INSURANCE RESULTS

CONVENTIONAL INSURANCE

NET INSURANCE RESULT

	2018 R million	% of NEP	2017 R million	% of NEP	2018/2017 %	5-year average %	10-year average %
Gross written premium	27 711		25 853		**7**	8.3	8.5
Net earned premium	22 371	100.0	20 893	100.0	**7**	100.0	100.0
Net claims incurred	13 499	60.4	13 753	65.9	**(2)**	63.1	65.1
Net acquisition cost	6 806	30.4	5 880	28.1	**16**	28.8	28.1
Net underwriting result	2 066	9.2	1 260	6.0	**64**	8.1	6.8
Investment return on insurance funds	532	2.4	584	2.8	**(9)**	2.6	2.6
Net insurance result	2 598	11.6	1 844	8.8	**41**	10.7	9.4
Combined ratio		90.8		94.0		91.9	93.2

The conventional insurance business reported a net underwriting margin of 9.2% compared to the 6.0% reported in 2017. The underwriting results in the current period benefitted from the absence of significant catastrophe claims in contrast to the severe catastrophe events experienced in 2017. Fewer large commercial fire claims were also reported during this period, following improved risk management actions.

Gross written premium growth

Conventional insurance reported satisfactory growth of 7%. The intermediated personal and commercial lines business and MiWay experienced growth pressure in the difficult economic conditions, while strong growth was achieved in the specialist business and Santam re.

Gross written premium growth from the rest of Africa was strained. Santam Namibia reported a contraction in GWP of 7% in a low-growth competitive market. Specialist business benefitted from a one-off construction project in 2017, which did not reoccur in 2018. Santam re, on the other hand, achieved strong growth in Southeast Asia, India and the Middle East through selective participations in these markets. The net effect was a 5% increase in premiums from outside of South Africa written on the Santam Ltd and Santam Namibia Ltd licenses (2018: R3 367 million; 2017: R3 200 million).

The property class reported growth of 11% on the back of strong growth in the corporate property business following lower reinsurance capacity available in the market. Crop insurance gross written premiums contracted by 12% following lower take-up of crop insurance in the 2018/2019 crop year.

The motor class grew by 6%, with MiWay reporting 8% growth (gross written premium of R2 496 million; 2017: R2 319 million). MiWay reversed the slowdown in growth reported during the first half of the year with a strong performance during the second half of the year following focused management actions. The commercial and personal lines intermediated business experienced a slowdown in growth of the motor book in competitive low-growth market conditions.

The liability class continued to experience significant competitive pressure and focused on improved profitability, resulting in growth of only 2% reported during the period. The engineering class also reported low gross written premium growth of 3%, reflecting the impact of fewer large construction projects and the uncertainties impacting the construction sector.

The accident and health class reported growth of 11%, mainly driven by excellent growth in the travel insurance business. The transportation class reported gross written premium growth of 1% following Santam's continued focus on profitability. The growth in the guarantee class was positively impacted by the acquisition of the Sanlam Structured Insurance credit guarantee business.

Underwriting result

The property class reported a significant turnaround from the R165 million net underwriting loss reported in 2017 to R519 million net underwriting profit in 2018 following the absence of significant catastrophe claims, as well as fewer large commercial fire claims. The underwriting results were positively impacted by the underwriting actions implemented since the second half of 2017.

The motor class reported strong underwriting performance in both the intermediated and direct distribution channels. MiWay reported good results with a claims ratio of 55.2% (2017: 56.9%) and reported an underwriting profit of R334 million (2017: R317 million).

The engineering class of business achieved excellent underwriting results with limited claims activity during the period, while the guarantee class of business was negatively impacted by the poor economic environment in South Africa. A number of large claims, including product recall claims relating to the listeriosis outbreak, reduced the underwriting results of the liability class. Estimate adjustments on previously reported claims further contributed to a net underwriting loss of R20 million for the liability class (2017: net underwriting profit of R85 million).

The crop insurance business reported strong underwriting results, although lower than the excellent results reported in the comparative period. Santam re was negatively impacted by claims activity and increased claim provisions relating to previous periods on the foreign book of business.

Following the significant losses incurred by the global and South African reinsurance market during 2017, Santam's deductible per catastrophe event increased to R150 million (2017: R100 million) for the 2018 financial year. It also resulted in increased reinsurance rates.

The net acquisition cost ratio of 30.4% increased from 28.1% in 2017. The management expense ratio increased from 16.0% in 2017 to 18.1% in 2018, mainly due to increased variable incentive costs in 2018, increased direct acquisition costs to support growth initiatives at MiWay, as well as additional underwriting risk management costs incurred to improve the loss ratio across all business lines. A further driver of increased cost was a provision raised to account for the liquidity concerns at a third-party premium-collection agency that went into voluntary curatorship in September 2018. The impact of the increased incentive costs and one-off items added 1% to the management expense ratio in 2018.

Strategic project costs, included as part of management expenses, amounted to 1% of the net earned premium (2017: 0.8%). These costs mainly relate to the continued development of a new core underwriting, administration and product management platform for the Santam intermediated business, compliance projects, data enhancement and future digital solutions.

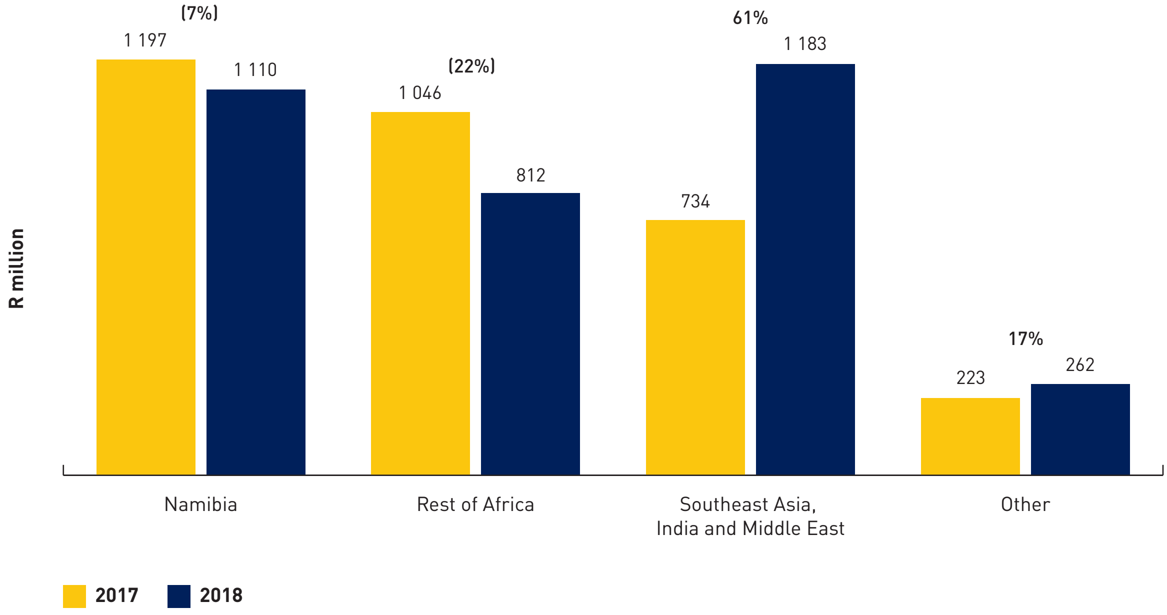
The new core underwriting platform project is progressing according to plan, with personal lines now fully deployed and almost 100% migrated to the new platform. For commercial products, more than 90% of on-platform intermediaries have now been deployed for new business, while the migration process is well underway and expected to be completed in 2019. Santam will continue to invest in strategic projects to optimise the use of technology in the group.

The net commission ratio was 12.4% compared to 12.1% in 2017.

Investment return on insurance funds

The investment return on insurance funds was negatively impacted by lower returns on the investment portfolios backing the insurance funds following lower interest rates compared to 2017.

CONVENTIONAL INSURANCE
GROSS WRITTEN PREMIUM FROM OUTSIDE SA

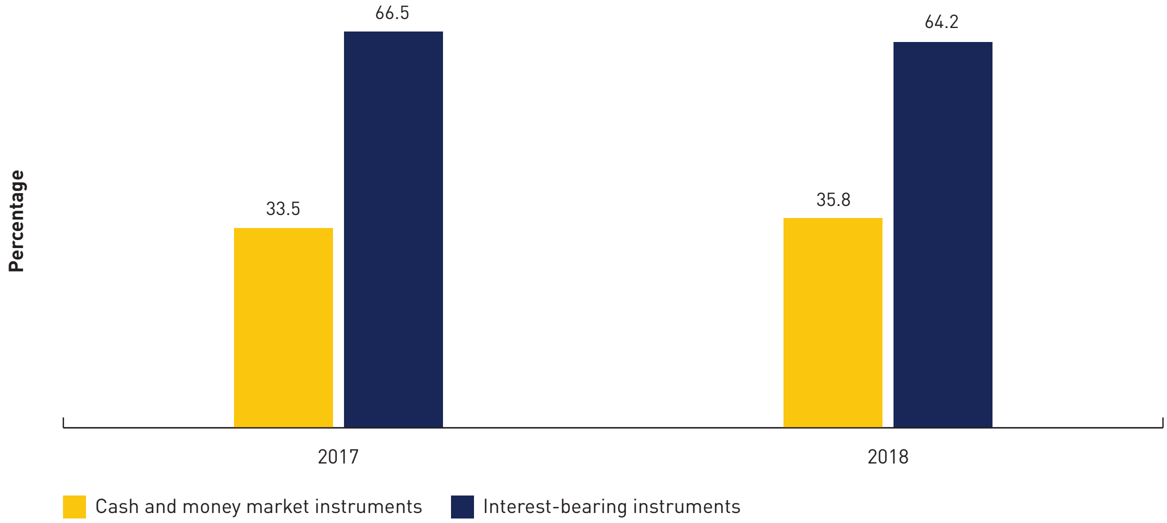


Excludes Santam's share of the gross written premium derived from its investments in the SEM GI and Saham Finances businesses.

"Other" includes Santam re participations, which mainly originated in Europe.

ASSETS BACKING NET INSURANCE FUNDS %

The assets backing the net insurance funds were invested as follows:



Currency mix of assets backing net insurance funds % (Conventional Insurance)		2018 R million	2017 R million
Cash and other short-term interest-bearing instruments	Rand	**5 973**	5 320
	US dollar	**1 357**	1 177
	Euro	**335**	99
	Other currencies	**214**	382
Total		**7 879**	6 978

ALTERNATIVE RISK TRANSFER INSURANCE (ART)
OPERATING RESULT

	2018 R million	2017 R million	2018/ 2017 %
Gross written premium	**5 398**	3 867	40
Net insurance result	**96**	84	
Investment income	**67**	33	
Income from associates	**–**	3	
Profit before tax	**163**	120	

The 2017 reporting period included the results of Santam Structured Insurance for nine months following the acquisition of the business in March 2017. The ART business reported growth of 40% (26% on a like-for-like basis) with gross written premiums of R5 398 million (2017: R3 867 million). Centriq reported excellent growth of 46%. Santam Structured Insurance also reported good growth over the comparative period.

The ART business reported solid operating results of R96 million (2017: R84 million).

SANLAM EMERGING MARKETS (SEM) GENERAL INSURANCE BUSINESSES
SAHAM FINANCES HELD THROUGH SAN JV
Analysis of 100% of Saham Finances' operating result before taxation and minorities

The table below provides an analysis of the Saham Finances' earnings on a 100% basis for both years, which eliminates the distortion caused by changes in shareholding.

Saham Finances 100%	2018 R million	2017 R million
Gross written premium	**16 569**	15 975
Net earned premium (NEP)	**13 843**	12 723
Net claims incurred	**9 448**	8 537
Net acquisition costs	**4 099**	3 861
Net underwriting result	**296**	325
Investment return on insurance funds	**951**	1 734
Non-insurance earnings	**52**	116
Operating result before taxation and minorities	**1 299**	2 175
Taxation and non-controlling interest	**(609)**	(1 078)
Operating result after taxation and non-controlling interest	**690**	1 097
Net investment income	**172**	110
Finance costs	**(160)**	(76)
Attributable earnings	**702**	1 131
Foreign currency translation differences	**(124)**	151
Total comprehensive income for the year	**578**	1 282

Effective 9 October 2018, SEM and Santam, through SAN JV, acquired the remaining minority interest in Saham Finances via a subscription for new shares for US$1 045 million (R15.4 billion). Santam's share of the purchase price, including transaction costs, was US$64 million (R957 million), before applying hedge accounting. Hedge accounting resulted in R46 million of foreign currency gains accounted for as part of the investment in SAN JV. This transaction increased Santam's effective interest in Saham Finances from 7% to 10%.

Analysis of 100% of Saham Finances' normalised comprehensive income

Saham Finances 100%	2018 R million	2017 R million
Comprehensive income	**578**	1 282
Operational adjustments	**68**	–
Prior year tax adjustment	**49**	–
Post-acquisition incentives	**28**	–
Profit on disposal of subsidiary	**(80)**	–
Net reduction in funding cost post acquisition	**71**	–
Investment market volatility	**387**	(271)
Marked-to-market adjustments – return on insurance funds	**86**	(371)
Marked-to-market adjustments – net investment return	**123**	251
One-off currency gains and losses	**178**	(115)
Normalised comprehensive income	**1 033**	1 011

Santam's effective interest in Saham Finances for the 2017 and 2018 financial years was as follows:

	Group	SEM	Santam
1/1/2017 – 30/4/2017	30%	22.5%	7.5%
1/5/2017 – 31/12/2017	46.6%	39.63%	6.97%
1/1/2018 – 30/9/2018	46.6%	39.63%	6.97%
1/10/2018 – 31/12/2018	**100%**	**90%**	**10%**

Santam's share of the net underwriting results of Saham Finances for the year amounted to R79 million (2017: R4 million loss). Given the changes in Santam's shareholding in SAN JV (Saham Finances) during 2017 and 2018, the financial results of 100% of Saham Finances for 2017 and 2018 are analysed below to ensure like-for-like comparison.

Gross written premiums increased by 4% (8% in local currency) to R16.6 billion (2017: R16 billion). The net underwriting profit decreased by 9% to R296 million, with life insurance earnings decreasing by 7% due to investments in growth, and general insurance earnings being in line with 2017.

The general insurance businesses achieved a net underwriting margin of 4.1% (2017: 5.6%). The following items impacted on the general insurance results:

- One-off incentives of R28 million were paid to staff as part of the post-acquisition integration process.
- Angola's loss declined from R40 million in 2017 to R29 million in 2018. An improvement in claims experience was partially offset by a higher cost base. Exchange rate weakness contributed to higher expense inflation.
- Lebanon also experienced a better claims environment, resulting in an increase of 107% in underwriting profit.
- The other regions recorded lower earnings from direct insurance, primarily due to pressure on premium growth in Côte d'Ivoire.
- Reinsurance profit increased by 11% from R232 million in 2017 to R257 million in 2018.

Investment return earned on insurance funds declined by 45% to R951 million (2017: R1 734 million). The underlying portfolios included legacy equity exposures, which benefitted from positive investment market returns in 2017, while most markets declined in 2018. The difference in relative market performance contributed more than R700 million to the decline. The strategic asset allocation of these portfolios will be reassessed as part of the planned capital management activities.

The lower investment return earned on insurance funds resulted in the operating profit after taxation and non-controlling interest to decrease to R690 million (2017: R1 097million) and the comprehensive income recognised to R578 million (2017: R1 282 million). Relative investment market returns and a number of one-off items impacted on the Saham Finances earnings for 2018. Adjusting for these one-off operational items of R68 million and the impact of investment market volatility of R387 million (2017: negative adjustment of R271 million), the normalised comprehensive income for Saham Finances was R1 033 million (2017: R1 011 million).

Santam will be actively involved in 2019 to grow the Pan-African specialist and reinsurance markets.

OTHER SEM GENERAL INSURANCE BUSINESSES (SEM PARTICIPATIONS)

Analysis of Santam's share of net insurance result of SEM General Insurance businesses (excluding Saham Finances)

	2018 R million	% of NEP	2017 R million	% of NEP	2018/2017 %
Gross written premium	**1 265**		1 267		–
Net earned premium (NEP)	**923**	**100.0**	881	100.0	5
Net claims incurred	**679**	**73.6**	723	82.1	(6)
Net acquisition costs	**297**	**32.2**	266	30.2	12
Net underwriting result	**(53)**	**(5.7)**	(108)	(12.3)	(51)
Investment return on insurance funds	**183**	**19.8**	234	26.6	(22)
Net insurance result	**130**	**14.1**	126	14.3	3

The Sanlam Emerging Markets general insurance business portfolio includes investments in Pacific & Orient Insurance Co. Berhad (P&O) in Malaysia, Shriram General Insurance Company Ltd (SGI) in India and a further 12 general insurance businesses throughout Africa, which are held in conjunction with SEM, excluding South Africa and Namibia.

Santam's share of the gross written premium of these businesses remained in line with 2017 (4% growth on a comparative basis, after the 2017 sale of the EIC business).

SGI in India had a solid year, with the net insurance result growing by 13% in local currency, attributable to an improvement in the underwriting margin.

P&O in Malaysia benefitted from a more diversified book of business, which contributed to an improvement in the claims experience. The net insurance result increased by 6% in local currency.

The Sanlam Group entered into an agreement, in June 2017, to dispose of its various interests in the Enterprise Group in Ghana. In terms of the co-investment arrangement with SEM, Santam, which had an interest of 14% in Enterprise Insurance Company (EIC), disposed of its interest in EIC with a carrying value of R68 million for R105 million.

SEM INVESTMENT HOLDINGS

	Incorporated in	Carrying value 2017 R million	Changes in exchange rate	Changes in valuation	Carrying value 2018 R million
Pacific & Orient	Malaysia	187	26	–	**213**
Shriram General Insurance	India	676	50	120	**846**
Other SEM investment holdings	Africa	226	28	10	**264**
Total investment		**1 089**	**104**	**130**	**1 323**

In terms of IFRS, Santam accounts for these investments as fair value through income financial instruments; the changes in market value are included in the statement of comprehensive income.