By re-evaluating, re-inventing and re-positioning ourselves we'll continue to lead the way for short-term insurance

santam

Rest insured

annual report 2007

contents

"Do not follow
where the path may
lead. Go instead
where there is no path
and leave a trail."

RALPH WALDO EMERSON

American philosopher, essayist and poet
1803 – 1882

past

Santam has come a long way since we first opened our doors on 1 May 1918 in Burg Street, Cape Town, and in the ensuing years our yellow umbrella has become synonymous with short-term insurance in South Africa. In 2000 we took over Guardian National Insurance Company and in doing so we firmly cemented ourselves as the largest short-term insurance player in the South African market.

present

We've always prided ourselves as a company with high service levels, custom-made solutions, innovation and relevance and that is why we continuously strive to re-invent ourselves to meet the demands of our clients. We believe that our brand philosophy of *prevention is better than cure* does just that – by encouraging and empowering people to take control of their everyday risks we are changing the face of short-term insurance.

future

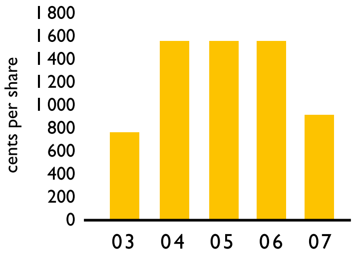
We are proactive and involved. We are passionate and optimistic. We believe in making a difference and realising positive futures. We leave those we touch motivated and invigorated. By re-evaluating, re-inventing and re-positioning ourselves we'll continue to lead the way for short-term insurance.

Financial performance

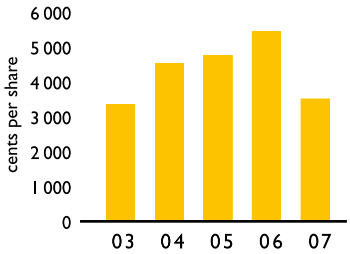
The year under review has been challenging, marked by varying degrees of success. From an underwriting perspective the group did very well in its core Southern African operations, showing an increase in both underwriting profit and net insurance result against 2006. The performance of the international business was however disappointing. Because of the group's exposure to equity instruments, its investment results were negatively affected by the recent turmoil in financial markets. Although investment income for the year exceeded expectations, it ended well below the exceptional levels of 2006. The company successfully concluded its capital restructuring programme during 2007. The secondary tax on companies (STC) charge on the special dividend impacted on earnings. Headline earnings of R1 030 million were 42% lower than the previous year, equating to headline earnings per share of 906 cents compared to 1555 cents in 2006.

	Group 2007	Group 2006
Results (R million)		
Continuing operations		
Gross written premium	**13 173**	12 115
Underwriting result	**664**	627
Net insurance result	**983**	877
Investment income, realised and fair value gains	**1 120**	1 713
Profit for the year from continuing operations	**1 244**	1 797
Discontinued operations		
Result for the year from discontinued operations	**(168)**	70
Profit for the year	**1 076**	1 867
Headline earnings per share (cents)	**906**	1 555
Balance sheet		
Net asset value per share (cents)	**3 610**	5 633
Solvency margin	**42%**	62%
Return on weighted average shareholders' funds	**16.6%**	32.7%
Dividends		
Normal dividends per share (cents)	**410**	380
Special dividend per share (cents)	**2 200**	–
Cash flow (R million)		
Cash generated by operations	**2 139**	2 203

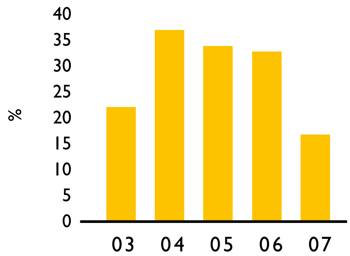
HEADLINE EARNINGS PER SHARE



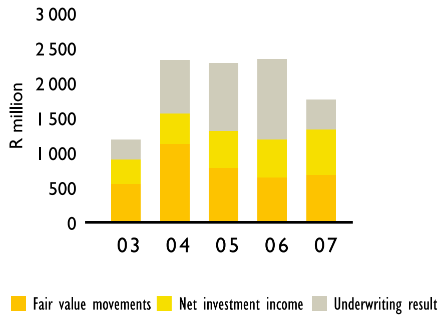
NET ASSET VALUE PER SHARE



RETURN ON CAPITAL



PROFIT BEFORE TAX



Seven-year review

		7 year compound growth % /average	2007	2006	2005	2004	2003	2002	2001
PERFORMANCE PER ORDINARY SHARE									
cents per share									
Headline earnings		9.7	**906**	1 555	1 540	1 548	751	274	518
Continuing operations			**1 054**	1 495					
Discontinued operations			**(148)**	60					
Dividends			**410**	380	335	290	220	170	154
Special dividends			**2 200**	–	650	–	–	–	–
Capital reduction			**–**	–	–	1 000	–	–	–
Net asset value			**3 610**	5 633	4 927	4 706	3 482	3 018	2 914
INSURANCE ACTIVITIES*									
Net claims paid and provided (%)	Avg	66.5	**68.2**	68.6	65.3	57.0	64.8	70.7	70.7
Cost of acquisition (%)	Avg	26.6	**25.6**	24.9	26.0	28.3	27.4	26.7	27.2
Net commission paid (%)	Avg	13.0	**13.9**	14.1	13.4	12.4	11.7	12.6	13.3
Management expenses (%)	Avg	13.5	**11.7**	10.8	12.6	15.9	15.7	14.1	13.9
Contribution margin (%)	Avg	93.1	**93.8**	93.5	91.3	85.3	92.2	97.4	97.9
Underwriting result (%)	Avg	6.9	**6.2**	6.5	8.7	14.7	7.8	2.6	2.1
Earned premium (%)			**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
** Continuing activities expressed as a % of net earned premium*									
INVESTMENT ACTIVITIES									
Interest and dividends net of asset management fees			**595**	455	428	427	414	314	315
Net gains on financial assets and liabilities at fair value through income			**454**	1 205	1 005	798	289	(22)	311
RETURN AND PRODUCTIVITY									
Earnings expressed as % of average shareholders' funds (%)	Avg	24.3	**16.6**	32.7	34.0	37.0	22.0	9.2	19.0
Pre-tax return on total assets (%)	Avg	12.1	**9.1**	14.8	15.6	19.0	11.6	4.9	9.9
Effective tax rate (%) #	Avg	25.6	**30.3**	24.7	22.4	25.4	30.0	26.6	19.5
Gross premium per employee – (R '000) * #		11.0	**4 012**	3 836	3 795	3 317	3 163	2 940	2 146
# Continuing activities									
** Alternative Risk Transfer premiums excluded*									
SOLVENCY AND LIQUIDITY									
Dividend cover (times)	Avg	3.5	**2.3**	4.1	4.6	5.3	3.3	1.6	3.4
Solvency margin (%)	Avg	60.3	**42.0**	62.0	61.3	69.9	56.3	59.9	71.0
OTHER STATISTICS									
Number of permanent employees			**2 840**	2 789	2 733	2 791	2 880	2 656	2 856
Number of shareholders			**4 552**	4 556	4 457	4 242	3 764	3 946	2 405
SANTAM SHARE PERFORMANCE AND RELATED INDICATORS									
Market price per share (cents)									
Closing			**10 400**	8 745	8 050	7 100	5 140	3 225	3 640
Highest			**13 720**	9 500	8 500	7 100	5 200	4 200	4 060
Lowest			**8 202**	6 300	5 650	4 500	2 990	3 000	2 950
Market capitalisation (R million)			**11 656**	10 287	9 358	8 180	5 840	3 607	4 035
Santam share price index**			**1 287**	1 066	973	847	585	330	385
FTSE – JSE financial index**			**610**	615	388	323	190	158	197
Closing price/earnings (times)			**11.48**	5.62	5.23	4.56	6.85	11.76	7.02
Closing price/equity per share (times)			**2.9**	1.5	1.6	1.5	1.5	1.1	1.2
Closing dividend yield (%)			**3.9**	4.3	4.2	4.1	4.3	5.3	4.2
Number of shares issued (million)			**112.1**	117.6	116.2	115.2	113.6	111.8	110.9
Number of shares traded (million)			**39.3**	34.9	22.2	22.3	15.5	19.0	15.1
Number of shares traded as a % of total number of shares in issue (%)			**35.1**	29.7	19.1	19.4	13.7	17.0	13.6
Value of shares traded (R million)			**4 270.9**	2 728.3	1 541.3	1 172.3	569.9	686.7	542.6
*** Base year 1992*									

Results for 2007 are shown for continuing operations only. Results for 2006 have been restated to reflect only continuing operations.

Results prior to 2004 have not been restated in terms of International Financial Reporting Standards.

The results for 2001 to 2002 have been restated due to accounting policy changes and are unaudited.

	7 year compound growth % /average	**2007**	2006	2005	2004	2003	2002	2001
INCOME STATEMENTS								
Gross premium income	13.4	**13 173**	12 115	11 355	9 735	9 513	8 197	6 206
Net premium income	15.6	**10 919**	10 104	9 344	7 723	7 022	5 635	4 574
Underwriting result	53.5	**1 262**	1 046	775	1 125	530	142	97
Investment return on insurance funds		**664**	627	241	203	205	115	88
Net insurance result		**1 926**	1 673	1 016	1 328	735	257	185
Investment income and associated companies		**461**	1 137	1 309	1 056	486	178	540
Amortisation of intangible asset/Impairment of goodwill		**(2)**	(2)	(4)	(2)	(37)	(3)	–
Income before taxation		**2 384**	2 809	2 321	2 382	1 184	432	725
Taxation		**542**	593	520	604	356	116	141
Minority interest		**26**	23	23	24	22	14	12
Net income from continuing operations		**1 817**	2 193	1 778	1 754	806	302	572
Results from discontinued operations		**(168)**	70	–	–	–	–	–
Net income attributable to equity holders	19.3	**1 649**	2 264	1 778	1 754	806	302	572
BALANCE SHEETS								
Property and equipment		**38**	59	57	55	70	41	36
Intangible assets		**135**	108	80	87	109	33	–
Deferred tax asset		**40**	27	22	10	14	14	–
Financial assets	13.1	**7 530**	7 756	6 116	5 417	3 835	3 208	3 600
Technical assets		**2 265**	2 291	2 375	1 979	2 302	2 072	1 646
Current assets		**5 419**	6 575	6 208	4 992	4 379	3 548	2 023
Non-current assets held for sale		**2 060**	–	–	–	–	–	–
Total assets		**17 487**	16 816	14 858	12 540	10 709	8 916	7 305
Shareholders' funds		**4 107**	6 750	5 852	5 482	4 009	3 414	3 260
Equity – non-current assets held for sale		**71**	–	–	–	–	–	–
Non-current liabilities		**1 907**	902	774	195	135	34	105
Technical provisions		**7 729**	7 768	6 716	5 198	5 156	4 226	3 295
Current liabilities and provisions		**2 067**	1 396	1 516	1 665	1 409	1 242	645
Non-current liabilities held for sale		**1 606**	–	–	–	–	–	–
Total equity and liabilities		**17 487**	16 816	14 858	12 540	10 709	8 916	7 305
CASH FLOW STATEMENTS								
Cash generated from operating activities after finance costs	44.9	**2 094**	2 196	2 365	2 094	1 510	991	226
Income tax paid		**(288)**	(606)	(778)	(361)	(233)	(96)	(69)
Net cash from operating activities		**1 806**	1 590	1 587	1 733	1 277	895	157
Cash (utilised)/generated in investment activities		**(197)**	(390)	578	(714)	(31)	352	(50)
Disposal/Investment in associated companies		**21**	24	11	(29)	(69)	8	–
Disposal/Investment in subsidiaries		**(61)**	153	(41)	9	(408)	(36)	–
Cash (sold)/acquired through sale/acquisition of subsidiary		**52**	(188)	281	–	406	144	–
Cash utilised in additions to fixed assets		**(29)**	(17)	(19)	(12)	(36)	(21)	(2)
Acquisition of book of business		**(2)**	(2)	–	–	–	–	–
Net cash used in investing activities		**(216)**	(420)	810	(746)	(139)	446	(52)
Proceeds from issuance of ordinary shares		**34**	29	27	41	39	21	24
Net purchase of treasury shares		**(726)**	–	–	–	–	–	–
Return of surplus capital to shareholders		**–**	–	(1 156)	–	–	–	–
Increase in debt securities		**964**	–	–	–	–	–	–
Increase in investment contract liabilities		**230**	–	–	–	–	–	–
Dividends paid		**(2 977)**	(1 185)	(360)	(296)	(200)	(178)	(163)
Increase in cell owners' interest		**8**	61	88	25	–	–	–
Net cash used in financing activities		**(2 467)**	(1 095)	(1 401)	(230)	(161)	(157)	(139)
Net (decrease)/increase in cash and cash equivalents		**(877)**	75	996	757	978	1 185	(34)
Cash and cash equivalents at beginning of year		**5 142**	4 927	3 927	3 203	2 272	1 087	1 121
Translation (losses)/gains on cash and cash equivalents		**(8)**	140	4	(33)	(47)	–	–
Cash and cash equivalents at end of year		**4 257**	5 142	4 927	3 927	3 203	2 272	1 087
Non-current assets classified as held for sale		**(812)**	–	–	–	–	–	–
Cash and cash equivalents at end of year – Continuing operations		**3 445**	5 142	4 927	3 927	3 203	2 272	1 087

Format of cash flow was changed with effect 2002. Prior year numbers were restated.

Santam at a glance

OUR HISTORY

1918

On 1 May 1918 the Suid-Afrikaanse Nasionale Trust- en Assuransiemaatskappij Beperk (Santam) opens its doors for business at 10 Burg Street, Cape Town. During June of that year, a second company is created to focus on life assurance. The Suid-Afrikaanse Lewensassuransiemaatskappij (Sanlam) (South African Life Assurance Company) is established as a full subsidiary of Santam.

1953

Sanlam is granted its freedom. Sanlam's share capital is cancelled and by a special Act of Parliament is converted from a company to a mutual insurer.

1957

Santam becomes the first short-term insurer to begin using a computer-based accounting system

1963

Santam launches its well-known Child Art programme to encourage children to find joy in art. This has since become the longest running CSI programme in South Africa and is believed to be the largest national child art project in the world which is run by private enterprise.

1964

Santam's shares are traded on the Johannesburg Stock Exchange for the first time.

1974

The first in Santam's series of Multiplex policies is launched.

1999

The company leaps at the opportunity to purchase Guardian National Insurance for R1.58 billion. The merger – one of the most successful in South Africa yet – secures Santam a 25% share of the local short-term insurance industry. Before the merger, Santam focused mainly on providing personal insurance – post-merger corporate and commercial insurance now makes up 60% of Santam's portfolio.

2007

Santam successfully completes its capital restructuring programme and, in the final phase, pays net R2.45 billion back to shareholders as a special dividend. The company also announces its broad-based black empowerment transaction to the benefit of staff, business partners and communities.

The process commences to reposition the Santam brand based on the proposition of *prevention is better than cure*. Santam commits to helping clients manage their risks.

1990

A full subsidiary, Santam Namibia Limited, is established that takes over all insurance activities in Namibia.

2005

Santam announces Project 2010, a holistic attempt to enable the business to be more adept to change and more responsive to its markets. Project 2010 formalises the Santam mindset of continuous evolvement, thereby changing for the better. It is all about insights that will help the business to make considered decisions, watching the world change and changing with it.

OUR BRAND

THE SANTAM APPROACH IS TO POSITION RISK MANAGEMENT AS A LIFESTYLE: A WAY OF THINKING ABOUT LIFE. AND, THE MAJOR POINT OF DEPARTURE IS THAT THE COMPANY WILL NOT ONLY HELP CLIENTS TO MANAGE THEIR RISKS, BUT ALSO REWARD THEM FOR DOING SO.

The umbrella was originally created for Santam's famous Multiplex policy, which was launched as far back as 1974. The umbrella symbolised the comprehensive cover that this then revolutionary product offered. The umbrella was increasingly to become associated with Santam's broader insurance services, and was eventually regarded as one of the most powerful trademarks in the industry.

Santam took over Guardian National Insurance Company (GNI) in 2000 and became the largest player in the South African short-term insurance industry. It made business sense to retain the redesigned umbrella symbol which to this day evokes the crucial factors that differentiate the Santam brand.

These include:
- Santam's leadership position in the industry,
- high service levels,
- custom-made solutions in terms of a client-centric approach,
- broker distribution,
- strong business ethics,
- innovation, and
- relevance.

Brands need to be revisited, revised and, if necessary, reinvented to remain relevant to the clients they serve. In line with a reformulation of Santam's business goals some years ago, it became necessary to reposition the brand around the concept of risk management – and in a manner that would ensure that the company stayed ahead of its competition.

The re-engineering of the Santam brand began with a thorough review of past, current and future trends, client attitudes, and competitor behaviour. Santam realised that to be regarded as a desired, appealing and leading brand in South Africa today, it had to position itself as a company that adds value to the lives of clients.

From this analysis emerged the concept of empowering people to exercise greater control over managing their risks – thereby instilling a culture of *prevention is better than cure*.

The repositioning has clearly paid off – in 2007 Santam has been accredited as the number one company in the "Insurance – non-life" sector in South Africa in the *Top500 Companies* publication.

OUR PEOPLE AND THE 2010 STRATEGY

The real strength of the repositioning exercise lies in the internal transformation within Santam itself.

The company has performed particularly well with regard to broad-based black economic empowerment (BBBEE). This is evidenced, for example, by its climb up the rankings of the annual Financial Mail/Empowerdex Top Empowerment Companies index.

A recently concluded empowerment transaction will effectively increase Santam's total black shareholding to 26.8%. The company has also exceeded both its own empowerment targets and those of the industry in the areas of preferential procurement, skills development, enterprise development and employment equity.

People who work at Santam are the living embodiment of the brand and brand promise. As such, staff have been involved every step of the way, as participants in

THE CHALLENGE FOR SANTAM REMAINS THAT OF PROVIDING INNOVATIVE RISK MANAGEMENT SOLUTIONS AND GROWING SHAREHOLDER VALUE THROUGH THE GENERATION OF SUSTAINABLE PROFIT AND RETURN ON CAPITAL EMPLOYED.

the process, in the determination of what has become known as Santam's 2010 strategy.

Staff have been further engaged in the new philosophy and positioning of the brand through the introduction of a range of staff benefits and programmes that help them to share the clients' experience and truly live the brand.

One of the new lifestyle programmes introduced by Santam to assist employees in achieving better work-life balance is an in-house personal assistant service, called Yell for Yellow.

Throughout the year – and at no added expense to themselves – staff can use this service to assist with emergencies and with a range of domestic activities that are difficult to fit into busy work schedules.

Santam was recently rated the third best company to work for in the large companies' category in the annual Deloitte *Best Company to Work For* survey – an indication that the focus on staff and staff engagement is achieving its objectives.

OUR INTERMEDIARIES

Santam is an intermediary-driven business. Therefore it was equally important for us to share our new positioning and philosophy with our brokers, and to ensure their buy-in.

Brokers have traditionally been the major delivery channel for the short-term industry. However, the message from Santam to brokers is that they too should find ways of remaining relevant in a changing environment.

By promoting the Santam-inspired concept of risk management, and by advising clients on the best ways of managing their risk, brokers are able to add value relevant to the modern lifestyles of their clients.

To that end Santam is committed to a number of strategic business objectives. These include:

- transformation into a client-focused business,
- strong business partnerships,
- optimised business process efficiency,
- a diversified income base which leverages off existing competencies and business processes, and
- the fast-tracking of human capital.

Ultimately, we want to ensure that we are seen as a company that is truly there to look after the well-being of the policyholder as our client, and to be perceived as innovative, consistent, trustworthy, professional, caring and accessible.

Board of directors

From left: P de V Rademeyer, J van Zyl, H Lorgat, JP Rowse, NM Magau, IM Kirk, D Smith,

BP Vundla, MJ Reyneke, BPTKM Gamedze, JP Möller, AR Martin, RK Morathi, JG le Roux, GE Rudman

Board of directors

DK SMITH (60)

Chairman, BSc, FIA FASSA
Appointed 1 April 1994

Chairman of Reinsurance Group of America (SA). Director of Clover Industries Ltd, Clover Danone Beverages (Pty) Ltd, First International Security Trust (Pty) Ltd, Plexus Asset Consulting (Pty) Ltd, Plexus Asset Management (Pty) Ltd, Plexus Holdings (Pty) Ltd, Reinsurance Group of America Holding Ltd (UK), Snyman & Van der Vyver Financial Services (Pty) Ltd and Strategy Partners (Pty) Ltd. Serves on the Council of Stellenbosch University and the Advisory Board of the University's Graduate School of Business. Chairman of the board of Life Offices Association (LOA) and member of the Advisory Committee on Long-Term Insurance and the Council of the Ombudsman for Long-Term Insurance.

IM KIRK (49)

Chief Executive Officer, FCA (Ireland), CA(SA), HDip BDP (Wits)
Appointed 14 June 2007

Director of Centriq Insurance Company Ltd, Centriq Insurance Holdings Ltd, Centriq Life Insurance Company Ltd, Nova Risk Partners Ltd, SAIA, Sanlam Independent Financial Services Ltd, The Standard General Insurance Company Ltd and Beaux Lane (SA) Properties (Pty) Ltd.

MJ REYNEKE (50)

Executive Director, BCom (Hons), CA(SA)
Appointed 26 August 2003

Director of Admiral Professional Underwriting Agency (Pty) Ltd, Centriq Insurance Company Ltd, Centriq Insurance Holdings Ltd, Centriq Life Insurance Company Ltd, Credit Guarantee Insurance Corporation of Africa Ltd, Indwe Broker Holdings Ltd, MiWay Group Holdings (Pty) Ltd, Santam Europe Ltd, Santam Namibia Ltd, Stalker Hutchison & Associates (Pty) Ltd, The Lion of Africa Insurance Company Ltd, The Lion of Africa Holdings Company (Pty) Ltd and Westminster Motor Insurance Association Ltd.

P DE V RADEMEYER (60)

Director, CA(SA)
Appointed 20 February 2001

Director of Genbel Securities Ltd, Sanlam Capital Markets Ltd, Sanlam Investment Management (Pty) Ltd and African Life Assurance Company Ltd.

BPTKM GAMEDZE (49)

Director, BA (Hons), MSc, FASSA, FIA
Appointed 16 October 2006

Chief executive and director of Sanlam Independent Financial Services Ltd, and director of Simeka Consultants and Actuaries (Pty) Ltd. President of the Association of the South African Black Actuarial Professionals (ASABA).

JG LE ROUX (62)

Director, BSc (Agric)
Appointed 23 May 2000

Chairman of Boland Vineyards International, Cape Coastal Vineyards (Pty) Ltd, Paarl Valley Bottling (Pty) Ltd and Blois Estate (Pty) Ltd. Director of Boland Estate Expert (BEE) and Vinpro (Pty) Ltd.

H LORGAT (48)

Director, BCom CA(SA)
Appointed 27 November 2007

Director of Leaf International Communications (Pty) Ltd, Harfaz Property Investments (Pty) Ltd, Jahafa Trading (Pty) Ltd, Kapela Investments Holdings (Pty) Ltd, Kapela Southprop Investments (Pty) Ltd, Liluye Investments 51 (Pty) Ltd, Riverbend Trade (Pty) Ltd, Invest 58 (Pty) Ltd, Saltik Investments Two (Pty) Ltd, Sanicle investments (Pty) Ltd and TNS Research Surveys (Pty) Ltd.

NM MAGAU (55)

Director, DEd
Appointed 28 May 2002

Director of Murray & Roberts Holdings Ltd, Boland Vineyards International, Merryl Lynch and Monara Rating Agency. Advisor on the UCT Business School Advisory Board. Director and chairperson of the Strategic Leadership Committee of International Women's Forum SA (IWFSA)

AR MARTIN (69)

Director, BCom, CA(SA)
Appointed 18 November 1996

Chairman of ER24 Holdings (Pty) Ltd. Director of Trans Hex Group Ltd, Medi-Clinic Corporation Ltd, Credit Guarantee Insurance Corporation of Africa Ltd, Air Traffic and Navigation Services Ltd, Barnard Jacobs Mellet Holdings Ltd, Datacentrix Holdings Ltd and Petmin Ltd.

JP MÖLLER (48)

Director, CA(SA)
Appointed 16 October 2006

Executive director of Sanlam Ltd and Sanlam Life Insurance Ltd. Director of African Life Assurance Company Ltd, Sanlam Independent Financial Services Ltd, Sanlam Capital Markets Ltd, Sanlam Investment Management (Pty) Ltd and MiWay Group Holdings (Pty) Ltd.

RK MORATHI (38)

Director, CA(SA), AMP (INSEAD–France), HDip Tax
Appointed 20 November 2006

Director of Sanlam Ltd, Afrisam (South Africa) (Pty) Ltd and Identity Capital Partners (Pty) Ltd. Economic advisor to Deputy President of South Africa.

JP ROWSE (53)

DIRECTOR, BCOM, MBA

Appointed 20 November 2006

Director of Kwaaiwater Investments (Pty) Ltd, Kulefu Investments (Pty) Ltd and Leadway Assurance (Nigeria).

GE RUDMAN (64)

Director, BSc, FASSA, FFA
Appointed 23 January 1996

Director of Sanlam Ltd, Sanlam Life Insurance Ltd and Lamform (Pty) Ltd.

J VAN ZYL (51)

Director, PhD, DSc (Agric)
Appointed 1 August 2001

Chief executive officer and executive director of Sanlam Ltd and Sanlam Life Insurance Ltd. Chairman of Sanlam Investment Management Ltd and African Life Assurance Company Ltd boards. Director of Sanlam Netherlands Holdings BV and MiWay Group Holdings (Pty) Ltd. Council member of the University of Pretoria and trustee of the Hans Merensky Foundation.

BP VUNDLA (60)

Director, BA
Appointed 28 May 2002

Director of Alcatel-Lucent South Africa (Pty) Ltd, New Season Investment Holdings (Pty) Ltd, Wesbank Ltd, Mail & Guardian Ltd and AMB Capital.

Ian Kirk

Edward Gibbens

Delisiwe Dludlu

Jan de Klerk

Executive management

IAN KIRK (49)

Chief Executive
FCA (Ireland), CA(SA), HDip BDP (Wits)
Appointed 2007

Primarily responsible to execute the strategic plans and policies as approved by the board of directors. To give direction and leadership toward the achievement of the company's philosophy, mission, strategy, and its annual goals and objectives. Ensures that the company meets and exceeds its targets in order to maximise market share growth and the profitability of the group over the medium to long term.

DELISIWE DLUDLU (50)

Market Development
BA (Soc & Eng), MA Clinical Psychology,
MM Human Resources, CED Exec Development
Appointed 2007

Has overall responsibility for business sustainability, reporting thereof to regulatory bodies, and benchmarking of company progress against industry standards; stakeholder relations, both internal and external; and corporate social responsibility for in-company and BBBEE Community Trust. Monitors of Enterprise Development from a business sustainability point of view and is also responsible for for Santam's Environmental unit.

EDWARD GIBBENS (38)

Broker Distribution
AIISA, BCom, MBA
Appointed 1992

Responsible for growth of gross premium income and underwriting profit in the broker environment of the company, as well as the efficient policy administration and running of the contact centres for both sales and administration. Plans, directs and co-ordinates the efforts of business partners and broker distribution personnel towards the accomplishment of these objectives. Develops future strategies and undertakes competitor analysis to ensure the company's competitive position.

JAN DE KLERK (46)

Information Management
MDP (Pretoria)
Appointed 2007

Has overall responsibility for IT of the company, including, *inter alia*, information management, enterprise architecture, development and maintenance of application systems, and the efficient operation of Santam's IT infrastructure. Also responsible for governance of IT in the Sanlam Group.

Margaret Massie

Machiel Reyneke

Hendri Nigrini

Mpumi Tyikwe

Executive management

MARGARET MASSIE (34)

People and Brand Services
BCompt (Hons), CA(SA)
Appointed 2006

Executive responsibility for marketing, communications, innovation and human resources. The marketing and communications team has a strong focus on client attraction, retention and satisfaction, whilst human resources incorporates employee well-being and development in its wider form, constantly staying in touch with worldwide best practice.

HENDRI NIGRINI (56)

Risk Services
BCom, ACII
Appointed 1986

Executive responsibilities for head office underwriting, which includes the following functions:

- Underwriting strategy and pricing
- Reinsurance
- Development of product solutions

This includes the development and maintenance of systems and processes to support sustainable profitable growth. Temporarily also responsible for the effective management of the total claims value chain, incorporating procurement.

MACHIEL REYNEKE (50)

Corporate Services
BCom (Hons), CA(SA)
Appointed 2002

Has overall responsibility for the finance function of the company, including, however not limited to, *inter alia*, financial reporting, corporate finance, investments, tax, internal audit, project support and corporate legal services. Represents Santam on the board of the group's investments in group and associated companies.

MPUMI TYIKWE (42)

Executive Head: New and External Markets
ACII, FIISA, PDBM
Appointed 2004

Provides strategic direction to the company's partnerships-driven business model in South Africa. He has further responsibility of executing the company's strategy in respect of other emerging countries in the rest of Africa. Responsible for the growth in the premium income for the division in a sustainable and profitable manner.

"People who cannot
invent and reinvent themselves
must be content with borrowed postures,
second-hand ideas,
fitting in instead of standing out."

WARREN G. BENNIS

American scholar and leadership author
1925 –

Chairman's report

THE PROGRESS MADE BY SANTAM DURING 2007 HAS BEEN GRATIFYING AS THE GROUP DELIVERED A SOLID PERFORMANCE WHILST FACING A NUMBER OF CHALLENGES HEAD ON.

I am pleased to report that Santam continues to improve its positioning, retaining its leadership position in the South African short-term insurance industry while entrenching its competitive advantages. The solid performance of our core Southern African underwriting business has formed the basis for the company's results.

However, our results, relative to a very strong 2006, were impacted by market volatility and high claims ratios in the last two months of 2007. Our European insurance operations, from which we decided to divest, and a siginificant secondary tax on companies (STC) charge on the December special dividend also had a negative impact on our financial results. Reported headline earnings decreased by 42% to R1 030 million, equating to 906 cents per share compared to 1555 cents in 2006. Return on shareholders' funds of 16.6% compares to 32.7% in the previous year. This decrease was mainly the result of the mentioned losses in the European insurance operations, the STC charge and reduced investment returns in line with weaker financial markets.

Despite these disappointments, gross written premiums in our core business increased by 8.7% to R13 173 million while our net underwriting margin outperformed the industry average, demonstrating the success of our focus on writing and procuring high-quality business.

Santam's share price continued to outperform the financial index in recent years, especially if taking into consideration the significant amounts of capital we have distributed to shareholders during this period.

We continued to ensure Santam's long-term sustainability, as we made further progress with the ongoing execution of Project 2010 and our strategic process of putting more distance between ourselves and our peers. Pricing and underwriting margins in the Southern African short-term market remained under pressure. However, we are able to report stable margins, demonstrating that our focus on implementing the strategic initiatives is starting to pay off.

INDUSTRY CHALLENGES

I believe that a weaker economic cycle is inevitable, which will filter into a tighter and more competitive pricing environment – especially among short-term insurers targeting lower to medium income earners. Furthermore, lower disposable income, associated with higher inflation and interest rates, inevitably has a negative impact on the industry.

At Santam, we have a well-diversified portfolio of personal, commercial and corporate business. As such, we do not have significant exposure to the lower and middle income segment which is most impacted by harsher economic conditions. However, we have well-defined plans to increase our exposure to these segments over the medium to long term without jeopardising profitability levels.

The South African short-term insurance market remains challenged by a persistently high prevalence of crime and vehicle accident rates, and by the upward trend in the value of claims. The structure of the industry is currently evolving, with the emergence of seemingly more cost-effective direct insurance models in an increasingly crowded market space. However, with our intermediated model, we have differentiated our service offering, as our brokers and clients work together to manage risks. This has the twofold benefit of creating value for our clients whilst providing Santam with business with a lower risk profile.

The industry continues to await clarity regarding the alignment between the Financial Sector Charter and the Dti Codes of Good Practice. We welcome and support these transformation initiatives and we are committed to bringing our systems, processes and procedures in line with these. We are confident that the final alignment, which has been deferred to August 2008, will deliver a balanced Financial Sector Charter with sustainable long-term benefits.

Despite the delay, Santam started implementing a scheme to transfer 10% of our equity to several black stakeholder groups consisting of black staff, communities and strategic business partners of Santam.

Desmond Smith

There are a number of other industry initiatives in progress that could influence the market in which we operate – an example being the deregulation of commission and review of commission and conflict of interest structures that are currently under debate. However, Santam is at the forefront of negotiations and discussions with the various stakeholders and National Treasury and I am confident that satisfactory resolutions will be reached for these issues.

UNLOCKING SYNERGIES WITH SANLAM

My relationship with Santam and Sanlam spans several decades. During the year, I have been gratified to see a stronger rapport between Santam and Sanlam. A steering group was established to better drive cooperation between the two groups with the aim of exploiting synergies. It has defined programmes to deliver these inherent benefits. These include:

- enhancing and improving cross-selling opportunities,
- leveraging differentiated capabilities,
- growing the group's overall business through service differentiation and operational excellence, and
- achieving cost reduction through economies of scale.

STRATEGIC REVIEW

During the past year, Santam maintained its momentum in executing Project 2010 which was designed to secure sustainability, profitability and growth in the long term. I am confident that this will ensure our leadership position in the local short-term insurance industry.

At the core of our repositioning strategy is Santam's commitment to our intermediated brand which has been at the foundation of our business going back 90 years. We confirmed the rationale for our commitment to Santam's intermediated business model, with the findings of research conducted during the year. Results indicated that almost two thirds of our individual short-term insurance clients see benefits in using a broker or intermediary and prefer this channel to any other.

We also entrenched our focus on placing our clients at the centre of our thinking, strategy, structure and operations with:

- increased information flow to our broker network, and
- development of targeted strategies to penetrate high priority personal and commercial line segments.

A significant achievement during 2007 was the completion of our capital restructuring programme. This was accomplished in three phases and had the combined effect of reducing our solvency from 62% in December 2006 to 42% at financial year-end:

- We made a voluntary share buy-back offer in April 2007, buying 5.88% of our issued ordinary shares at R102 per share which resulted in a R713 million reduction in share capital, and lowered our solvency ratio by 6%
- We issued unsecured subordinated callable notes to the value of R600 million on open tender in May 2007, followed by another tranche of R400 million in November 2007. Because the subordinated debt of R1 billion is regarded as capital for statutory solvency and rating purposes, it assists in optimising our capital management, whilst reducing the weighted average cost of capital and
- We paid a special dividend of 2200 cents per share in December 2007.

The reduction in our net asset value per share from 5 634 cents at the end of 2006 to 3 610 cents at the end of 2007, positions the group to deliver increased returns on shareholder capital.

BOARD OF DIRECTORS

In June 2007, Santam announced the resignation of Mr Steffen Gilbert as chief executive officer of Santam Limited. He was instrumental in improving Santam's operational performance and reinsurance synergies. On behalf of the board, I would like to thank him for his contribution to the group. Mr Ian Kirk, who succeeded Mr Gilbert as chief executive officer, was formerly chief executive: strategy and special projects at Sanlam Limited and has considerable insurance experience. Mr Kirk has hit the ground running and the executive team and management at Santam are to be congratulated on achieving a smooth transition.

In addition, Mr JJ Geldenhuys resigned as non-executive director from the Santam board on 20 August 2007. I wish to thank him for his contribution during his tenure since 2001.

I welcome Mr H Lorgat, who joined the board as non-executive director on 27 November 2007. With his extensive experience across a number of sectors, we look forward to his contribution.

CORPORATE GOVERNANCE

The Santam board remains committed to the highest standards of integrity and ethical behaviour in dealing with all our stakeholders. And we continue to strive toward the highest standards of governance. The board prioritised its mentorship role to the management team in enforcing these values throughout the organisation. I strongly believe that the standards set by Santam's board compare favourably to our global contemporaries. Our commitment is to real governance and not merely meeting legislative requirements to the letter of the law. During the year, the board's assessment highlighted the quality of governance and leadership in the organisation.

SUSTAINABILITY

In 2007 Santam made considerable progress in setting up a sustainability management process which integrates into Santam's business in a relevant manner. We recognise that to be sustainable we must change the way we manage the group. Sustainability must be ingrained in a common set of values that influence management practices. We defined what sustainability means to a short-term insurance business and developed an appropriate framework to address those issues affecting Santam's sustainability.

For more information on our sustainability strategy, please see our abridged sustainability report on pages 42 to 49.

PROSPECTS AND PRIORITIES

I am confident that with its diversified portfolio, Santam's business model has the resilience to deliver sustainable growth and stability of operating results despite the increasingly challenging economic environment which faces us in 2008. We have repeatedly witnessed the fact that in recessionary times, corporates and individuals are more likely to turn to the secure player, which will play to Santam's strengths.

Increased volatility and lower returns are likely to persist in investment markets throughout 2008.

We believe that consistency, as it relates to our performance, our strategy and our service offering, is key to a sustainable business and more predictable results.

To this end, Santam will continue to manage and enhance its product offering, its ability to generate strong cash flows and the quality of service to its intermediaries and clients. We have started to benefit from the Project 2010 initiatives and Santam is committed to making further progress in 2008 to ensure our ability to compete in the long term.

ACKNOWLEDGEMENTS

I extend my gratitude to our loyal and committed employees, our broker and intermediary network and our clients for their contribution to the group in 2007. The continued backing of our partners and suppliers cannot be underestimated and I appreciate their support.

We believe that consistency, as it relates to our performance, our strategy and our service offering, is key to a sustainable business and more predictable results.

I value the executive team's continued efforts to implement our long-term strategy to make sure that Santam emerges as the industry leader.

Once again, I have had the opportunity of engaging with our team of highly experienced and motivated non-executive directors. I thank them for their commitment and positive influence on the group.

DESMOND SMITH
Chairman

“We do not
receive wisdom; we must
discover it for ourselves
after a journey that
no one can take for us
or spare us.”

MARCEL PROUST

French novelist, essayist and critic
1871 – 1922

Chief executive officer's report

MY IMMEDIATE INVOLVEMENT WITH SANTAM BEGAN IN JUNE 2007 WHEN I JOINED THE GROUP AS CHIEF EXECUTIVE OFFICER. ON TAKING THE REINS, MY PRIMARY FOCUS WAS TO MAINTAIN THE MOMENTUM IN IMPLEMENTING THE IMPORTANT INITIATIVES WHICH WERE SET IN MOTION PRIOR TO MY JOINING – AND TO ENSURE THAT BUSINESS AS USUAL WAS EFFECTIVELY CONTINUED ACROSS THE ORGANISATION. HAVING REVIEWED THE STRATEGY AND THE OPERATIONAL STATE OF PLAY, I SAW NO NEED FOR ANY SIGNIFICANT CHANGE.

As such, I am pleased to report that during 2007 we made excellent progress in executing our strategy (as reported on in 2006) to position the company for sustainable success.

The group reaffirmed its commitment to the intermediated brand which has been, and still is, at the core of our success. We have continued to make good progress with broker distribution models – particularly with initiatives that enhance and strengthen the broker management and insurance services capabilities.

OPERATING ENVIRONMENT

More challenging operating conditions prevailed during 2007 due to higher levels of competition in an increasingly more difficult economic environment. However, Santam rose to the challenge, with good underwriting results from its core Southern African operations, which delivered a pleasing increase in both underwriting profit and the net insurance result.

Our diversified lines of business underpinned the solid local performance despite exceptionally high claims experience in the last two months of 2007. Turmoil in the financial markets, particularly in equity markets, during the same period dampened investment performance for the

year, which exceeded expectation, albeit at a significantly lower level than the stellar performance of 2006.

The net underwriting result of R664 million (2006: R627 million) of the continuing operations, excluding the international operations classified as discontinued, exceeded expectations with an overall net underwriting margin of 6.2% compared to 6.5% in 2006. Santam achieved optimum retention levels at an acceptable risk profile, with the reinsurance earned premium at 16.5% of gross earned premium compared to 17.6% in the previous year. Excluding the impact of cell business, the ratio decreased to 8.2% in 2007 from 11.5% in 2006.

The continuing operations achieved a net insurance margin of 9.2% for the year compared to 9.1% for 2006.

For the first ten months of the year, Santam's investment performance benefited significantly from the strong local equity market, and was well ahead of 2006. However, the last two months saw a sharp decline in the value of local equities, *inter alia* impacted by the negative sentiment on global equity markets due to the crisis in the US sub-prime debt market. The result was that Santam incurred significant unrealised fair value losses during that period, reducing investment income compared to the exceptional levels of 2006.

The performance of our discontinued European insurance operations was disappointing, reporting an after-tax loss of R168 million, compared to a profit of R70 million in 2006.

As a result of the lower investment income, losses by the international operations and increased secondary tax on companies (STC) due to a special dividend, reported headline earnings decreased by 42% to R1 030 million, equating to 906 cents per share compared to 1555 cents in 2006.

The strong performance from Santam's core Southern African operations enabled the company to maintain its strong cash-generative qualities. Cash generated from operations of R2 139 million showed only a marginal decrease of 2.9% from 2006 despite the negative factors which impacted profitability.

Santam successfully concluded its capital restructuring programme during 2007. In April 2007, the company bought back 5.88% of its shares in a voluntary share buy-back at R102 per share which resulted in a R713 million reduction in share capital, effectively lowering the solvency ratio by 6% at that time.

The R1 billion unsecured subordinated callable note programme was also implemented during the year and this provided an alternative source of capital while also enhancing the capital structure and reducing the cost of capital. The final phase of the optimisation process was the payment of a special dividend of 2200 cents per share in December 2007, resulting in an STC charge of R245 million, dampening after-tax returns.

The overall impact of these actions was the reduction of the group's solvency from the 62% at the end of 2006 to 42% at the end of 2007, positioning the group to deliver increased returns on shareholders' funds.

IMPLEMENTATION OF STRATEGY

We maintained momentum in executing the important elements of Project 2010 which we started rolling out in 2006. These initiatives, which were the result of an in-depth strategic analysis, are well considered and will ensure the group's ability to retain its leadership position over the longer term. We took cognisance of the widely held view that the short-term insurance market traditionally operated in a very reactive manner. We turned this into an opportunity for Santam by adopting a new proactive stance to our clients' and intermediaries' requirements.

Central to Project 2010 is Santam's commitment to the intermediated model, which is focused on adding value to our clients, be they individuals, large corporations or commercial entities. In line with our proactive attitude, a new brand proposition was adopted, namely *prevention is better than cure,* which guides all our activities. We believe that this risk management positioning differentiates our brand, while benefiting our brokers by building a relevant brand to sell to their clients. We will continue to extend our leadership in the market, ensuring sustainable differentiation through ongoing innovation and service delivery.

In July 2007, we adopted a completely new approach to insurance products which are traditionally based on compensating clients after an event has occurred. Santam took a lateral view and turned this paradigm on its head by encouraging clients to take an active interest in managing their own risks. We assist them in improving their own environment, introducing the concept of risk management to make their lives safer.

This approach enables us to further differentiate ourselves from our competition by leveraging our broker network. We add real value to our clients with services and incentives that concentrate on identifying their risks and consequently improving their risk profiles – thus making risk solutions more accessible and affordable.

Brand perception research conducted by an independent provider in November 2007 indicated that Santam has already started to own the concept of risk management among clients.

Risk management services include assessments of the clients' home, business and vehicles to ensure relevant cover as well as solutions that enable clients to address their risks. The benefits include significant savings on safety and security purchases.

Initial results are encouraging and indicate that this approach has been welcomed by policyholders and that this strategy is paying off. Brand perception research conducted by an independent provider in November 2007 indicated that Santam has already started to own the concept of risk management among clients. Seventy six percent of individuals and 63% of business owners interviewed were aware of Santam's risk management programme and it was ranked the top short-term insurer running such a programme.

During the year, Santam made good progress with its programmes to target increased efficiencies and to ensure a stronger broker distribution network. This was done through the Broker Management Model Project (BMMP) and Insurance Services Transformation Project (ISTP).

BMMP was formulated in 2005 and was designed to revolutionise Santam's distribution channel to benefit brokers and clients with a preference for dealing through a broker. Centralised back-office functions were established to make it easier for brokers to transact with Santam. The newly established key account managers for national brokers and relationship managers for all other brokers will enhance strategic relations with brokers. This new distribution model differentiates Santam from its competitors as a result of cost efficiencies gained from centralisation, whilst retaining our local footprint.

> By December 2008, Santam will be able to report on progress made towards the key performance objectives of increased broker market share, cost savings and reduced claim ratios.

The project was piloted in November 2007 and will be rolled out nationally during 2008. Initial benefits reported on the pilot include:

- improved turnaround times,
- more professional documentation, and
- improved quality of staff interactions.

By December 2008, Santam will be able to report on progress made towards the key performance objectives of increased broker market share, cost savings and reduced claim ratios.

ISTP has been designed to provide leading claims support to brokers and clients. Santam is pursuing a leadership position in claims support with the ability to adapt to the rapid changes in the insurance market. The project was preceded by extensive research which encompassed analysis of broker and client needs as well as industry benchmarking to clearly define best practice in a worldwide context. A new claims operating model, with improved processes and systems, has subsequently been developed. The project was piloted at the end of 2007 with overwhelmingly positive results. A phased implementation is being adopted to maintain high service levels during the migration process.

OPERATIONAL REVIEW

Corporate and commercial lines

Our traditional commercial business performed well despite heightened competition and a tighter economic environment. Solid growth was supported by high levels of infrastructure spend in South Africa. Our specialist business classes delivered disparate underwriting performance. The liability insurance business was highly profitable while our marine business incurred several significant losses in the first half of 2007 due to container shipping disasters. Severe drought conditions in the summer rainfall areas of South Africa, coupled with high incidence of hail, led to material crop insurance losses.

The performance of our corporate insurance business, which services large corporate and industrial companies, was impacted by a number of substantial corporate and industrial claims, especially in the second half of the year. Our property and engineering insurance class results were the most severely impacted. Looking at our results on an underwriting year basis indicates clearly that in certain sectors premium rates do not match risk profiles. Further analysis of our risk and return model has been initiated to improve the profitability and sustainability of this book.

Personal lines

Santam's traditional personal lines business delivered a strong performance for the year, with a controlled 6.4% increase in gross written premiums. Corrective action was taken during 2006 to address unprofitable lines – and this has started to pay off. Although growth was slightly below our target level, the results are pleasing given severe pricing pressure in the market, especially from direct underwriters. Lower claims frequencies demonstrate that the quality of the portfolio has not been compromised by premium growth. Performance was negatively affected by several catastrophic climatic events during the year, including severe flooding in the southern cape, storm damage to the KwaZulu-Natal coast and severe hail storms in Gauteng. Notwithstanding these, the overall cost of claims was contained within acceptable levels contributing to pleasing overall profitability.

Our motor book outperformed the intermediated industry players as strict enforcement of underwriting rules paid off. However, this was set against the backdrop of sky rocketing repair costs associated with the increasing proportion of imported vehicles. Maintaining this positive trend, the performance of the motor book in the current repair cost environment presents Santam with an ongoing challenge given the infrastructure and unlicensed drivers complications.

Santam's portfolio management business had a difficult year as profitability decreased despite good growth in written premiums. Corrective steps taken in the second half of the year, have already had a positive impact. Our long-term strategy is also under review, and going forward we will make a distinction between portfolio management and portfolio administration.

Alternative risk

The alternative risk insurance businesses of the Nova Group and Santam Risk Finance merged under the Centriq brand. Premium income showed good growth resulting in higher fee income. The merged operating structure has delivered efficiencies as cost duplications were eliminated, increasing overall profitability.

International

The disappointing performance of our Dublin-based operation where we failed to achieve target return on equity (ROE) over a number of years, coupled with limited uptake of the "Multiplex" concept in Europe, led to the decision to put Santam Europe into formal runoff in September. High levels of competition persisted in the UK motor insurance market, with pressure on premium rates, negatively impacting Westminster Motor Insurance Association (WMIA) which incurred substantial underwriting losses during the year. Again, we failed to achieve target ROE on a sustainable basis. After careful consideration of Santam's long-term strategic objectives, Santam took the decision to divest from its European operations and the process is well advanced.

PROSPECTS

We expect underwriting margins in South Africa to remain under pressure due to the softer market, both in commercial and personal lines. This could be especially challenging considering the anticipated deterioration in global and domestic economic conditions. Of particular concern is the reduction in the disposable income of individuals, uncertainty in electricity power supply and deteriorating public infrastructure. However, having the benefit of diversification, Santam is uniquely positioned to face these challenges.

In 2008, our BBBEE focus is set on identifying and making allocations to the participants of the Business Partners Trust and the Community Trust – the first of which is expected during the first half of 2008.

> As a long-term value investor, we need to maintain sufficient exposure to equities to deliver acceptable long-term returns on shareholders' funds.

Capital growth on our investment portfolio could be under pressure during 2008 in light of the volatility of local financial markets. However, as a long-term value investor, we need to maintain sufficient exposure to equities to deliver acceptable long-term returns on shareholders' funds. In line with general consensus we expect interest rates to remain at least at current levels for the foreseeable future, which will have a positive impact on our cash-related investment returns.

ACKNOWLEDGEMENTS

I wish to conclude by extending my thanks to each member of staff at Santam, the valued members of our intermediary network, the executive team and our board of directors for ensuring a smooth transition as I took on the leadership of the group. The strength of the business model, executive and management made this transition relatively straightforward. Also, for their commitment, hard work and dedication during this past year. It is this approach that ensured that 2007 was a successful year in spite of the challenges we faced and that retains Santam's leadership position in the industry.

I look forward to a long and successful working relationship with each of you.

IAN KIRK
Chief Executive Officer

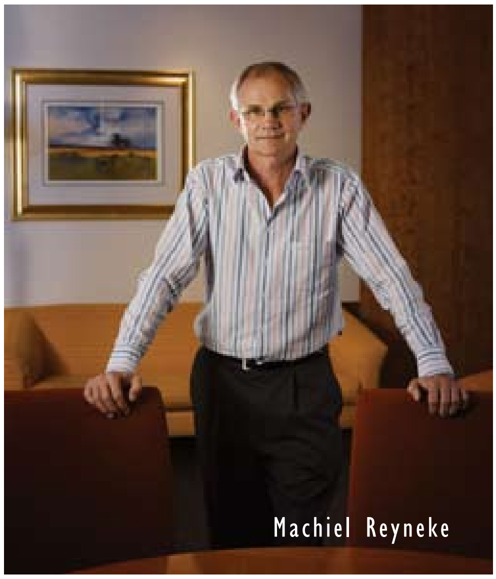
“The great thing
in this world is not
so much where you
stand, as in what
direction you are
moving.”

OLIVER WENDELL HOLMES

Physician, writer, American poet
1809 – 1894

Chief financial officer's report

2007 WAS CHARACTERISED BY MIXED PERFORMANCES FOR THE SANTAM GROUP. OUR CORE SOUTHERN AFRICAN OPERATIONS PERFORMED WELL IN A SOFT MARKET WITH NORMALISED CLAIM LEVELS, WHILE OUR EUROPEAN INSURANCE OPERATIONS HAD A DISAPPOINTING YEAR.



OVERVIEW OF RESULTS

- Gross written premium growth of 9% in challenging market
- Underwriting result of R664 million translating into a net underwriting margin of 6.2%
- Net insurance result of R983 million translating into a net insurance margin of 9.2%
- Headline earnings of 906 cps, a decrease of 42%
- R2.14 billion cash generated by operations
- Buy-back of 5.95% of issued shares
- Special dividend of 2200 cps paid in 2007
- Total dividend per share increased by 8% to 410 cps

BASIS FOR REPORTING

The group consolidated financial statements for the year ended 31 December 2007 are prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board (IASB), and are in compliance with the JSE Limited's Listing Requirements.

Of particular importance this year is the additional disclosure provided in terms of IFRS 7 – *Financial Instruments: Disclosures*, and amendments to IFRS 4 – *Insurance contracts*. Furthermore, the group classified its European insurance operations (Santam Europe and Westminster Motor Insurance Association) as "Discontinued operations" as defined by IFRS 5 – *Non-current assets Held for Sale and Discontinued Operations*, and reported it as such in the group financial statements.

This meant a restatement and classification of the income statement results for 2006. In terms of this change in disclosure, the results of the discontinued operations were excluded from the different lines of the income statement with the post tax profits shown as a single item on the face of the income statement. However, it did not affect the 2006 reported headline earnings per share. Results from the continuing operations are reflected as normal on the face of the income statement on a pre-tax basis, with the resultant tax charge.

FINANCIAL RESULTS

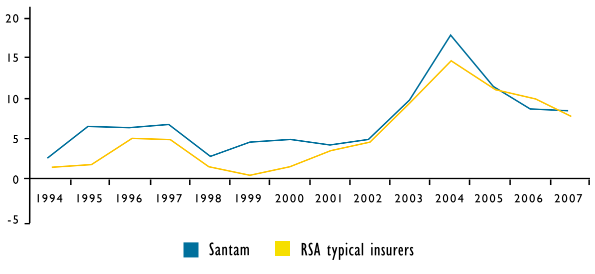
Headline earnings of 906 cps for the year were 42% lower than the 1555 cps for 2006. This was mainly due to:

- reduced returns from listed equities caused by the sharp decline in equity markets during November and December 2007,
- underwriting losses incurred by the European insurance operations, and
- increased secondary tax on companies (STC) following the payment of the net R2.45 billion special dividend to shareholders during December 2007.

Underwriting performance

Santam has historically managed on average to outperform the industry's net underwriting margin. The company's Southern African underwriting results are inherently cyclical, and show correlation and out performance of the "typical" short-term insurer in South Africa.

UNDERWRITING RESULT AS % OF NET PREMIUMS



For 2007, Santam's net underwriting margin of 6.2% again outperformed the "average level through the cycles" of approximately 4% to 6%. Results for the year were positive on our commercial and liability lines of business. The corrective action initiated in 2006, mainly on the personal lines and the personal motor book, delivered the required outcome.

Corrective actions focused around the improvement of underwriting discipline and non-renewal of unprofitable business. On the downside, we incurred losses on our crop business due to drought conditions in the summer rainfall areas. The second half of the year was particularly difficult with several catastrophe events, the largest being the floods in the southern cape as well as a number of very large corporate industrial claims that adversely affected the property and engineering classes of business.

The group adopts multiple techniques to estimate the required level of insurance reserves, especially for claims incurred but not reported (IBNR). To determine its IBNR reserve, the group uses a combination of the Stochastic chain-ladder and Bornheutter-Ferguson methodologies. For both methodologies, the IBNR reserve is held at the greater of the statutory level of 7% of net written premium, or at least sufficient at the 75th percentile of the ultimate cost distribution.

As part of Santam's ongoing assessment of insurance liabilities in terms of claims experience, the level of the IBNR reserve was reduced by R65 million during the year. IBNR rates for most classes were revised to more appropriate levels in line with the continued evaluation of insurance reserves.

On an acquisition cost basis, our net acquisition cost ratio of 25.7% increased slightly from the 24.9% in 2007 due to strategic reinvestment in our core competencies to ensure that we remain the dominant insurer in the South African short-term insurance arena. This amounted to 0.8% of net earned premium.

Investment income

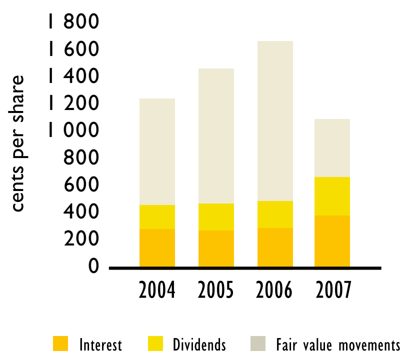
Investment income comprises interest, dividends, realised and unrealised investment gains. Interest earnings were positively affected by the higher interest rates. This, with the on-average higher float levels (funds generated from insurance activities), resulted in a 27% higher investment return on insurance funds.

For the first ten months of the year, Santam's investment performance benefited significantly from the strong local equity market, well ahead of 2006. However, the last two months saw a sharp decline in the value of local equities, *inter alia* impacted on by the negative sentiment on global equity markets due to the crisis in the US sub-prime debt market.

The result was that Santam incurred significant unrealised fair value losses during that period that reduced investment income against the exceptional levels of 2006.

Earnings from associated companies were 28% lower for the year. Contributions from Credit Guarantee Insurance Company continued to be healthy, but the performance of Lion of Africa was below par.

INVESTMENT INCOME



Return on capital

Profit attributable to equity shareholders expressed as a percentage of weighted average shareholders' funds was 16.6% for the year, significantly down from the 32.7% achieved in 2006. As discussed above, the factors affecting the return the most were the materially lower investment income for the year, underwriting losses incurred by our European insurance businesses as well as the large STC charge on the special dividend paid in December 2007.

Dividends

During December 2007 the company returned a net R2.45 billion to shareholders through the payment of a special dividend of 2200 cents per share. This capital reduction followed an intensive investigation into improved capital management, including, *inter alia*, actuarial and stochastic modelling processes to assess the optimal solvency level for the group and, in particular, the Southern African operations.

During the year, the company also decided to revise its dividend policy regarding the ratio of interim to final dividends to better reflect profitability and cash generation trends. The interim dividend will be approximately 40% of the final dividend. Consequently the level of the 2007 interim dividend was increased, resulting in an interim dividend of 166 cents per share against the 118 cents per share paid in 2006. The company also declared a final dividend of 244 cents per share for 2007 (2006: 262 cents), giving a total dividend of 410 cents per share for the year (2006: 380 cents per share) representing an increase of 8% in line with overall net growth of the group.

INVESTMENTS

Santam follows a policy of diversed investment portfolios consisting of all major types of financial instruments ranging from pure equities to cash-related investments. The aim is to spread investment risk whilst earning the appropriate return given Santam's risk appetite. The total portfolio has the required liquidity at all times to ensure that sufficient cash resources are available for settlement of claims and other liabilities.

Santam also makes use of limited derivative instruments to hedge positions consisting mainly of quoted futures and interest rate swaps. Santam does not follow a speculative approach in its dealings with financial or derivative instruments.

Refer to page 143 for a detailed analysis of the investments. In short, the composition of Santam's total investments (including the discontinued operations) was as follows as at 31 December 2007:

Investment classes	2007 R million	2007 %	2006 R million	2006 %
Equities – Quoted	3 912	31.1	4 880	37.8
Equities – Unquoted	20	0.2	20	0.2
Preference shares – Quoted	215	1.7	235	1.8
Preference shares – Unquoted	727	5.8	766	5.9
Bonds	2 173	17.2	1 340	10.4
Unitised funds	308	2.4	300	2.3
Derivative	(47)	(0.4)	–	–
Cash and cash equivalents	3 445	27.4	5 142	39.9
Associated companies	175	1.4	215	1.7
Classified as held for sale	1 661	13.2	–	–
TOTAL	**12 589**	**100.0**	**12 898**	**100.0**

Santam has followed a consistent approach in the last few years regarding the management of its investments, the bulk of which is managed by independent external fund managers under predetermined mandates for the local and international operations. The overall performance of the different fund managers against their respective mandates is monitored and tracked by an independent multi-manager. This manager reports to the Santam Investment committee on a quarterly basis. At 31 December 2007, external fund managers managed approximately R12 billion of the total group investments. Long-term mandates for the respective fund managers consist of a combination of various benchmarks, e.g. different JSE indices, SWIX and SteFi, to name a few.

CAPITAL MANAGEMENT

Santam's capital management philosophy is to maximise the return on shareholders' capital within an appropriate risk framework. The aim is to increase shareholder wealth by assisting management in making informed, strategic business decisions around:

- the amount and sources of capital in the business,
- the allocation of capital between business units, and
- the level and type of risk within the company

In an effort to maximise shareholder value, Santam has embarked on a process of restructuring its capital. This was implemented in a three-pronged process. The first part involved the voluntary repurchase of Santam shares, the second the substitution of ordinary equity capital with hybrid equity capital in the form of subordinated debt, and the third reduction of the remaining equity capital to a level that is more appropriate relative to Santam's internal solvency requirements and risk appetite.

Buy-back of Santam shares

A voluntary share buy-back offer was made and the company bought back 6 972 940 (5.88%) of its issued ordinary shares at R102 per share in April 2007. This resulted in a reduction of its share capital of R713 million (net of cost). This effectively lowered the solvency ratio by 6% at the time. Santam also bought back 174 346 shares in the market at the mandated price of R110 per share (price applicable before the payment of the special dividend) through its general share buy-back programme. This reduced the share capital by R19 million. A total of 60 118 shares were reissued in terms of the executive share purchase plan at R110 per share.

Issue of shares

During 2007 the company issued 1 531 175 ordinary shares in terms of its staff share incentive programmes. Refer to note 14 of the annual financial statements for a reconciliation of the issued shares.

Santam has followed a consistent approach in the last few years regarding the management of its investments, the bulk of which is managed by independent external fund managers under predetermined mandates for the local and international operations.

Subordinated debt issue

Santam obtained approval for the issue of regulatory "equity credit" for the fair value of R1 billion, from the Financial Services Board (FSB) early in 2007. In May 2007 Santam successfully placed R600 million of subordinated debt in the market at a fixed effective rate of 8.6%. This represented a credit spread of 106 basis points to the R203 companion bond. In November 2007, Santam issued further subordinated debt to the aggregate value of R400 million under the same programme at a credit spread of 140 basis points to the R203 bond, representing a fixed rate of 9.5%. This rate increase was due to uncertainty in the international debt markets at the time of the auction, combined with an oversupply of similar rate instruments in the market.

Fitch Ratings has maintained Santam's existing Insurer Financial Strength rating at AA+ post the issues, and has assigned a final instrument rating of AA- to the two issues.

The proceeds from the bond issues have been invested in an interest-bearing ring-fenced portfolio, ensuring correlation between the fair value of the bond and its underlying investments.

DISCRETIONARY CAPITAL AND SOLVENCY LEVEL

The board of directors has targeted a solvency level in the range of 35% to 45% of net written premium for Santam's Southern African operations. From a pure economic risk capital perspective, the solvency requirement is approximately 20%. The excess is maintained for the following reasons:

- As a buffer over regulatory capital requirements (currently a solvency level of 25%)
- To fund new business growth
- To maintain Santam's insurer financial strength credit rating
- To allow for any corporate action that may arise

Following the above capital restructuring actions, the company paid a special dividend of 2200 cents per share, R2.45 billion net of treasury shares, during December 2007.

The overall impact of all these actions was to reduce the group's solvency from 62% at the end of 2006, to 42% at the end of 2007. Net asset value per share decreased from 5 634 cents at the end of 2006 to 3 610 cents at the end of 2007, positioning the group to deliver increased returns on shareholders' capital.

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BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

In February 2007, Santam formally announced its intention to facilitate the acquisition, by a special purpose company (BEE SPV Co), of an effective 10% ownership in Santam. In terms of this scheme, Santam shareholders sold 10% of their Santam shares as at 21 May 2007, to BEE SPV Co for a cash consideration of R82 per share. Following the implementation of the scheme, the BEE SPV Co is now the registered shareholder of approximately 10% of the issued shares of Santam (excluding treasury shares). In turn, the shares of BEE SPV Co are held by three trusts:

- 26% by the Santam Black Economic Empowerment Staff Trust (Staff Trust)
- 25% by the Santam Broad-based Black Economic Empowerment Community Trust (Community Trust)
- 49% by the Santam Black Economic Empowerment Business Partners Trust (Business Partners Trust)

For more detail on the BBBEE transaction, please refer to note 34 to the financial statements.

TAX MATTERS

The effective tax rate for 2007 was 30.3% which was higher than the 24.7% in 2006. This is mainly due to the secondary tax on companies (STC) incurred following the payment of the special dividend of 2200 cents per share in December 2007.

CORPORATE ACTIONS

The only material corporate action during the year was the acquisition on 4 April 2007, of a further 41.1% shareholding in Admiral Professional Underwriting Agency (Pty) Ltd through Santam's investment vehicle, Swanvest 120 (Pty) Ltd. This increased its shareholding in the company to 70%, while on 8 November 2007 it acquired the remaining 30% shareholding. This will ensure that Santam strengthens its liability underwriting capabilities.

Full details of the company's holdings in subsidiaries and associated companies are contained in note 43 to the financial statements.

FINANCIAL CONDITION REPORTING (FCR)

In line with global best practice, Santam has developed an internal DFA (Dynamic Financial Analysis) model of the business to assist with risk quantification and decision making. The model is used in the determination of:

- the capital requirements at a global and class of business level,
- the underwriting margins required by the various classes of business in order to achieve their target return on risk-adjusted capital,
- the most appropriate reinsurance structure given Santam's risk appetite,
- the expected cost of reinsurance contracts in order to assist in reinsurance purchasing decisions, and
- the expected performance relative to the risk appetite assessment criteria agreed to by Santam's board given its current reinsurance structure and asset mix.

Initial development of the model began in 2003. However, the model has been refined substantially in terms of its structure and the derivation of appropriate model assumptions. Extensive testing of the model was done to ensure that it produces appropriate and relevant results.

Santam intends to use this internal model to determine its capital requirements once legislation regarding Financial Condition Reporting (FCR) from the Financial Services Board (FSB) has been enacted. We also expect that capital requirements under this approach will not be significantly different from the present situation. To this end, Santam has participated in the FSB's process of drafting the FCR requirements and guidelines that are expected to be tabled before parliament in 2008.

CORPORATE LAWS AMENDMENT ACT

As part of the process by the Department of Trade and Industry (Dti) to completely overhaul and update the Companies Act, 1973, the long awaited Corporate Laws Amendment Act, Act No 24 of 2006 (the CLA Act), was promulgated in its entirety without amendment on 14 December 2007. This is the first phase in a two-pronged process.

The CLA Act contains several new amendments which will have specific bearing on Santam as it is classified as a widely held company. Santam has completed its assessment of the impact on the group and is comfortable that it will meet all the new requirements. We have also taken steps to ensure compliance as soon as possible.

From a governance perspective, the CLA Act made several amendments to the composition and duties of audit committees of widely held companies. As a result, Santam took the initiative and will replace its Audit and Risk Committee with three separate committees during 2008, namely:

- Statutory Audit Committee
- Financial Reporting Review Committee (FRR Committee)
- Risk Committee

This will ensure a greater level of compliance and will add significant value to the existing robust governance process within the group.

MACHIEL REYNEKE
Chief Financial Officer

“The best we can do is size up the chances, calculate the risks involved, estimate our ability to deal with them, and then make our plans with confidence.”

HENRY FORD
Inventor and industrialist,
registered owner of 161 patents
1863 – 1947

Sustainability report

SANTAM'S SUSTAINABILITY IS REPORTED AGAINST THE BACKDROP OF INTERNATIONALLY ACCEPTED STANDARDS, INCLUDING THE GLOBAL REPORTING INITIATIVE'S (GRI) SUSTAINABILITY REPORTING GUIDELINES AND ACCOUNTABILITY'S AA 1000 STAKEHOLDER ENGAGEMENT AND ASSURANCE STANDARDS AS WELL AS THE LOCAL KING II REPORT ON CORPORATE GOVERNANCE, 2002.

The Financial Sector Charter's (FSC) performance indicators and the Department of Trade and Industry Codes of Good Practice (Dti CoGP) are also used in reporting the sustainability of the group. We have spent a great deal of time over the past year reflecting on what sustainability means to our business. We recognise that to be a sustainable business we have to change the way we behave. Sustainability must be ingrained in a common set of values that influence management practices. Therefore we began by defining what sustainability means to a short-term insurance business. An initial framework was developed which is relevant to Santam's business. A list of ten main sustainability categories and 40 unique sustainability elements resulted:

- A sustained client base
- Product development for change
- A sustained supplier base
- Human capital
- Transformation of ownership and control
- Cultivating ethical behaviour and reducing fraud
- Environmental impact management
- Sustained broker and intermediary base
- Extending influence to benefit society and
- Responsible investment

In 2007 we made considerable progress in setting up a sustainability management process to integrate it into the business of Santam in a relevant manner. We recognise that the sustainability framework is a 'work in progress' and that continued effort will be required to refine and improve its functionality and relevance in years to come.

In its complete sustainability report, Santam has analysed each material issue within the context of Santam's sustainability strategy and the country's transformation imperatives. They are summarised as follows:

A SUSTAINED CLIENT BASE

Santam has a new brand philosophy – *prevention is better than cure* – which guides everything we do and has impacted on the 2007 reporting year. It is about positioning the company as caring for clients and improving quality of life.

We conducted research to define the six segments in the personal market and established that we are active in five of these markets. Our aim is to understand what is of value to the client for each segment of the market, managing the company's progress in matching its products and services to each client segment. Based on the results, Santam will be able to design or adapt new product offerings tailored to specific market segments, thus ensuring better service to its clients.

Traditional insurance products are based on making recompense after an event has occurred. Santam's philosophy of risk management turns this paradigm on its head – the drive is now to encourage clients to take an active interest in their own risks, and assist them in improving their own environment to make life safer. To this end, Santam introduced value-added services and financial incentives that concentrate on improving clients' risk profiles, thus making risk solutions more accessible and affordable. As clients were empowered to exercise greater control over managing their risks, we recognised that client education could instil a culture of *prevention is better than cure*. These more sophisticated products necessitate effective client education and Santam makes use of a number of channels for client education.

The FSC requires a commitment of 0.2% of after-tax profit to be spent on approved client education projects. The South African Insurance Association (SAIA) has invited its members to pool these funds to finance more meaningful projects. In 2007, Santam contributed R3.4 million towards an industry pool used to fund community education initiatives aimed specifically at LSM 1 – 5.

PRODUCT DEVELOPMENT FOR CHANGE

Societal needs

The short-term insurance industry has never adequately served the majority of homeowners at the poorest end of the socio-economic spectrum. Many of these South Africans remain uninformed about short-term insurance or have been unable to obtain conventional cover in the past.

Following the FSC's intent and the opportunity created by the banking sector's entry-level Mzansi products, Santam was the first insurer to offer household policies to the entry-level market. Multi-home was launched in 2006, targeting a growing entry-level client base. After an initial pilot in Soweto, our Multi-home product is now offered nationally to South Africans in the LSM categories of 3 to 5, with premiums ranging between R15 and R240 per month. There are now 15 independent brokers representing the Multi-home product. It is Santam's intention to adjust its strategy and develop further innovations for this market segment.

Environmental needs

Research has shown that climate change as a result of greenhouse gas emissions is a reality. In 2005, Swiss Re, writing in *Climate Change Futures*, declared that: "The core business of insurance, as well as the sector's activities in financial services and asset management, is vulnerable to climate change."

Santam is committed to making the impact of climate change a part of our business strategy and implementing the required geographic information systems to ensure accurate and responsive assessment of our exposure to these risks.

A SUSTAINED SUPPLIER BASE

Santam believes that companies must procure services from small BBBEE businesses to ensure a sustained supplier base in the future. In the claims environment of the short-term insurance industry, the supplier profile has traditionally been characterised by small, medium and micro enterprises.

Santam views its supply chain management activities as a fundamental mechanism to bring black businesses and SMMEs into the mainstream economy.

While Santam is guided by the FSC and Dti CoGP, the company also takes an independent, long-term view of its business environment and has set its procurement practices accordingly.

Santam's focus on procurement is aimed at ensuring an optimal value proposition for its policyholders and internal service users. Dimensions such as service, quality, commercial considerations and BEE profile are considered to ensure fair and equitable dispensation by Santam to its supply base.

Santam is committed to interim targets in order to meet the FSC target of 50% procurement from BEE suppliers by 2008 (and 70% by 2014). It exceeded the 2006 target with total BEE spend percentage of 37%. Santam's BEE procurement performance for 2007 as confirmed by an external verification agency is 53%.

Anticipating that the FSC framework and the Dti CoGP merge at some point in the future, Santam has aligned its supplier administration systems with the Dti CoGP model. This allows us to report in both frameworks.

Santam is committed to interim targets in order to meet the FSC target of 50% procurement from BEE suppliers by 2008 (and 70% by 2014). It exceeded the 2006 target with total BEE spend percentage of 37%. Santam's BEE procurement performance for 2007 as confirmed by an external verification agency is 53%.

The immediate challenge facing Santam is to migrate all its suppliers to the broad-based Dti CoGP framework. More than a third have been screened and verified by reputable agencies. Santam is actively engaging with its suppliers to communicate the benefits of compliance with the Dti CoGP.

During 2008 we aim to complete the migration of our suppliers to the broad-based system and integrate it into our procurement processes.

HUMAN CAPITAL

Santam recognises that its people are the brand and that a successful brand can only be built by committed, inspired and motivated people working towards a common goal. Santam launched its new brand strategy and values during the year, recognising that the company's culture should reflect its brand promise – to create a service that offers its clients a safer environment. Employees experiencing and living the brand will broadcast these values externally. To this end, Santam uses a number of channels to communicate with its employees.

In 2007, Santam invested a total of 3.8% of its payroll on development. Of this, 2.26% was spent on historically disadvantaged individuals, exceeding the FSC requirement of 1.5%.

Employment equity (EE) is viewed as a core driver of transformation within Santam. During 2007 a number of initiatives were undertaken to fast-track progress and develop momentum. Our EE policy was refined to benchmark our targeted position and was successfully introduced to the business.

New and properly representative EE forums were created to support these policy commitments. A revised EE plan has been developed to be finalised in early 2008. In September 2007 a full-time diversity manager was appointed.

Our commitment to an improved representation by black people, particularly at more senior levels, was cemented by the Executive Committee's mandate of an 80/20 ratio of black appointments and promotions. We made good progress towards the FSC targets for 2008 across the occupational levels in the group.

In 2007, Santam invested a total of 3.8% of its payroll on development. Of this, 2.26% was spent on historically disadvantaged individuals, exceeding the FSC requirement of 1.5%.

Santam recognised the need for an accelerated development programme to assist individuals in acquiring specialised skills for the short-term insurance industry. During 2007, 32 trainees completed the accelerated development programme for assessors, established in 2004.

During 2007, Santam increased the learnership programme to 57 learners (2006: 39) of whom 52 completed the programme and 83% of these gained employment in the company.

A pilot process to introduce internships and voluntary mentorships is planned during 2008.

Santam played a strong leadership role in shaping the standards and qualifications now applied in the industry by Inseta and serves on the Inseta council and working groups. Santam is widely recognised for the quality of product training it offers and has received praise from Inseta for its skills development plan.

With the rollout of our Broker Management Model Project (BMMP) and the adoption of Santam's new values, we reviewed our performance management systems and procedures across the country. Performance training started in 2007 and around 70% of staff has already been trained.

Santam provides internal training and works with our business partners through operational and product training (approximately 12 000 brokers and intermediaries participate per year). As short-term insurance products become more specialised and complex, we develop more sophisticated training tools to communicate the intentions and opportunities of various product offerings.

TRANSFORMATION OF OWNERSHIP AND CONTROL

During 2007, 10% of Santam's issued shares was sold to a BEE consortium comprising business partners, staff and a community trust at R82 per share. The purchase was funded by the Sanlam Capital Markets preference share facility of R430 million and a Sanlam Life bridging loan of R490 million. The first allocations to staff members were made with effect from 1 December 2007. The first allocations to communities and business partners will be made during the first half of 2008.

CULTIVATING ETHICAL BEHAVIOUR AND MANAGEMENT OF FRAUD

While repositioning the company's brand around responsible risk management as a lifestyle, Santam recognised that the behaviour of staff also needs to reflect this. By developing a set of values for Santam, we can grow a more positive internal culture, while creating an environment that supports ethically sound behaviour. Santam embarked on an internal survey and consultation process to identify a set of shared values for Santam – INSPIRE, EMBRACE and THINK BIG. These underpin every area of the business, from ethical behaviour to operational performance. Our code of ethics sets the standard that we expect to attain when dealing with clients, suppliers, business partners, employees, community and shareowners. Various communication initiatives have been undertaken as part of general ethics awareness.

The short-term insurance industry is a prime target for fraud. Santam adopts a zero tolerance approach to fraud and complies fully with regulations. Combating of fraud is governed by a policy that mandates forensic services to investigate all allegations of fraud and other irregularities committed within or against Santam. This policy is backed up by a strategy aimed at the back end of the crime (when the damage is already done) and at all strategic points along the way, namely, fraud deterrence, prevention, awareness, searching and investigation.

Clients who are unhappy with Santam's service, or with a claim which has been declined, have the right to pursue a complaint through a number of channels. Santam recognises the importance of this right, and has a division dedicated to dealing with and resolving client complaints. From October 2006 to September 2007, Santam dealt with 2 124 complaints, 17% more than the corresponding figure for 2006. This increase is in line with the ombudsman's experience of a 25% annual increase in complaints.

During 2008, Santam will be reviewing the complaints process to improve efficiency, quality and the effectiveness of complaint handling and to ensure compliance with FAIS (the Financial Advisory and Intermediary Services Act, 2002).

We will also revise the management system to ensure more accurate and useful management information which will be used to improve our value offering to clients.

During 2008, Santam will be reviewing the complaints process to improve efficiency, quality and the effectiveness of complaint handling and to ensure compliance with FAIS (the Financial Advisory and Intermediary Services Act, 2002).

ENVIRONMENTAL IMPACT MANAGEMENT

Environmental issues such as global warming and climate change are becoming increasingly pertinent worldwide. Santam recognises that climate change as a result of greenhouse gas emissions is a reality.

Large reinsurers are the most informed players in the insurance industry due to their position as ultimate bearers of insured risk and they are sounding alarm bells, predicting increases in the severity, frequency and geographic distribution of events such as heavy rainfall, floods and drought, together with rising sea levels.

The insurance industry is accustomed to the effects of cycles in both the economy and climate affecting the balance between premiums and insured losses. However, climate change is different, portending much larger and more volatile climatic events. Having researched climate change and its potential impact, we embarked on a survey of our clients, commercial brokers and reinsurers. We found varying degrees of understanding among clients, with new entrants having the least knowledge while achievers and older clients are aware of and concerned about the implications of climate change. Brokers generally view global warming as a real threat and predict a serious impact on the short-term insurance industry.

We also believe that we must start in the workplace by cutting down on travel, saving energy and water and actively participating in recycling initiatives. We commissioned a survey of greenhouse gas (GHG) emissions for the 2007 calendar year.

Reinsurers see climate change as a considerable challenge to the entire insurance industry, but are frustrated locally by a lack of good data. They noted that very little is being done by insurers to build awareness of climate change risks and encourage mitigation of these risks.

Santam is committed to leading the local short-term insurance industry in dealing with climate change. Our objectives are to reinforce our brand positioning while gaining a clear understanding of the issues and growing our business by involving all stakeholders in recognising and understanding the environmental impact on our society.

We also believe that we must start in the workplace by cutting down on travel, saving energy and water and actively participating in recycling initiatives.

An internal awareness campaign will be launched in 2008 to communicate Santam's impact on the environment.

SUSTAINED BROKER AND INTERMEDIARY BASE

Santam's brokers write 97% of Santam's total gross premium. We are committed to supporting them through improved service, innovation and a sustainable business environment. This commitment underscores the company's strategic thrusts of distribution channel development.

Santam has always had an active relationship with brokers. This has enabled us to identify industry issues that are of concern to brokers and to Santam. These include regulation, ease of doing business, commoditisation, the changing role of the broker, development and segmentation.

The recent Draft National Treasury Paper raised issues which highlighted potential implications for companies such as Santam who make use of third-party administrators. The concerns relate in general to the adequate legal separation of managing potential conflicts of interest that could negatively impact advice provided to the client.

Santam is actively working to find a solution that will satisfy the National Treasury without prejudicing the broker channel or relationship. We have taken a proactive role in the current debate and are intensely involved in the SAIA industry committees drafting the discussion paper.

The BMMP was initiated in 2005 to revolutionise the Santam distribution channel. The model allows brokers to engage with clients from local branch offices while Santam staff focus on relationship management, product development and client service. This differentiates Santam from its competitors through cost efficiencies and also enabled the company to evolve the traditional broker consultant into a true relationship manager. BMMP pilots began in November 2007, and the programme will be rolled out in 2008. More than 1 000 employees were affected while brokers also had to realign their processes and approach. Active focus on change management minimised the loss of employees and prevented low morale.

Santam communicates with its brokers through a quarterly magazine called *Santam Focus*, featuring industry news and Santam news. This publication won the SA Publication Forum's Award for best external publication for the third consecutive year. Santam also publishes a monthly electronic newsletter, *e-Focus*, as well as a monthly communication from the executive head of broker distribution. Area managers hold regional ad hoc broker forums to discuss pertinent issues affecting the distribution channel.

Santam seeks to develop brokers' knowledge of the company's products. Training modules are developed based on broker needs. In 2007 Santam trained 8 546 brokers of whom 994 are black brokers. The Santam Black Intermediary Development Initiative (SBIDI) was developed to accelerate transformation in the short-term insurance industry. Broker Distribution is taking the lead in this programme and will launch a pilot programme in April 2008, focusing primarily on exempted micro enterprises and qualifying small to medium enterprises with black ownership of 50%, and specific emphasis on businesses owned and controlled by black women.

EXTENDING INFLUENCE TO BENEFIT SOCIETY

Santam's 2007 corporate social investment (CSI) focus was directly aligned to the company's 2010 strategy to support transformation, meet employee aspirations and underpin the brand while providing alignment to the business strategy. Currently, Santam spends R5.0 million on CSI, focused on Black beneficiaries, equating to 0.34% of net profit after tax compared to the FSC target of 0.5%.

Some of the projects during 2007 included:

- **Young Entrepreneurs Performing,** where Santam partnered with the National Department of Education, sponsoring trainers to teach grade 10 to 12 pupils and tertiary student entrepreneurship skills as part of the economic management sciences curriculum. All the theoretical information has been incorporated into a teacher's workbook.
- **Santam Financial Management Training Programme for Black Women and Emerging Entrepreneurs,** a skills training and job creation intervention for unemployed black women, where participants are taught jewellery making and beadwork. A number of women have started their own home-based businesses.
- **Santam Child Art** attracted more than 5 000 artworks, of which approximately 60% was from previously marginalised schools and informal art classes sponsored by Santam. Free art classes for marginalised children increased to 50 nationally. Santam is reviewing its Child Art project which is currently on hold.
- **Khayelitsha Auto Training Centre,** which is aligned to enterprise development and to the preferential procurement codes within the Dti CoGP. The programme teaches panel-beating skills to the youth of Khayelitsha, and the centre has an agreement with Santam service providers to take them up in

Tashneem Cooper, one of the Young Entrepreneurs participants, gets input from Ms Naledi Pandor, Minister of Education. Onlookers are Mr Cameron Dugmore, Minister of Education for the Western Cape, and his wife, Melanie Dugmore.

Participants attend a jewellery making workshop hosted by Santam as part of the Financial Management Training programme.

employment on completion. Eighty six percent of trainees were employed after completing their training.

A number of Santam employees voluntarily support CSI programmes. As part of the annual community involvement programme, the Passion in Action week, 27 teams went into communities during work hours to assist in CSI initiatives.

Operation Firewatch is an initiative to reduce the time lapse between the start of uncontrolled fires in informal settlements and the response by fire and emergency services. During the period from 1 December 2007 to 20 January 2008, the early detection camera systems successfully identified and monitored 74 fires.

Education Minister Naledi Pandor said it was partnerships such as the one her department enjoyed with Santam that supported the drive to find solutions in the emergence and development of business skills in young people. The minister has urged businesses to invest in school entrepreneurship projects in order for South Africa to match other developing countries.

RESPONSIBLE INVESTMENT

The industry regulator, the Financial Services Board (FSB), requires that all short-term insurers hold a 'float' to cover the quantifiable liabilities that the company is expected to be exposed to under normal operating conditions. The capital portion is the 'safety net' held to cover less quantifiable but greater risks and is available to the company to invest for a potential return to shareholders, but investments are strictly governed by the FSB, as well as the company's own mandates.

As part of the Young Entrepreneurs programme, learners from Retshedisitswe Secondary in full production of their nappy product.

An operation firewatch water bomber douse flames in an informal settlement camp in the Western Cape.

Notwithstanding these constraints, the industry has an obligation to consider social and environmental factors as well as pure economic needs. Recognising the need for transformation, the FSC sets social targets for financial institutions to strive towards in the way these investments should be made. Known as Empowerment Financing, the FSC recognises BEE transaction financing and targeted investments.

During 2006, Santam was exempted from reporting targeted investments on its scorecard. Santam's total targeted investments and BEE transaction financing during 2007 was as follows:

Empowerment financing will remain a challenge for Santam and the industry in the absence of adequate and appropriate investment instruments.

We continue with our support to black partners on the BEE financing side. We have also engaged with Sanlam to find ways in which we can together achieve higher performance in the targeted investments category.

Targeted investments	2007 Performance	Santam 2007 FSC target
Total targeted investments	27 503 755	187 000 000
Total BEE finance	132 366 655	147 000 000
TOTAL	**159 870 410**	**334 000 000**

“We’re here
for a reason. I believe
a bit of the reason is to
throw little torches
out to lead people
through the dark.”

WHOOPI GOLDBERG

Academy award-winning American actress,
comedian and TV personality
1955 –

Corporate governance report

STATEMENT OF COMMITMENT: SANTAM'S BOARD OF DIRECTORS IS COMMITTED TO THE PRINCIPLES OF EFFECTIVE CORPORATE GOVERNANCE AND STRIVES FOR THE HIGHEST STANDARDS OF INTEGRITY AND ETHICS. THE BOARD SUPPORTS THE CODE OF CORPORATE PRACTICES AND CONDUCT AS SET OUT IN THE KING II REPORT ON CORPORATE GOVERNANCE AND IS SATISFIED THAT THE COMPANY HAS APPLIED ADEQUATE CORPORATE PRACTICES OF TRANSPARENCY, INTEGRITY AND ACCOUNTABILITY FOR THE YEAR UNDER REVIEW.

COMPLIANCE WITH THE CODE OF CORPORATE PRACTICES AND CONDUCT

As a financial institution, Santam has a responsibility to conduct its affairs with prudence and to safeguard the interests of all stakeholders.

The board's accountability is demonstrated by the following:

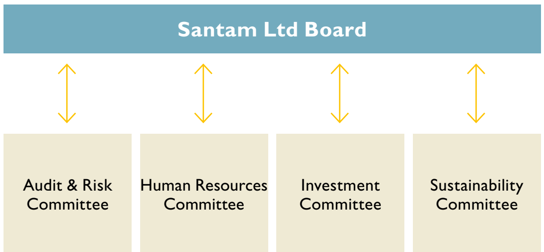
- *Allocating* through the framework in the company's Delegation of Authority document, major roles and responsibilities. This will ensure that in the performance of their duties, individuals take the interests of all stakeholders into account.
- *Ensuring* that there are formal and clear procedures to be observed in certain key areas, so that regulators and auditors can readily review decisions and actions, both internally and externally.
- *Adopting* clear and formal procedures that include the Board Charter.
- *Conducting* the company's affairs in accordance with the company's code of ethics.

THE BOARD AND COMMITTEES

Structure

The board is responsible for the company's governance policy and recognises its responsibility to shareholders, employees and the community to uphold high standards in economic, social, environmental and ethical matters by ensuring that the company conducts its activities in accordance with best practice.

The board has the following board committees:



The board comprises 15 directors. As at 31 December 2007, 15 served throughout the year. There were two executive directors and 13 non-executive directors, including the chairman.

The effective operation of the board is principally the responsibility of the chairman who is an independent non-executive director. There is a clear division of responsibility between the various roles within the corporate governance structure.

The non-executive directors are all influential in the decision-making process. They come from various industries and have extensive skills and business experience. It is their responsibility to ensure that their judgement is exercised freely and independently of any relationship with the executive management of the company. In the board's opinion, there is no business or relationship within the current structure that could materially interfere with the exercise of its judgement.

Board members during 2007

Name	Executive	Non-executive	Independent Non-executive	Race W = White B = Black	Gender M = Male F = Female
BTPKM Gamedze		*#		B	M
JJ Geldenhuys			*	W	M
SC Gilbert	*			W	M
IM Kirk	*			W	M
JG le Roux			*	W	M
H Lorgat			*	B	M
NM Magau			*	B	F
AR Martin			*	B	M
JP Möller		*#		W	M
RK Morathi		*#		B	F
P de V Rademeyer		*#		W	M
MJ Reyneke	*			W	M
JP Rowse		*		W	M
GE Rudman		*#		W	M
DK Smith (Chairman)			*	W	M
J van Zyl		*#		W	M
BP Vundla			*	B	M

Director of Sanlam Limited and/or other Sanlam subsidiaries (excluding Santam Limited)

Changes during the year under review:

- Mr SC Gilbert resigned from the board and as chief executive officer in June 2007.
- Mr IM Kirk was appointed to the board and as chief executive officer in June 2007.
- Mr JJ Geldenhuys resigned from the board in August 2007.
- Mr H Lorgat was appointed to the board in November 2007.

Access to the company secretary

Directors also have access to the services and advice of the company secretary and may take independent professional advice at the expense of the company in the furtherance of fulfilling their duties as and when required.

BOARD CHARTER

Objective

Board responsibility to ensure best practice in company conduct is entrenched in the Board Charter that incorporates information on the powers of the board. This ensures the balance of power and authority within the company.

The charter sets out the specific responsibilities to be discharged by the board as a whole and by each of the directors, executives and officers individually. These responsibilities are determined in terms of

- the company's articles of association,
- the Companies Act,
- the Short-term Insurance Act, and
- the JSE Limited Listings Requirements.

These documents are a reference point for directors, executives and officers on how to conduct their affairs and dealings in respect of, and on behalf of, the company.

Through its charter the board has reserved matters specifically for its attention to ensure that it exercises full control over significant issues of strategy, finance and compliance. The board is regularly advised and updated on activities of the company. On appointment, new directors enter a formal induction programme and receive appropriate training and guidance in their duties and responsibilities.

A copy of the Board Charter is available on request at the company.

Salient features of the charter

Reserved powers of the board

The board's key purpose is to ensure the company's prosperity by collectively directing its affairs, while acting in the best interests of its stakeholders.

The memorandum and articles of association of the company sets out the powers of the board of directors, while the Companies Act of 1973, the common law as enforced in the courts of the country and the Delegation of Authority document, which the board approved on 28 May 2002, and occasional amendments thereto, govern the exercise of these powers.

The following matters are reserved to the board:

1. Approval of:

    - the company's strategic objectives, business plans, annual budgets and the monitoring of the company's performance against set objectives,
    - annual financial statements and interim reports,
    - the company's code of ethics and framework in the Delegation of Authority document,
    - appointment and removal of directors, executive management and the company secretary,
    - significant changes in accounting policy,
    - significant capital expenditure, and
    - financial risk management and capital policy.

2. Consideration of the company's degree of risk aversion with respect to financial business and sovereign risks
3. Composition of the board and board committees
4. Risk management and internal controls
5. Board evaluation

The Board regularly reviews the charter in line with the principles of good corporate governance.

Responsibilities and accountabilities

Chairman

The chairman brings firm and objective leadership to the board of directors. The chairman's primary function is to preside over directors' and shareholders' meetings and to ensure the smooth functioning of the board in the interest of good governance.

Chief executive

The chief executive officer is the officer in charge of the total management of the organisation. The chief executive has a critical and strategic role to play in the operational success of the company's business.

Executive and non-executive directors

The directors of the company have a fiduciary duty to exercise due care and skill in carrying out their mandate as directors of the company. In doing so, the directors will ensure that they act in the best interest of the company at all times and shall in no way derive any profit as a result of their fiduciary relationship with the company.

Board committees

The committees assist the board in discharging its duties and responsibilities. The ultimate responsibility rests with the board and the board will not abdicate this responsibility to the committees.

The responsibilities of the committees are contained in their respective charters, as approved by the board. The chair of each of the committees makes a presentation to the board on issues tabled for discussion at the committee meeting.

Group secretary

All directors have access to the advice and services of the group secretary, who provides guidance to the board as a whole and to individual directors on how to discharge their responsibilities properly in terms of applicable legislation and regulations, and in the best interests of the company.

Board composition and mix

The efficacy of the board depends on its composition. There is an appropriate balance of power and authority in the board.

Board appraisal

The board regularly reviews the range of skills, experience and the effectiveness of its directors with a formal evaluation questionnaire developed according to the recommendations of the King II Report.

Dealing in securities

The policy on dealing in securities sets out the procedure that a director should follow before he or she or any of their associates, as defined in the JSE Limited Listing Requirements, deal in the company's securities.

Directors must obtain the written authorisation of the chairman when dealing in securities. In terms of the policy, directors and senior management must comply with the JSE Limited Listing Requirements when dealing in the company's securities. Employees are prohibited from trading in Santam securities as a result of information they could potentially obtain by virtue of their employment in and during closed periods within the company. In terms of the policy, directors' dealings in securities are disclosed to the JSE Limited via the company's JSE sponsor, Investec Securities Limited.

Integrated sustainability reporting

The board recognises that there are qualitative issues which influence the ability of the company to create value in the future. These relate to investment in human and other intellectual capital, the extent of the company's social transformation, ethical, safety, health and environmental policies and practices.

The board has established a sustainability subcommittee that convenes at least four times a year and reports directly to the board on, *inter alia*, the aforementioned issues.

Meetings and attendance

During the period under review, the board met four times at scheduled meetings (as well as one special board meeting held on 14 June 2007). The board schedules to meet at least once every quarter.

The attendance of directors at board meetings

	February 26/02/2007	May 29/05/2007	June 14/06/2007 (ad hoc)	August 20/08/2007	November 26 & 27/11/2007
BTPKM Gamedze	A	*	*	*	*
JJ Geldenhuys	*	*	*	Res	-
SC Gilbert	*	*	Res	-	-
IM Kirk	–	–	App	*	*
JG le Roux	*	*	*	*	*
H Lorgat	–	–	–	–	App
NM Magau	*	*	*	*	*
AR Martin	*	*	*	*	*
JP Möller	*	*	*	*	*
RK Morathi	*	*	A	*	*
P de V Rademeyer	*	*	*	*	*
MJ Reyneke	*	*	*	*	*
JP Rowse	*	*	A	*	*
GE Rudman	*	*	*	*	*
DK Smith (Chairman)	*	*	*	*	*
J van Zyl	*	*	*	*	*
BP Vundla	*	*	*	*	*

*Key: * = Present A = Apologies – = Not appointed then App = Appointed Res = Resigned*

Appointment and re-election of directors

The human resources committee ensures that the board's composition reflects demographic diversity, an appropriate mix of skills and experience, as well as gender.

Executive and non-executive directors are subject to rotation once every three years. Shareholders have the right to nominate a director. Five other shareholders must second the nomination. An abridged CV of the nominated director is sent with the notice 14 days before the annual general meeting (AGM).

At the AGM, shareholders vote by a single resolution to determine whether the director will be appointed. Directors appointed after the AGM are required to step down at the next AGM so they can be re-elected by the shareholders.

BOARD COMMITTEES

Audit and risk committee

Audit and risk committee meetings				
	19/02/2007	10/05/2007	15/08/2007	19/11/2007
JJ Geldenhuys	A	*	Res	–
AR Martin	*	*	*	*
P de V Rademeyer	*	*	*	*
GE Rudman (Chairman)	*	*	*	*

*Key: * = Present A = Apologies – = Not appointed then Res = Resigned*

The primary function of the audit and risk committee is to help the board with its responsibilities for financial matters and risk management activities. The committee has adopted formal terms of reference that the board has approved. A non-executive director chairs the committee, which comprises non-executive directors only.

Its functions include:

- Promoting the overall effectiveness of corporate governance within the company.
- Ensuring that management creates and maintains an effective control environment with adequate internal, financial and operating controls within the organisation.
- Overseeing the strategic risk management process and monitoring the quality, integrity, reliability and effectiveness of the process. Helping the board with its duties relating to corporate accountability and the associated risk in terms of management, assurance and reporting.
- Coordinating and overseeing the effectiveness of internal audit (incorporating forensic investigations), the compliance function and external audit, as well as that of management in preparing financial reports.
- Enhancing the quality, effectiveness, relevance and communication value of the published financial statements and related financial information.
- Providing an independent point of reference to the board in seeking a resolution to issues that demand interpretation or that are controversial and that affect the published financial statements and related financial information.
- Ensuring effective communication between the board on the one hand and the external auditors, the head of internal audit and management on the other.

Corporate Laws Amendment Act, Act 24 of 2006 (the CLA Act)

The CLA Act was promulgated on 14 December 2007. In order to comply with the CLA Act, the audit and risk committee approved a revised structure as follows:

- Statutory audit committee
- Financial reporting review committee (the FRR Committee)
- Risk committee

The abovementioned three subcommittees replace the current audit and risk committee. The members of the statutory audit committee would have at least two members who are non-executive directors of the company and would act independently.

The audit and risk committee is satisfied that it fulfilled its responsibilities under its terms of reference for the period under review. During that time the audit and risk committee met once every quarter prior to the board meeting.

Human resources committee

Human resources committee meetings						
	12/02/2007	09/05/2007	29/05/2007 (ad hoc)	14/08/2007	16/11/2007	27/11/2007 (ad hoc)
JG le Roux	*	*	*	*	*	*
NM Magau	A	*	*	*	*	*
DK Smith	*	*	*	*	*	*
J van Zyl (Chairman)	*	*	*	*	*	*

*Key: * = Present A = Apologies Res = Resigned by then*

The human resources committee combines the roles of a remuneration and nominations committee (as defined in the King II Report).

The board is of the opinion that the two functions are interrelated and has set the terms of reference of the committee to adequately cover the two functions without compromising governance standards in the company.

A non-executive director chairs the committee that comprises non-executive directors only. The chief executive officer attends meetings by invitation, but does not participate in discussions and decisions regarding his own remuneration and benefits.

The committee has the responsibility and authority to consider and make recommendations to the board on, among others, the following matters:

- Succession planning
- Employee issues
- Remuneration policy and performance bonuses
- Executive remuneration
- Composition of the board and board committees in terms of size, diversity, skills and experience
- Composition of top management in terms of diversity, skills and experience
- Share Incentive Trust and Share Option Scheme policy
- Employee Retention Scheme

The committee uses external market surveys and benchmarks to determine the executive directors' remuneration and share option allocation. The company's remuneration philosophy structures remuneration packages in such a way that long and short-term incentives are determined according to the achievement of the business objectives and the delivery of shareholder value.

The committee annually assesses the effectiveness of the board. The assessment deals with issues such as the board's role and agenda setting, the board's size, composition and independence, director orientation and development, board leadership and teamwork, meetings and effectiveness, performance evaluation, remuneration and ownership, succession planning, ethics, stakeholder relations and overall effectiveness. This committee reports the findings of the assessment to the board.

Remuneration policy

The human resources committee monitors the development and implementation of the group's remuneration philosophy. The total remuneration packages of executives are designed in such a way that a substantial portion is performance-related. As such, executives' eligibility for an annual bonus is linked to appropriate group targets.

Succession planning

The human resources committee ensures that a proper plan exists to identify and select appropriate candidates to fill board and top management vacancies. The committee manages this process through constant interaction with the executives and annual assessment of competency levels.

The financial statements on pages 70 to 142 of this report reflect the total executive and non-executive directors' earnings and other benefits in accordance with the requirements of the Companies Act of 1973 and the JSE Limited Listing Requirements.

The human resources committee is satisfied that it has fulfilled its responsibilities under its terms of reference for the period under review.

Sustainability committee

Sustainability committee meetings				
	12/02/2007	14/05/2007	14/08/2007	13/11/2007
JG le Roux	*	*	*	*
NM Magau (Chairman)	*	*	*	*
JP Rowse	–	*	*	*
BP Vundla	*	*	*	A

*Key: * = Present A = Apologies – = Not appointed by then*

The main function of this committee is to actively manage sustainability to:

- meet the company's moral duty to provide secure accessible risk management for the company's clients,
- meet legal recommendations and requirements such as King II, JSE Limited Listing Requirements, legislation and the Financial Sector Charter targets,
- minimise risks associated with social, economic and environmental impacts including stakeholder activism and government regulation, and
- add value by:
  - upholding and enhancing the company's reputation as a responsible organisation,
  - driving transformation issues,
  - achieving a reputation as an employer of choice,
  - decreasing costs through reduced waste and energy usage,
  - improving staff morale, and
  - improving the management of HIV/Aids and other risks.

The sustainability committee consists of three independent non-executive directors appointed by the board. The following members of senior management support the committee in its tasks: human resources, insurance services, corporate citizenship and finance.

The sustainability committee meets as required for the effective performance of its duties. However, this committee shall convene formally at least twice a year.

Investment committee

Investment committee meetings		
	23/04/2007	25/10/2007
SC Gilbert	*	Res 14/06/07
IM Kirk	–	*
RK Morathi	*	*
P de V Rademeyer (Chairman)	*	*
MJ Reyneke	*	*

Key: (*) = Present (–) = Not appointed by then (Res) = Resigned

This committee reports to the board and meets quarterly and more formally biannually, to evaluate and monitor the investment portfolio and the performance of investment managers. The investment committee guides the board regarding the investment managers' mandates, and make recommendations to the board regarding the company's investment philosophy.

Ad hoc subcommittees

The board has the right to appoint and authorise special ad hoc board committees from time to time to perform specific tasks. The relevant board members make up these committees.

OTHER COMMITTEES

Executive committee

This committee is not a board committee. However, in terms of the company's Delegation of Authority document, this committee is mandated by the board to deal with the day-to-day running of the affairs of the company.

The chief executive officer chairs this committee, which comprises the executive management of all the significant business units of the company. It meets weekly and deals with all matters relating to:

- the implementation of the agreed strategy,
- the monitoring of performance, and
- the consideration of the company's policies.

The board reviews the levels of delegated authority to this committee annually as well as those of all other committees.

Delegation of authority

The objective of the Delegation of Authority document is to provide an approval framework within which the company could be optimally managed within a decentralised management environment.

At a general meeting, the shareholders grant a general authority to the board of directors to collectively manage the company. In turn, the board delegates the power to run the day-to-day affairs of the company to the chief executive officer, who may delegate some of these powers. The Delegation of Authority document codifies and regulates any such delegation of authority within the company.

Stakeholder relations

Regular communication is maintained with various stakeholders in the company such as:
- institutional investors,
- investment analysts,
- shareholders,
- employees, and
- communities at large.

The board encourages shareholders to attend the annual general meetings and provides a full explanation of the effects of resolutions to be proposed.

Various methods of communication are used to keep employees and other stakeholders informed of company and group activities.

CODE OF ETHICS

The company is committed to the highest standard of integrity, behaviour and ethics in dealing with all stakeholders. Santam has adopted a code of ethics.

RISK MANAGEMENT AND INTERNAL CONTROL

Santam's board recognises and acknowledges that it:

- is accountable for the total process of risk management and the system of internal control for the group;
- is accountable for the establishment of appropriate risk and control policies and for communicating these policies throughout the group; and
- it also confirms that the process of risk management and the system of internal controls are regularly reviewed for effectiveness.

INTERNAL CONTROL

Management implements systems of internal control, comprising policies and standards, procedures, systems and information to assist the directors in meeting their established objectives and goals.

The group's system of internal control is designed and operated to support the identification and management of risks affecting the group and the business environment in which it operates. As such, it is subject to continuous review as circumstances change and new risks emerge.

Self-monitoring mechanisms, the Enterprise Risk Management (ERM) process and the system of internal control ensure that weaknesses are addressed as and when identified. In conjunction with monitoring by the internal and external auditors, reasonable assurance is provided regarding the reliability of financial information and the presentation thereof in stakeholder communication.

Santam's corporate governance framework formally defines how the group should be governed in terms of good governance principles. The framework encourages the efficient use of resources and requires accountability of the stewardship of the companies in the group. It is essentially a function of leadership and direction, appropriate risk management and control over its activities.

The overall system of internal control is designed to mitigate, not eliminate, significant risks faced by the group and was in place for the year under review. Such a system provides reasonable, but not absolute, assurance regarding the achievement of organisational objectives with respect to:

- the effectiveness and efficiency of operations,
- the safeguarding of the company's assets (including information),
- compliance with applicable laws, regulations and supervisory requirements,
- supporting business sustainability under normal as well as adverse operating conditions,
- the reliability of reporting, and
- behaving responsibly towards all stakeholders.

CONTROL OPINION

In its annual review of the effectiveness of internal control, the board considers the key findings from the ongoing monitoring and reporting processes, executive management confirmation, independent assurance reports, reports from internal and external auditors, as well as the ERM process.

Where necessary, programmes for remedial action have been initiated. Furthermore the chief executive officer, the executive head of each business unit, and the heads of divisions, sign a formal representation letter confirming the effectiveness of internal control.

Nothing has come to the attention of the directors, or to the attention of the external or internal auditors, to indicate that any material breakdown in the functioning of the internal controls and systems occurred during the year.

ASSURANCE PROVIDERS

Audit and forensic services

The main internal assurance provider in Santam is the audit and forensic services department. The scope of work for audit and forensics needs to be comprehensive enough to determine whether Santam's network of risk management, control and governance processes, as designed and represented by management, is adequate and effective to address the significant risks facing the group.

Audit and forensic services approaches its mandate through the following main disciplines:

- Independent assurance on corporate governance practices, risk management practices and the control environment
- Consultation and facilitation on corporate, governance, ERM, strategic projects and other key concerns/issues
- Fraud investigations
- Facilitation of the fraud management process

The department follows a risk-based planning approach. The audit plan is based on a true or pure risk-based approach that includes all categories of risk (e.g. strategic, business and process). The plan is structured to respond and adapt to emerging and changing risk profiles and helps internal audit to focus on issues that matter most to Santam. The audit and risk committee approves the plan for each year.

Key findings are reported to the committee each quarter. The report is based on the results of internal audit as well as forensic work conducted, and it utilises a rating system. Progress in implementing the required controls to address concerns is reported to the committee until the item has been satisfactorily resolved. Thus the committee can ensure that prompt action is taken to address the key areas of concern. A report on significant issues is also distributed to the executive committee on a quarterly basis. This report represents items identified during the course of work performed, as well as management's responses and action plans.

The responsibilities of the department are set out in a charter approved by the audit and risk committee. The head of audit and forensic services reports administratively to the executive head finance and has regular meetings with the chief executive, quarterly meetings with the audit and risk committee, and access to the chairperson of the audit and risk committee as and when required. In the past Santam combined the internal audit and enterprise risk management functions. From 2008 these two functions will be split to further promote and enhance risk management in Santam and to conform to best corporate governance practices.

The forensic services unit also enjoys company support, respect and credibility in Santam. The department operates efficiently within the mandate of the fraud policy, conducts successful investigations and proactively manages the risk posed by fraud and related offences. The changing environment, the emergence of new offences affecting our industry and the introduction of new legislation has necessitated a revamp of Santam's fraud policy. The revamp addresses these issues by broadening the scope of offences investigated by forensic services and includes offences regulated by the Prevention and Combating of Corrupt Activities Act and cyber-related offences.

The compliance function is incorporated in the corporate legal services department. The audit and risk committee approves its assurance plan and findings from examinations. Reviews are also directly reported to the committee on a quarterly basis.

External audit

The external auditors, PricewaterhouseCoopers, are engaged to provide stakeholders with an independent opinion on whether the annual financial statements fairly present, in all material respects, the financial position of the company and the group.

To ensure that there is no duplication of effort, regular liaison takes place with internal audit to understand the scope of their work and the results of their audits.

Santam has a formal policy on the use of external auditors for non-audit services. This is to ensure that the independence of the external auditors is not impaired. The services rendered by the auditors are monitored and approved by the audit and risk committee on a quarterly basis. Non-audit services rendered by the group's external auditors amounted to R187 656. This includes R107 656 for assurance-related services and R80 000 for other services.

Other assurance

Internal audit and other internal assurance providers, for example the quality assurance functions in the claims and underwriting departments, the project support unit and the compliance officer, regularly interact and consult. The assurance providers meet from time to time to coordinate their efforts, discuss matters of mutual interest and potential risk areas, and also to highlight critical matters of concern.

Enterprise risk management (ERM)

Over the past few years, Santam adopted ERM practices to assist in identifying, assessing and managing risks.

Santam's approach to risk management and control is in line with the King II report on corporate governance standards in South Africa and the enterprise risk management framework discussed in the COSO (Committee of Sponsoring Organisations of the Treadway Commission) report.

Santam's board, executive management and line management acknowledge that risk management is integral to create new opportunities and to enhance value.

Santam's approach to risk management and control is in line with the King II report on corporate governance standards in South Africa and the enterprise risk management framework discussed in the Committee of Sponsoring Organisations of the Treadway Commission (COSO) report. The risk framework incorporates the quantification of risk appetite, qualitative assessment, risk response and regular monitoring and intervention.

Oversight responsibilities of the board include the approval of risk management policy and escalation guidelines. Quarterly reports are tabled at the audit and risk committee meetings. These reports outline progress in terms of the framework and include an overview of Santam's risk profile. A number of resources and processes are used to build Santam's risk profile and includes a top-down (executive) and bottom-up (business unit) view. A risk forum, represented by all key business and risk areas in Santam, was also established to assist in implementing ERM processes and facilitate discussion of key risks across the business.

Enterprise risk management processes were independently reviewed. The findings of this review were reported to the board. Although the progress made in terms of risk management is real, considerable work still remains. Some of the areas we are currently focusing on are the expansion of the risk appetite for non-financial risks. Other challenges include the development of key risk indicators and rolling out technology to support our risk management processes. We are operating in a challenging and changing environment and the bar on what constitutes effective risk management is constantly being raised.

Our focus remains on practical approaches to integrate and improve the management of risk across the enterprise. This approach supports our risk management strategy to move from process delivery to value delivery whereby risk management influence the decisions made at all levels of the organisation.

Santam's risk landscape

Santam has built its risk landscape around its business and strategic planning processes. The main objective is to keep the ERM process close to business to ensure ownership and true integration of risk management in both strategic planning and business operations. Santam is the leading short-term insurer in South Africa – as such, we have a responsibility to acknowledge the challenging and diverse environment in which we operate.

The risk landscape is influenced by a number of external events and trends. Analysing these events and trends and understanding the inherent risks that Santam is exposed to, forms an integral part of strategic and business management processes.

Our focus remains on practical approaches to integrate and improve the management of risk across the enterprise.

To this end, Santam's risk landscape has been impacted by the following important events:

- Climate change is regarded as one of the defining global challenges of the 21st century. Unpredictable weather patterns and increased "catastrophe" incidences impact insurance capacity and related claims, underwriting models and pricing.
- A period of growth and shifts in South Africa's short-term insurance industry ranging from an increase in competitors (including non-traditional), changes in buying power and clients demanding choice, service and transparency. Santam meets this challenge with innovative products and excellent service to grow business profitably.
- The volatile political and social landscape, especially with the approaching elections in 2009. Uncertainty, instability and the high rate of unemployment have a perceived positive correlation to conflict and crime – a challenge for all insurers.
- The process of addressing social and economic imbalances of the past. BBBEE has specifically introduced opportunities for a number of our stakeholders, including our employees.
- Increasing demand on South Africa's internal infrastructure, coupled with inadequate maintenance, remains a key concern and contributes to changing risk profiles and increasing underwriting risks. The recent breakdown of power supplied by Eskom has had crippling effects on all sectors of the economy.
- Legal and regulatory challenges are expected to impact on intermediaries. Santam and intermediaries will have to revisit revenue and operating models going forward.
- Volatility in the global and local equity markets is expected to continue testing Santam's ability to meet expected returns on equity.

The impact of internal and specifically operational risks cannot be underestimated when assessing and responding to the external risk landscape. Management and employees both play equally important roles in the identification and management of these risks. Typical internal challenges vary from human resource, technology and business processes to technical insurance and underwriting.

Below is a summary of some of these challenges:

- Competition for skills and skills shortages are a reality. This shortage continues to challenge human resource practices to ensure that Santam attracts, retains and rewards the required skills.
- Technology solutions that deliver real business value and enhance businesses' ability to take advantage of market opportunities are required.
- The effective management of "business as usual" processes while focusing on the implementation of long-term strategic initiatives.
- Santam's ability to price correctly and adapt to market conditions while managing growth and profit targets;
- The management of our intermediaries and service providers, and finding collaborative management styles to optimise and protect value for all stakeholders.
- Optimisation of our reinsurance strategy to benefit all stakeholders.
- Building a sustainable and competitive brand to remain the leading and preferred short-term insurer.

Risk management responses

See our disclosure in the annual financial statements (note 3) on how we specifically manage market, insurance, liquidity, operational and legal categories of risk in terms of our overall risk appetite.

The following specific ongoing risk management initiatives should be read in context with the disclosures above:

- Climate change introduces opportunities for proactive risk management and establishing an environmental response as part of Santam's corporate identity. To this end, a number of initiatives are currently under way to not only respond to this global risk, but also leverage our influence to proactively manage this risk.
- Continued power shortages and expected instability in the power supply remain a concern. The impact on underwriting and business redundancy is closely evaluated and proactive measures are continuously evaluated. Significant exposures from an underwriting perspective are not expected in the short term. Santam's claims statistics have also not yet shown a significant increase in claims relating to power outages or problems associated with the electrical supply (for example surges and spikes in electricity supply). Communication to the public, educating them on preventative measures and providing information on claimable events are currently being prepared. The wider impact of challenges, specifically on the South African economy, is considered as part of our strategic planning and risk management processes.
- A number of initiatives and projects are in progress to implement strategic choices. The project support unit was established to assist the company with the implementation of projects supporting long-term strategies.
- A management programme has been initiated to provide senior management with a shared understanding of the company strategies and initiatives, including tracking progress against agreed deadlines.
- A sustainability board committee was established in 2005 to assist in the management of risks associated with social, market and environmental impacts. A formal sustainability strategy was developed to address Santam's approach to the environment, to meet FSC requirements and to maximise the value of corporate social investment value add in line with strategy and brand positioning.
- Santam will increasingly exploit synergies with business partners to ensure optimal value and service to all our stakeholders while effectively managing risk associated with these relationships.
- Santam still pursues its objective of being the employer of choice. Specific initiatives are being designed and implemented to ensure that Santam attracts, retains and rewards the required skills and people. Initiatives include the development of Santam's capability in talent, diversity and change management. The brand promise is also delivered to our employees – making employees' lives safer and nicer. The performance appraisal system has been improved to ensure better alignment with strategy and objectives and to also be used as a tool to embed the behaviours that support Santam's values.
- Parallel to strategic planning processes, technology opportunities are being assessed and identified. A chief information officer was appointed in 2007 to spearhead information technology transformation and to deliver efficiency and business value add in terms of Santam's systems capability. Continued initiatives are expected to further improve and enhance IT structures and processes supporting both business and IT strategies and improving overall IT governance.
- Ongoing specific initiatives are ensuring optimal capital usage and meeting required return on capital within the overall risk appetite.
- A number of initiatives are in progress to drive operational excellence to remain competitive.
- One of our key operational risks that spans across the business is that Santam will not be able to recover from a major disaster. The company has responded to this threat by developing a group-wide business continuity framework to ensure that people are prepared, crisis infrastructure is tested and that there are meaningful plans in place. The business continuity management strategy, approach and supporting infrastructure are currently under review to ensure that Santam's business continuity management (BCM) capability remains adequate and effective.

CONCLUSION

Santam has initiated sound strategic, tactical and operational initiatives as well as focused interventions to respond to risks and opportunities it is being faced with. Risk management processes will continue to evolve and mature and increasingly contribute to improved decision making and protecting value for all stakeholders.

“If your actions
inspire others to dream more,
learn more, do more and
become more, you are a leader.”

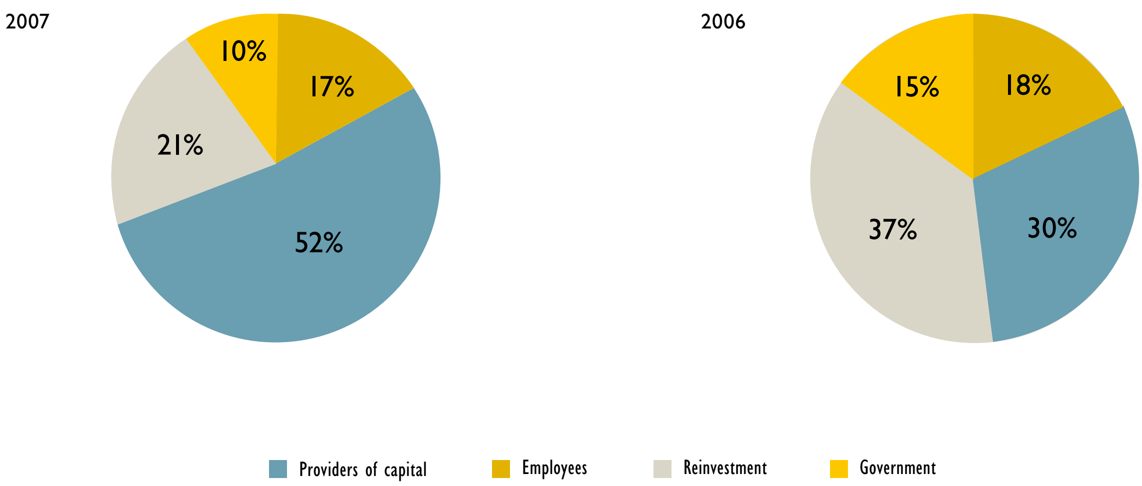
JOHN QUINCY ADAMS

American diplomat, politician and 6th President of the United States
1767 – 1848

Value added statement

VALUE ADDED	**Group 2007 R million**	Group 2006 R million
Gross written premium	**13 173**	12 115
Claims paid and cost of other services	**11 161**	9 825
	2 012	2 290
Investment income net of fees	**1 124**	1 766
	3 136	4 056
VALUE DISTRIBUTED		
Employee benefits	**902**	719
Government	**542**	593
Direct taxation on income	**306**	480
STC	**236**	113
Providers of capital	**2 819**	1 207
	4 263	2 519
Retained for reinvestment and future support of business	**(1 127)**	1 537
Depreciation	**16**	18
Retained income before transfer to reserves	**(1 606)**	960
Value lost due to discontinued operations	**168**	(70)
Compulsory reserves for future support of business	**295**	629
	3 136	4 056

VALUE DISTRIBUTED



contents to financial statements

Approval of annual financial statements

TO THE MEMBERS OF SANTAM LIMITED

RESPONSIBILITY FOR AND APPROVAL OF THE GROUP ANNUAL FINANCIAL STATEMENTS

The board of Santam Limited accepts responsibility for the integrity, objectivity and reliability of the group and company financial statements of Santam Limited. Adequate accounting records have been maintained. The board endorses the principle of transparency in financial reporting. The responsibility for the preparation and presentation of the financial statements has been delegated to management.

The responsibility of the external auditors is to express an independent opinion on the fair presentation of the financial statements based on their audit of Santam Limited and its subsidiaries.

The Audit and Risk Committee has confirmed that adequate internal financial control systems are being maintained. There were no material breakdowns in the functioning of the internal financial control systems during the year. The board is satisfied that the financial statements fairly present the financial position, the results of the operations and cash flows in accordance with relevant accounting policies, based on International Financial Reporting Standards (IFRS).

The board is of the opinion that Santam Limited is financially sound and operates as a going concern. The financial statements have accordingly been prepared on this basis.

The financial statements were approved by the board and signed on their behalf by:

D K SMITH
Chairman

IM KIRK
Chief Executive Officer
26 February 2008

Secretarial certification

In accordance with section 268G(d) of the Companies Act, Act 61 of 1973, as amended (the Act), it is hereby certified that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act and that such returns are true, correct and up to date.

S BRAY
Group secretary
26 February 2008

Independent auditor's report to the members of Santam Limited

We have audited the financial statements and group annual financial statements of Santam Limited which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2007, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 70 to 142.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and the group as of 31 December 2007 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

PRICEWATERHOUSECOOPERS INC.

Director: HD Nel
Registered Auditor
Cape Town
26 February 2008

Directors' report

ACTIVITIES

Santam Limited and its subsidiaries transact all classes of short-term insurance.

OPERATING RESULTS

The year under review has been challenging, marked by varying degrees of success. From an underwriting perspective the group did very well in its core Southern African operations, showing an increase in both underwriting profit and net insurance result against 2006. The performance of the international business was however disappointing. Because of the group's exposure to equity instruments, its investment results were negatively affected by the recent turmoil in financial markets. Although investment income for the year exceeded expectations, it ended well below the exceptional levels of 2006. The company successfully concluded its capital restructuring programme during 2007. The secondary tax on companies (STC) charge on the special dividend amounted to R245 million, impacting on earnings. Headline earnings of R1 030 million were 42% lower than the previous year, equating to headline earnings per share of 906 cents compared to 1555 cents in 2006.

In the Southern African operations, excluding cells, Santam achieved an 8% increase in gross written premiums. Given the soft market and the corrective action taken by Santam to retain and procure quality business, this is a pleasing result. Growth was achieved across most business classes.

Underwriting margins for the year were in line with 2006, although the second half of the year proved to be more difficult than the first, due to several catastrophic events, the largest being the floods in the southern cape. A number of very large corporate industrial claims adversely affected the property and engineering business classes. Fortunately the timely corrective action taken in personal lines yielded significantly improved results. Underwriting results amongst the specialist business classes varied. Liability business was very profitable whilst our marine business incurred some large losses in the earlier part of the year. Crop insurance resulted in large losses due to severe drought conditions and high incidences of hail in the summer rainfall areas. As part of Santam's ongoing assessment of insurance liabilities in terms of claims experience, the level of the incurred but not reported (IBNR) reserve, was reduced by a further R30 million during the second half of the year, totalling a reduction of R65 million for the full year. The net acquisition cost ratio of 25.7% increased slightly due to initial expenditure on the large strategic projects.

The net underwriting result of R664 million (2006: R627 million) of the continuing operations exceeded expectations and the overall net underwriting margin was 6.2% against 6.5% for 2006. Having reached optimum retention levels at an acceptable risk profile, the level of reinsurance earned premium was 16.5% of gross earned premium compared to 17.6% for 2006. If the impact of cell business is excluded, the ratio for the year decreased to 8.2% from 11.5% in 2006.

The underwriting performance of the international operations suffered an after-tax loss of R168 million for the year compared to a R70 million profit in 2006. As reported in our operational update issued in November 2007, the Dublin-based operation had not performed according to expectations and was consequently put into formal runoff. Westminster Motor Insurance Association (WMIA) continued to operate in an increasingly competitive UK motor market with resultant pressure on premium rates and incurred substantial underwriting losses. After careful consideration of Santam's long-term strategic objectives it was decided to divest from its European operations. The process is well advanced and the operations of WMIA and Santam Europe are accordingly now treated as 'Discontinued operations' as defined by IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, and reported as such in the group financial statements.

The investment return on insurance funds exceeded that of the previous year by 27%, mainly due to higher interest rates and average float levels (funds generated by insurance activities). The company's operating activities generated R2.1 billion in cash during the year, which was slightly less than the R2.2 billion generated in the comparable period.

The continuing operations achieved a net insurance margin of 9.2% for the year compared to 9.1% for 2006.

For the first ten months of the year Santam's investment performance benefited significantly from the strong local equity market, well ahead of 2006. However, in the last two months the value of local equities sharply declined, *inter alia* influenced by the negative sentiment on global equity markets due to the crisis in the US sub-prime debt market. As a result Santam incurred significant unrealised fair value losses during that period, reducing investment income against the exceptional levels of 2006.

Earnings from associated companies were 28% lower for the year. Contributions from Credit Guarantee Insurance Company continued to be healthy, but returns from Lion of Africa were below expectations.

Santam successfully concluded its capital restructuring programme during 2007. A voluntary share buy-back offer was made and the company bought 5.88% of its issued ordinary shares at R102 per share in April. This resulted in a reduction in share capital of R713 million, effectively lowering the solvency ratio by 6% at the time. As alternative capital in terms of its strategy to optimise its capital structure, the company issued unsecured subordinated callable notes to the value of R600 million on open tender in May, which was followed by a further issue of R400 million in November. In terms of regulatory approval, the subordinated debt of R1 billion is regarded as part of capital for solvency purposes and has the benefit of substantially reducing the group's weighted average cost of capital. The final phase of the optimisation process was the payment of a special dividend of 2200 cents per share in December. The overall impact of these actions was to reduce the group's solvency from the 62% at the end of 2006 to 42% at the end of 2007. Net asset value per share decreased from 5634 cents at the end of 2006 to 3610 cents at the end of 2007, positioning the group to deliver increased returns on shareholders' capital.

ORDINARY SHARES ISSUED

The shares in issue have increased to 119 168 137 shares of no par value (including 7 087 168 treasury shares). In accordance with the share incentive scheme, as approved at the annual general meeting on 23 January 1997, no addititional share options were awarded under the scheme during the period under review, 163 000 share options lapsed as a result of resignations and 1 531 175 shares were issued as a result of share options being exercised or released. A revised share incentive plan, the deferred share plan (DSP), has been implemented during the 2007 financial year. In terms of this scheme, 305 305 shares were granted to employees on a deferred delivery basis. Full details are set out in note 15 to the financial statements.

A subsidiary in the group acquired 6 972 940 Santam shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. A further 174 346 shares were bought in the market at an average price of R110 per share. A total of 60 118 shares were reissued in terms of the executive share purchase plan at R110 per share. The shares are held as treasury shares. The company has the right to reissue these shares at a later date subject to approval by the JSE and the Regulator.

CAPITAL STRUCTURE

Debt securities

During May 2007, Santam issued unsecured subordinated callable notes to the value of R600 million under its R1.2 billion note programme as alternative capital in terms of its capital optimisation strategy. A further issue of R400 million was placed on open tender in the market during November 2007.

The fixed effective rate for the R600 million issue was 8.6% and 9.5% for the second tranche of R400 million, representing the R203 companion bond plus an appropriate credit spread at the time of the issues. The fixed coupon rate, based on the nominal value of the issues, amounts to 8.25% and for both tranches the optional redemption date is 15 September 2017. Between the optional redemption date and final maturity date of 15 September 2022, a variable interest rate (JIBAR-based) plus additional margin will apply.

Per the conditions set by the Regulator, Santam is required to maintain liquid assets equal to the value of the callable notes until maturity. The callable notes are therefore measured at fair value to minimise undue income statement volatility. The valuation is based on the R203 companion bond.

DIVIDENDS

	Group	
	2007	2006
The following dividends were paid and are proposed.	**R million**	R million
Interim dividend of 166c per share (2006: 118c)	**197**	139
A final dividend of 244c per share (2006: 262c)	**291**	308
Special dividend (refer note below)	**2 465**	–
	2 953	447

SPECIAL DIVIDEND

As part of its process to optimise its capital, Santam Limited paid a special dividend of 2200 cents per share to shareholders on 24 December 2007.

SUBSIDIARIES

Details of the holding company's interest in subsidiaries are set out in note 43 to the financial statements. The interest of Santam Limited in the total profits (R216 million) and losses (R168 million) of the subsidiaries, after providing for taxation, amounted to a net profit of R48 million (2006: R269 million) for the past financial year. The following changes in shareholding took place during the year:

– On 4 April 2007, Swanvest 120 (Pty) Ltd acquired a further 41.1% shareholding in Admiral Professional Underwriting Agency (Pty) Ltd, increasing its shareholding in the company to 70% and on 8 November 2007 acquired another 30% shareholding increasing its shareholding to 100%.

ASSOCIATED COMPANIES

Details of the holding company's interest in associated companies are set out in note 43 to the financial statements. The following change in shareholding took place during the year:

– On 22 June 2007, Swanvest 120 (Pty) Ltd sold its 25% shareholding in Integrisure Brokers (Pty) Ltd.

RELATED PARTIES

Related-party relationships exist between the company, subsidiaries, associated companies, Sanlam group, company directors and key management. All intergroup transactions have been eliminated from the group's financial statements.

For related-party transactions and key management personnel, refer to note 41 to the financial statements.

Details of directors' remuneration and their interest in the company's shares appear in the directors' report and note 29 to the financial statements.

HOLDING COMPANY

Sanlam Limited, the company's holding company, holds 52.6% of the ordinary share capital.

SEGMENT REPORTING

Refer to note 4 to the financial statements for the segmental report.

DIRECTORS AND SECRETARY

The directors of the company for the period 1 January 2007 to 31 December 2007 were:

Non-executive directors

BTPKM Gamedze
JJ Geldenhuys
JG le Roux **, ***
H Lorgat*
NM Magau **, ***
AR Martin *
JP Möller
RK Morathi
P de V Rademeyer *, #
JP Rowse ***
GE Rudman *
DK Smith (Chairman) **
J van Zyl **
BP Vundla ***

Executive directors

IM Kirk (Chief Executive Officer) #
SC Gilbert (Chief Executive Officer) #
MJ Reyneke (Chief Financial Officer) #

*	member of the Audit and Risk Committee
**	member of the Human Resources Committee
***	member of the Sustainability Committee
#	member of the Investment Committee

The following changes took place on the company's board of directors during the period under review:

SC Gilbert	–	Resigned 14 June 2007
IM Kirk	–	Appointed 14 June 2007
JJ Geldenhuys	–	Resigned 20 August 2007
H Lorgat	–	Appointed 27 November 2007

Company secretary

S Bray
PO Box 3881, Tyger Valley 7536
Santam Limited, 1 Sportica Crescent, Bellville 7530

The company secretary was in the position for the whole financial year.

DIRECTORS' EMOLUMENTS AND INTERESTS IN SHARE CAPITAL

Directors' emoluments

The Group Human Resources committee considers the remuneration of all executive directors as well as the fees paid to all non-executive directors. Fees payable to directors are recommended by the board to the annual general meeting for approval. The financial statements accompanying this report reflect the total of executive and non-executive directors' earnings and other benefits in accordance with the requirements of the Companies Act, 1973, and the listing requirements introduced by the JSE Limited.

Share options granted to executive directors

No additional share options were granted to the directors of the group during the year (2006: Nil). The company commenced with a new staff retention scheme in 2006 and no longer issue shares in terms of the Santam Share Incentive Scheme. Refer to note 1.21 in the notes to the financial statements for more detail.

The outstanding number of share options granted to the directors of the group in terms of the Santam Share Incentive Scheme at the end of the year was 76 090 (2006: 461 940).

A revised share incentive scheme for Santam management, the deferred share plan (DSP), has been implemented during 2007, in terms of which shares were granted to employees on a deferred delivery basis over a five-year period. However, no allocations were granted to executive directors during 2007.

SHARE OPTION SCHEME – DIRECTORS' PARTICIPATION

Executive directors	As at 31 Dec 2006	Number of share options during year Granted	Exercised	Gain per share on options exercised R	Option price per share** R	Date awarded	As at 31 Dec 2007
SC Gilbert	170 460		(170 460)	101.80	1.00	14/07/03	–
	116 400 *		(116 400)	100.00	1.00	14/07/03	–
	20 000		(20 000)	66.20	42.80	10/11/05	–
Subtotal	**306 860**	**–**	**(306 860)**				**–**
MJ Reyneke	33 300		(33 300)	81.15	1.00	12/11/01	–
	3 600		(3 600)	80.35	1.00	20/02/02	–
	14 400		(7 200)	86.50	1.00	26/02/03	7 200
	69 780 *		(34 890)	85.00	1.00	01/09/02	34 890
	10 000		–		6.65	31/03/04	10 000
	24 000		–		42.80	10/11/05	24 000
Subtotal	155 080	–	(78 990)				76 090
TOTAL	**461 940**	**–**	**(385 850)**				**76 090**

* *Options granted in terms of the rainmaker share scheme.*

** *On 21 December 2007 a special dividend of R22.00 per share was paid to shareholders, and as a result the option prices of options granted before that date were reduced by R22.00, but limited to R1.00. Where such an adjustment would result in a negative strike price, the option holders will receive, on the relevant vesting dates, an amount equal to the calculated loss in fair value likely to be suffered, plus interest on such an amount, calculated at the risk free rate.*

DIRECTORS' INTEREST IN THE SHARES OF THE COMPANY

	Beneficial holding at 31 December 2007	Beneficial holding at 31 December 2006
Executive directors		
IM Kirk	**61 118**	–
MJ Reyneke	**20 169**	76 320
Non-executive directors		
BTPKM Gamedze *	**90**	–
JG le Roux	**100**	100
H Lorgat	**100**	–
NM Magau *	**90**	100
AR Martin	**350**	350
JP Möller	**108**	–
RK Morathi	**112**	–
P de V Rademeyer	**450**	500
JP Rowse	**225**	250
GE Rudman	**900**	7 000
DK Smith	**100**	100
J van Zyl	**108**	100
BP Vundla *	**99**	100
	84 119	84 920

* *Directors with less than 100 shares at year-end will increase their shareholding to 100 shares after the closed period.*

AUDITORS

PricewaterhouseCoopers Incorporated will continue in office in accordance with Section 270 (2) of the Companies Act, 1973.

POST BALANCE SHEET EVENTS

There have been no material changes in the affairs or financial position of the company and its subsidiaries since the balance sheet date.

SPECIAL RESOLUTIONS PASSED

The following special resolutions were passed by Santam Ltd and subsidiaries in the group:

Santam Ltd

– Authorise a Santam subsidiary to purchase a maximum of 10% of the issued ordinary share capital of Santam at R102.00 per share.
– Increase the authorised share capital of the company by the creation of 12 000 000 non-redeemable, non-participating, non-cumulative preference shares with no par value.
– Amend the memorandum of association to provide for the 12 000 000 non-redeemable, non-participating, non-cumulative preference shares with no par value.
– Amend the articles of association in order to set out the rights, privileges and restrictions which shall attach to the non-redeemable, non-participating, non-cumulative preference shares.
– Authorise the company, subject to the promulgation of the relevant legislation, to be entitled to provide financial assistance to a person for the purpose of, or in connection with, the purchase of a share or option issued by the company.
– Authorise the company or any of its subsidiaries to acquire ordinary shares issued by the company in terms of the rules and requirements of the JSE Limited's Listing Requirements.

Guardian National Insurance Company Ltd

– Authorise the company to acquire a maximum of 10% of the issued ordinary shares in Santam Limited from the ordinary shareholders for a purchase consideration of R102.00 per Santam share.

Balance sheets

	Notes	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
ASSETS					
Non-current assets					
Property and equipment	5	**38**	59	**31**	37
Intangible assets	6	**135**	108	**11**	–
Deferred income tax	17	**40**	27	**1**	–
Investments in subsidiaries	7			**1 703**	1 703
Investments in associates	8	**175**	215	**163**	163
Financial assets – at fair value through income	9				
Equity securities		**4 454**	5 435	**4 186**	4 950
Debt securities		**2 901**	2 106	**2 357**	1 169
Current assets					
Reinsurance assets	10, 22	**2 026**	2 080	**1 505**	1 618
Deferred acquisition costs	22.2	**239**	211	**203**	170
Loans and receivables including insurance receivables	11	**1 947**	1 394	**1 747**	1 386
Income tax assets		**27**	39	**–**	37
Cash and cash equivalents	12	**3 445**	5 142	**1 347**	2 095
Non-current assets classified as held for sale	13	**2 060**	–	**–**	–
Total assets		**17 487**	16 816	**13 254**	13 328
EQUITY					
Capital and reserves attributable to the company's equity holders					
Share capital	14	**105**	71	**105**	71
Treasury shares	14	**(726)**	–	**–**	–
Other reserves	16	**1 147**	1 119	**1 012**	920
Distributable reserves	16	**3 448**	5 437	**3 246**	4 989
Amounts recognised directly in equity relating to non-current assets held for sale	13	**71**	–	**–**	–
		4 045	6 627	**4 363**	5 980
Minority interest		**133**	123		
Total equity		**4 178**	6 750	**4 363**	5 980
LIABILITIES					
Non-current liabilities					
Deferred income tax	17	**91**	297	**74**	278
Financial liabilities – at fair value through income					
Debt securities	18	**908**	–	**908**	–
Investment contracts	19	**525**	276	**–**	–
Derivatives	20	**47**	–	**47**	–
Financial liabilities – at amortised cost					
Cell owners' interest	21	**336**	329	**–**	–
Current liabilities					
Insurance liabilities	22	**7 630**	7 694	**5 636**	4 965
Deferred reinsurance acquisition revenue	22.2	**99**	74	**64**	58
Provisions for other liabilities and charges	23	**87**	148	**86**	143
Trade and other payables	24	**1 492**	1 213	**1 629**	1 904
Income tax liabilities		**488**	35	**447**	–
Liabilities directly associated with non-current assets classified as held for sale	13	**1 606**	–	**–**	–
Total liabilities		**13 309**	10 066	**8 891**	7 348
Total shareholders' equity and liabilities		**17 487**	16 816	**13 254**	13 328

Income statements

	Notes	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
Continuing operations					
Gross written premium		**13 173**	12 115	**11 135**	10 233
Less: reinsurance written premium		**2 254**	2 011	**1 019**	1 040
Net premium		**10 919**	10 104	**10 116**	9 193
Less: change in unearned premium					
Gross amount		**330**	390	**276**	186
Reinsurers' share		**(127)**	62	**(23)**	109
Net insurance premium revenue		**10 716**	9 652	**9 863**	8 898
Investment income	25	**666**	508	**961**	445
Income from reinsurance contracts ceded		**306**	342	**198**	235
Net gains on financial assets and liabilities at fair value through income	26	**454**	1 205	**427**	1 191
Net income		**12 142**	11 707	**11 449**	10 769
Insurance claims and loss adjustment expenses	27	**8 552**	7 619	**7 135**	6 691
Insurance claims and loss adjustment expenses recovered from reinsurers	27	**(1 250)**	(999)	**(463)**	(540)
Net insurance benefits and claims		**7 302**	6 620	**6 672**	6 151
Expenses for the acquisition of insurance contracts	28	**1 794**	1 701	**1 633**	1 518
Expenses for marketing and administration	28	**1 262**	1 046	**1 242**	952
Expenses for asset management services	28	**27**	46	**23**	42
Amortisation of intangible assets	6, 28	**2**	2	**–**	2
Expenses		**10 387**	9 415	**9 570**	8 665
Results of operating activities		**1 755**	2 292	**1 879**	2 104
Finance costs	30	**(45)**	(7)	**(43)**	(7)
Net income from associates	8	**76**	105	**107**	89
Profit before tax		**1 786**	2 390	**1 943**	2 186
Income tax expense	31	**(542)**	(593)	**(479)**	(538)
Profit for the year from continuing operations		**1 244**	1 797	**1 464**	1 648
Discontinued operations					
(Loss)/Profit for the year from discontinued operations	13	**(168)**	70	**–**	–
Profit for the year		**1 076**	1 867	**1 464**	1 648
Attributable to:					
– equity holders of the company		**1 050**	1 844	**1 464**	1 648
– minority interest		**26**	23		
		1 076	1 867	**1 464**	1 648
Earnings attributable to the equity holders	32				
Basic earnings per share (cents)		**924**	1 574		
Diluted earnings per share (cents)		**914**	1 553		
Headline earnings per share (cents)		**906**	1 555		
Diluted headline earnings per share (cents)		**897**	1 535		
Weighted average number of shares (millions)		**113.67**	117.13		
Weighted average number of ordinary shares for diluted earnings per share (millions)		**114.81**	118.71		
Ordinary dividend per share (cents)	33	**410**	380		
Special dividend per share (cents)	33	**2 200**	–		

Statements of changes in equity

	Share Capital	Treasury shares	Other reserves	Distributable reserves	Amounts recognised directly in equity relating to non-current assets held for sale	Minority interest	Total
	Attributable to equity holders of the company						
	R million	R million	R million	R million	R million	R million	R million
GROUP							
Balance as at 1 January 2006	42	–	763	4 922		125	**5 852**
Share issue	29		–	–		–	**29**
Profit for the year	–		–	1 844		23	**1 867**
Transfer to reserves	–		177	(177)		–	**–**
Share-based payments	–		–	13		–	**13**
Currency translation differences	–		179	–		–	**179**
Dividends paid	–		–	(1 165)		(20)	**(1 185)**
Interest sold by minorities	–		–	–		(5)	**(5)**
Balance as at 31 December 2006	**71**	**–**	**1 119**	**5 437**	**–**	**123**	**6 750**
Share issue	34		–	–		–	**34**
Net purchase of treasury shares		(726)					**(726)**
Profit for the year	–		–	1 050		26	**1 076**
Transfer to reserves	–		93	(93)		–	**–**
Share-based payments	–		–	14		–	**14**
Currency translation differences	–		6	–		–	**6**
Dividends paid	–		–	(2 960)		(17)	**(2 977)**
Interest acquired by minorities	–		–	–		1	**1**
Amounts recognised directly in equity relating to non-current assets classified as held for sale			(71)		71		**–**
Balance as at 31 December 2007	**105**	**(726)**	**1 147**	**3 448**	**71**	**133**	**4 178**
COMPANY							
Balance as at 1 January 2006	42		795	4 618		–	**5 455**
Share issue	29		–	–		–	**29**
Profit for the year	–		–	1 648		–	**1 648**
Transfer to reserves	–		125	(125)		–	**–**
Share-based payments	–		–	13		–	**13**
Dividends paid	–		–	(1 165)		–	**(1 165)**
Balance as at 31 December 2006	**71**		**920**	**4 989**		**–**	**5 980**
Share issue	34		–	–		–	**34**
Profit for the year	–		–	1 464		–	**1 464**
Transfer to reserves	–		92	(92)		–	**–**
Share-based payments	–		–	14		–	**14**
Dividends paid	–		–	(3 129)		–	**(3 129)**
Balance as at 31 December 2007	**105**		**1 012**	**3 246**		**–**	**4 363**

Cash flow statements

	Notes	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
Cash generated from operations	35	**2 139**	2 203	**1 656**	1 351
Interest paid		**(45)**	(7)	**(43)**	(7)
Income tax paid	36	**(288)**	(606)	**(200)**	(513)
Net cash from operating activities		**1 806**	1 590	**1 413**	831
Cash flows from investing activities					
Cash utilised in investment activities		**(197)**	(390)	**(5)**	(400)
Acquisition of subsidiary, net of cash acquired	37	**(61)**	(30)	**–**	–
Proceeds from sale of subsidiary	37	**–**	183	**–**	–
Cash acquired/(sold) through acquisition/sale of subsidiary	37	**52**	(188)	**–**	–
Purchases of equipment		**(32)**	(18)	**(25)**	(17)
Proceeds from sale of equipment		**3**	1	**–**	1
Capital refund from associated companies		**–**	1	**–**	–
Proceeds from sale of associated companies		**21**	23	**–**	–
Acquisition of book of business		**(2)**	(2)	**–**	(2)
Net cash used in investing activities		**(216)**	(420)	**(30)**	(418)
Cash flows from financiang activities					
Proceeds from issuance of ordinary shares		**34**	29	**34**	29
Net purchase of treasury shares		**(726)**	–	**–**	–
Increase in debt securities		**964**	–	**964**	–
Increase in investment contract liabilities		**230**	–	**–**	–
Dividends paid to company's shareholders	38	**(2 960)**	(1 165)	**(3 129)**	(1 165)
Dividends paid to minority interests	38	**(17)**	(20)	**–**	–
Increase in cell owners' interest		**8**	61	**–**	–
Net cash used in financing activities		**(2 467)**	(1 095)	**(2 131)**	(1 136)
Net (decrease)/increase in cash and cash equivalents		**(877)**	75	**(748)**	(723)
Cash and cash equivalents at beginning of year		**5 142**	4 927	**2 095**	2 818
Translation gains on cash and cash equivalents		**(8)**	140	**–**	–
Cash and cash equivalents at end of year		**4 257**	5 142	**1 347**	2 095
Non-current assets classified as held for sale		**(812)**	–	**–**	–
Cash and cash equivalents at end of year – Continuing operations		**3 445**	5 142	**1 347**	2 095
Cash flows relating to discontinued operations					
Included in the above are the following cash flows from discontinued operations.					
Operating cash flows		**233**	197	**–**	–
Investing cash flows		**(25)**	(15)	**–**	–
Financing cash flows		**(197)**	–	**–**	–
Net increase in cash and cash equivalents		**11**	182	**–**	–
Cash and cash equivalents at beginning of year		**808**	515	**–**	–
Translation gains on cash and cash equivalents		**(7)**	111	**–**	–
Cash and cash equivalents at end of year		**812**	808	**–**	–

Notes to the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented.

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board (IASB), and are in compliance with the JSE Limited's Listing Requirements and the Companies Act of South Africa.

1.2 Basis of presentation

The financial statements have been prepared under the historical cost convention, modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through income, the application of the equity method of accounting for investments in associated companies and non-current assets held for sale at fair value less cost to sell.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires that management exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

The group did not early adopt any of the IFRS standards.

In the 2007 balance sheet and income statement, the European insurance operations are presented in terms of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. The comparatives for 2006 have been restated on the income statement.

All amounts in the financial statements are presented in rand, rounded to the nearest million, unless otherwise stated.

a) Standards, amendments and interpretations effective in 2007

The following amendments to published standards are mandatory for the group's accounting periods beginning on or after 1 January 2007:

- Amendments to IFRS 4 – *Insurance Contracts*, IFRS 7 – *Financial Instruments*: *Disclosures* and complementary amendments to IAS 1 – *Presentation of Financial Statements* – Capital disclosures
  Under these developments, insurers must convey management's own objectives and perspectives about the risks arising from their financial instruments and insurance contracts. This does not have a significant impact on the classification and valuation of the group's financial instruments or insurance liabilities, but rather defines disclosure required to explain the risk management procedures applied by the company. The enhanced disclosure should reflect the way senior management itself perceives, measures and manages the company's risks. Companies must also explain their objectives, policies and processes for managing capital and meeting capital regulations.
- IFRIC 8 – *Scope of IFRS 2*
  Requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the value of the equity instruments issued to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the group's financial statements.
- IFRIC 10 – *Interim Financial Reporting and Impairment*
  The interpretation prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the group's financial statements.

b) Amendments to standards effective in 2007 but not relevant to the group's operations

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007, but they are not relevant to the group's operations:

- IFRIC 7 – *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*
- IFRIC 9 – *Re-assessment of Embedded Derivatives*
- IFRIC 12 – *Service Concession Arrangements*

c) Standards and interpretations to published standards that are not yet effective and have not been early adopted by the group

The following new interpretations to existing standards have been published. Although they are mandatory for accounting periods beginning on or after 1 January 2008 or later periods, the group has not early adopted:

- IAS 1 (Revised) – *Presentation of Financial Statements* (effective from 1 January 2009)
- IAS 23 (Amendment) – *Borrowing Costs* (effective from 1 January 2009)
- IFRS 3 – *Business Combinations* (effective from 1 June 2009)
- IFRS 8 – *Operating Segments* (effective from 1 January 2009)
- IFRIC 11 – *IFRS 2 Group and Treasury Share Transactions* (effective from 1 March 2007)
- IFRIC 14 – *IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction* (effective from 1 January 2008)

d) Interpretations to published standards that are not yet effective and not relevant to the group's operations

- IFRIC 13 – *Customer Loyalty Programmes* (effective from 1 July 2008)

1.3 Consolidation

a) Subsidiaries and business combinations

Subsidiaries are entities (including special-purpose entities) over which the group, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the group. Consolidation is discontinued from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured at the fair value of the stated assets, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill (see note 1.8). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The group applies the modified parent company model with respect to transactions with minority shareholders, whereby the full excess of the cost of the transaction over the acquirer's increase in interest in previously recognised assets and liabilities is allocated to goodwill. Disposals to minority interests result in gains or losses for the group that are recognised in the income statement.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the group.

The company accounts for its investment in subsidiaries at cost less provision for impairment. At the balance sheet date an assessment is made, based on the net asset value of the relevant subsidiary, if there is any indication that an investment in a subsidiary may be impaired. If such an indication exists, the company estimates the recoverable amount of the asset to determine the carrying value (refer note 1.10).

b) Associates

Associates are entities over which the group has significant influence but not control over the financial and operational policies. Significant influence is determined based primarily on percentage voting rights (generally between 20% and 50%), together with other factors such as board participation and participation in the policy-making process.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see note 1.8).

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associate. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments were made to the accounting policies of associates to ensure consistency with the policies adopted by the group.

Equity accounting is discontinued when the group no longer has significant influence over the investment.

The company accounts for its investment in associates at cost less provision for impairment.

1.4 Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The primary segments of the group have been identified by business activity, i.e. insurance activities and investment activities, and on a secondary basis by geographical segment.The insurance activities comprise commercial insurance, personal insurance and alternative risks. The insurance activities are also presented by insurance class. For management purposes this basis is representative of the internal structure of the group. Segment results include revenue and expenses directly attributable to a segment.

1.5 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in rand, which is the group's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the closing exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through income, are reported as part of the fair value gain or loss.

c) Group companies

The results and financial position of all group entities (none of which uses a currency linked to a hyperinflationary economy) that use a functional currency other than the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.

(ii) Income and expenses for each income statement presented are translated at average exchange rates during each period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

(iii) All resulting exchange differences are recognised as a separate component of equity.

On consolidation exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as the foreign entity's assets or liabilities and are translated at the closing rate.

1.6 Property and equipment

a) Property

Property comprises capitalised property leases as well as other owner-occupied buildings held by subsidiaries. The property lease is carried at fair value, based on regular comparisons to prevailing market prices. Surpluses arising from revaluation are credited to the statement of changes in equity.

All owner-occupied buildings are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the building. Land is not depreciated. Buildings are depreciated on a straight-line basis to allocate the cost over the estimated useful life of the building. The residual values and useful lives of buildings are reviewed at each balance sheet date and adjusted accordingly.

b) Equipment

Equipment is stated at cost less accumulated depreciation and impairment charges. Depreciation is calculated on the difference between the cost and residual value of the asset and is charged to the income statement over the estimated useful life of each significant part of an item of equipment, using the straight-line basis.

Estimated useful lives are as follows:

Computer equipment	3 years
Furniture and equipment	3 – 5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assets and are included in profit or loss before tax.

Repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits of the existing asset will flow to the group.

1.7 Leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged to the income statement in equal instalments over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

1.8 Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in the carrying amount of investments in associates. Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment charges recognised on goodwill are not reversible. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Cash-generating units (CGUs) are identified according to country of operation with further allocation to business units.

b) Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of three years.

1.9 Financial assets

The group classifies its investments into the following categories: financial assets at fair value through income, loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

a) Financial assets at fair value through income

This category has two subcategories: financial assets held for trading and those designated at fair value through income at inception. A financial asset is classified as a 'financial asset at fair value through income' at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Derivatives are also classified as held for trading except when designated as hedges.

Financial assets designated as at fair value through income at inception are the following:

- Those that are held in funds to match investment contract liabilities that are linked to the changes in fair value of these assets.
  The designation of these assets to be at fair value through income eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases.
- Those that are managed and whose performance is evaluated on a fair value basis.
  Information about these financial assets is provided internally on a fair value basis to the group's key management personnel. The group's investment strategy is to invest in equity and debt securities, and to evaluate them with reference to their fair values. Assets included in these portfolios are designated upon initial recognition at fair value through income.

Purchases and sales of investments are recognised on trade date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value. Transaction costs are recognised in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired and where the group has also transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through income are subsequently carried at fair value. Movements arising from changes in the fair value of the 'financial assets at fair value through income' category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current stock exchange bid prices at the close of business on the balance sheet date. If the market for a financial asset is not active or if it is unquoted, the group establishes fair value by using valuation techniques. These include discounted cash flow analysis, recent arm's length transactions, premium/discount to net asset value and price-earnings techniques. The group's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data.

The fair values of unit-linked investment contracts are measured with reference to their respective underlying assets. Debt securities are measured at fair value based on the market rate of an equivalent non-convertible bond. Unit trusts are measured at fair value based on the quoted repurchase prices. Realised gains on instruments at fair value through income are calculated as the difference between market price and cost.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the group intends to sell in the short term or that it has designated as at fair value through income. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to their original terms. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

1.10 Impairment of assets

a) Financial assets carried at amortised cost

The group assesses at each balance sheet date whether there is objective evidence that a financial asset should be impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the group about one or more of the following events:

(i) Significant financial difficulty of the issuer or debtor
(ii) A breach of contract, such as a default or delinquency in payments
(iii) It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
(iv) The disappearance of an active market for that financial asset because of financial difficulties
(v) Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
– adverse changes in the payment status of issuers or debtors in the group; or
– national or local economic conditions that correlate with defaults on the assets in the group.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the impairment account. The amount of the reversal is recognised in the income statement.

b) Impairment of other non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

c) Non-current assets classified as held for sale

An impairment loss is recognised for the amount by which the carrying amount of the non-current assets classified as held for sale, exceeds its recoverable amount. The recoverable amount is the asset's fair value less costs to sell. Impairment losses are first allocated to goodwill and then to other assets measured in terms of IFRS 5.

1.11 Derivative financial instruments

Derivatives are initially recognised in the balance sheet at fair value on the date on which the contract is entered into and subsequently remeasured at their fair value. These derivatives are regarded as non-hedge derivatives. Changes in the fair value of such derivative instruments are recognised immediately in the income statement. Quoted derivative instruments are valued at quoted market prices, while unquoted derivatives are valued independently using valuation techniques such as discounted cash flow models and option models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

1.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments.

1.13 Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

1.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.15 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition and are reflected as a deduction from equity.

Where any group company purchases the company's equity share capital the consideration paid, including any directly incremental costs (net of tax) is deducted from equity attributable to the shareholders of the company and are shown as 'Treasury shares'. Where such shares are subsequently sold, reissued or otherwise disposed any consideration received is included in equity attributable to the company's shareholders net of any directly attributable incremental transaction costs and the related income tax effects.

1.16 Debt securities

Debt securities comprise of subordinated debt instruments fair valued against similar quoted debt instruments. Debt securities are designated as at fair value through income. The designation of these liabilities to be at fair value through income eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases.

Fair value movements are recognised in the income statement. Interest accruals are recognised as finance costs in the income statement.

1.17 Insurance and investment contracts – classification

The group issues contracts that transfer insurance risk, financial risk or both.

Contracts under which the group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

1.18 Insurance contracts

Insurance contracts are classified into three main categories, depending on the duration of or type of insurance risks, namely short-term, long-term and cell insurance.

a) Short-term insurance

Short-term insurance provides benefits under short-term policies, which include engineering, guarantee, liability, miscellaneous, motor, accident and health, property, transportation and crop policies, or a contract comprising a combination of any of those policies. Short-term insurance contracts are further classified into the following categories:

- Personal insurance, consisting of insurance provided to individuals and their personal property
- Commercial insurance, providing cover on the assets and liabilities of business enterprises
- Alternative risk insurance, covering both individuals and commercial businesses and including multi-line/multi-year cover, cell captives, securitisation of risk and/or financial risks

Recognition and measurement

i) Premiums

Gross premiums exclude value added tax. Premiums are accounted for as income when the risk related to the insurance policy incepts and are spread over the risk period of the contract by using an unearned premium provision. This includes premiums received in terms of inward reinsurance arrangements. All premiums are shown before deduction of commission payable to intermediaries.

ii) Provision for unearned premiums

The provision for unearned premiums represents the portion of the current year's premiums that relate to risk periods extending into the following year. Unearned premium is calculated using the 365th method, except for insurance classes where allowance is made for uneven exposure. Unearned premium provisions on inward reinsurance premiums are provided at 50% of premiums written.

iii) Provision for unexpired risk

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims-handling fees and related administrative costs. This liability adequacy test is performed annually to ensure the adequacy of short-term insurance liabilities.

iv) Provision for claims

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The company's own assessors or contracted external assessors individually assess claims. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges. Claims provisions are not discounted.

v) Provision for claims incurred but not reported (IBNR)

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the company at that date. This provision is calculated using actuarial modelling (refer note 2).

vi) Deferred acquisition costs (DAC)

Commissions that vary with and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and recognised as a current asset. All other costs are recognised as expenses when incurred.

vii) Reinsurance contracts held

Contracts entered into by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts in note 1.17 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Income received from insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) is included with premium income.

The benefits to which the group is entitled under its reinsurance contracts held are recognised as assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) on settled claims, as well as estimates (classified as reinsurance assets) that are dependent on the gross outstanding claims and IBNR provisions. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred.

The reinsurer's share of unearned premiums represents the portion of the current year's reinsurance premiums that relate to risk periods covered by the related reinsurance contracts extending into the following year. The reinsurers' share of unearned premium is calculated using the 365th method.

Income from reinsurance contracts ceded, that varies with and is related to obtaining new reinsurance contracts and renewing existing reinsurance contracts, is deferred over the period of the related reinsurance contract and is recognised as a current liability.

The group assesses its reinsurance assets for impairment on a six-monthly basis. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

viii) Contingency reserve

A contingency reserve is maintained at 10% of net written premium of Southern African business. The utilisation of this reserve, in case of a catastrophe, is subject to the approval of the Financial Services Board. Transfers to this reserve are reflected in the statement of changes in equity, and are indicated in the balance sheet as part of 'Other reserves' under 'Equity'.

ix) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders and are included under loans and receivables and trade and other payables.

If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The group gathers objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated according to the same method used for these financial assets.

x) Salvage reimbursements

Some insurance contracts permit the group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in determining the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

b) Long-term insurance

These contracts provide long-term benefits usually associated with insured events such as death or retirement. Long-term insurance contracts underwritten mainly consist of funeral policies with limited exposure to group life risks. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

The liabilities under life insurance contracts are valued in terms of the Financial Soundness Valuation (FSV) basis containing a discounted cash flow valuation based on best estimates of future cash flows plus margins for adverse deviation as prescribed by PGN 104 issued by the Actuarial Society of South Africa and are reflected as 'Insurance liabilities' in the balance sheet. The operating surpluses or losses arising from life insurance contracts are determined by the annual valuation. These surpluses or losses are arrived at after taking into account the movement within the policyholder liabilities.

c) Cell insurance

The group offers cell captive facilities to clients. Cells are classified as special-purpose entities and are regarded as being controlled by the cell owner. For this reason, such cell captive facilities are not consolidated by the group.

In the case of third-party cells, the insurer is still the principal to the insurance transaction, although the business is written on behalf of the cell owner. However, the insurer, in substance reinsures this business to the cell as the cell owner remains responsible for the solvency of the cell.

The cell owner's interest represents the cell owner's funds held by the insurer and is included under financial liabilities held at amortised cost. Administration fees charged by the insurer on cell business are recognised as income when the fees are incurred.

1.19 Investment contracts

The group issues investment contracts without fixed terms (unit-linked contracts) and investment contracts with fixed terms (collateral guarantee contracts).

a) Investment contracts without fixed terms

Investment contracts without fixed terms are financial liabilities of which the value is dependent on the fair value of underlying financial assets and are designated at inception as at fair value through income. The group designates these investments to be measured at fair value through income because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases.

The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (i.e. the fair value of the consideration received) unless the fair value of that instrument is evidenced by comparison with other observable market transactions in the same instrument or based on a valuation technique of which the variables include only data from observable markets. When such evidence exists, the group recognises a profit on day 1. The proceeds from payments against these contracts are recognised directly in the balance sheet.

The group's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data. The fair value of these financial liabilities is determined by the fair value of the corresponding financial assets for the same date.

The fair value movement on the financial liabilities without fixed terms is recognised in the income statement.

b) Investment contracts with fixed terms

Investment contracts with fixed terms are recognised at amortised cost and are disclosed as part of 'Trade and other payables'. In this case, the liability is initially recognised at its fair value less transaction costs that are incremental and directly attributable to the issue of the contract. Subsequent measurement of these contracts uses the effective interest method. This method requires the determination of an interest rate that discounts the estimated future cash payments over the expected life of the contract to the net carrying value recognised on the balance sheet. Any adjustments due to the re-estimation of the carrying value, based on the annual computing of the present value of estimated future cash flows, are immediately recognised in the income statement.

1.20 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

a) Current tax

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

b) Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor the taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of fixed assets, fair valuation of investments and provisions. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset only if:

(i) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(ii) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
   - the same taxable entity; or
   - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

c) Secondary tax on companies (STC)

Secondary tax on companies that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend. Where there is an unutilised secondary tax credit it is carried forward and applied to the secondary tax liability when this arises. A deferred tax asset is recognised on any unutilised secondary tax credits at year-end.

1.21 Employee benefits

a) Pension obligations

The group has only defined-contribution pension plans. A defined-contribution plan is a pension plan under which the group pays a fixed contribution into a separate entity. The group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined-contribution plans the group pays contributions to publicly and privately administered pension insurance plans on a mandatory basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Other post-employment obligations

The group has settled its contractual medical contribution commitments in respect of pensioners with the Santam Pension Fund in 1998. The Santam Pension Fund bought an insurance policy to cover this commitment. The group will stand in for any shortfall should the present value of the contractual medical contribution commitments exceed the value of the Pension Fund's insurance policy. The present value of this post-retirement medical aid obligation is actuarially determined annually and any shortfall on the underlying security is immediately recognised in the income statement. Any surplus on the underlying security is not recognised in the income statement as it belongs to the Santam Pension Fund.

c) Share incentive scheme

Although options are no longer granted in terms of the share incentive scheme, the scheme will continue to run out. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions, for example profitability and premium income growth targets. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) when the options are exercised.

Reductions in the exercise prices are treated as modifications. The share based payment cost that is expensed is not amended for modifications unless the fair value of the options changed to the extent that the employees are in a more beneficial position than before.

d) Long-term incentive and retention bonus plan

In terms of the long-term incentive and retention bonus plan, employees were paid retention bonuses. The beneficiaries under the plan, which included executive directors, executive management (EXCO), senior and middle management employed on a full-time basis, were subject to retention periods and amounts to be repaid should the employee be in breach of the retention period. The costs associated with the long-term incentive and retention bonus plan are recognised in the income statement over the retention period.

The plan also has a share purchase alternative option for EXCO only. In terms of this plan, EXCO members receive an interest-bearing loan with the intention to purchase shares in Santam and/or Sanlam. The loans are repayable in four years' time and are included under loans and receivables in the balance sheet.

e) Deferred share plan (DSP)

In 2007, the DSP replaced the long-term incentive plan. In terms of the DSP, Santam undertakes to deliver a fixed number of shares to selected employees on predetermined dates in the future, on condition that the employee is still in the employment of Santam on those dates. Vesting occurs in three tranches over a period of five years from the grant date.

The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date, the fact that employees will not be entitled to dividends until the shares vest, as well as an assumption on the actual percentage of shares that will be delivered. The fair value on grant date is recognised in the income statement on a straight-line basis over the vesting period of the equity instruments, adjusted to reflect actual levels of vesting, with a corresponding increase in equity.

f) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to: either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

g) Performance bonus plans

The group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments as well as growth targets. The group recognises an accrual where contractually obliged or where there is a past practice that has created a constructive obligation.

1.22 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.23 Leave pay

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

1.24 Trade and other payables

Trade and other payables, including accruals, are recognised when the group has a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the group. Trade and other payables are carried at amortised cost.

1.25 Other revenue recognition

a) Interest income

Interest income from financial assets that are classified as at fair value through income and cash and cash equivalents is recognised using the effective interest method.

b) Dividend income

Dividend income from financial assets classified as at fair value through income is recognised on the last date to register. Preference share dividends are recognised using the effective interest rate method.

1.26 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the board of directors approves the dividend.

1.27 Solvency margin

The solvency margin is calculated by expressing the total statutory shareholders' funds as a percentage of the consolidated net written premium for the past 12 months.

1.28 Comparatives

The comparative figures in the income statement have been restated to account for discontinued operations in terms of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Preparing financial statements in accordance with IFRS requires that management make use of estimates, assumptions and judgements that affect the application of the accounting principles and reported amounts of assets, liabilities and contingent liabilities at the balance sheet date as well as the reported income and expenses for the year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although estimates are based on management's best knowledge, experience, insight and judgement of current facts at the balance sheet date, the actual outcome may deviate from these estimates, possibly significantly.

a) Insurance liabilities

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of the insurance company, principally in respect of the insurance liabilities of the company.

Insurance liabilities include the provisions for unearned premiums, outstanding claims and incurred but not reported (IBNR) claims. Unearned premiums represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the balance sheet date. At each balance sheet date an assessment is made of whether the provisions for unearned premiums are adequate. A separate provision is made, based on information available at the balance sheet date, for any estimated future underwriting losses relating to unexpired risks. Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred by the balance sheet date, but that have not yet been finally settled. In addition to the inherent uncertainty of having to provide for future events, there is also considerable uncertainty concerning the eventual outcome of claims that have occurred but had not yet been reported to the insurer by the balance sheet date.

b) Process to determine significant assumptions

Insurance risks are unpredictable and the group recognises that it is not always possible to forecast, with absolute precision, future claims payable under existing insurance contracts. Over time, the group has developed a methodology that is aimed at establishing insurance provisions that have an above-average likelihood of being adequate to settle all its insurance obligations.

i) Outstanding claims

Claims provisions are determined based upon previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions. The group employs staff experienced in claims handling and rigorously applies standardised policies and procedures to claims assessment.

The ultimate cost of reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Therefore, case estimates are reviewed regularly and updated when new information becomes available.

The provision for outstanding claims is initially estimated at a gross level. A separate calculation is carried out to estimate reinsurance recoveries. The calculation of reinsurance recoveries considers the type of risk underwritten, the year in which the loss claim occurred and under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or formed part of a catastrophe reinsurance claim.

ii) Claims incurred but not reported (IBNR)

Where possible the group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected.

To determine its IBNR reserve, the group uses two main statistical techniques depending on the nature of the underlying business being reserved.

Stochastic chain-ladder methodology

The basic technique involves analysing historical claims development factors, net of reinsurance, and selecting estimated development factors based on this historical pattern. The selected development factors are applied to cumulative internal claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

It is the nature of this technique that a weighted average of claims inflation within the past data will be projected into the future. A stochastic process is applied to the choice of development factors for each accident year in accordance with standard statistical practices. Numerous simulations are performed to obtain a distribution of the ultimate claims cost.

Bornheutter-Ferguson (BF) methodology
This method uses a combination of a benchmark estimate and an estimate based on claims experience. The former is based on earned premium income; the latter is based on incurred claims to date net of expected reinsurance recoveries.

The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. As with the chain-ladder method, a stochastic process is applied to the choice of development factor for each accident year to derive a distribution of the ultimate claims cost.

The claims provisions are subject to close scrutiny both within the group's business units and at a company level. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. The results of these reviews are considered when establishing the appropriate levels of provisions for the outstanding claims and unexpired periods of risk.

For both methodologies, the IBNR reserve is held so as to be at least sufficient at the 75th percentile of the ultimate cost distribution or the statutory minimum (7% of net written premium), whichever is the highest.

In the Southern African operations, excluding alternative risk business, a 5% upward or downward adjustment in the level of sufficiency of the IBNR reserve would result in an additional charge or release of reserves on the income statement of approximately R21 million (before taxation).

As these methods use historical claims development information, they assume that the historical claims development pattern will occur again in future. There are reasons why this may not be the case. Such reasons include:

- change in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends;
- changes in mix of business; and
- random fluctuations, including the impact of large losses.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholders. There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim.

The establishment of insurance liabilities is an inherently uncertain process and as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims can vary substantially from the initial estimates, particularly for the group's long-tail lines of business. The group seeks to provide appropriate levels of claims provisions taking known facts and experience into account.

iii) Premium provisions

The group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. Most of the group's insurance contracts have an even risk profile. Therefore, the unearned premium provision is released evenly over the period of insurance using a time proportion basis. For the remainder of the insurance portfolio, which consist of engineering, crop and alternative risk business, the unearned premium is released on a basis consistent with the increasing, decreasing or uneven risk profile of the contracts involved. This risk profile is determined based on a historic time-based analysis of the incurred claims.

At each balance sheet date an assessment is made of whether the provisions for unearned premiums are adequate. If the premium level is deemed to be insufficient, based on information available at the balance sheet date, to cover the anticipated claims and operating expenses, a separate provision is made for any estimated future underwriting losses relating to unexpired risks. This assessment includes estimates of future claims frequency and other factors affecting the need for a provision for unexpired risk.

The provisions for unearned premiums are first determined on a gross level and thereafter the reinsurance impact is recognised. Deferred acquisition costs and reinsurance commission revenue is recognised on a basis that is consistent with the related provisions for unearned premiums.

b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The calculation of value in use requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate to calculate the present value.

c) Management expense provisions and accruals

At year-end, the group is exposed to various liabilities of uncertain timing or amount. Such liabilities are provided for if a present obligation has arisen, payment is probable and the amount can be estimated reliably. Management uses its discretion to estimate the expenditure required to settle the present obligation at the balance sheet date, i.e. the amount that the group would rationally pay to settle the obligation or to transfer it to a third party.

d) Provision for doubtful debt

Management considers each debtor at the balance sheet date to determine whether its debt to the company is recoverable, or whether its recovery is doubtful. Each debtor is assessed individually and provision made for those where indications exist that recovery is uncertain or where clear evidence exist that the outstanding amount will not be recovered.

e) Share-based payments

Share-based payment charges arise from the issue of share options and awards to employees. These share options and awards are classified as equity-settled share-based payments, and as such the charge is determined on date of grant on an option pricing model. In determining the share-based payment charge, a number of assumptions are used, which include expected volatility, expected dividend yield, the discount rate and the expected forfeit and lapse rate. In accordance with the principles of valuing equity-settled share-based payments, only a change in the actual experience of forfeit compared to the estimated forfeit rate assumption will impact on the charge in the income statement. All other assumptions are determined at grant date and are not amended. Refer to note 15.

f) Non-current assets classified as held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. The carrying amount of non-current assets classified as held for sale was compared to the expected consideration and no impairment was deemed necessary.

3. RISK AND CAPITAL MANAGEMENT

3.1 Risk management framework

The group has established an enterprise risk management framework that is designed to identify, assess, measure and manage exposure to risk. Its primary objective is to protect the group from events that hinder the sustainable achievement of the group's performance objectives, including failing to exploit opportunities.

The following key elements of Santam's risk management framework are discussed in the governance section of the report:

- The boards' responsibility for risk management and their opinion on the effectiveness of the process
- The risk strategy, key principles and policy for the overall management and governance of enterprise risk management including roles, responsibilities and reporting structures
- The approach followed to build an enterprise view of the risks faced by Santam

The sensitivity analyses presented below are based on reasonable possible changes in market variables for equity prices, interest rates and foreign exchange rates for the group.

For the discussions below, the following financial instruments and insurance balances are disclosed in classes based on their similar characteristics:

Financial and insurance assets	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
Quoted equity securities	4 434	5 415	4 177	4 940
Unquoted equity securities	20	20	9	10
Total equity securities	**4 454**	**5 435**	**4 186**	**4 950**
Quoted debt securities	2 173	1 339	1 931	713
Unquoted debt securities	728	767	426	456
Total debt securities	**2 901**	**2 106**	**2 357**	**1 169**
Receivables due from contract holders	1 358	921	1 105	716
Reinsurance receivables	237	182	108	152
Other loans and receivables	352	291	534	518
Total loans and receivables including insurance receivables	**1 947**	**1 394**	**1 747**	**1 386**
Reinsurance assets	2 026	2 080	1 505	1 618
Deferred acquisition costs	239	211	203	170
Cash and cash equivalents	3 445	5 142	1 347	2 095
Non-current assets classified as held for sale	1 994	–	–	–
Total financial and insurance assets	**17 006**	**16 368**	**11 345**	**11 388**

Financial and insurance liabilities	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
Debt securities	908	–	908	–
Derivatives	47	–	47	–
Investment contracts	525	276	–	–
Deferred reinsurance acquisition revenue	99	74	64	58
Cell owners' interest	336	329	–	–
Insurance liabilities	7 630	7 694	5 636	4 965
Trade and other payables	1 492	1 213	1 629	1 904
Liabilities directly associated with non-current assets classified as held for sale	1 606	–	–	–
Total financial and insurance liabilities	**12 643**	**9 586**	**8 284**	**6 927**

3.2 Regulatory impact on risk and risk assessments

The group's insurance operations are subject to regulatory requirements that prescribe the type, quality and concentrations of investments, and the level of assets to be maintained in local currency to meet insurance liabilities. These requirements help to maintain the group's market risk at an acceptable level.

The group monitors specific risks on a regular basis through the group risk monitoring framework. Business units are required to disclose to the group risk function all material risks, along with information on likelihood and severity of risks, and the mitigating actions taken or planned. This enables the group to assess its overall risk exposure and to develop a groupwide risk map, identifying any concentration of risk that may exist, and to define which risks and what level of risk the group is prepared to accept. The risk map is refreshed quarterly, and business units are required to escalate material changes intra-quarter.

3.3 Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices and foreign currency exchange rates. Financial assets are disclosed in the following classes based on their similar characteristics:

- Quoted equity and debt securities
- Unquoted equity and debt securities
- Receivables due from contract holders
- Reinsurance receivables

- Other loans and receivables
- Cash and other short-term interest-bearing instruments
- Non-current assets classified as held for sale

Market risk arises in business units due to fluctuations in both the value of liabilities and the value of investments held. At group level, it also arises in relation to the overall portfolio of international businesses and in the value of investment assets owned directly by the shareholders.

The group has established a policy on market risk which sets out the principles that businesses are expected to adopt in respect of management of the key market risks to which the group is exposed. The group monitors adherence to this market risk policy and regularly reviews how business units are managing these risks through the group investment committee. For each of the major components of market risk, described in more detail below, the group has put in place additional policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

3.3.1 Price risk

The group is subject to price risk due to daily changes in the market values of its equity and debt securities portfolios.

The group's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling methods. The group's holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by management and statutory requirements. The group's largest investment in any one company comprises 6.8% of the total listed equities and 1.7% of the total assets. The company's largest investment in any one company comprises 7.1% of the total listed equities and 2.3% of the total assets.

At 31 December 2007, the group's listed equities were recorded at their fair value of R4 435 million (2006: R5 180 million). A hypothetical 10% decline or increase in each individual share price would decrease/increase profit before taxation by R444 million (2006: R518 million). The company's listed equities were recorded at their fair value of R4 176 million (2006: R4 767 million). A hypothetical 10% decline or increase in each individual share price would decrease/increase profit before taxation by R418 million (2006: R477 million).

Short-term insurance liabilities are not directly sensitive to equity price risk. Long-term investment contract liabilities are sensitive to price risk of linked assets.

The investment committee actively monitors equity assets owned directly by the group, which include some material shareholdings in the group's strategic business partners. Concentrations of specific equity holdings, e.g. strategic holdings, are also monitored.

3.3.2 Interest rate risk

Interest rate risk arises primarily from the group's investments in long-term debt and fixed income securities, which are exposed to fluctuations in interest rates. Exposure to interest rate risk is monitored through several measures that include scenario testing and stress testing using measures such as duration.

Interest rate risk is also managed using a variety of derivative instruments, including futures, options and swaps, to provide a degree of hedging against unfavourable market movements in interest rates inherent in the assets backing technical liabilities. At 31 December 2007, the group had entered into a number of interest rate swap agreements to mitigate the effects of potential adverse interest rate movements on underlying financial assets to enable close matching of assets and liabilities.

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing. Unquoted debt securities have variable interest rates linked to the prime rate and are valued using observable market data.

An increase or decrease of 1% in the respective interest rates would result in the following changes in the fair values of these financial instruments:

GROUP **Financial assets**	**2007** **1% increase** **R million**	**2007** **1% decrease** **R million**	**2006** **1% increase** **R million**	**2006** **1% decrease** **R million**
Debt securities – quoted	(38.1)	41.2	(27.4)	29.0
Debt securities – unquoted	5.9	(5.9)	2.9	(2.9)
Total debt securities	**(32.2)**	**35.3**	**(24.5)**	**26.1**

An increase or decrease of 1% in the interest rates relating to debt securities and cash and cash equivalents would result in an increase in income of R2.25 million (2006: R26.92 million) or a decrease in income of RNil (2006: R25.32 million) respectively.

GROUP Financial liabilities	2007 1% increase R million	2007 1% decrease R million	2006 1% increase R million	2006 1% decrease R million
Debt securities – quoted	(55.5)	60.4	–	–
Derivative instruments	(2.7)	2.9	–	–
Total debt securities	**(58.2)**	**63.3**	**–**	**–**

An increase or decrease of 1% in the interest rates relating to debt securities and derivative instruments would result in an increase in income of R58.2 million (2006: RNil) or a decrease in income of R63.1 million (2006: RNil) respectively.

COMPANY Financial assets	2007 1% increase R million	2007 1% decrease R million	2006 1% increase R million	2006 1% decrease R million
Debt securities – quoted	(33.5)	36.3	(23.9)	25.2
Debt securities – unquoted	2.9	(2.9)	2.9	(2.9)
Total debt securities	**(30.6)**	**33.4**	**(21.0)**	**22.3**

An increase or decrease of 1% in the interest rates relating to debt securities and cash and cash equivalents would result in a decrease in income of R17.1 million (2006: R0.1 million) or an increase in income of R19.9 million (2006: R1.4 million) respectively.

COMPANY Financial liabilities	2007 1% increase R million	2007 1% decrease R million	2006 1% increase R million	2006 1% decrease R million
Debt securities – quoted	(55.5)	60.4	–	–
Derivative instruments	(2.7)	2.7	–	–
Total debt securities	**(58.2)**	**63.1**	**–**	**–**

An increase or decrease of 1% in the interest rates relating to debt securities and derivative instruments would result in an increase in income of R58.2 million (2006: RNil) or a decrease in income of R63.1 million (2006: RNil) respectively.

3.3.3 Foreign currency risk

The group's exposure to currency risk is mainly in respect of foreign investments made in line with the long-term strategy approved by the board for seeking desirable international diversification of investments to expand its income stream. The company has investments in foreign subsidiaries whose net assets are exposed to currency translation risk, primarily to British pound and Euro. Refer to note 13. In addition, the Southern African operations have foreign exchange exposure in respect of net monetary assets denominated in foreign currency.

The group does not take cover on foreign currency transactions and balances.

Assets and liabilities denominated in foreign currencies included in the balance sheet

GROUP 31 December 2007	Euro € million	United-States dollar $ million	British pound £ million	Total exposure R million
Equities and similar securities	–	–	18.07	246
Debentures, insurance policies, public sector stocks and other loans	–	–	44.13	601
Cash, deposits and similar securities	0.14	41.89	63.11	1 148
Trade and other receivables	–	1.55	9.05	134
Trade and other payables	–	(1.11)	(8.49)	(123)
Net insurance liabilities	–	–	(91.61)	(1 248)
	0.14	**42.33**	**34.26**	**758**
Non-current assets held for sale	–	–	(33.32)	(454)
Foreign currency exposure	**0.14**	**42.33**	**0.94**	**304**

COMPANY 31 December 2007	Euro € million	United States dollar $ million	British pound £ million	Total exposure R million
Equities and similar securities	–	–	–	–
Debentures, insurance policies, public sector stocks and other loans	–	–	–	–
Cash, deposits and similar securities	–	19.80	3.38	182
Trade and other receivables	–	1.55	–	11
Trade and other payables	–	(1.11)	(0.15)	(10)
Net insurance liabilities	–	–	–	–
Foreign currency exposure	**–**	**20.24**	**3.23**	**183**

Exchange rates:				
Closing rate	10.0181	6.8616	13.6245	
Average rate	9.6812	7.0692	14.0926	

GROUP 31 December 2006	Euro € million	United States dollar $ million	British pound £ million	Total exposure R million
Equities and similar securities	–	–	22.01	302
Debentures, insurance policies, public sector stocks and other loans	–	–	37.54	515
Cash, deposits and similar securities	38.26	10.35	49.27	1 105
Trade and other receivables	1.08	–	1.02	24
Trade and other payables	(1.08)	(0.28)	(3.35)	(58)
Net insurance liabilities	(13.43)	–	(52.19)	(841)
Foreign currency exposure	**24.83**	**10.07**	**54.30**	**1 047**

COMPANY 31 December 2006	Euro € million	United States dollar $ million	British pound £ million	Total exposure R million
Equities and similar securities	–	–	–	–
Debentures, insurance policies, public sector stocks and other loans	–	–	–	–
Cash, deposits and similar securities	–	8.51	1.10	75
Trade and other receivables	–	0.35	–	2
Trade and other payables	–	(0.57)	(0.62)	(13)
Net insurance liabilities	–	–	–	–
Foreign currency exposure	**–**	**8.29**	**0.48**	**64**

Exchange rates:				
Closing rate	9.3058	7.0551	13.7200	
Average rate	8.5314	6.7881	12.6608	

The group's foreign exchange policy requires that each of the group's subsidiaries maintain sufficient assets in their local currencies to meet local currency liabilities. Therefore capital held by the group's international business units should be able to support local business activities regardless of foreign currency movements. However, such movements might impact the value of the group's consolidated shareholders' equity which is expressed in rand.

A 10% change in the Rand exchange rate against GBP and USD would have the following impact on net assets:

GROUP	10% increase in Rand/GBP R million	10% decrease in Rand/GBP R million	10% increase in Rand/ USD R million	10% decrease in Rand/USD R million
Impact on net assets at 31 December 2007	46.67	(46.67)	29.05	(29.05)
Impact on net assets at 31 December 2006	74.50	(74.50)	7.10	(7.10)

COMPANY	10% increase in Rand/GBP R million	10% decrease in Rand/GBP R million	10% increase in Rand/ USD R million	10% decrease in Rand/USD R million
Impact on net assets at 31 December 2007	0.44	(0.44)	13.89	(13.89)
Impact on net assets at 31 December 2006	0.07	(0.07)	5.85	(5.85)

The foreign exchange profit or losses arising from the translation of International business unit balance sheets from their functional currencies into rand are recognised in the currency translation reserve. Therefore, these movements in exchange rates have no impact on the profit of the group.

3.3.4 Derivatives risk

Derivatives are primarily used for efficient investment management, risk hedging purposes or to structure specific products. The group does not use derivative financial instruments for speculative purposes, but instead to manage financial risks and to preserve its capital base. Predetermined mandates control the use of derivative financial instruments.

Over-the-counter derivative contracts are entered into only with approved counterparties, in accordance with our group policies, effectively reducing the risk of credit loss. The group applies strict requirements to the administration and valuation process it uses, and has a control framework that is consistent with market and industry practice for the activity that it has undertaken.

3.4 Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.
Key areas where the group is exposed to credit risk are:

- investments and cash equivalents;
- amounts due from insurance policyholders;
- amounts due from insurance contract intermediaries; and
- reinsurers' share of insurance liabilities.

Santam determines counterparty credit quality by reference to ratings from independent ratings agencies such as Standard & Poor's or, where such ratings are not available, by internal analysis. Santam seeks to avoid concentration of credit risk to groups of counterparties, to business sectors, product types, and geographical segments.

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB. Financial assets which fall outside this range are classified as not rated. Credit limits, for each counterparty, are set based on default probabilities that are in turn based on the ratings of the counterparty concerned.

The following tables provides information regarding the aggregated credit risk exposure for financial assets with external credit ratings as at 31 December 2007.

GROUP	**Credit rating**									
R million	**AAA**	**AA+**	**AA**	**AA –**	**A+**	**A**	**A-**	**BB / BBB**	**Not rated**	**Carrying value**
Debt securities – quoted	705	406	293	416	50	144	9	8	142	2 173
Debt securities – unquoted	–	–	34	77	247	–	–	302	68	728
Total	**705**	**406**	**327**	**493**	**297**	**144**	**9**	**310**	**210**	**2 901**
Receivables due from contract holders/intermediaries	8	10	88	18	–	–	–	6	1 228	1 358
Reinsurance receivables	1	11	44	79	3	82	1	8	8	237
Other loans and receivables	–	–	–	–	–	–	–	–	352	352
Total	**9**	**21**	**132**	**97**	**3**	**82**	**1**	**14**	**1 588**	**1 947**
Cash and other short-term interest-bearing instruments	1 230	215	1 517	260	49	73	39	1	61	3 445
Non-current assets held for sale	799	–	539	–	–	76	–	–	110	1 524

COMPANY	**Credit rating**									
R million	**AAA**	**AA+**	**AA**	**AA –**	**A+**	**A**	**A-**	**BB / BBB**	**Not rated**	**Carrying value**
Debt securities – quoted	614	404	157	415	49	144	9	–	139	1 931
Debt securities – unquoted	–	–	34	77	247	–	–	–	68	426
Total	**614**	**404**	**191**	**492**	**296**	**144**	**9**	**–**	**207**	**2 357**
Receivables due from contract holders/intermediaries	8	10	88	18	–	–	–	6	975	1 105
Reinsurance receivables	–	11	1	78	2	7	–	9	–	108
Other loans and receivables	–	–	–	–	–	–	–	–	534	534
Total	**8**	**21**	**89**	**96**	**2**	**7**	**–**	**15**	**1 509**	**1 747**
Cash and other short-term interest-bearing instruments	768	171	33	229	48	28	12	–	58	1 347

As at 31 December 2006

GROUP	**Credit rating**									
R million	**AAA**	**AA+**	**AA**	**AA –**	**A+**	**A**	**A-**	**BB / BBB**	**Not rated**	**Carrying value**
Debt securities – quoted	801	192	92	92	83	15	2	16	46	1 339
Debt securities – unquoted	35	–	36	–	405	–	–	276	15	767
Total	**836**	**192**	**128**	**92**	**488**	**15**	**2**	**292**	**61**	**2 106**
Receivables due from contract holders/intermediaries	9	10	24	–	14	–	–	4	860	921
Reinsurance receivables	5	3	24	73	21	23	3	16	14	182
Other loans and receivables	–	–	–	–	–	–	–	–	291	291
Total	**14**	**13**	**48**	**73**	**35**	**23**	**3**	**20**	**1 165**	**1 394**
Cash and other short-term interest-bearing instruments	1 293	530	2 106	364	227	80	15	338	189	5 142

COMPANY R million	AAA	AA+	AA	AA –	A+	A	A-	BB / BBB	Not rated	Carrying value
	Credit rating									
Debt securities – quoted	233	192	51	92	83	14	–	–	48	713
Debt securities – unquoted	–	–	36	–	405	–	–	–	15	456
Total	**233**	**192**	**87**	**92**	**488**	**14**	**–**	**–**	**63**	**1 169**
Receivables due from contract holders/intermediaries	9	10	24	–	14	–	–	4	655	716
Reinsurance receivables	5	3	18	72	21	14	2	17	–	152
Other loans and receivables	–	–	–	–	–	–	–	–	518	518
Total	**14**	**13**	**42**	**72**	**35**	**14**	**2**	**21**	**1 173**	**1 386**
Cash and other short-term interest-bearing instruments	778	527	139	258	227	40	–	–	126	2 095

The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

For receivables that are due from contract holders and intermediaries relating to the Southern African business amounting to R699 million (2006: R696 million) that are not rated the group is also protected by guarantees provided by the Intermediary Guarantee Facility for the non-payment of premiums collected by intermediaries. For the company, this amounts to R460 million (2006: R491 million).

The group's financial instruments, except for amounts owed by reinsurers, do not represent a concentration of credit risk, because the group deals with a variety of major banks and its accounts receivable are spread among a number of major companies and intermediary parties, customers and geographic areas.

Reinsurance credit exposures

Reinsurance is used to manage insurance risk. However, this does not discharge the group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the group remains liable for the payment to the policyholder. The group has some exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any contract. The group's largest reinsurance counterparty is Munich Re. This exposure is monitored on a regular basis with the forecast to completion monitored for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the group will arise.

Cell owners' interest

In the event that claims incurred by the cell captive exceed the related assets, the group will be exposed to the credit risk of the related cell owners until the solvency requirements of the cell captives have been met by the cell owner. At year-end the group had no such exposure (2006: Nil).

Cell owners' credit risk is evaluated before new cell arrangements are established. The solvency of the cells are also assessed on a regular basis.

Impairment history

The following tables provide information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

As at 31 December 2007

GROUP R million	Neither past due nor impaired	Financial assets that are past due but not impaired				Financial assets that have been impaired	Impairment	Carrying value
		0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year			
Debt securities – quoted	2 173	–	–	–	–	–	–	2 173
Debt securities – unquoted	728	–	–	–	–	–	–	728
Total	**2 901**	**–**	**–**	**–**	**–**	**–**	**–**	**2 901**
Receivables due from contract holders/ intermediaries	1 357	1	–	–	–	–	–	1 358
Reinsurance receivables	235	–	–	–	2	20	(20)	237
Other loans and receivables	352	–	–	–	–	40	(40)	352
Total	**1 944**	**1**	**–**	**–**	**2**	**60**	**(60)**	**1 947**
Cash and other short-term interest-bearing instruments	3 445	–	–	–	–	–	–	3 445
Non-current assets held for sale	1 524	–	–	–	–	–	–	1 524

COMPANY R million	Neither past due nor impaired	Financial assets that are past due but not impaired				Financial assets that have been impaired	Impairment	Carrying value
		0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year			
Debt securities – quoted	1 931	–	–	–	–	–	–	1 931
Debt securities – unquoted	426	–	–	–	–	–	–	426
Total	**2 357**	**–**	**–**	**–**	**–**	**–**	**–**	**2 357**
Receivables due from contract holders/ intermediaries	1 105	–	–	–	–	–	–	1 105
Reinsurance receivables	106	–	–	–	2	11	(11)	108
Other loans and receivables	534	–	–	–	–	78	(78)	534
Total	**1 745**	**–**	**–**	**–**	**2**	**89**	**(89)**	**1 747**
Cash and other short-term interest-bearing instruments	1 347	–	–	–	–	–	–	1 347

As at 31 December 2006

GROUP R million	Neither past due nor impaired	Financial assets that are past due but not impaired				Financial assets that have been impaired	Impairment	Carrying value
		0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year			
Debt securities – quoted	1 339	–	–	–	–	–	–	1 339
Debt securities – unquoted	767	–	–	–	–	–	–	767
Total	**2 106**	**–**	**–**	**–**	**–**	**–**	**–**	**2 106**
Receivables due from contract holders/ intermediaries	921	–	–	–	–	–	–	921
Reinsurance receivables	173	–	–	–	9	29	(29)	182
Other loans and receivables	291	–	–	–	–	–	–	291
Total	**1 385**	**–**	**–**	**–**	**9**	**29**	**(29)**	**1 394**
Cash and other short-term interest-bearing instruments	5 142	–	–	–	–	–	–	5 142

COMPANY R million	Neither past due nor impaired	Financial assets that are past due but not impaired				Financial assets that have been impaired	Impairment	Carrying value
		0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year			
Debt securities – quoted	713	–	–	–	–	–	–	713
Debt securities – unquoted	456	–	–	–	–	–	–	456
Total	**1 169**	**–**	**–**	**–**	**–**	**–**	**–**	**1 169**
Receivables due from contract holders/ intermediaries	716	–	–	–	–	–	–	716
Reinsurance receivables	143	–	–	–	9	10	(10)	152
Other loans and receivables	518	–	–	–	–	38	(38)	518
Total	**1 377**	**–**	**–**	**–**	**9**	**48**	**(48)**	**1 386**
Cash and other short-term interest-bearing instruments	2 095	–	–	–	–	–	–	2 095

There were no material financial assets that would have been past due or impaired had the terms not been renegotiated.

There is no concentration of credit risk with respect to loans and receivables, as the group has a large number of locally and internationally dispersed debtors.

The impairment of financial assets were based on a high degree of uncertainty to recover the amounts that are due.

3.5 Insurance risk

The group issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the group manages them.

Terms and conditions of insurance contracts

Engineering – Provides cover for risks relating to:

- the possession, use or ownership of machinery or equipment, other than a motor vehicle, in the carrying on of a business;
- the erection of buildings or other structures or the undertaking of other works; and
- the installation of machinery or equipment.

Guarantee – A contract whereby the insurer assumes an obligation to discharge the debts or other obligations of another person in the event of the failure of that person to do so.

Liability – Provide cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.

Motor – Covers risks relating to the possession, use or ownership of a motor vehicle. This cover can include risks relating to vehicle accident, theft or damage to third-party property or legal liability arising from the possession, use or ownership of the insured vehicle.

Accident and health – Provide cover for death, disability and certain health events. This excludes the benefits to the provider of health services, and is linked directly to the expenditure in respect of health services.

Property – Covers risks relating to the use, ownership, loss of or damage to movable or immovable property other than a risk covered more specifically under another insurance contract.

Transportation – Covers risks relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water. It also covers risks relating to the storage, treatment or handling of goods that are conveyed.

Crop – Provides indemnity for crops while still on the field against hail, drought and excessive rainfall. Cover ceases as soon as harvesting has taken place.

Alternative risk transfer (ART) – The use of techniques, other than traditional insurance, that include at least an element of insurance risk, to provide entities with risk coverage or protection.

Insurance risk in the group arises from:

- fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- unexpected claims arising from a single source;
- inaccurate pricing of risks when underwritten;
- inadequate reinsurance protection or other risk transfer techniques; and
- inadequate reserves.

The risks under any one insurance contract are the frequency with which the insured event occurs and the uncertainty of the amount of the resulting claims. For a portfolio of insurance contracts where the theory of probability is applied to pricing and reserving, the principal risks the group face are that the actual claims and benefit payments exceed the premiums charged for the risks assumed and that the reserves set aside for policyholders' liabilities, whether they are known or still to be reported, prove to be insufficient.

By the very nature of an insurance contract, this risk is random and therefore unpredictable. Changing risk parameters and unforeseen factors, such as patterns of crime, economic and geographical circumstances, may result in unexpectedly large claims. Insurance events are random and the actual number of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Pricing

The group bases its pricing policy on the theory of probability. Underwriting limits are set for underwriting managers and brokers to ensure that this policy is consistently applied. The group also has the right to re-price and change the conditions for accepting risks on renewal. It also has the ability to impose deductibles and reject fraudulent claims.

Through the use of Santam's extensive expertise, well-maintained data resources, selective underwriting practices and pricing techniques it is able to produce appropriate and competitive premium rates.

The net claims ratio for the group (continued activities only), which is important in monitoring insurance risk, has developed as follows over the past seven years:

Loss history	2007	2006	2005	2004	2003	2002	2001
Net claims paid and provided (%)*	68.2	68.6	65.3	57.0	64.8	70.7	70.7

**Expressed as a percentage of net earned premiums*

Factors that aggravate insurance risk include a lack of risk diversification in terms of type and amount of risk, geographical location and the industries covered. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. Therefore a diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

The group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted, to achieve, within each of these categories, a sufficiently large population of risks to reduce the variability of the expected outcome. A specialised catastrophe reinsurance programme mitigates the risk arising from this.

The group underwrites insurance contracts in Southern Africa as well as Europe. The European insurance operations are now classified as discontinued operations.

Reserving

Claims are analysed separately for long-tail and short-tail claims. Short-tail claims can be estimated with greater reliability, and the group estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allow the group to achieve a higher degree of certainty about the estimated cost of claims, and relatively lower levels of IBNR are held at year-end.

The longer time needed to assess the emergence of a long-tail claim makes the estimation process more uncertain for such claims. The uncertain nature of the costs of this type of claim causes greater uncertainty in the estimates, hence the higher level of IBNR. Where possible, the group adopts multiple techniques to estimate the required level of reserving. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year. At year-end, the group believes that its liabilities for long-tail and short-tail claims are adequate.

In calculating the estimated cost of unpaid claims, the group's estimation methodology is based on standard statistical techniques. For claims that have been reported to Santam by the valuation date, expert assessors estimate the expected cost of final settlement. In addition to this, testing of the entire portfolio is done to determine whether or not these estimates are likely to be sufficient in aggregate or if an additional reserve amount is required.

For claims that have not been reported to Santam by the valuation date the chain-ladder methodology as well as Bornhuetter-Ferguson techniques are used to determine the expected cost of these unreported claims (refer note 2).

A stochastic reserving process is performed and Santam holds its reserves for unpaid claims at at least the 75th percentile level of sufficiency.

Claim provisions for all classes of business are regularly reviewed and audited internally to make sure they are sufficient. These analyses draw on the expertise and experience of a wide range of specialists, such as actuaries, underwriting and accounting experts.

Accumulation risk

The group is exposed to accumulation risk in the form of geographical (large metropolitan areas) as well as class of business concentrations of risk. The risk appetite policy dictates how much capital the company is willing to put at risk in the pursuit of value. It is within this risk appetite framework that the reinsurance program has been selected to mitigate accumulation risk within its portfolio.

Reinsurance

The group obtains third-party reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or the company's capital.
This cover is placed on the local and international reinsurance market. The group uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses to measure the effectiveness of the reinsurance programme and the net exposure of the group. The core components of the reinsurance programme comprise of:

- Individual excess-of-loss cover for property, liability and engineering risks, which provides protection to limit losses to R50 million per loss in any one year
- Catastrophe cover to the extent of 2.9% of the total exposure of the significant geographical areas, amounting to protection of up to R4 billion

The board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is placed with external reinsurers that have an international credit rating of no less than A – from Standard & Poor's or AM Best.

3.6 Liquidity risk

Liquidity risk is the risk that the business will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk arises when there is mismatching between the maturities of liabilities and assets.

The group is exposed to daily calls on its available cash resources from claims. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The board sets limits on the minimum proportion of maturing funds available to meet such calls.

The group actively manages its cash resources, split between short-term and long-term to ensure sufficient cash is at hand to settle insurance liabilities, based on monthly float projections. The group has significant liquid resources to cover its obligations.

The following maturity analysis provides details on the expected settlement of the financial liabilities recognised at reporting date:

As at 31 December 2007

GROUP	Within 1 year	2 to 5 years	More than 5 years
	R million	R million	R million
Debt securities	82	413	1 306
Investment contracts	178	148	199
Derivatives	–	–	47
Cell owners' interest	–	336	–
Insurance liabilities	7 307	323	7 630
Trade and other payables	1 408	84	–
Total	**8 975**	**1 304**	**9 182**

COMPANY	Within 1 year	2 to 5 years	More than 5 years
	R million	R million	R million
Debt securities	82	413	1 306
Derivatives	–	–	47
Insurance liabilities	5 321	315	5 636
Trade and other payables	1 545	84	–
Total	**6 948**	**812**	**6 989**

As at 31 December 2006

GROUP	Within 1 year	2 to 5 years	More than 5 years
	R million	R million	R million
Investment contracts	–	276	–
Cell owners' interest	–	329	–
Insurance liabilities	7 388	306	–
Trade and other payables	1 213	–	–
Total	**8 601**	**911**	**–**

COMPANY	Within 1 year	2 to 5 years	More than 5 years
	R million	R million	R million
Insurance liabilities	4 668	297	–
Trade and other payables	1 904	–	–
Total	**6 572**	**297**	**–**

3.7 Operational risk

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events. These risks are mitigated through a comprehensive system of internal controls, comprising policies and standards, procedures, systems and information to assist in achieving established objectives and goals.

This definition is intended to include all risks to which the group is exposed, other than the strategic, legal and financial risks considered elsewhere. Hence, operational risks include for example, information technology, information security, human resources, project management, outsourcing, tax, legal, fraud and compliance risks. Our operational risk landscape includes the minimising of possible reputational damage, wide-ranging communication as well as enhancing our brand to be the brand of choice. We are also increasingly using outsourced business partners.

Business unit management has primary responsibility for the effective identification, management, monitoring and reporting of operational risks to the business unit management team and to the group as part of the quarterly risk reporting process described in the governance section of the annual report.

The initiation of transactions and their administration is conducted based on the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions. Control is further strengthened through the settlement of transactions through custodians. The custodians are also responsible for the safe custody of the entity's securities. To ensure validity, all transactions are confirmed with counterparties independently from the initial executors.

3.8 Legal risk

Legal risk is the risk that the group will be exposed to contractual obligations which have not been provided for. The risk arises from the uncertainty of the enforceability, through legal or juridical processes, of the obligations of Santam's clients and counterparties, including contractual provisions intended to reduce credit and product exposure by providing for the netting of mutual obligations.

3.9 Capital management

Santam's capital management philosophy is to maximise the return on shareholders' capital within an appropriate risk framework. The aim is to increase shareholder wealth by assisting management to make informed, strategic business decisions around:

- the amount and sources of capital in the business;
- the allocation of capital between business units; and
- the level and type of risk within the company.

3.9.1 Quantification of risk

Santam has developed an internal dynamic financial analysis model of its business to assess its capital requirements. This stochastic model was initially developed in 2003 and has undergone extensive development and testing since then. The model is used, within Santam, for the following purposes:

- Calculating internal capital requirements at a global and line of business level
- Allocating capital to individual lines of business
- Determining the underwriting margins needed to achieve Santam's required return on risk adjusted capital (RORAC) at a global and line of business level
- Evaluating Santam's reinsurance structure by looking at the type and level of reinsurance required as well as the expected cost of this reinsurance

The model incorporates the following areas of risk:

- Market risk
- Underwriting risk
- Reserve risk
- Credit risk
- Operational and other risk

Internal capital requirement are determined at the 99.5th level of sufficiency over a one-year time period. This level is based on the draft Financial Condition Reporting (FCR) issued paper published by the Financial Services Board (FSB) with recommendations in line with global developments.

Market risk

Market risk refers to the risk that a fall in the value of Santam's invested assets can negatively affect its solvency levels.

A stochastic simulation of the assets held by Santam is performed at an asset class level. Assumptions for each asset class are determined based on historic experience and are adjusted for the current market climate.

In addition to the stochastic simulation of assets, various market shock scenarios are run on the value of assets to determine their affect on solvency levels and help set the capital required for this type of risk.

Underwriting risk

Underwriting risk refers to the risk that premiums charged may be insufficient or that losses incurred are substantially above expectations.

The model incorporates assumptions for attritional, large and catastrophe losses at a line of business level. After allowing for correlations between the various lines of business, internal capital is allocated for underwriting risk based on the difference between the losses occurring at the 99.5th percentile and their expected value.

Reserve risk

Reserve risk refers to the risk that the net technical reserves held on the balance sheet to pay for reported and future claims as well as their associated expenses may prove insufficient.

Santam holds its technical reserves at a minimum of the 75th percentile level of sufficiency in accordance with draft FCR guidelines and global best practice.

An additional capital amount is held to bring the reserve sufficiency up to the 99.5th percentile at a company level.

Credit risk

Credit risk refers to the risk that the default of a third party may affect Santam's solvency. Santam's main credit risk exposure is to its reinsurers. The risk being that the reinsurers will not be able to meet their financial obligations to Santam as and when they fall due.

The solvency capital required for credit risk is calculated by multiplying the aggregate exposure to a reinsurer by a probability of default based on its international credit rating.

Operational and other risks

Operational risk refers to the risk arising from the failure of operational processes, internal procedures and controls leading to financial loss.

Santam holds operational risk capital for its international operations slightly above that held by general insurers completing individual capital assessments for the Financial Services Authority in the United Kingdom.

Internal capital requirements

The results of the internal model indicate that Santam requires solvency capital in the range of 20% to 25% of net written premium which is just below the current regulatory solvency level of 25% of net written premium.

3.9.2 Target capital

Santam's board of directors have targeted a solvency level in the range of 35% to 45% of net written premium. The margin over the internal solvency requirement is needed for the following reasons:

- As a buffer over regulatory capital requirements
- To fund new business growth
- To maintain Santam's insurer financial strength credit rating
- To allow for any corporate action that may arise

Santam's solvency margin has historically been well above the statutory limit of 25%. The statutory solvency margin is based on the individual company's capital, excluding intangible assets, prepaid expenses and non-approved reinsurance assets and liabilities. After a share buy-back programme initiated earlier this year as well as a special dividend payment in December 2007 the solvency margin has been reduced to 42% of net written premium as at 31 December 2007 (refer note 41).

3.9.3 Source of capital

In 2007, Santam reorganised the source of its capital. This involved the substitution of a portion of its ordinary equity capital for hybrid capital in the form of subordinated debt.

The purpose of the change was to lower Santam's weighted average cost of capital given that the capital charge for subordinated debt is lower than that of ordinary equity capital. A further benefit is that the return on equity capital is enhanced due to the lower equity capital base.

In May 2007 Santam successfully placed R600 million of subordinated debt in the market at a fixed effective rate of 8.6%, being a credit spread of 106 basis points to the R203 companion bond. In November 2007 Santam issued further subordinated debt to the aggregate value of R400 million under the same programme at a credit spread of 140 basis points to the R203 bond, representing a fixed rate of 9.5%.

FSB approval was obtained for the debt issue, and Santam will obtain regulatory 'equity credit' for the fair value of the full R1 billion debt in issue.

3.9.4 Capital allocation

One of the uses of the internal model is to allocate capital to the individual lines of business. Each business unit within Santam is aware of the capital allocated to the lines of business within its ambit and the return on capital performance of each line is closely monitored.

By combining the capital required at a line of business level with the required return on this capital it is possible to determine the net underwriting margin that the various lines of business need to achieve to meet their required RORAC target. This knowledge allows Santam to price its products appropriately and competitively in the market.

3.9.5 Risk appetite

Santam has formulated a risk appetite policy which aims to quantify the amount of capital the company is willing to put at risk in the pursuit of value creation. By analysing the various risk/reward outcomes under different reinsurance, capital and asset allocation scenarios, Santam is able to identify its most appropriate structure given the defined assessment criteria.

Based on the output of the internal model, various probabilities relating to return on capital and solvency measures are determined and compared to predetermined benchmarks.

It is within this risk appetite framework that Santam has selected its asset allocation and reinsurance programme which is among the most important determinants of risk and hence capital requirements within the organisation.

4. SEGMENT REPORT FOR CONTINUING OPERATIONS

To ensure meaningful disclosure, only the continuing activities are reported on a segmented basis below. The discontinued operations are disclosed in note 13.

4.1 Primary segmentation

Business activity determines the primary segmentation, i.e. insurance activities and investment activities, as these activities mainly affect the group's risks and returns.

– Insurance activities: All insurance underwriting activities undertaken by the group

– Investment activities: All investment-related activities undertaken by the group

There were no inter-segment transfers or transactions between these segments.

Business activity	**Insurance activities R million**	**Investment activities R million**	**Total R million**
2007			
Revenue	13 173	832	**14 005**
Gross written premium	13 173		**13 173**
Net written premium	10 919		**10 919**
Net earned premium	10 716		**10 716**
Claims incurred	7 302		**7 302**
Net commission	1 488		**1 488**
Management expenses	1 262		**1 262**
Underwriting result	664	–	**664**
Investment return on insurance funds	319		**319**
Net insurance result	983	–	**983**
Investment income net of management fee		729	**729**
income from associates		76	**76**
Amortisation of intangible asset	(2)		**(2)**
Income before taxation	981	805	**1 786**
Total assets	7 897	7 530	**15 427**
Total liabilities	10 724	979	**11 703**
2006*			
Revenue	12 115	1 561	**13 675**
Gross written premium	12 115		**12 115**
Net written premium	10 104		**10 104**
Net earned premium	9 652		**9 652**
Claims incurred	6 620		**6 620**
Net commission	1 359		**1 359**
Management expenses	1 046		**1 046**
Underwriting result	627	–	**627**
Investment return on insurance funds	250		**250**
Net insurance result	877	–	**877**
Investment income net of management fee		1 410	**1 410**
income from associates		105	**105**
Amortisation of intangible asset	(2)		**(2)**
Income before taxation	875	1 515	**2 390**
Total assets	7 975	7 046	**15 021**
Total liabilities	8 995	22	**9 017**

* *The 2006 business activities include the results of Santam Corporate (UK) which was sold on 29 December 2006.*

Insurance activities

The group's insurance activities are spread over various classes of short-term insurance.

Insurance class	Gross written premium R million	Under-writing result R million	Total assets* R million	Total liabilities* R million
2007				
Accident and health	331	12	33	138
Alternative risk	1 780	50	456	1 880
Crop	436	(87)	114	254
Engineering	508	201	64	240
Guarantee	20	30	22	37
Liability	1 068	301	891	1 994
Miscellaneous	27	(1)	9	26
Motor	4 941	164	60	1 135
Property	3 719	(10)	542	1 769
Transportation	343	4	74	258
Unallocated	–	–	13 162	3 972
Total	**13 173**	**664**	**15 427**	**11 703**
Comprising				
Commercial insurance	6 600	558	1 798	4 978
Personal insurance	4 793	56	11	873
Alternative risk	1 780	50	456	1 880
Unallocated	–	–	13 162	3 972
Total	**13 173**	**664**	**15 427**	**11 703**
2006				
Accident and health	316	20	31	123
Alternative risk	1 416	18	244	1 591
Crop	360	40	98	194
Engineering	476	77	325	538
Guarantee	26	32	48	64
Liability	809	58	700	1 494
Miscellaneous	124	65	40	107
Motor	4 574	248	64	956
Property	3 724	5	555	1 525
Transportation	290	64	46	178
Unallocated	–	–	12 870	2 247
Total	**12 115**	**627**	**15 021**	**9 017**
Comprising				
Commercial insurance	6 194	552	1 880	4 427
Personal insurance	4 505	57	27	752
Alternative risk	1 416	18	244	1 591
Unallocated	–	–	12 870	2 247
Total	**12 115**	**627**	**15 021**	**9 017**

* *Only reinsurance assets and insurance liabilities, including deferred acquisition costs, have been allocated to insurance classes. The balance of assets and liabilities are disclosed for segment purposes under unallocated.*

4.2 Secondary segmentation

The group operated in two main geographical areas, Southern Africa and the UK and Europe. The Southern African segment is presented above. The UK and European segment was classified as discontinued operations and is disclosed in note 13.

5. PROPERTY AND EQUIPMENT

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
GROUP				
At 1 January 2006				
Cost or valuation	13	97	52	**162**
Accumulated depreciation	–	(72)	(33)	**(105)**
Net book amount	13	25	19	**57**
Year ended 31 December 2006				
Opening net book amount	13	25	19	**57**
Exchange differences due to translation	4	–	–	**4**
Additions	–	13	5	**18**
Disposals	–	–	(1)	**(1)**
Depreciation charge	–	(12)	(7)	**(19)**
Closing net book amount	17	26	16	**59**
At 31 December 2006				
Cost or valuation	17	97	53	**167**
Accumulated depreciation	–	(71)	(37)	**(108)**
Net book amount	17	26	16	**59**
Year ended 31 December 2007				
Opening net book amount	17	26	16	**59**
Acquisition of subsidiaries	–	2	–	**2**
Additions	–	20	6	**26**
Depreciation charge	–	(9)	(7)	**(16)**
Classified as non-current assets held for sale	(16)	–	–	**(16)**
Reclassified to intangible assets	–	(17)	–	**(17)**
Closing net book amount	1	22	15	**38**
At 31 December 2007				
Cost or valuation	1	102	57	**160**
Accumulated depreciation	–	(80)	(42)	**(122)**
Net book amount	1	22	15	**38**
COMPANY				
At 1 January 2006				
Cost or valuation	–	91	39	**130**
Accumulated depreciation	–	(67)	(27)	**(94)**
Net book amount	–	24	12	**36**
Year ended 31 December 2006				
Opening net book amount	–	24	12	**36**
Additions	–	13	4	**17**
Depreciation charge	–	(11)	(5)	**(16)**
Closing net book amount	–	26	11	**37**
At 31 December 2006				
Cost or valuation	–	91	42	**133**
Accumulated depreciation	–	(65)	(31)	**(96)**
Net book amount	–	26	11	**37**
Year ended 31 December 2007				
Opening net book amount	–	26	11	**37**
Additions	–	18	4	**22**
Transfers (to)/from group companies	1	1	1	**3**
Reclassified to intangible assets	–	(17)	–	**(17)**
Depreciation charge	–	(8)	(6)	**(14)**
Closing net book amount	1	20	10	**31**
At 31 December 2007				
Cost or valuation	1	93	44	**138**
Accumulated depreciation	–	(73)	(34)	**(107)**
Net book amount	1	20	10	**31**

Depreciation expense has been included in Expenses for marketing and administration in the income statement (refer note 28).

6. INTANGIBLE ASSETS

	Goodwill R million	Computer software R million	Value of business acquired R million	Total R million
GROUP				
At 1 January 2006				
Cost	89	–	–	**89**
Translation difference	(3)	–	–	**(3)**
Impairment	(6)	–	–	**(6)**
Net book amount	80	–	–	**80**
Year ended 31 December 2006				
Opening net book amount	80	–	–	**80**
Acquisition of subsidiaries (refer note 37)	19	–	–	**19**
Exchange difference due to translation	9	–	–	**9**
Additions through business combinations	–	–	2	**2**
Amortisation	–	–	(2)	**(2)**
Closing net book amount	108	–	–	**108**
At 31 December 2006				
Cost	108	–	2	**110**
Translation difference	6	–	–	**6**
Impairment	(6)	–	(2)	**(8)**
Net book amount	108	–	–	**108**
Year ended 31 December 2007				
Opening net book amount	108	–	–	**108**
Acquisition of subsidiaries (refer note 37)	52	5	–	**57**
Reclassified from fixed assets	–	17	–	**17**
Reclassified to non-current assets held for sale	(46)	–	–	**(46)**
Exchange difference due to translation	2	–	–	**2**
Additions through business combinations	2	–	2	**4**
Amortisation	–	(6)	(1)	**(7)**
Closing net book amount	118	16	1	**135**
At 31 December 2007				
Cost	117	22	4	**143**
Translation difference	7	–	–	**7**
Impairment/Accumulated amortisation	(6)	(6)	(3)	**(15)**
Net book amount	118	16	1	**135**
COMPANY				
At 1 January 2006				
Cost	–	–	–	**–**
Impairment	–	–	–	**–**
Net book amount	–	–	–	**–**
Year ended 31 December 2006				
Opening net book amount	–	–	–	**–**
Additions through business combinations	–	–	2	**2**
Impairment charge				
Amortisation	–	–	(2)	**(2)**
Closing net book amount	–	–	–	**–**
At 31 December 2006				
Cost	–	–	2	**2**
Accumulated amortisation	–	–	(2)	**(2)**
Net book amount	–	–	–	**–**
Year ended 31 December 2007				
Opening net book amount	–	–	–	**–**
Additions through business combinations	–	–	–	**–**
Reclassified from fixed assets	–	17	–	**17**
Impairment/Amortisation charge				**–**
Amortisation	–	(6)	–	**(6)**
Closing net book amount	–	11	–	**11**
At 31 December 2007				
Cost	–	17	2	**19**
Accumulated amortisation	–	(6)	(2)	**(8)**
Net book amount	**–**	**11**	**–**	**11**

Impairment tests of goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to country of operation with further allocation to business unit. A summary of the goodwill allocation is presented below.

	Group 2007	Group 2006
Agri Risk Specialists (Pty) Ltd	**19**	19
Admiral Professional Underwriting Agency (Pty) Ltd	**54**	–
Centriq Insurance Holdings Ltd	**1**	1
Stalker Hutchinson and Associates (Pty) Ltd	**44**	44
Santam International group*	**–**	44
	118	108

**Goodwill arising from Santam International group has been reclassified as non-current assets held for sale.*

When testing for impairment, the recoverable amount of a CGU is determined based on value-in-use calculations or fair value less costs to sell. These calculations, using a variety of market observable indicators, e.g. PE ratios, multiples on NAV, are approved by the board. The nature of goodwill mainly relates to workforce.

7. INVESTMENT IN SUBSIDIARIES

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
At the beginning of the year			**1 703**	1 703
Additional investment			**–**	–
Disposal of investment			**–**	–
Unlisted shares at cost price less amounts written off			**1 703**	1 703
Directors' valuation			**2 379**	2 134

Details of investments are set out in note 43.

8. INVESTMENT IN ASSOCIATES

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
GROUP				
At the beginning of the year	**215**	239		
Share of results after tax	**76**	105		
Share of results before tax	**110**	153		
Share of tax	**(34)**	(48)		
Dividends received from associated companies	**(109)**	(100)		
Disposals	**–**	(28)		
Transfer to investment in subsidiaries	**(7)**	–		
Impairment	**–**	(1)		
At the end of the year	**175**	215		
Fair value/Directors' valuation	**218**	296		

Details of investments are set out in note 43.

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
COMPANY				
At the beginning of the year			**163**	166
Impairment			**–**	(3)
At the end of the year			**163**	163
Fair value/Directors' valuation			**159**	235
Dividend income received from associates			**107**	89

Investments in associates at 31 December 2007 include goodwill of R4.5 million (2006: R4.5 million).

The aggregate assets, liabilities, revenues, profits/(losses) of the principal associates, all of which are unlisted, were as follows:

	Assets	Liabilities	Revenues	After-tax profit/(loss)
2007	**R million**	**R million**	**R million**	**R million**
Credit Guarantee Insurance Corporation of Africa Ltd	731	457	535	**177**
NICO Holdings Ltd	1 218	1 078	260	**42**
Lion of Africa Holdings Company (Pty) Ltd	954	827	729	**(13)**
Indwe Broker Holdings Group Ltd	226	164	241	**26**
Thebe Risk Services Holdings (Pty) Ltd	24	–	24	**1**
Other	4	2	7	**1**
Total	**3 157**	**2 528**	**1 796**	**234**
2006				
Credit Guarantee Insurance Corporation of Africa Ltd	920	525	458	**237**
NICO Holdings Ltd	838	739	151	**18**
Lion of Africa Holdings Company (Pty) Ltd	676	536	576	**24**
Indwe Broker Holdings Group Ltd	275	239	153	**8**
Admiral Professional Underwriting Agency (Pty) Ltd	72	58	64	**9**
Thebe Risk Services Holdings (Pty) Ltd	123	101	101	**9**
Other	6	4	18	**1**
Total	**2 910**	**2 202**	**1 521**	**306**

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME

The group's financial assets are summarised below by measurement category.

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Equity securities				
– quoted	**4 434**	5 415	**4 177**	4 940
– unquoted	**20**	20	**9**	10
	4 454	5 435	**4 186**	4 950
Debt securities				
– quoted				
– government and other quoted bonds	**1 322**	1 339	**1 080**	713
– money market instruments (long-term instruments)	**851**	–	**851**	–
– unquoted				
– unquoted bonds	**1**	1	**1**	–
– unquoted redeemable preference shares	**727**	766	**425**	456
	2 901	2 106	**2 357**	1 169
Financial assets at fair value through income	**7 355**	7 541	**6 543**	6 119

The details of investments are set out on page 143.

10. REINSURANCE ASSETS

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Reinsurers' share of insurance liabilities	**2 026**	2 080	**1 505**	1 618
Total assets arising from reinsurance contracts	**2 026**	2 080	**1 505**	1 618

Amounts due from reinsurers in respect of claims already paid by the group on the contracts that are reinsured, are included in loans and other receivables (note 11).

11. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Receivables arising from insurance and reinsurance contracts				
– due from contract holders/intermediaries	**1 358**	921	**1 105**	716
– due from reinsurers	**257**	211	**119**	162
– less provision for non-recovery of receivables from reinsurers	**(20)**	(29)	**(11)**	(10)
Other loans and receivables:				
– other receivables	**348**	246	**247**	186
– less provision for impairment	**(40)**	–	**(40)**	–
– loans to executive management	**9**	10	**9**	10
– amounts due by Sanlam group	**4**	9	**4**	9
– loans to associated companies	**31**	26	**19**	14
– loans to subsidiaries	**–**	–	**333**	337
– less provision for impairment of loans to subsidiaries	**–**	–	**(38)**	(38)
Total loans and receivables including insurance receivables	**1 947**	1 394	**1 747**	1 386

The estimated fair values of loans and receivables are the discounted amount of the estimated future cash flows expected to be received.

Loans to associated companies are shown net of impairment of R10 million (2006: R25 million) on the Bluesure loan funding. The reduction in the impairment charge was due to a subsequent recovery of R15 million from Bluesure.

The carrying value of loans and receivables approximate fair value, except for loans to wholly owned subsidiaries. Provisions for impairment are based on the recoverability of individual loans and receivables.

12. CASH AND CASH EQUIVALENTS

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Cash at bank and in hand	**463**	2 342	**271**	866
Money market and other short-term instruments	**2 982**	2 800	**1 076**	1 229
	3 445	5 142	**1 347**	2 095

The money market instruments are all of short-term nature.

13. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

The assets and liabilities related to Santam Europe Limited and Westminster Motor Insurance Limited have been presented as 'held for sale' following approval by the Santam board to dispose of both these operations within the next 12 months. The 2006 comparatives on the balance sheet have not been restated in terms of IFRS 5.

	Group 2007 R million	Group 2006 R million
a) Non-current assets classified as held for sale		
Property and equipment	**18**	–
Intangible assets	**46**	–
Deferred income tax	**2**	–
Financial assets		
Equity securities	**246**	–
Debt securities	**601**	–
Reinsurance assets	**152**	–
Deferred acquisition costs	**72**	
Loans and receivables including insurance receivables	**111**	–
Cash and cash equivalents	**812**	–
	2 060	–
b) Amounts recognised directly in equity relating to non-current assets held for sale		
Translation reserve	**71**	–

c) Liabilities directly associated with non-current assets classified as held for sale

	Group 2007 R million	Group 2006 R million
Insurance liabilities	**1 502**	–
Trade and other payables	**104**	–
	1 606	–

d) Analysis of the result of discontinued operations

Gross written premium	**932**	622
Net premium	**872**	580
Net insurance premium revenue	**641**	551
Net investment and reinsurance income	**82**	92
Net insurance benefits and claims	**725**	417
Expenses	**188**	134
(Loss)/Profit before tax	**(190)**	92
Income tax expense	**22**	(22)
(Loss)/Profit for the year from discontinued operations	**(168)**	70

e) Liability adequacy test

Additional insurance liabilities (unexpired risk reserve) of R65.5 million were recognised as a result of a liability adequacy test that was performed on Santam Europe based on management's best estimate.

f) Segment reporting

Insurance activities (Commercial insurance)

	Gross written premium R million	Underwriting result R million	Total assets R million	Total liabilities R million
2007				
Discontinued operations	932	(272)	2 060	1 606
Unallocated	–	–	160	10
Total	**932**	**(272)**	**2 220**	**1 616**
2006				
Discontinued operations	622	–	1 825	1 059
Santam Corporate	250	10	–	–
Unallocated	–	–	205	18
Total	**872**	**10**	**2 030**	**1 077**

14. SHARE CAPITAL

	Ordinary shares		Treasury shares	
GROUP AND COMPANY	**Number of shares (thousands)**	**Stated capital R million**	**Number of shares (thousands)**	**Stated capital R million**
At 1 January 2006	116 248	42	–	–
Proceeds from shares issued	1 389	29	–	–
At 31 December 2006	117 637	71	–	–
Proceeds from shares issued	1 531	34	–	–
Purchase of treasury shares			7 147	**733**
Reissue of treasury shares			(60)	**(7)**
At 31 December 2007	**119 168**	**105**	**7 087**	**726**

The total authorised number of ordinary shares is 150 million shares of no par value and 12 million non-redeemable, non-participating, non-cumulative no par value preference shares. All issued shares are fully paid. Subject to the restrictions imposed by the Companies Act, the authorised and unissued shares are under the control of the directors until the forthcoming annual general meeting. Until the next annual general meeting the directors are authorised to issue ten million of the unissued shares for any purpose and in accordance with such rules and conditions as they see fit.

A subsidiary in the group acquired 6 972 940 Santam shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. A further 174 346 shares were bought in the market at an average price of R110 per share. 60 118 shares were reissued in terms of the executive share purchase plan at R110 per share. The net amount of these transactions has been deducted from shareholders' equity. The shares are held as 'Treasury shares'. The company has the right to reissue these shares at a later date subject to approval by the JSE and the Regulator.

15. SHARE OPTIONS

Share options were granted to executive directors, senior and middle management in prior years. The exercise prices of the granted options were equal to the market price of the shares on the date of the grant. Options are conditional on the employee remaining in service. The vesting period is five years and lapses after the sixth year. Options can be exercised from the third year (provided the employee is in service) in lots of 40% after three years, another 30% after the fourth year with the balance from the fifth year, fully exercised before the sixth year. The group has no legal or constructive obligation to repurchase or settle the options in cash.

Santam has two independent share incentive schemes, namely an option scheme and a deferred payout/delivery scheme. With the introduction of the new retention scheme (refer note 1.21), share options are no longer issued to staff, but the options issued will be allowed to be exercised by option holders at the respective vesting periods.

A revised share incentive scheme, the deferred share plan (DSP), has been implemented during the 2007 financial year, in terms of which shares were granted to employees on a deferred delivery basis over a five-year period. The fair value is based on the Santam share price on grant date, adjusted for dividends not accruing to partcipants during the vesting period.

(i) Deferred share plan (DSP) 2007	**Date awarded**	**Latest irreversible date**	**Grant price**	**Number of shares**
The following shares were awarded and the delivery thereof deferred to a pre-determined future date.	1 June 2007	31 May 2012	R94.53	**305 305**
				305 305

(ii) Share option scheme 2006	**Date awarded**	**Latest irreversible date**	**Exercise price***	**Number of shares**
The following share options – which lapse after six years, when they become irreversible – were awarded and are outstanding in terms of the Santam Limited Share Incentive Scheme:	20 February 2001	20 February 2007	R1.00	**6 000**
	14 January 2002	14 January 2008	R1.00	**22 200**
	20 February 2002	20 February 2008	R1.00	**92 650**
	1 September 2002	1 September 2008	R1.00	**387 480**
	26 January 2003	26 January 2009	R1.00	**24 000**
	25 February 2003	25 February 2009	R1.00	**389 340**
	31 March 2004	31 March 2010	R6.65	**845 500**
	1 June 2004	1 June 2010	R8.20	**60 000**
	10 November 2005	10 November 2011	R42.80	**1 244 000**
				3 071 170

Movements during the period	**Average price**	
As at 1 January 2006	R15.74	**4 011 520**
Awarded options lapsed due to resignations	R23.67	**(69 810)**
Options exercised	R1.33	**(870 540)**
As at 31 December 2006	R19.63	**3 071 170**

Share option scheme
2007

Date awarded	Latest irreversible date	Exercise price*	Number of shares
1 September 2002	1 September 2008	R1.00	**135 540**
26 January 2003	26 January 2009	R1.00	**12 000**
25 February 2003	25 February 2009	R1.00	**162 220**
31 March 2004	31 March 2010	R6.65	**486 570**
1 June 2004	1 June 2010	R8.20	**36 000**
10 November 2005	10 November 2011	R42.80	**1 114 500**
			1 946 830

Movements during the period	Average price	
As at 1 January 2007	R19.63	**3 071 170**
Awarded options lapsed due to resignations	R28.64	**(124 600)**
Options exercised	R5.17	**(999 740)**
As at 31 December 2007	**R26.47**	**1 946 830**

** On 21 December 2007 a special dividend of 2200 cents per share was paid to shareholders. The exercise price of all options granted before that date was reduced with R22.00, but limited to R1.00. For those options where the new exercise price, after the R22.00 per share adjustment, is less than R1.00 the option holders will receive, on the relevant vesting dates, an amount equal to the calculated loss in fair value likely to be suffered, plus interest on such an amount, calculated at the risk free rate.*

(iii) Deferred payout/delivery scheme
2006

In terms of the scheme, share options were exercised on condition that the relevant scheme shares may only be released on the fifth anniversary of the option date. It has since been amended to provide for the release of the scheme shares in trenches on the third, fourth and fifth anniversary of the option date.

Date awarded	Latest irreversible date	Exercise price**	Number of shares
20 February 2001	20 February 2007	–	**900**
14 January 2002	14 January 2008	–	**11 100**
20 February 2002	20 February 2008	–	**70 765**
25 February 2003	25 February 2009	–	**226 220**
1 July 2003	1 July 2009	–	**15 000**
14 July 2003	14 July 2009	–	**170 460**
31 March 2004	31 March 2010	R 6.65	**403 500**
			897 945

Movements during the period	Average price	
As at 1 January 2006	R 2.05	**1 442 530**
Awarded options lapsed due to resignations	R 6.11	**(26 100)**
Scheme shares released	R 0.23	**(518 485)**
As at 31 December 2006	**R 2.99**	**897 945**

Deferred payout/delivery scheme
2007

Date awarded	Latest irreversible date	Exercise price**	Number of shares
25 February 2003	25 February 2009	–	**81 810**
31 March 2004	31 March 2010	R 6.65	**246 300**
			328 110

Movements during the period	Average price	
As at 1 January 2007	R 2.99	**897 945**
Awarded options lapsed due to resignations	R 0.10	**(38 400)**
Scheme shares released	R 1.96	**(531 435)**
As at 31 December 2007	**R 4.99**	**328 110**

*** On 21 December 2007 a special dividend of 2200 cents per share was paid to shareholders. The exercise price of all options granted before that date was reduced with R22.00, but limited to RNil. For those options where the new exercise price, after the R22.00 per share adjustment, is less than RNil the option holders will receive, on the relevant vesting dates, an amount equal to the calculated loss in fair value likely to be suffered, plus interest on such an amount, calculated at the risk free rate.*

The share options exercised are not issued and payment for them is not required, unless the option holder is in the group's service on the date on which the shares become irreversible.

Valuation of share options and income statement charge

The fair value of options granted since 7 November 2002 calculated using a model based on a hybrid of the European and American binomial methods, was R54 million (2006: R54 million). The fair value of deferred shares granted in terms of the DSP scheme amounted to R29.5 million. The significant inputs into the model are the share price on grant date, share option exercise price, vesting period, standard deviation of expected share price returns on date of grant and expected staff turnover time. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share price over the last six years. The valuation model is used for share options under the normal share option scheme as well as the deferred payment scheme.

Shares awarded under the deferred share plan (DSP) are valued at the grant price and expensed to the income statement over the five-year vesting period. Total share-option costs for the above options amounting to R14 million (2006: R13 million) has been included in the income statement.

16. OTHER RESERVES

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Translation reserve	**60**	125	**–**	–
Contingency reserve	**1 087**	994	**1 012**	920
Total other reserves	**1 147**	1 119	**1 012**	920
Retained earnings	**3 400**	5 404	**3 198**	4 956
Share-based payment reserve	**48**	33	**48**	33
Distributable reserves	**3 448**	5 437	**3 246**	4 989

Exchange differences resulting from the translation of the financial statements of foreign operations with a presentation currency different to that of the group, are taken to the translation reserve on consolidation to form part of equity. On disposal of such a foreign operation the translation differences are recognised in the income statement as part of the profit or loss on disposal.

a) Movements in the translation reserve were as follows:

	Group 2007	Group 2006
At the beginning of the year	**125**	(54)
Currency translation differences:		
– group	**6**	179
Reclassified as relating to non-current assets held for sale	**(71)**	–
At the end of the year	**60**	125

b) Movements in the contingency reserve were as follows:

	Group 2007	Group 2006	**Company 2007**	Company 2006
At the beginning of the year	**994**	817	**920**	795
Transfer from retained earnings	**93**	177	**92**	125
At the end of the year	**1 087**	994	**1 012**	920

17. DEFERRED INCOME TAX

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 29% (2006: 29%) in South Africa and the official tax rates in the foreign subsidiaries where applicable.

	Group 2007	Group 2006	**Company 2007**	Company 2006
The amounts are as follows				
Deferred tax assets	**40**	27	**1**	–
Deferred tax liabilities	**91**	297	**74**	278
Total net deferred income tax account	**51**	270	**73**	278

The gross movement on the deferred income tax account is as follows:

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
At the beginning of the year	**270**	234	**278**	**227**
Acquisition of subsidiaries	**(3)**	–	**–**	–
Transfer to non-current assets held for sale	**7**	–	**–**	–
Income statement charge	**(223)**	36	**(205)**	51
At the end of the year	**51**	270	**73**	278

The movements in deferred tax assets and liabilities during the year were as follows:

a) Deferred tax assets	**Tax losses carried forward R million**	**STC credits R million**	**Total R million**
GROUP			
At the beginning of the year	(22)	–	**(22)**
Credited to the income statement	(5)	–	**(5)**
At the end of the year	(27)	–	**(27)**
Acquisition of subsidiary	(3)	–	**(3)**
Transfer to non-current assets held for sale	7	–	**7**
Credited to the income statement	(1)	(16)	**(17)**
At end of year 2007	**(24)**	**(16)**	**(40)**
COMPANY			
At the beginning of the year	–	–	**–**
Credited to the income statement	–	–	**–**
At the end of the year	–	–	**–**
Credited to the income statement	–	(1)	**(1)**
At the end of the year	**–**	**(1)**	**(1)**

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The group has unrecognised tax losses of R4.3 million (2006: R0.2 million) to carry forward against taxable income.

b) Deferred tax liabilities	**Unrealised appreciation of investments R million**	**Provisions and accruals R million**	**Other differences R million**	**Total R million**
GROUP				
At the beginning of the year 2006	341	(87)	2	**256**
Charged/(credited) to the income statement	29	(8)	20	**41**
At the end of the year 2006	370	(95)	22	**297**
Charged/(credited) to the income statement	(197)	13	(22)	**(206)**
At the end of the year 2007	173	(82)	–	**91**
COMPANY				
At the beginning of the year 2006	328	(99)	(2)	**227**
Charged/(credited) to the income statement	26	2	23	**51**
At the end of the year 2006	354	(97)	21	**278**
Charged/(credited) to the income statement	(195)	12	(21)	**(204)**
At the end of the year 2007	159	(85)	–	**74**

No deferred tax has been provided on temporary differences relating from investments in associates amounting to R42 million (2006: R116 million).

18. DEBT SECURITIES

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Debentures issued	**955**	–	**955**	–
Fair value adjustment	**(47)**	–	**(47)**	–
	908	–	**908**	–
Estimated redemption value on maturity date	**1 000**	–	**1 000**	–

During May 2007, the company issued unsecured subordinated callable notes to the value of R600 million under its R1.2 billion note programme as alternative capital in terms of its capital optimisation strategy. A further tap issue of R400 million was placed on open tender in the market during November 2007.

The fixed effective rate for the R600 million issue amounted to 8.6% and to 9.5% for the second tranche of R400 million, representing the R203 companion bond plus an appropriate credit spread at the time of the issues. The fixed coupon rate, based on the nominal value of the issues, amounts to 8.25% and for both tranches the optional redemption date is 15 September 2017. Between the optional redemption date and final maturity dates, a variable interest rate (JIBAR-based plus additional margin) will apply.

Per the conditions set by the Regulator, Santam is required to maintain liquid assets equal to the value of the callable notes until their maturity. The callable notes are therefore measured at fair value to minimise undue income statement volatility. The valuation is based on the R203 companion bond.

19. INVESTMENT CONTRACTS

At the beginning of the year	**276**	250
Investment contracts issued	**230**	–
Net fair value gains on investment contracts	**19**	26
Investment contracts (unit-linked)	**525**	276

The net fair value gains on investment contracts are equal to the net fair value gains on the linked financial assets at fair value through income. The movement in the net fair value of the linked assets and liabilities are included in 'Net fair value gains on assets and liabilities at fair value through income' in the income statement. The maturity values of these financial liabilities are determined by the fair values of the linked assets. The investment contracts have maturity dates from 2 to 5 years.

20. DERIVATIVES

Over the counter				
Interest rate swaps	**47**	–	**47**	–

The derivative represents the fair value of interest rate swaps effected on a portion (R620 million) of fixed interest securities held in the investment portfolio underlining the subordinated callable note (refer note 18). The interest rate swaps have the effect of swapping a variable interest rate for a fixed interest rate on these assets, to eliminate interest rate risk on assets supporting the bond liability. The derivatives mature on 15 September 2017.

21. CELL OWNERS' INTEREST

At the beginning of the year	**329**	268
Net increase in cell owners' interest	**44**	44
Preference shares issued by subsidiary	**89**	17
Redemption of preference shares	**(1)**	–
Dividends paid to preference shareholders	**(125)**	–
At the end of the year	**336**	329

22. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Gross				
Long-term insurance contracts				
– claims reported and loss adjustment expense	**1**	2	**–**	–
– claims incurred but not reported	**9**	14	**–**	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	**3 773**	3 920	**3 371**	2 961
– claims incurred but not reported	**1 003**	1 032	**866**	881
– unearned premiums	**2 844**	2 726	**1 399**	1 123
Total insurance liabilities – gross	**7 630**	7 694	**5 636**	4 965
Recoverable from reinsurers				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	**–**	–	**–**	–
– claims incurred but not reported	**–**	3	**–**	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	**1 330**	1 438	**1 110**	1 195
– claims incurred but not reported	**166**	190	**110**	161
– unearned premiums	**530**	449	**285**	262
Total reinsurers' share of insurance liabilities	**2 026**	2 080	**1 505**	1 618
Net				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	**1**	2	**–**	–
– claims incurred but not reported	**9**	11	**–**	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	**2 443**	2 482	**2 261**	1 766
– claims incurred but not reported	**837**	842	**756**	720
– unearned premiums	**2 314**	2 277	**1 114**	861
Total insurance liabilities – net	**5 604**	5 614	**4 131**	3 347

22.1 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

a) Claims and loss adjustment expenses

	2007			2006		
Year ended 31 December	**Gross R million**	**Reinsurance R million**	**Net R million**	Gross R million	Reinsurance R million	Net R million
GROUP						
Notified claims	**3 922**	**(1 438)**	**2 484**	3 187	(1 278)	1 909
Incurred but not reported	**1 046**	**(193)**	**853**	1 045	(333)	712
Total at the beginning of the year	**4 968**	**(1 631)**	**3 337**	4 232	(1 611)	2 621
Cash paid for claims settled in the year – Continuing operations	**(7 971)**	**1 299**	**(6 672)**	(6 988)	968	(6 020)
Cash paid for claims settled in the year – Discontinued operations	**(472)**	**–**	**(472)**	(272)	2	(270)
Increase in liabilities						
– arising from current year claims – Continuing operations	**8 552**	**(1 250)**	**7 302**	7 619	(999)	6 620
– arising from current year claims – Discontinued operations	**749**	**(29)**	**720**	470	(53)	417
– arising from disposal/acquisition of subsidiary	**–**	**–**	**–**	(301)	105	(196)
Classified as non-current assets held for sale	**(1 028)**	**118**	**(910)**	–	–	–
Net exchange differences	**(12)**	**2**	**(10)**	208	(43)	165
Cell accounting	**–**	**(5)**	**(5)**	–	–	–
Total at the end of the year	**4 786**	**(1 496)**	**3 290**	4 968	(1 631)	3 337
Notified claims	**3 774**	**(1 330)**	**2 444**	3 922	(1 438)	2 484
Incurred but not reported	**1 012**	**(166)**	**846**	1 046	(193)	853
Total at the end of the year	**4 786**	**(1 496)**	**3 290**	4 968	(1 631)	3 337
COMPANY						
Notified claims	**2 961**	**(1 195)**	**1 766**	2 342	(1 024)	1 318
Incurred but not reported	**881**	**(161)**	**720**	919	(288)	631
Total at the beginning of the year	**3 842**	**(1 356)**	**2 486**	3 261	(1 312)	1 949
Cash paid for claims settled in the year	**(6 740)**	**598**	**(6 142)**	(6 110)	496	(5 614)
Increase in liabilities						
– arising from current year claims	**7 135**	**(463)**	**6 672**	6 691	(540)	6 151
Total at the end of the year	**4 237**	**(1 221)**	**3 016**	3 842	(1 356)	2 486
Notified claims	**3 371**	**(1 110)**	**2 261**	2 961	(1 195)	1 766
Incurred but not reported	**866**	**(111)**	**755**	881	(161)	720
Total at the end of the year	**4 237**	**(1 221)**	**3 016**	3 842	(1 356)	2 486

b) Provision for unearned premiums

Year ended 31 December	2007 Gross R million	2007 Reinsurance R million	2007 Net R million	2006 Gross R million	2006 Reinsurance R million	2006 Net R million
GROUP						
At the beginning of the year	**2 726**	**(449)**	**2 277**	2 375	(583)	1 792
Charged to the income statement – Continued operations	**330**	**(126)**	**204**	390	43	433
Charged to the income statement – Discontinued operations	**244**	**(14)**	**230**	38	10	48
Portfolio transfer	**26**	**–**	**26**			
(Disposal)/Acquisition of subsidiary			**–**	(63)	16	(47)
Net exchange differences	**(8)**	**1**	**(7)**	(14)	11	(3)
Classified as non-current assets held for sale	**(474)**	**34**	**(440)**	–	–	–
Cell accounting	**–**	**24**	**24**	–	54	54
Total at end of year	**2 844**	**(530)**	**2 314**	2 726	(449)	2 277
COMPANY						
At the beginning of the year	**1 123**	**(262)**	**861**	937	(371)	566
Movement for the period	**276**	**(23)**	**253**	186	109	295
Total at the end of the year	**1 399**	**(285)**	**1 114**	1 123	(262)	861

22.2 MOVEMENTS IN DEFERRED ACQUISITION COSTS AND DEFERRED REINSURANCE ACQUISITION REVENUE

a) Deferred acquisition costs	**Group 2007 R million**	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
At the beginning of the year	**211**	181	**170**	155
Movement for the period – Continuing operations	**51**	30	**33**	15
Movement for the period – Discontinued operations	**45**	–	**–**	–
Net exchange differences	**(2)**	–	**–**	–
Portfolio transfer	**6**	–	**–**	–
Classified as non-current assets held for sale	**(72)**	–	**–**	–
Total at the end of the year	**239**	211	**203**	170
b) Deferred reinsurance acquisition revenue				
At the beginning of the year	**74**	109	**58**	101
Movement for the period (included in income from reinsurance contracts ceded)	**25**	(35)	**6**	(43)
Total at the end of the year	**99**	74	**64**	58

22.3 CLAIMS DEVELOPMENT TABLES

The presentation of the claims development tables for the Santam group, is based on the actual date of the event that caused the claim (accident year basis). The claims development tables, represent the development of actual claims paid for continuing operations for 2007 and 2006 (restated).

Reporting year			Claims paid in respect of			
GROUP	**Total**	**2007**	**2006**	**2005**	**2004**	**2003 & prior**
Short-term insurance claims – gross	**R million**	**R million**	**R million**	**R million**	**R million**	**R million**
Actual claims costs:						
– 2007	**7 971**	**6 219**	1 385	132	193	42
– 2006	**6 988**	**–**	5 521	1 062	245	160
– 2005	**5 955**	**–**	–	4 711	966	278
– 2004	**4 797**	**–**	–	–	3 813	984
– 2003	**5 076**	**–**	–	–	–	5 076
– 2002	**4 832**	**–**	–	–	–	4 832
Cumulative payments to date	**35 619**	**6 219**	6 906	5 905	5 217	11 372
Short-term insurance claims – net						
Actual claims costs:						
– 2007	**6 672**	**5 292**	1 197	99	61	23
– 2006	**6 020**	**–**	4 924	909	90	97
– 2005	**5 185**	**–**	–	4 223	820	142
– 2004	**4 064**	**–**	–	–	3 311	753
– 2003	**4 194**	**–**	–	–	–	4 194
– 2002	**3 754**	**–**	–	–	–	3 754
Cumulative payments to date	**29 889**	**5 292**	6 121	5 231	4 282	8 963
COMPANY						
Short-term insurance claims – gross						
Actual claims costs:						
– 2007	**6 740**	**5 039**	1 348	130	191	32
– 2006	**6 110**	**–**	4 806	983	188	133
– 2005	**5 193**	**–**	–	4 092	864	237
– 2004	**4 099**	**–**	–	–	3 236	863
– 2003	**4 326**	**–**	–	–	–	4 326
– 2002	**4 230**	**–**	–	–	–	4 230
Cumulative payments to date	**30 698**	**5 039**	6 154	5 205	4 479	9 821
Short-term insurance claims – net						
Actual claims costs:						
– 2007	**6 142**	**4 789**	1 172	98	60	23
– 2006	**5 614**	**–**	4 611	864	51	88
– 2005	**4 672**	**–**	–	3 798	741	133
– 2004	**3 609**	**–**	–	–	2 930	679
– 2003	**3 794**	**–**	–	–	–	3 794
– 2002	**3 542**	**–**	–	–	–	3 542
Cumulative payments to date	**27 373**	**4 789**	5 783	4 760	3 782	8 259

22.4 LIABILITY ADEQUACY TEST

An unexpired risk reserve (URR) is required if a company believes that its UPR will prove insufficient to cover the unexpired risk on its books at the valuation date.

Based on the current and historic levels of the profitability of Santam's Southern African business, an URR is neither held nor required.

23. PROVISION FOR LIABILITIES AND CHARGES

	Pension fund holiday exposure* R million	Litigation exposures R million	Other** R million	Total R million
GROUP				
At 1 January 2006	50	37	58	**145**
Charged to income statement:				
– additional provisions/releases	3	(2)	4	**5**
Used during the year	–	–	(2)	**(2)**
Year ended 31 December 2006	53	35	60	**148**
Leave pay provision reclassified as trade and other payables	–	–	(51)	**(51)**
Charged to income statement:				
– additional provisions/releases	6	(7)	–	**(1)**
Used during the year	–	–	(9)	**(9)**
Year ended 31 December 2007	59	28	–	**87**
COMPANY				
At 1 January 2006	50	37	52	**139**
Charged to income statement:				
– additional provisions	3	(2)	5	**6**
Used during the year	–	–	(2)	**(2)**
Year ended 31 December 2006	53	35	55	**143**
Leave pay provision reclassified as trade and other payables	–	–	(46)	**(46)**
Charged to income statement:				
– additional provisions/releases	5	(7)	–	**(2)**
Used during the year	–	–	(9)	**(9)**
Year ended 31 December 2007	58	28	–	**86**

** This potential exposure eminated in the past when deferred benefit plans were converted to defined contribution plans.*

*** Including the provision for leave pay that was reclassified as trade and other payables*

24. TRADE AND OTHER PAYABLES

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Amounts due to subsidiaries	**–**	–	**693**	979
Trade payables and accrued expenses	**714**	690	**413**	509
Financial liability – collateral guarantee contracts	**84**	76	**84**	76
Amounts due to intermediaries	**233**	182	**226**	159
Amounts due to reinsurers	**422**	265	**176**	181
Employee benefits	**39**	–	**37**	–
Total	**1 492**	1 213	**1 629**	1 904

The financial liability is payable after 12 months.

25. INVESTMENT INCOME

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
Dividend income	**262**	192	**633**	206
Quoted	**220**	158	**211**	151
Unquoted	**42**	34	**422**	55
Interest income	**402**	308	**322**	236
Quoted	**113**	68	**74**	38
Unquoted	**289**	240	**248**	198
Foreign exchange differences	**2**	8	**6**	3
	666	508	**961**	445

26. NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
Net realised gains on financial assets	**1 744**	1 042	**1 696**	1 033
Net fair value gains on assets and liabilities at fair value through income	**(1 290)**	163	**(1 269)**	158
	454	1 205	**427**	1 191

27. INSURANCE BENEFITS AND CLAIMS

	Gross R million	Reinsurance R million	Net R million
2007			
GROUP			
Claims paid	7 971	(1 299)	6 672
Movement in the expected cost of outstanding claims	581	49	630
Total claims and loss adjustment expense	**8 552**	**(1 250)**	**7 302**
COMPANY			
Claims paid	6 740	(598)	6 142
Movement in the expected cost of outstanding claims	395	135	530
Total claims and loss adjustment expense	**7 135**	**(463)**	**6 672**
2006			
GROUP			
Claims paid	6 988	(968)	6 020
Movement in the expected cost of outstanding claims	631	(31)	600
Total claims and loss adjustment expense	**7 619**	**(999)**	**6 620**
COMPANY			
Claims paid	6 110	(496)	5 614
Movement in the expected cost of outstanding claims	581	(44)	537
Total claims and loss adjustment expense	**6 691**	**(540)**	**6 151**

28. EXPENSES BY NATURE

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
Auditor's remuneration	**8**	6	**5**	4
Audit fees				
– Current year	**7**	6	**4**	4
Audit-related services	**1**	–	**1**	–
Depreciation	**16**	18	**14**	16
Amortisation of intangible assets	**8**	2	**6**	2
Employee benefit expense (note 29)	**902**	719	**785**	639
Directors' remuneration	**15**	9	**15**	9
Operating lease rentals	**185**	167	**173**	159
– Offices	**64**	56	**54**	49
– Computer equipment	**101**	93	**101**	93
– Furniture and mechanical equipment	**5**	5	**4**	5
– Motor vehicles	**15**	13	**14**	12
Costs incurred for the acquisition of insurance contracts	**1 794**	1 701	**1 633**	1 518
Asset management services	**27**	46	**23**	42
Other expenses	**130**	127	**244**	125
Total expenses	**3 085**	2 795	**2 898**	2 514

29. EMPLOYEE BENEFIT EXPENSE

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
Wages, salaries and bonus	**768**	599	**658**	**524**
Social security costs	**84**	75	**81**	**74**
Long-term incentive scheme costs	**14**	13	**14**	**13**
Pension costs – defined contribution plans	**35**	32	**31**	**28**
BEE cost	**1**	–	**1**	**–**
	902	719	**785**	**639**

Directors' emoluments

2007				
Executive directors	**Salary R'000**	**Performance bonus * R'000**	**Other benefits R'000**	**Total R'000**
Paid by the company				
IM Kirk (appointed in June 2007)	1 114	1 575	212	2 901
SC Gilbert (resigned in June 2007)	2 326	5 543	355	8 224
MJ Reyneke	1 446	1 700	240	3 386
	4 886	**8 818**	**807**	**14 511**

Non-executive directors	**Directors' fees**
Paid by the company	**R'000**
BTPKM Gamedze**	207
JJ Geldenhuys (resigned in August 2007)	185
JG le Roux	399
H Lorgat	–
NM Magau	351
AR Martin	351
JP Möller**	243
RK Morathi	255
P de V Rademeyer**	291
JP Rowse	243
GE Rudman	315
DK Smith	584
J van Zyl**	303
BP Vundla	303
	4 030
TOTAL	**18 541**

** Bonus in respect of 2007 paid in 2008*
*** Fees were paid to the holding company Sanlam Ltd*

Directors' emoluments

2006	**Salary**	**Performance bonus*****	**Retention bonus**	**Other benefits**	**Total**
Executive directors	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Paid by the company					
SC Gilbert	2 183	2 425	583	335	5 526
MJ Reyneke	1 317	1 100	1 020	204	3 641
	3 500	**3 525**	**1 603**	**539**	**9 167**

Non-executive directors	**Directors' fees**
Paid by the company	**R'000**
BTPKM Gamedze**	37
JJ Geldenhuys	257
JG le Roux	301
NM Magau	235
AR Martin	246
JP Möller**	37
EA Moolla (resigned in November 2006)	287
JE Newbury (resigned in October 2006)	232
P de V Rademeyer**	246
GE Rudman	279
DK Smith	440
J van Zyl**	235
BP Vundla	235
	3 067
TOTAL	**12 234**

*** Fees were paid to the holding company Sanlam Ltd*
**** Bonus in respect of 2006 paid in 2007*

30. FINANCE COSTS

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
Interest expense				
– interest on pension fund surplus allocation	**5**	4	**5**	4
– banks and other	**1**	–	**–**	–
– subordinated callable note	**37**	–	**37**	
– revenue authorities	**2**	3	**1**	3
	45	7	**43**	7

31. INCOME TAX EXPENSE

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
South African normal taxation				
Current year	**716**	578	**666**	527
– Charge for the year	**464**	465	**417**	417
– STC	**252**	113	**249**	110
Prior year	**30**	(42)	**18**	(40)
Foreign taxation – current year	**18**	8	**–**	–
Income taxation for the year	**764**	544	**684**	487
Deferred taxation	**(222)**	49	**(205)**	51
Current year	**(206)**	41	**(204)**	42
STC	**(16)**	–	**(1)**	
Prior year	**–**	8	**–**	9
Total taxation as per the income statement	**542**	593	**479**	538
Reconciliation of taxation rate (%)				
Normal South African taxation rate	**29.0**	29.0	**29.0**	29.0
Adjusted for				
– Disallowable expenses	**0.5**	0.8	**0.4**	0.9
– Foreign tax differential	**–**	(0.2)	**–**	–
– Exempt income	**(3.6)**	(2.3)	**(9.5)**	(2.7)
– Investment results	**(8.5)**	(4.3)	**(7.5)**	(4.6)
– Income from associates	**(1.9)**	(1.3)	**(1.6)**	(1.2)
– Previous years' under/(overprovision)	**1.4**	(1.7)	**0.9**	(1.8)
– Other permanent differences	**0.2**	–	**–**	–
– STC	**13.2**	4.7	**12.9**	5.0
Net reduction	**1.3**	(4.3)	**(4.4)**	(4.4)
Effective rate (%)	**30.3**	24.7	**24.6**	24.6

32. EARNINGS PER SHARE

32.1 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	Group 2007	Group 2006
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	**1 050**	1 844
Weighted average number of ordinary shares in issue (millions)	**113.67**	117.13
Earnings per share (cents)	**924**	1 574
Basic earnings per share – Continuing operations		
Profit attributable to the company's equity holders (R million)	**1 218**	1 774
Weighted average number of ordinary shares in issue (millions)	**113.67**	117.13
Earnings per share (cents)	**1 071**	1 514
Basic earnings per share – Discontinued operations		
Profit attributable to the company's equity holders (R million)	**(168)**	70
Weighted average number of ordinary shares in issue (millions)	**113.67**	117.13
Earnings per share (cents)	**(147)**	60

32.2 Diluted earnings per share

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. In the diluted earnings per share calculation for the share options granted to employees, a calculation is done to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the 'unpurchased' shares to be added to the ordinary shares outstanding for the purpose of computing the dilution. For the share options calculation no adjustment is made to net profit.

	Group 2007	Group 2006
Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	**1 050**	1 844
Weighted average number of ordinary shares in issue (millions)	**113.67**	117.13
Adjusted for share-options (millions)	**1.14**	1.58
Weighted average number of ordinary shares for diluted earnings per share	**114.81**	118.71
Diluted basic earnings per share (cents)	**914**	1 553
Diluted earnings per share – Continuing operations		
Profit attributable to the company's equity holders (R million)	**1 218**	1 774
Weighted average number of ordinary shares for diluted earnings per share (millions)	**114.81**	118.71
Diluted basic earnings per share (cents)	**1 061**	1 494
Diluted earnings per share – Discontinued operations		
Profit attributable to the company's equity holders (R million)	**(168)**	70
Weighted average number of ordinary shares for diluted earnings per share	**114.81**	118.71
Diluted basic earnings per share (cents)	**(146)**	59

32.3 Headline earnings per share

For the calculation of headline earnings per share, the profit attributable to equity holders of the company is adjusted with items excluded from headline earnings per share as listed below, divided by the normal weighted average number of ordinary shares in issue.

	Group 2007	Group 2006
Headline earnings per share		
Profit attributable to the company's equity holders (R million)	**1 050**	1 844
Profit on sale of subsidiaries and associates	**(20)**	(22)
Headline earnings (R million)	**1 030**	1 822
Weighted average number of ordinary shares in issue (millions)	**113.67**	117.13
Headline earnings per share (cents)	**906**	1 555
Headline earnings per share – Continuing operations		
Headline earnings (R million)	**1 197**	1 752
Weighted average number of ordinary shares in issue (millions)	**113.67**	117.13
Headline earnings per share (cents)	**1 054**	1 495
Headline earnings per share – Discontinued operations		
Headline earnings (R million)	**(168)**	70
Weighted average number of ordinary shares in issue (millions)	**113.67**	117.13
Headline earnings per share (cents)	**(148)**	60

32.4 Diluted headline earnings per share

	Group 2007	Group 2006
Headline earnings (R million)	**1 030**	1 822
Weighted average number of ordinary shares for diluted earnings per share (millions)	**114.81**	118.71
Diluted headline earnings per share (cents)	**897**	1 535
Diluted headline earnings per share – Continuing operations		
Headline earnings (R million)	**1 197**	1 752
Weighted average number of ordinary shares for diluted earnings per share (millions)	**114.81**	118.71
Diluted headline earnings per share (cents)	**1 043**	1 476
Diluted headline earnings per share – Discontinued operations		
Headline earnings (R million)	**(168)**	70
Weighted average number of ordinary shares for diluted earnings per share (millions)	**114.81**	118.71
Diluted headline earnings per share (cents)	**(146)**	59

33. DIVIDENDS PER SHARE

	Group 2007	Group 2006
Ordinary dividend per share		
Interim of 166 cents per share (2006: 118 cps)	**197**	139
Proposed final of 244 cents per share (2006: 262 cps)	**291**	308
	488	447
Special dividend per share		
Special dividend of 2200 cents per share	**2 465**	–
	2 465	–

34. BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

In February 2007, Santam formally announced its intention to facilitate the acquisition, by a special purpose company (BEE SPV Co), of an effective 10% ownership in Santam. In terms of this scheme, Santam shareholders sold 10% of their Santam shares, held by them as at 21 May 2007, to BEE SPV Co for a cash consideration of R82 per share. Following the implementation of the scheme, the BEE SPV Co is now the registered holder of approximately 10% of the issued shares of Santam (excluding treasury shares). In turn, the shares of BEE SPV Co are held by three trusts:

- 26% by the Santam Black Economic Empowerment Staff Trust (Staff Trust) – This will ensure that a meaningful portion of Santam's equity is owned by black staff and that they have a worthwhile role in Santam's operations, management and development,
- 25% by the Santam Broad-based Black Economic Empowerment Community Trust (Community Trust) – This will allow Santam to be truly broad-based, thereby providing upliftment of black people in the bigger community,
- 49% by the Santam Black Economic Empowerment Business Partners Trust (Business Partners Trust) – This will benefit strategic business partners of Santam and enable them to participate, at ownership level, in the future growth of Santam.

The acquisition of the shares by BEE SPV Co was funded by a R430 million preference share facility from Sanlam Capital Markets Limited and a bridging loan of R490 million from Sanlam Life Insurance Ltd. The BEE SPV Co will refinance the bridging loan with permanent funding when it becomes due in March 2008. Dividends received by BEE SPV Co from the Santam scheme shares are used to service the debt.

The Santam scheme shares held by BEE SPV Co will be 'locked in' to the SPV until 28 February 2015. Post the 'lock in' period:

- A major portion of the Santam shares will be sold to settle all outstanding debt.
- All remaining Santam shares will be distributed by BEE SPV Co as dividends in specie to the three trusts.
- The three trusts will distribute the remaining Santam shares to participants in accordance with the rules of each trust.

The Staff Trust has successfully made the first allocations to Santam staff during the first week of December 2007. Allocations were made in the form of units in the Staff Trust. A share-based payment cost of R1 million was recognised in the income statement. This represents the proportionate charge for the allocation made to staff under the Staff Trust in December 2007. No share-based payment cost are recognised in respect of the Community or Business Partners Trust in the 2007 financial year as no allocations were made by 31 December 2007.

Focus is now set on identifying the participants of the Business Partners Trust and the Community Trust and making allocations to the participants of these trusts, the first of which are expected to be made during the first half of 2008. Beneficiaries of the Business Partners Trust will include qualifying black short-term insurance brokers and Santam's qualifying strategic business partners. The trustees of the Community Trust will identify specific community projects as recipients of the Community Trust distributions.

As the newly created BEE SPV Co is not controlled by Santam in terms of the requirements as defined by SIC 12 *Consolidation – Special Purpose Entities*, the entity is not consolidated into Santam's results.

35. CASH GENERATED FROM OPERATIONS

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Profit before tax	**1 596**	2 482	**1 943**	2 186
– Continuing operations	**1 786**	2 390		
– Discontinued operations	**(190)**	92		
Adjustments for:				
Non-cash items	**(38)**	(93)	**34**	31
– Loss on disposal of associated companies	**(1)**	6	**–**	
– Profit on disposal of subsidiary	**–**	(28)	**–**	
– Share option costs	**14**	13	**14**	13
– Amortisation of intangible asset/Impairment of goodwill	**8**	2	**6**	2
– Depreciation	**17**	19	**14**	16
– Income from associated companies	**(76)**	(105)	**–**	–
Investment income, realised and fair value gains	**(1 203)**	(1 804)	**(1 388)**	(1 636)
Finance costs	**45**	7	**43**	7
Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)	**925**	985	**63**	327
Reinsurance assets	**(85)**	(11)	**113**	65
Deferred acquisition costs	**(100)**	(30)	**(33)**	(15)
Loans and receivables including insurance receivables	**(608)**	(151)	**(362)**	(248)
Insurance liabilities	**1 432**	1 301	**671**	768
Deferred reinsurance acquisition revenue	**25**	(35)	**6**	(43)
Provisions for other liabilities and charges	**(72)**	4	**(57)**	5
Trade and other payables	**333**	(93)	**(275)**	(205)
Investment income received in cash	**814**	626	**961**	436
Dividends received	**376**	292	**633**	209
Interest received	**450**	333	**322**	236
Foreign exchange differences	**5**	15	**4**	3
Movement in provision for investment income	**(17)**	(14)	**2**	(12)
Cash generated from operations	**2 139**	2 203	**1 656**	1 351

36. INCOME TAX PAID

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Amounts charged in the income statement	**(520)**	(615)	**(479)**	(538)
– Continuing operations	**(542)**	(593)		
– Discontinued operations	**22**	(22)		
Movement in deferred taxation	**(218)**	36	**(205)**	51
Foreign exchange differences	**–**	3	**–**	–
Movement in taxation liability	**450**	(30)	**484**	(26)
	(288)	(606)	**(200)**	(513)

37. BUSINESS COMBINATIONS

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
2007				
Additions				
On 9 April 2007, the group increased its investment in Admiral Professional Underwriting Agency (Pty) Ltd from 28.9% to 70% and on 8 November 2007 to 100%. The book values of assets at the date of acquisition approximated fair value.				
Details of the assets and liabilities acquired are as follows:				
– Property and equipment	**2**	–		
– Investments	**1**	–		
– Intangible assets	**7**	–		
– Deferred tax	**3**	–		
– Reinsurance assets	**13**	–		
– Loans and receivables	**36**	–		
– Cash and cash equivalents	**52**	–		
– Insurance liabilities	**(23)**	–		
– Trade and other payables	**(75)**	–		
Net asset value acquired	**16**	–		
Goodwill	**52**	–		
Less: Investment in associate share of 28.9% previously acquired	**(7)**	–		
Purchase consideration paid	**61**	–	**–**	–
2006				
Additions				
On 8 May 2006, the group acquired an additional 16.5% shareholding in Stalker Hutchinson & Associates (Pty) Ltd for an amount of R30 million, increasing the shareholding of the group in the company to 100%.				
Net asset value acquired		11		
Goodwill		19		
Purchase consideration paid	**–**	30	**–**	–
Disposals				
(i) During the course of 2006 the group sold its 100% shareholding in Santam Corporate UK Ltd.				
Details of the assets and liabilities sold are as follows				
– Investments		168		
– Reinsurance assets		124		
– Loans and receivables		54		
– Cash and cash equivalents		188		
– Insurance liabilities		(336)		
– Trade and other payables		(40)		
– Deferred tax		(3)		
Net asset value sold	**–**	155		
Consideration received		182		
Profit on sale of subsidiary	**–**	27		
(ii) During 2006 group sold its 51% shareholding in Thatch Risk Acceptances (Pty) Ltd				
Net asset value sold		–		
Consideration received		1		
Profit on sale of subsidiary	**–**	1		
Total profit on sale of subsidiaries	**–**	28		

38. DIVIDENDS PAID

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Amounts paid for the year to company's shareholders	**2 960**	1 165	**3 129**	1 165
Amounts paid for the year to minority interests	**17**	20	**–**	–
	2 977	1 185	**3 129**	1 165

39. CONTINGENCIES

The group, like all other insurers, is subject to litigation in the normal course of its business. The group does not believe that such litigation will have a material effect on its profit or loss and financial condition.

40. COMMITMENTS

Operating lease commitments – where group company is the lessee

The group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The group also leases vehicles under cancellable operating lease agreements. The group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the income statement during the year is disclosed in note 28.

The future aggregate minimum lease payments under operating leases are as follows:

2007	**Up to 1 year**	**Between 1 to 5 years**	**R million Total**
Motor vehicles	13	10	**23**
Computer equipment	2	–	**2**
Offices	32	8	**40**
	47	18	**65**
2006			
Motor vehicles	12	12	**24**
Computer equipment	1	1	**2**
Offices	48	24	**72**
	61	37	**98**
2007			
IT Service agreements	98	52	**150**
2006			
IT Service agreements	91	122	**213**

41. RELATED-PARTY TRANSACTIONS

Major shareholders

Sanlam Limited (incorporated in South Africa) is the ultimate holding company with a 52.6% shareholding in Santam Limited. The balance of the shareholders (47.4%) do not have significant influence and thus no other shareholder is treated as a related party. The shares are widely held by public, non-public, individual and corporate shareholders. Refer to Analysis of shareholders on page 147 for detail.

Transactions with directors

Remuneration is paid to directors in the form of fees to non-executive directors and remuneration to executive directors of the company. All directors of Santam Limited have notified that they did not have material interest in any contract of significance with the company or any of its subsidiaries, which could have given rise to a conflict of interest during the year. Details relating to directors' emoluments are included in note 28 and their shareholdings and share options granted in the company are disclosed in the directors report.

Certain directors have short-term insurance contracts with the company in their private capacity. These contracts are on an arms-length basis and are not material.

Transactions with the Sanlam group

The company transact with the Sanlam group on various levels. Sanlam Investment Management act as the largest investment fund manager for the group with its fees negotiated on an arms length basis.

The chief executive officer of the Santam group partakes in the Sanlam group executive share purchase scheme whereby interest-bearing loans are granted to participants, repayable in four years time.

Transactions with entities in the group

During the year the company and its subsidiaries in the ordinary course of business entered into various transactions with other group companies, associated companies and other stakeholders. These transactions occurred at arm's length and on the basis of prices enforced with non-related parties.

The company has several intercompany balances owed by and to subsidiaries in the group as at the end of the year. Loans to subsidiaries with outside shareholders and the Santam Pensionfund are interest bearing at market-related rates and are repayable on demand. Loans to full subsidiaries are interest free and repayable on demand. These inter Santam group balances have been eliminated on consolidation. For detail on balances, refer to note 43.

The company also has a shareholder's loan owing by an associated company in the group. For detail refer to note 43. The loan is a shareholders' loan, interest free with no specific repayment terms.

Transactions with key management

Remuneration is paid to key management (executive committee members) of the group. In terms of the new staff long-term incentive and retention scheme (refer to note 1.21 for more detail) loans were granted by the company to members of the executive management team. These loans are interest bearing at the official rate and are repayable in four years time.

Key management also have short-term insurance contracts with the company in their private capacity. These contracts are on an arm's length basis and amounted to approximately R1 million in total.

The following is a summary of transactions and balances with related parties:

	2007	2006
a) Sale of insurance contracts and other services	**R million**	R million
Sale of insurance contracts to:		
– Sanlam Ltd and related parties	**11**	2
Rendering of services to:		
– associates	**1**	3
– subsidiaries	**18**	21
b) Purchase of services from:		
– associates (for administration services)	**(143)**	(156)
– subsidiaries (for administration services)	**(215)**	(146)
– Sanlam Ltd and related parties (for investment management services)	**(19)**	(12)

	2007 R million	2006 R million
c) Investment income received from:		
– Sanlam Ltd and related parties	**39**	31
– Santam Pension Fund	**4**	2
– Executive management	**1**	–
d) Key management compensation		
Salaries and other short-term employee benefits	**27**	16
Share-based payments	**1**	1
e) Year-end balances with related parties		
Santam Pension Fund		
– loan	**36**	29
Sanlam Group: URD Beleggings (Edms) Bpk		
– preference shares	**217**	298
Sanlam Group: Electra Investments (SA) Ltd		
– preference shares	**30**	30
Sanlam Dividend Income Fund		
– investment	**–**	300
Sanlam Alternative Income Fund		
– investment	**303**	–
Sanlam Property Fund		
– investment	**5**	–
Sanlam Namibia Money Market Fund		
– investment	**9**	–
Sanlam Share Incentive Trust		
– loan	**–**	5
Sanlam Investment Managers Ltd		
– derivative financial instrument	**6**	–
Sanlam Private Investments		
– trading cash account	**6**	–
Sanlam Capital Markets		
– Sanlam Bond	**75**	–
– derivative financial instruments	**52**	–
Lion of Africa Holdings Company (Pty) Ltd		
– loan	**38**	26
Vulindlela Underwriting Managers (Pty) Ltd		
– loan	**1**	–
Admiral Professional Underwriting Agency (Pty) Ltd		
– trade payable	**5**	4
Executive management		
– loans in terms of share purchase scheme	**9**	10

42. SOLVENCY MARGIN

The group is subject to insurance solvency regulations in all territories in which it issues insurance contracts, and it has complied with all the local solvency regulations. The group complied with all statutory solvency regulations within all regulated entities.

The group solvency margin is calculated as the ratio of capital and reserves to net written premium.

	Group 2007 R million	Group 2006 R million
Group capital and reserves attributable to equity holders	**4 045**	6 627
Debt securities	**908**	–
	4 953	6 627
Net written premium	**11 791**	10 684
– Continuing operations	**10 919**	10 104
– Discontinued operations	**872**	580
Group solvency margin (%)	**42.0%**	62.0%

The reduction in solvency is largely due to the payment of the R22.00 per share special dividend during December 2007.

43. ANALYSIS OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

INVESTMENT IN SUBSIDIARIES

UNLISTED COMPANIES

	Nature of business	**Country of incorporation**	**Issued capital R**	**Proportion held by the company 2007**	**Proportion held by the company 2006**	**Book value of shares R million**	**Owing by Santam Ltd R million**	**Owing to Santam Ltd R million**
Direct								
Aegis Insurance Company Ltd	Insurance	RSA	179 195 142	100.0%	100.0%	262	270	–
Centriq Insurance Holdings Ltd	Holding co.	RSA	102 330 000	66.6%	66.6%	73	–	28
Gilts Broker Solutions Ltd	Retail	RSA	2	100.0%	100.0%	–	–	1
Guardian National Insurance Company Ltd	Insurance	RSA	178 603 840	100.0%	100.0%	624	162	94
Santam International Ltd	Holding co.	Guernsey	692 505 672	100.0%	100.0%	738	172	–
Santam Namibia Ltd	Insurance	Namibia	8 307 147	60.0%	60.0%	5	13	–
Sentinel Insurance Corporation Ltd	Investments	RSA	1 000 000	100.0%	100.0%	1	4	–
Swanvest 120 (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	–	–	70
						1 703	**621**	**193**

	Nature of business	Country of incorporation	Issued capital	Proportion held by the company	Proportion held by the company	Book value of shares	Owing by Santam Ltd	Owing to Santam Ltd
			R	2007	2006	R million	R million	R million
Indirect								
Admiral Professional Underwriting Agency (Pty) Ltd	Underwriting	RSA	2 270 403	100.0%	28.9%	69	–	–
Africa Group Financial Services (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	–	–	–
Africa Group Insurance Brokers (Pty) Ltd	Underwriting	RSA	100	100.0%	100.0%	–	1	–
Agri Risk Specialists (Pty) Ltd	Underwriting	RSA	6 875 100	100.0%	100.0%	35	1	–
Associated Marine Underwriters (Pty) Ltd	Underwriting	RSA	873 577	100.0%	100.0%	5	–	1
Capricorn Investment Company (Pty) Ltd	Insurance	Namibia	4 000 000	60.0%	60.0%	4	–	–
Centriq Insurance Company Ltd	Insurance	RSA	55 000 084	66.6%	66.6%	102	–	86
Centriq Life Insurance Company Ltd	Insurance	RSA	21 000 000	66.6%	66.6%	22	–	–
Construction and Engineering Underwriters (Pty) Ltd	Underwriting	RSA	25 000	100.0%	100.0%	1	2	–
Guardian South Africa Ltd	Investments	RSA	6 471 517	100.0%	100.0%	114	62	–
Hegel Street 26 Investments Ltd	Insurance	Namibia	4 000 000	60.0%	60.0%	9	–	–
Insurance Broker Resource Centre (Pty) Ltd	Underwriting	RSA	85 000	100.0%	100.0%	–	–	–
Legal Exchange Corporation (Pty) Ltd	Underwriting	RSA	30 000	70.0%	70.0%	1	–	–
Namibian National Insurance Company (Pty) Ltd	Insurance	Namibia	3 100 000	100.0%	100.0%	3	6	–
Nova Risk Partners Ltd	Insurance	RSA	22 702 703	66.6%	66.6%	23	–	15
Novation RSA (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	–	–	–
SA Aviation Insurance Managers (Pty) Ltd	Underwriting	RSA	100	51.0%	51.0%	–	–	–
Santam Europe Ltd	Insurance	Ireland	206 258 746	100.0%	100.0%	243	–	–
Santam UK Ltd	Holding co.	UK	100 006 574	100.0%	100.0%	98	–	–
Schools for Africa Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	100.0%	100.0%	–	–	–
SRU Properties (Pty) Ltd	Underwriting	RSA	5 000	52.0%	52.0%	–	–	–
Stalker Hutchinson & Associates (Pty) Ltd	Underwriting	RSA	7 914 393	100.0%	83.5%	53	–	–
Webstat Bureau Services (Pty) Ltd	Fin. Services	RSA	100	100.0%	100.0%	–	–	–
Westminster Motor Insurance Association	Insurance	UK	276 170 000	100.0%	100.0%	301	–	–
Wheatfields Investments no 136 (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	–	–	–
						1 083	**72**	**102**
TOTAL INVESTMENTS IN SUBSIDIARIES						**2 786**	**693**	**295**

INVESTMENTS IN ASSOCIATED COMPANIES

UNLISTED COMPANIES

	Nature of business	Country of incorporation	Issued capital	Proportion held by the company	Proportion held by the company	Book value of shares	Owing by Santam Ltd	Owing to Santam Ltd
			R	2007	2006	R million	R million	R million
Direct								
Credit Guarantee Insurance Corporation of Africa Ltd	Insurance	RSA	2 649 000	33.6%	33.6%	77	–	–
Isure Services (Pty) Ltd	IT Services	RSA	100	25.0%	25.0%	1	–	–
Lion of Africa Holdings Company (Pty) Ltd	Insurance	RSA	74 874 852	35.0%	35.0%	16	–	31
NICO Holdings Ltd	Fin. Services	Malawi	55 281	25.1%	25.1%	30	–	–
						124	**–**	**31**
Indirect								
Bluesure Ltd	Underwriting	UK	183 340 550	47.3%	47.3%	–	–	–
Integrisure Brokers (Pty) Ltd	Broker	RSA	100	0.0%	25.0%	–	–	–
Indwe Broker Holdings Group	Broker	RSA	28 552 000	35.4%	43.5%	40	–	–
Thebe Risk Services Holdings (Pty) Ltd	Broker	RSA	1 000	49.9%	49.9%	11	–	–
Vulindlela Underwriting Management (Pty) Ltd	Underwriting	RSA	379 120	37.0%	0.0%	–	–	–
						51	**–**	**–**
TOTAL INVESTMENTS IN ASSOCIATED COMPANIES						**175**	**–**	**31**

(I) Investments – Composition

2007	Number of shares	Group market value/ Director's valuation R million
A) Analysis based on IFRS classification:		
Financial assets at fair value through income		
i) Debt securities – at fair value through income		
Quoted		
Government and public utilities		1 322
Other		851
		2 173
Unquoted		
Other		1
Unquoted redeemable preference shares		
Sanlam Group – URD Beleggings (Edms) Ltd	217 185	217
Electra Investments (SA) Ltd	30 000	30
Mettle Group – Metcap (Pty) Ltd	300	302
Investec – AELPREF	77 000	77
Kagiso Trust – Active 1 Investments (Pty) Ltd	100 000	34
Main Street 409 (Pty) Ltd	15 926	18
Pamodzi Ukuvikela	44 300	49
		727
Total debt securities at fair value through income		**2 901**

ii) Equity securities – at fair value through income

Each of the following investments has an individual value of more than 1.5% of the total quoted equity investment portfolio.

Details of the investments below 1.5%, summarised as Other, are open to inspection at the registered office of the company

Quoted

African Bank Investments Ltd	5 013 818	165
Aveng Ltd	1 118 201	68
Anglo American PLC	271 568	113
Anglo Platinum Ltd	113 971	115
AngloGold Ashanti Ltd	403 471	118
Barloworld Ltd	596 646	64
BHP Billiton PLC	743 515	154
The Bidvest Group Ltd	870 497	105
Foschini Ltd	2 126 865	103
FirstRand Ltd	6 760 470	134
Impala Platinum Holdings Ltd	566 937	135
Liberty International PLC	430 574	64
MTN Group Ltd	1 570 587	201
Murray & Roberts Holdings Ltd	625 624	64
Old Mutual PLC	2 860 146	66
Richemont Securities AG	2 468 524	114
Remgro Ltd	534 607	106
Standard Bank Group Ltd	3 021 754	302
Steinhoff International Holdings Ltd	5 126 215	99
Sasol Ltd	352 867	120
Telkom SA Ltd	1 137 608	157
Other		1 345
		3 912

	Group market value/ Director's valuation R million
Unquoted	20
Unitised funds	
– Quoted	308
Irredeemable Preference Shares	
– Quoted	214
Total equity securities at fair value through income	**4 454**
iii) Derivative – at fair value through income	**(47)**
iv) Cash and cash equivalents	**3 445**
v) Associated companies	**175**
vi) Classified as held for sale	**1 661**
Total financial assets net of derivative	**12 589**

B) Analysis based on investment classification:

Equities	
– Quoted	3 912
– Unquoted	20
Preference shares	215
– Quoted	
– Unquoted	727
Bonds	2 173
Unitised funds	308
Derivative	(47)
Cash and cash equivalents	3 445
Associated companies	175
Classified as held for sale	1 661
	12 589

2006	Number of shares	Group market value/ Director's valuation R million
A) Analysis based on IFRS classification:		
Financial assets at fair value through income		
i) Debt securities – at fair value through income		
Quoted		
Government and public utilities		1 339
Other		–
		1 339
Unquoted		
Other		1
Unquoted redeemable preference shares		
Sanlam Group – URD Beleggings (Edms) Ltd	297 787	298
Electra Investments (SA) Ltd	30 000	30
Mettle Group – Metcap (Pty) Ltd	300	276
Investec – AELPREF	77 000	77
Kagiso Trust – Active 1 Investments (Pty) Ltd	100 000	36
ABSA Group – ABSAPR	35 000	35
Main Street 409 (Pty) Ltd	15 926	14
		766
Total debt securities at fair value through income		**2 106**

ii) Equity securities – at fair value through income

Each of the following investments has an individual value of more than 1.5% of the total quoted equity investment portfolio.

Details of the investments below 1.5%, summarised as Other, are open to inspection at the registered office of the company.

Quoted

	Number of shares	R million
Absa Group Ltd	1 072 718	137
African Bank Investments Ltd	3 980 570	114
Anglo American PLC	1 041 554	356
Anglo Platinum Ltd	101 852	90
Barloworld Ltd	861 807	141
BHP Billiton PLC	1 174 259	156
Consol Ltd	4 812 650	91
FirstRand Ltd	8 834 370	196
Foshini Ltd	2 130 670	122
Imperial Holdings Ltd	386 241	76
Liberty International PLC	684 406	131
Mittal Steel South Africa Ltd	1 020 299	102
MTN Group Ltd	2 142 875	191
Old Mutual PLC	3 605 514	86
Remgro Ltd	604 422	112
Richemont Securities AG	3 727 628	157
SABMiller PLC	711 117	117
Sasol Ltd	937 982	248
Standard Bank Group Ltd	3 256 178	314
The Bidvest Group Ltd	1 134 919	155
Other		1 788
		4 880

		Group market value/ Director's valuation R million
	Unquoted	20
	Unitised funds	
	– Quoted	300
	Irredeemable preference shares	
	– Quoted	235
	Total equity securities at fair value through income	**5 435**
	iii) Cash and cash equivalents	**5 142**
	iv) Associated companies	**215**
	Total financial assets at fair value through income	**12 898**
B)	**Analysis based on investment classification**	
	Equities	4 880
	– Quoted	
	– Unquoted	20
	Preference shares	235
	– Quoted	
	– Unquoted	766
	Bonds	1 340
	Unitised funds	300
	Cash and cash equivalents	5 142
	Associated companies	215
		12 898

(II) Analysis of shareholders

Analysis of shareholders	Number of shareholders	% of total shareholders	Number of shares	% Interest
1 – 100 shares	855	18.78%	65 398	0.05%
101 – 1 000 shares	2 282	50.14%	997 596	0.84%
1 001 – 50 000 shares	1 317	28.93%	8 814 506	7.40%
50 001 – 100 000 shares	50	1.10%	3 418 680	2.87%
100 001 – 10 000 000 shares	46	1.01%	31 791 490	26.68%
More than 10 000 000 shares	2	0.04%	74 080 467	62.16%
Total	**4 552**	**100.00%**	**119 168 137**	**100.00%**

Type of shareholder	Number of shareholders	% of total shareholders	Number of shares	% Interest
Individuals	3 286	72.18%	4 007 055	3.36%
Companies	310	6.81%	98 457 277	82.62%
Growth funds / unit trusts	167	3.67%	6 754 432	5.67%
Nominee companies or trusts	659	14.48%	2 702 460	2.27%
Pension and retirement funds	130	2.86%	7 246 913	6.08%
Total	**4 552**	**100.00%**	**119 168 137**	**100.00%**

Shareholder spread	Shareholders in SA		Shareholders other than in SA		Total shareholders	
	Nominal number	% Interest	Nominal number	% Interest	Nominal number	% Interest
Public shareholders	4 424	29.91%	108	100.00%	4 532	32.01%
Directors	16	0.07%	–	–	16	0.06%
Trustees of employees' share scheme	1	0.00%	–	–	1	0.00%
Holdings of 5% or more	3	70.02%	–	–	3	67.93%
Sanlam Limited	1	54.23%	–	–	1	52.61%
Central Plaza Investments 112 (Pty) Ltd*	1	9.66%	–	–	1	9.37%
Guardian National Insurance Limited**	1	6.13%	–	–	1	5.95%
Total	**4 444**	**100.00%**	**108**	**100.00%**	**4 552**	**100.00%**

The analysis includes the shares held as treasury shares.

* *BEE special-purpose company*

** *Owner of treasury shares*

Notice of annual general meeting

SANTAM LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1918/001680/06)
JSE Code: SNT NSX Code: SNM ISIN: ZAE000006854
("Santam" or "the company")

Notice is hereby given that the annual general meeting of Santam Limited ("the company") shareholders will be held on Wednesday, 28 May 2008, at 09:30 in the auditorium on the ground floor of the Santam Head Office, 1 Sportica Crescent, Tygervalley, Bellville, Cape Town to deal with the following matters:

1. To consider the financial statements for the year ended 31 December 2007, together with the reports of the directors and auditors.

2. To re-appoint PricewaterhouseCoopers Inc. as the auditors for the company.

3. To elect a director in place of Mr BTPKM Gamedze who will retire by rotation in accordance with section 63 of the company's articles of association. Mr BTPKM Gamedze is available for re-election.

4. To elect a director in place of Dr NM Magau who will retire by rotation in accordance with section 63 of the company's articles of association. Dr NM Magau is available for re-election.

5. To elect a director in place of Ms RK Morathi who will retire by rotation in accordance with section 63 of the company's articles of association. Ms RK Morathi is available for re-election.

6. To elect a director in place of Mr JP Möller who will retire by rotation in terms of section 63 of the company's articles of association. Mr JP Möller is available for re-election.

7. To elect a director in place of Mr BP Vundla who will retire by rotation in terms of section 63 of the company's articles of association. Mr BP Vundla is available for re-election.

8. To elect a director in place of Mr IM Kirk who will retire in terms of section 65 of the company's articles of association Mr IM Kirk is available for re-election.

9. To elect a director in place of Mr H Lorgat who will retire in terms of section 65 of the company's articles of association Mr H Lorgat is available for re-election.

10. To approve the directors' Board fees for the year 2008. The remuneration scale, which will be tabled at the meeting, is as follows:

10.1 The Chairman of the Board would receive a annual retainer of R600 000 and no attendance fee for meetings (except for unscheduled *ad hoc* meetings for which remuneration would be agreed to by the Human Resources Committee).
10.2 The Chairman of the Risk Committee would receive an annual retainer of R145 800. In addition, the Chairman will receive a maximum attendance fee of R25 920 for the Risk Committee, Financial Reporting Review Committee as well as the Statutory Audit Committee meetings. A further R12 960 would be received for any other Board meeting attended. The members of the Risk Committee, Financial Reporting Review Committee and Statutory Audit Committee (Risk subcommittees) would receive an annual retainer of R145 800. In addition, these members would receive a cumulative maximum attendance fee of R12 960 for all the risk subcommittee meetings attended. For any other Board meeting an attendance fee of R12 960 would be received.
10.3 Other directors would receive an annual retainer of R145 800, and an attendance fee of R12 960 per meeting, for each committee meeting attended as a member (Board and Committee).
10.4 Executive directors would not receive any board fees.

11. To place 5 million of the unissued ordinary shares under the control of the directors of the company, who shall be authorised to allot these shares, or any number thereof on such terms and conditions and at such times as they deem fit, subject to the provisions of the company's articles of association, the Companies Act, 1973, as amended ("the Act"), and the JSE Limited ("the JSE") Listing Requirements.

12. To consider and, if approved, to pass, with or without modification, the following ordinary resolution: "Resolved, in accordance with the requirements of the JSE, that the amendments required to be made to the trust deed of the Santam Limited Share Incentive Trust in order to give effect to the matters summarised in paragraphs 12.1 to 12.4 on pages 148 to 149 of this notice be and are hereby approved."

12.1 The Santam Limited Share Incentive Trust (the "Trust") was established and approved by shareholders of the Company in 1997 and since then served as a vehicle to incentivise, retain and motivate key employees (including executive directors) ("Qualifying Employees") of the Company and its subsidiaries ("the Group") by means of allocating shares in the ordinary share capital of the Company ("Shares") on the terms and conditions (the "Existing Employee Incentive Plan Rules") as set out in the trust deed of the Trust ("the Trust Deed") and applied by the trustees of the Trust (the "Existing Employee Incentive Plan").

12.2 The Trust Deed currently provides, within certain limits, for Qualifying Employees to be incentivised by way of either –

12.2.1 awarding options to them to acquire Shares at a market-related price, which are capable of being exercised within certain time periods ("Options"); or

12.2.2 making an offer to them to acquire Shares at a market-related price on such terms that payment of the purchase price and delivery of the Shares are deferred ("Deferred Delivery Shares").

12.3 Whilst the current means of motivation and retention of Qualifying Employees through the Existing Employee Incentive Plan are still valid, the Trust Deed needs to be adjusted to ensure that it adheres to constantly changing "incentivisation best practices" so as to achieve its objectives. Furthermore, it also needs to be adjusted to clarify the current wording in respect of appropriate adjustments in the event of a declaration of a special dividend by the Company. The declaration of a special dividend without an adjustment may prejudice the rights of Qualifying Employees participating in the Existing Employee Incentive Plan.

12.4 It is accordingly proposed that the Trust Deed be amended to allow for –

12.4.1 the transfer of Shares to certain Qualifying Employees at no consideration resulting in such Qualifying Employee becoming the beneficial owner of such Shares and entitled to all dividends, special dividends and capitalisation shares in respect of such Shares ("Share Distributions") from the date on which they are transferred, provided that the Qualifying Employee will not be entitled to dispose of or otherwise deal in such Shares prior to adhering to such retention and performance conditions ("Vesting Conditions") the Board may determine at the time ("Restricted Shares"), provided that –

12.4.1.1 the market value of the Restricted Shares, as determined on the date of allocation thereof, may not exceed the aggregate value, as determined by using appropriate valuation models, of Options and/or Deferred Delivery Shares, had Options and/or Deferred Delivery Shares been allocated at market price;

12.4.1.2 the Existing Incentive Plan Rules will be adjusted to apply *mutatis mutandis* to the Restricted Shares, e.g. a Qualifying Employee will be required to transfer the Restricted Shares and return any Share Distributions to the Trust for no consideration should such Qualifying Employee ceased to be employed by the Group (other than in the circumstances envisaged in paragraph 12.4.1.3) prior to the fulfilment of the Vesting Conditions;

12.4.1.3 a minimum retention requirement of three years (the "Time Restrictions") is included in the Vesting Conditions, except where the Existing Incentive Plan Rules allow for early vesting, e.g. retirement, etc ("Early Exit");

12.4.1.4 appropriate performance hurdles are set for specific Qualifying Employees as part of the Vesting Conditions, such performance hurdles should be aligned with the long-term strategic goals and objectives of the Company as determined by the Board at the time ("Performance Condition"), provided that in the event of an Early Exit of a Qualifying Employee where a Performance Condition was agreed, the Board will determine the extent to which such Restricted Shares will vest and under what conditions;

12.4.1.5 where appropriate, restraint and confidentiality conditions may be included as part of the Vesting Conditions ("Restraint Condition") or as part of the terms and conditions of an Early Exit; and

12.4.1.6 for as long as the Time Restriction, Performance Condition and/or Restraint Condition, as the case may be, has not been fulfilled, the Restricted Shares will be pledged as security to the Trust;

12.4.2 the allocation of Shares, for no consideration, to Qualifying Employees for delivery on pre-determined future dates subject to such conditions as the Board may determine at the time ("Deferred Shares"). The provisions of paragraphs 12.4.1.1 to 12.4.1.5 will apply *mutatis mutandis* to the Deferred Shares;

12.4.3 the sale of Shares to Qualifying Employees at a market-related price on such terms as may be prescribed by the Board at the time on loan account ("the Loan Shares"), provided that –

12.4.3.1 to the extent that the purchase price remains outstanding (the "Loan") the interest levied on such Loan shall not be less than the prescribed rate of interest as determined by the South African Revenue Services from time to time for fringe benefit tax purposes; and

12.4.3.2 until such time as the relevant Loan is repaid in full, the Loan is secured by such form of security as may be acceptable to the board;

12.4.4 the Trust to accept and assume the obligations of any company in the Group in relation to Restricted Shares, Deferred Shares and/or the sale of Loan Shares, irrespective of when such obligations were created and oblige the trustees of the Trust to do so when required by the board;

12.4.5 obligate the trustees of the Trust to extend allocations of Restricted Shares, Deferred Shares or to sell Loan Shares and grant Loans to Qualifying Employees when so required by the Board on such terms as may be prescribed by the Board; and

12.4.6 effecting the necessary consequential changes to the Trust Deed containing the Existing Incentive Plan Rules to give effect to the above proposed amendments.

12.5 The proposed amendments to the Trust Deed are available for inspection at the registered office of the Company for a period of 14 (fourteen) days prior to the date of the Annual General Meeting of the Members of the Company called in terms of this notice.

13. To consider and, if approved, to pass, with or without modification, the following ordinary resolution: "Resolved, in accordance with the requirements of the JSE, three new employee share incentive schemes, being namely –

- the Deferred Share Plan;
- the Performance Deferred Share Plan; and
- the Restricted Share Plan,

(collectively hereinafter referred to as the "New Employee Incentive Plans") be adopted in terms of which the Company may allocate shares in the ordinary share capital of the Company to its employees or to its subsidiaries for the purpose of implementing the Group's long-term incentive and retention strategy on the terms and conditions summarised in paragraphs 13.1 and 13.2 on page [6] of this notice, provided further –

- same terms and conditions governing the Santam Limited Share Incentive Trust (the "Trust"), as amended in accordance with ordinary resolution 12, will apply *mutatis mutandis* to the New Employee Incentive Plans;
- Human Resources Committee of the Board is responsible for the governance of the New Emplyee Incentive Plans and the same duties, powers and priviledges as set out in the Trust will apply *mutatis mutandis*;
- that the maximum number of shares allocated in terms thereof and any other employee incentive scheme of the Group, will not, at any time, in the aggregate exceed 10% of the issued ordinary share capital of the Company;
- that the maximum number of shares allocated to an individual in terms thereof and any other employee incentive scheme of the Group, will not, at any time, in the aggregate exceed 1% of the issued ordinary share capital of the Company"

13.1 Using the Trust as the only vehicle for the implementation of the Group's long-term incentive and retention strategy under the Existing Employee Incentive Plan, may not in all circumstances be the most efficient and cost effective way. It is therefore proposed that, in addition to the proposed amendments to the Trust Deed as set out in ordinary resolution 12 above, the Board be authorised to approve the allocation of Shares directly to the Company's subsidiaries or the employees of the subsidiaries for purposes of the implementation of the New Employee Incentive Plans.

13.2 Allocations of any Shares pursuant to 12.1 in accordance with the provisions of the New Employee Incentive Plans will be subject to the limitation that –

13.2.1 the rules for the Existing Employee Incentive Plans as amended in accordance with 12 above will apply to, and govern each allocation under the New Employee Incentive Plans, *mutatis mutandis*; and

13.2.2 the maximum number of Shares allocated for the Existing Employee Incentive Plan and New Employee Incentive Plans, whether implemented by the Trust and/or the Company and/or any of its subsidiaries, will not, at any time, exceed 10% of the issued ordinary share capital of the Company, being the maximum number of Shares capable of being allocated in terms of the existing Trust Deed.

13.3 The proposed rules governing the New Employee Incentive Plans are available for inspection at the registered office of the Company for a period of 14 (fourteen) days prior to the date of the Annual General Meeting of the Members of the Company.

14. To approve the following special resolution

<u>Special Resolution Number 1</u>

14.1 That "the Company" or any of its subsidiaries be and are hereby authorised, by way of a general approval, to acquire ordinary shares issued by the Company, in terms of Sections 85 (2) and 85 (3) of the Act and in terms of the rules and requirements of the JSE Limited Listing Requirements, being that:

a. The shares acquired pursuant to 14.1 above may be acquired by / and or transferred to the Company;

b. Any such acquisition of ordinary shares shall be effected through the order book operated by the JSE Limited's trading system and done without any prior understanding or arrangement;

c. This general authority shall be valid until the Company's next Annual General Meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution number 1;

d. An announcement will be published as soon as the Company or any of its subsidiaries has acquired ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue prior to the acquisition pursuant to which the aforesaid 3% threshold is reached, and for each 3% in aggregate acquired thereafter, containing full details of such acquisitions;

e. Acquisitions of shares in aggregate in any one financial year may not exceed 20% of the Company's ordinary issued shares as at the date of passing of this special resolution number 1;

f. In determining the price at which ordinary shares issued by the Company are acquired by it or any of its subsidiaries in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% of the weighted average of the price at which such ordinary shares are traded on the JSE Limited as determined over the five business days immediately preceding the date of repurchase of such ordinary shares by the Company or any of its subsidiaries;

g. The Company has been given authority by its Articles of Association;

h. At any point in time, the Company may only appoint one agent to effect any repurchase on the Company's behalf;

i. The Company's sponsor must confirm the adequacy of the Company's working capital for purposes of undertaking the repurchase of shares in writing to the JSE Limited before entering the market to proceed with the repurchase; and

j. The Company remaining in compliance with the minimum shareholder spread requirements of the JSE Limited's Listing Requirements.

Before entering the market to effect the general repurchase, the directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority, will ensure that for a period of 12 (twelve) months after the date of the notice of Annual General Meeting:

- the Company and the Group will be able, in the ordinary course of business, to pay its debts;
- the assets of the Company and the Group, fairly valued in accordance with generally accepted accounting practice, will exceed the liabilities of the Company and the Group;
- the Company and the Group's ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of the general authority:

- Directors and management – pages 12 to 19;
- Major beneficial shareholders – page 147;
- Directors' interests in ordinary shares – page 74; and
- Share capital of the Company – page 118.

Litigation statement
In terms of section 11.26 of the JSE Limited's Listing Requirements, the directors, whose names appear on pages xx and xx of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the Group's financial position.

Directors' responsibility statement
The directors, whose names appear on pages xx and xx of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information.

Material changes
Other than the facts and developments reported on in the annual report, there have been no material changes in the affairs or financial position of the Company and its subsidiaries since the date of signature of the audit report and approval thereof by the board of directors.

The directors have no specific intention, at present, for the Company to repurchase any of its shares but consider that such a general authority should be put in place should an opportunity present itself to do so during the year which is in the best interests of the Company and its shareholders.

The reason for and effect of the special resolution is to grant the directors of the Company a general authority in terms of the Companies Act and the JSE Listing Requirements for the repurchase by the Company, or a subsidiary of the Company, of the Company's shares.

On behalf of the board

S BRAY
Group secretary
26 February 2008

Abridged CVs of directors available for re-election and appointment

BPTKM GAMEDZE (49)
Director, BA (Hons), M.Sc., FASSA, FIA.
Appointed 16 October 2006

Director

Other directorships
Chief Executive and director of Sanlam Independent Financial Services Ltd, and Simeka Consultants and Actuaries (Pty) Ltd. President of the Association of the South African Black Actuarial Professionals (ASABA).

NM MAGAU (55)
Director, D. Ed.
Appointed 28 May 2002

Director
Chairman of the Sustainability Committee
Member of the Human Resources Committee

Other directorships
Director of Murray and Roberts Holdings Ltd, Boland Vineyards International, Merryl Lynch and Monara Rating Agency. Advisor on the UCT Business School Advisory Board. Director and Chairperson of the Strategic Leadership Committee of International Women's Forum SA (IWFSA).

RK MORATHI (38)
Director, CA (SA), AMP (INSEAD-FRANCE), H Dip Tax
Appointed 20 November 2006

Director
Member of the Investment Committee

Other directorships
Director of Sanlam Ltd, Afrisam (South Africa) (Pty) Ltd and Identity Capital Partners (Pty) Ltd. Economic Advisor to Deputy President of South Africa.

JP MöLLER (48)
Director, CA (SA).
Appointed 16 October 2006

Director

Other directorships
Director of African Life Assurance Company Ltd, Sanlam Independent Financial Services Ltd, Sanlam Ltd, Sanlam Capital Markets Ltd, Sanlam Investment Management (Pty) Ltd and Sanlam Life Insurance Ltd.

BP VUNDLA (60)
Director, BA (SA).
Appointed 28 May 2002

Director
Member of the Sustainability Committee

Other directorships
Director of Alcatel-Lucent South Africa (Pty) Ltd, New Season Investment Holdings (Pty) Ltd, Wesbank Ltd, Mail & Guardian Ltd and AMB Capital.

IM KIRK (49)
Chief Executive, FCA (Ireland), CA (SA), H.Dip BDP (Wits)
Appointed 14 June 2007

Chief Executive Officer
Member of the Investment Committee

Other directorships
Director of Beaux Lan (SA) Properties (Pty) Ltd, Centriq Insurance Company Ltd, Centriq Insurance Holdings Ltd, Centriq Life Insurance Company Ltd, Dunkeld Dwellings (Pty) Ltd, Nova Risk Partners Ltd, SAIA, Sanlam Independent Financial Services Ltd, Solcor Investments (Pty) Ltd and The Standard General Insurance Company Ltd.

H LORGAT (48)
Director, B.Com (Rhodes) CA (SA)
Appointed 27 November 2007

Director
Member of the Audit & Risk Committee

Other directorships
Director of Leaf International Communications (Pty) Ltd, Harfaz Property Investments (Pty) Ltd, Jahafa Trading (Pty) Ltd, Kapela Investments Holdings (Pty) Ltd, Kapela Southprop Investments (Pty) Ltd, Liluye Investments 51 (Pty) Ltd, Riverbend Trade (Pty) Ltd, Invest 58 (Pty) Ltd, Saltik Investments (Pty) Ltd, Two Sanicle Investments 9 (Pty) Ltd and TNS Research Surveys (Pty) Ltd.

Form of Proxy

SANTAM LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1918/001680/06)
JSE Code: SNT NSX Code: SNM ISIN: ZAE000006854
("Santam" or "the company")

For use only by Santam shareholders holding certificated shares, nominee companies of Central Securities Depository Participants ("CSDP"), brokers' nominee companies and shareholders who have dematerialised their shares and who have elected own-name registration at the general meeting of the shareholders of Santam Limited, to be held in the Auditorium on the ground floor of the Santam Head Office, 1 Sportica Crescent, Tygervalley, Bellville at 09:30, on Wednesday, 28 May 2008.

Santam shareholders who have already dematerialised their shares through a CSDP or broker must not complete this form of proxy and must provide their CSDP or broker with their voting instructions, except for shareholders who have dematerialised their shares and have elected own-name registration in the subregister through a CSDP or broker, which shareholders must complete this form of proxy and lodge it with their CSDP or broker in terms of the custody agreement entered into between them and their CSDP or broker. Holders of dematerialised shares wishing to attend the general meeting must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the necessary authorisation to attend.

I/We ____

being the holder/s or custodians of ______________________ ordinary shares in the company, do hereby appoint:

1. ____ or failing him/her,

2. ____ or failing him/her,

3. the chairman of the general meeting,

as my/our proxy to act for me/us at the general meeting, which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary resolutions to be proposed thereat and at each adjournment thereof and to vote on such resolutions in respect of the ordinary shares in the issued capital of the company registered in my/our name/s in accordance with the following instructions (see note 2):

Number of votes (one vote per share)

	In favour of	Against	Abstain
Ordinary resolution number 1 (To consider the financial statements for the year ended 31 December 2007)			
Ordinary resolution number 2 (To reappoint PWC as auditors)			
Ordinary resolution number 3 (To reappoint BTPKM Gamedze as director)			
Ordinary resolution number 4 (To reappoint NM Magau as director)			
Ordinary resolution number 5 (To reappoint RK Morathi as director)			
Ordinary resolution number 6 (To reappoint JP Möller as director)			
Ordinary resolution number 7 (To reappoint BP Vundla as director)			
Ordinary resolution number 8 (To reappoint IM Kirk as director)			
Ordinary resolution number 9 (To reappoint H Lorgat as director)			
Ordinary resolution number 10 (To approve directors' remuneration scale for 2008)			
Ordinary resolution number 11 (To place 5 million shares under the control of the directors)			
Ordinary resolution number 12 (Amendments required to be made to the trust deed of the Santam Limited Share Incentive Trust)			
Ordinary resolution number 13 (provision for three new employee share incentive schemes)			
Special resolution No 14 (authority to buy back shares)			

Insert an "X" in the relevant space above according to how you wish your votes to be cast, however, if you wish to cast your votes in respect of less than all of the shares that you own in the company, insert the number of ordinary shares held in respect of which you desire to vote.

Signed at ______________________ on ______________________ 2008

Signature ______________________

Assisted by me (where applicable) ______________________

Each member is entitled to appoint one or more proxies (none of whom need be a member of the company) to attend, speak and, on a poll, vote in place of that member at the general meeting.

Please read the notes on the reverse side hereof.

Form of Proxy

SANTAM LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1918/001680/06)
JSE Code: SNT NSX Code: SNM ISIN: ZAE000006854
("Santam" or "the company")

NOTES:

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided, with or without deleting "the chairman of the general meeting"; but any such deletion must be initialed by the member. The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. Please insert a "X" in the relevant spaces according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the company, insert the number of ordinary shares held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the general meeting as he/she deems fit in respect of all the member's votes exercisable thereat. A member or the proxy is not obliged to use all the votes exercisable by the member or by the proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the member or by the proxy.

3. Forms of proxy must be received at the office of the transfer secretaries, Computershare Limited, PO Box 61051, Marshalltown 2107, or the registered office of the company, Santam Head Office, 1 Sportica Crescent, Tygervalley, Bellville addressed to the Group Secretary, by not later than 09:30 on Monday, 27 May 2008.

4. The completion and lodging of this form of proxy will not preclude the relevant member from attending the general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the general meeting.

6. Any alteration or correction made to this form of proxy must be initialed by the signatory/ies.

7. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries of the company.

8. The chairman of the general meeting may reject or accept a form of proxy that is completed and/or received other than in accordance with these notes if he is satisfied as to the manner in which the member wishes to vote.

Administration

NON-EXECUTIVE DIRECTORS

BTPKM Gamedze, JG le Roux, H Lorgat, NM Magau,
AR Martin, JP Möller, RK Morathi, P de V Rademeyer,
JP Rowse, GE Rudman, DK Smith (Chairman),
J van Zyl, BP Vundla

EXECUTIVE DIRECTORS

IM Kirk (Chief Executive Officer)
MJ Reyneke (Chief Financial Officer)

COMPANY SECRETARY

Sana-Ullah Bray

SANTAM HEAD OFFICE AND REGISTERED ADDRESS

1 Sportica Crescent, Tyger Valley, Bellville, 7530,
PO Box 3881, Tyger Valley, 7536
Tel: 021 915 7000 Fax: 021 914 0700
www.santam.co.za

REGISTRATION NUMBER 1918/001680/06

ISIN ZAE000093779
JSE share code: SNT
NSX share code: SNM

TRANSFER SECRETARIES

Computershare Investor Services 2004 (Pty) Ltd, 70 Marshall Street, Johannesburg 2001
PO Box 61051, Marshalltown, 2107
Tel: 011 370 5000, Fax: 011 688 7721
www.computershare.com

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