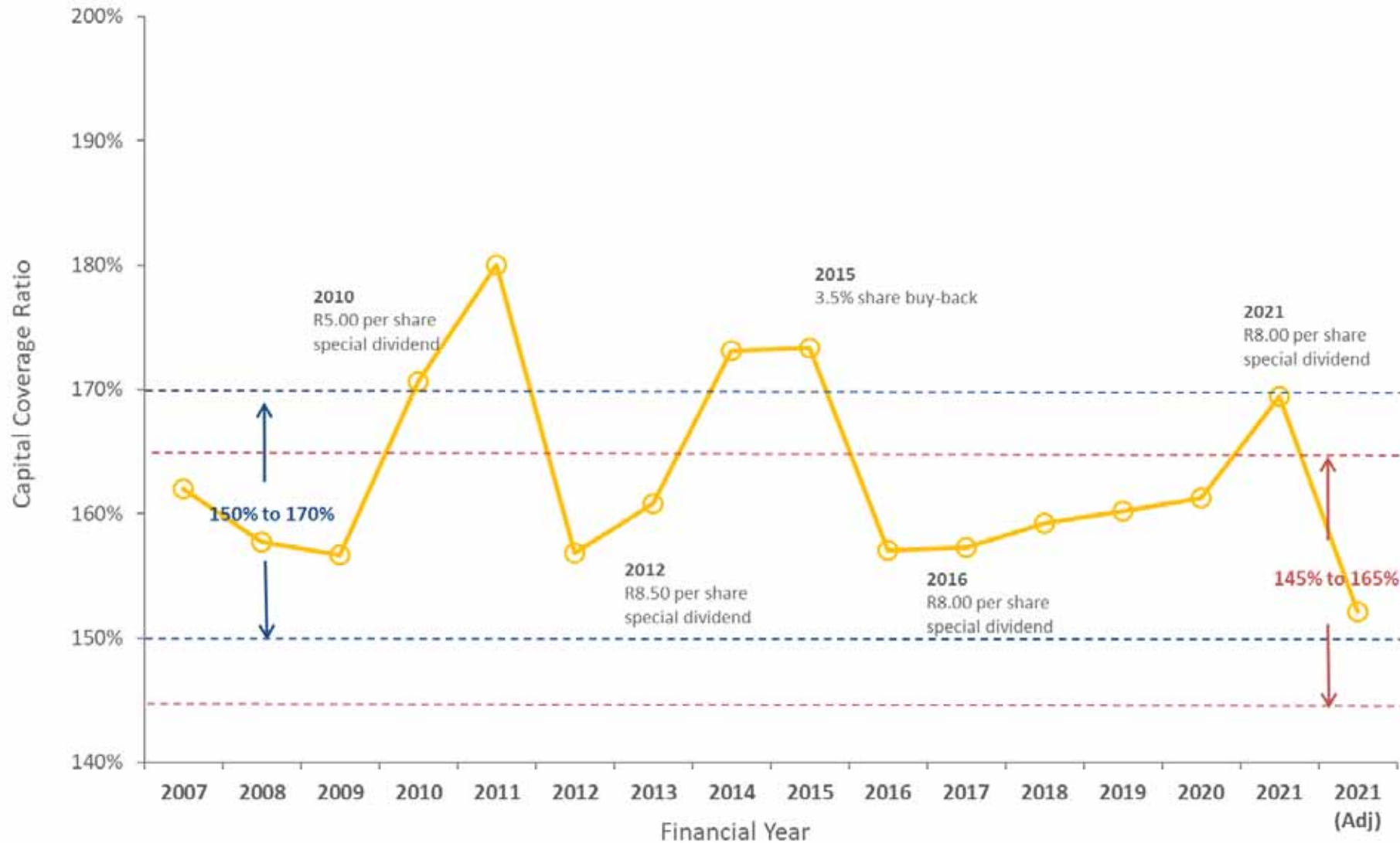


# DIVIDEND PAYMENTS 2021

- 
- Santam declared a final dividend of R7.90 per share and a special dividend of R8.00 per share for the 2021 financial year
  - Greater certainty on ultimate net liability for CBI claims
    - Net ultimate liability reduced from R3 billion to R2.55 billion at 31 December 2021
  - No longer necessary to hold capital at the top end of the target band
  - Final and special dividends reduce the economic capital coverage ratio to 152% on an adjusted 2021 basis
  - Santam will aim to manage its economic capital coverage ratio at the midpoint of the lower half of the target band ( $\approx 150\%$ )

# CAPITAL MANAGEMENT HISTORY

Santam Group - Capital Coverage Ratio



**Note:** 2021(Adj) reflects the Capital Coverage Ratio adjusted for the final and special dividend payments

# STRESS TESTING

- Comprehensive stress and scenario testing framework applied at Santam:

ID	Description	Capital Coverage Ratio	Change from Base
<b>2021 (Adj)</b>	<b>Base</b>	<b>152%</b>	
ST02	10% increase in attritional loss ratio mean	125%	-27%
ST06	50% increase in earthquake modelled losses	127%	-25%
ST10	1 notch rating downgrade for all counterparties	148%	-4%
ST14	Market Shock (Equities -45%, Bonds -25%, Prefs -10%)	143%	-9%
ST15	Largest bank exposure defaults, with a 100% loss at default	114%	-38%
ST16	Operational Risk Loss of R1bn	136%	-16%
ST17	Failure of largest RI counterparty after R9.8bn Cat event	122%	-30%
ST18	Failure of SEM investment	137%	-15%
ST19	10% Impairment of Saham investment	151%	-1%

**Note:** 2021(Adj) reflects the Capital Coverage Ratio adjusted for the final and special dividend payments

# CAPITAL STRUCTURE

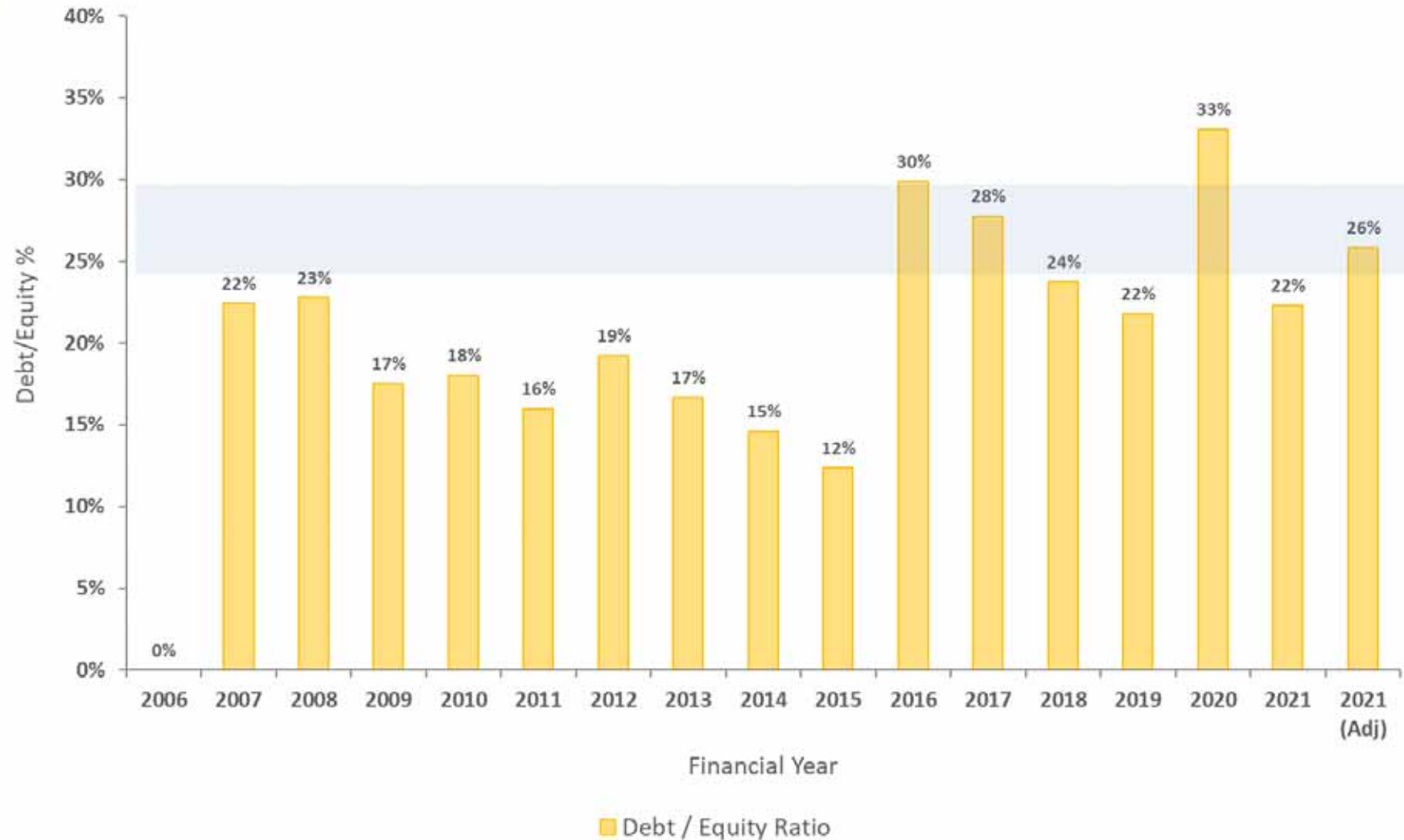
- Santam Group capital structure at 31 December 2021:

	Capital R'm	Capital %
Tier 1: Shareholder Funds	11 433	82%
Tier 2: Subordinated Debt	2 552	18%
<b>Capital resources</b>	<b>13 985</b>	<b>100%</b>



# FINANCIAL LEVERAGE

Santam Group - Debt / Equity Ratio



- R2.5bn subordinated debt in issue
- Regulatory scope to increase this to R3.7bn (50% of SCR), but this is not our intention
- Following the final and special dividend payments, the debt/equity ratio is 26% on an adjusted 2021 basis
- Aim to maintain debt/equity ratio between 25% - 30%



# RISK MANAGEMENT



# KEY RISK THEMES

## **Underwriting risk:**

- R85m per risk; R150m per event
- Comprehensive reinsurance program
- Diversification – classes of business; geography

## **Reserve risk:**

- Short tail
- Monitor actual vs. expected runoff
- Track margins in provisions

## **Market risk:**

- Asset mix
- Equity exposure (listed and unlisted)
- Liquidity of shareholder's funds
- Target debt/equity ratio
- No speculative use of derivatives

## **Credit risk:**

- Reinsurance and asset counterparties
- Minimum international credit rating of A- for reinsurance counterparties
- Risk appetite limits on asset and RI concentrations

## **Operational risk:**

- Mature ERM framework and extensive controls
- No significant loss events
- Owned by the business

## **Legal and Regulatory risk**

- Strong relationship with both the PA and FSCA
- Legal certainty has been reached on the COVID-19 CBI claims - Santam aims to settle all outstanding CBI claims during 2022




# REINSURANCE PROGRAM

- Extensive per risk and per event reinsurance program
- Maximum exposure per risk of R85 million and per event of R150 million (before reinstatement costs)
- Purchase R10.9 billion of catastrophe reinsurance cover (greater than a 1-in-200 modelled earthquake loss based on Santam's exposure)
- Strong relationship with global reinsurance market as Santam is the largest purchaser of reinsurance in South Africa
- Risk appetite requires that Santam only deals with reinsurers with an international credit rating of A- or higher



# RISK FRAMEWORK

- 
- Heavy focus on risk management across all areas of the Santam Group
  - Risks are quantified and understood with appropriate controls, limits and mitigation actions
  - Risk appetite framework is key tool for managing risk:
    - Covers all risk areas of the business
    - Risk appetites for all main business units that aggregate into an overall Santam Group risk appetite document
    - Monitored on a quarterly basis
  - Strong track record of managing risk in a prudent manner






# DEBT CAPITAL MARKET OFFERING



# KEY FEATURES OF THE PROGRAMME



<b>Issuer</b>	Santam Limited
<b>Programme Type</b>	Unsecured Subordinated Callable Note Programme
<b>Programme Size</b>	R4 billion
<b>Deferral of Principal</b>	The Issuer is required to defer payment of principal if a Regulatory Deficiency Redemption Deferral Event has occurred, subject to conditions as prescribed by the Regulator.
<b>Deferral of Interest</b>	If on any Interest Payment Date a Regulatory Deficiency Interest Deferral Event has occurred or would occur, the payment of interest in respect of the Notes otherwise falling due on such date shall be deferred.
<b>Early Redemption or Substitution following Capital Disqualification Event</b>	If confirmed by the Auditors that a Capital Disqualification Event has occurred, the Issuer may at its option (but subject to the prior written consent of the Regulator): <ul style="list-style-type: none"><li>• Redeem all of the Notes; or</li><li>• Substitute all of the Notes with new notes, or vary the terms of the Notes that it will become or remain Qualifying Tier 2 Securities (subject to approval by noteholders by Extraordinary Resolution)</li></ul>
<b>Redemption for Tax Reasons</b>	Notes may be redeemed at the option of the Issuer (subject to the prior written approval of the Regulator), if as a result of changes in laws or regulations the Issuer would be required to pay additional tax (relating to the Notes) and these additional amounts cannot be reasonably avoided.
<b>Events of Default</b>	<ul style="list-style-type: none"><li>• Non-payment (other than Deferred Payments)</li><li>• Insolvency</li></ul>

# SANTAM CREDIT RATING

- Santam is currently rated by S&P
- The subordinated notes for the upcoming issuance will also be rated by S&P

	S&P
Issuer South Africa National Scale Rating	zaAAA
Subordinated notes	TBC

- Current notes in issue:

Instrument	Amount	Call Date	Rating
STN03	R0.5 billion	12 April 2023	zaA+
STN04	R1.0 billion	27 June 2022	zaA+
STN05	R1.0 billion	30 November 2025	zaA+

# INDICATIVE ISSUANCE TERMS

<b>Issuer</b>	Santam Limited	
<b>Credit rating</b>	Issuer	zaAAA (S&P)
	Subordinated Debt	TBC (S&P)
<b>Programme</b>	ZAR4 billion Unsecured Subordinated Callable Note Programme, registered on the JSE	
<b>Indicative target issue size</b>	ZAR1 billion	
<b>Indicative tenor</b>	10 year no call 5 year ("10NC5")	
<b>Interest profile</b>	Floating, with the 3-month JIBAR as reference rate	
<b>Step-up coupon</b>	The higher of an additional 100bps or 50% of spread at issue	
<b>Ranking</b>	Subordinated	
<b>Security</b>	Unsecured	
<b>Key terms</b>	<ul style="list-style-type: none"> <li>• Mandatory interest deferral</li> <li>• Mandatory principal deferral</li> <li>• Regulatory &amp; Tax call</li> </ul>	
<b>PA approval</b>	Application submitted on 7 March 2022	
<b>Auction process</b>	Sealed bid without feedback (Dutch Auction)	
<b>Use of proceeds</b>	To replace the R1 billion SNT04 notes issued in 2017 and callable in June 2022, and to maintain the Issuer's target debt / equity ratio	





# INDICATIVE TIMELINE

Indicative date	Action
5 – 11 April 2022	Investor virtual roadshow
20 April 2022	Term sheet, draft applicable pricing supplement and auction details released to investors
2 – 6 May 2022	S&P pre-sale rating released
4 May 2022	Updated term sheet with price guidance released to investors
11 May 2022	Proposed auction date
16 May 2022	Settlement date (T+3)





**QUESTIONS?**



**THANK YOU**