



***Rest insured***

ANNUAL REPORT 2008

*Stability through Relationships*

# contents

|                                  |     |
|----------------------------------|-----|
| Financial performance            | 3   |
| Seven-year review                | 4   |
| Our brand                        | 8   |
| Board of directors               | 10  |
| Executive management             | 14  |
| Chairman's report                | 23  |
| Chief executive officer's report | 29  |
| Report by the financial director | 35  |
| Abridged sustainability report   | 42  |
| Corporate governance report      | 48  |
| Value added statement            | 60  |
| Financial statements             | 61  |
| Notice of annual general meeting | 144 |
| Form of proxy                    | 149 |
| Administration                   | 151 |

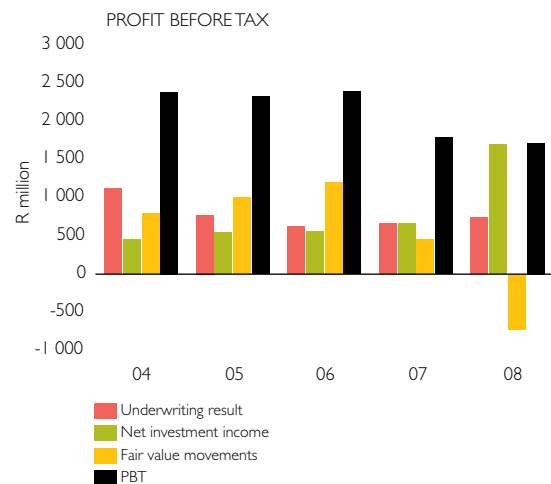
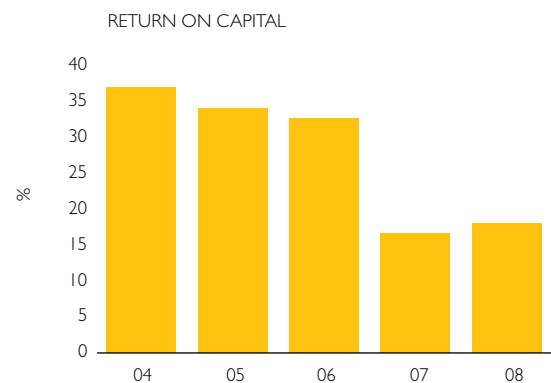
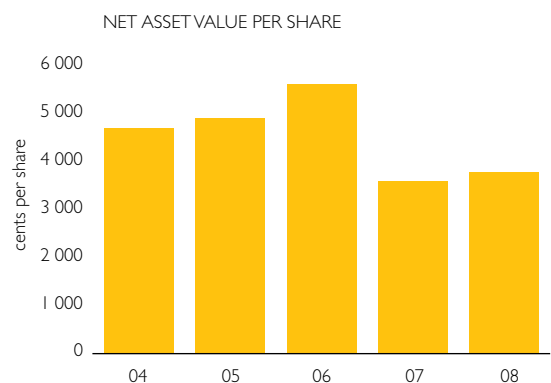
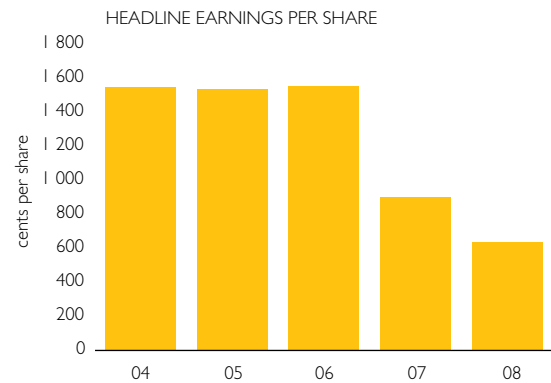
Stability through relationships is a universal theme. There's no more pure and perfect demonstration of this as there is in nature. It is an uncompromising world where the only agenda is harmony. It is a sublime symbiosis. Confirmed by nature, our true test of success is 90 years of stability as the industry leader, building on our relationships with our employees, intermediaries and business partners, helping offer our clients the best insurance cover in the business. In the pages to come we'll see nature as our inspiration behind us holding this philosophy true.

## FINANCIAL PERFORMANCE

After a difficult first half the Santam Group experienced an excellent second half, resulting in a pleasing overall performance for 2008 against the backdrop of the difficult economic climate.

From an underwriting perspective the group did very well in its Southern African operations, showing a substantial increase in both underwriting profit and net insurance result over 2007. Overall earnings for the group were below 2007, attributable to lower investment returns as a result of the continued turmoil and substantial decline in equity markets. Headline earnings of R659 million were 35% lower than 2007, equating to headline earnings per share of 586 cents compared to 906 cents in 2007.

|  | Group<br>2008 | Group<br>2007 |
|--|---------------|---------------|
| <b>Results (R million)</b>                       |               |               |
| <i>Continuing operations</i>                     |               |               |
| Gross written premium                            | 14 179        | 13 173        |
| Underwriting result                              | 739           | 664           |
| Net insurance result                             | 1 279         | 983           |
| Investment income, realised and fair value gains | 228           | 1 120         |
| Profit for the year from continuing operations   | 720           | 1 244         |
| <i>Discontinued operations</i>                   |               |               |
| Result for the year from discontinued operations | 25            | (168)         |
| Profit for the year                              | 745           | 1 076         |
| Headline earnings per share (cents)              | 586           | 906           |
| <b>Balance sheet</b>                             |               |               |
| Net asset value per share (cents)                | 3 786         | 3 610         |
| Solvency margin                                  | 44%           | 42%           |
| Return on weighted average shareholders' funds   | 18.0%         | 16.6%         |
| <b>Dividends</b>                                 |               |               |
| Normal dividends per share (cents)               | 430           | 410           |
| Special dividend per share (cents)               | —             | 2 200         |
| <b>Cash flow (R million)</b>                     |               |               |
| Cash generated by operations                     | 1 527         | 2 139         |



# SEVEN-YEAR REVIEW

|  |     |      | Seven year<br>compound<br>growth %<br>/average | 2008  | 2007    | 2006    | 2005    | 2004    | 2003  | 2002  |
|--|-----|------|--|-------|---------|---------|---------|---------|-------|-------|
| <b>PERFORMANCE PER ORDINARY SHARE</b>                                      |     |      |  |       |         |         |         |         |       |       |
| cents per share  |     |      |  |       |         |         |         |         |       |       |
| Headline earnings  |     | 13.5 |  | 586   | 906     | 1 555   | 1 540   | 1 548   | 751   | 274   |
| Continuing operations  |     |      |  | 621   | 1 054   | 1 495   |         |         |       |       |
| Discontinued operations  |     |      |  | (35)  | (148)   | 60      |         |         |       |       |
| Dividends  |     |      |  | 430   | 410     | 380     | 335     | 290     | 220   | 170   |
| Special dividends  |     |      |  | –     | 2 200   | –       | 650     | –       | –     | –     |
| Capital reduction  |     |      |  | –     | –       | –       | –       | 1 000   | –     | –     |
| Net asset value  |     |      |  | 3 786 | 3 610   | 5 633   | 4 927   | 4 706   | 3 482 | 3 018 |
| <b>INSURANCE ACTIVITIES*</b>   |     |      |  |       |         |         |         |         |       |       |
| Net claims paid and provided (%)   | Avg | 66.1 |  | 68.4  | 68.2    | 68.6    | 65.3    | 57.0    | 64.8  | 70.7  |
| Cost of acquisition (%)  | Avg | 26.3 |  | 25.2  | 25.6    | 24.9    | 26.0    | 28.3    | 27.4  | 26.7  |
| Net commission paid (%)  | Avg | 13.2 |  | 14.3  | 13.9    | 14.1    | 13.4    | 12.4    | 11.7  | 12.6  |
| Management expenses (%)  | Avg | 13.1 |  | 10.9  | 11.7    | 10.8    | 12.6    | 15.9    | 15.7  | 14.1  |
| Contribution margin (%)  | Avg | 92.4 |  | 93.6  | 93.8    | 93.5    | 91.3    | 85.3    | 92.2  | 97.4  |
| Underwriting result (%)  | Avg | 7.6  |  | 6.4   | 6.2     | 6.5     | 8.7     | 14.7    | 7.8   | 2.6   |
| 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             |     |      |  |       |         |         |         |         |       |       |
| <b>INVESTMENT ACTIVITIES</b>   |     |      |  |       |         |         |         |         |       |       |
| Interest and dividends net of asset management fees                        |     |      |  | 771   | 595     | 455     | 428     | 427     | 414   | 314   |
| Net gains on financial assets and liabilities at fair value through income |     |      |  | (721) | 454     | 1 205   | 1 005   | 798     | 289   | (22)  |
| <b>RETURN AND PRODUCTIVITY</b>   |     |      |  |       |         |         |         |         |       |       |
| Earnings expressed as % of average share-holders' funds (%)                | Avg | 24.2 |  | 18.0  | 16.6    | 32.7    | 34.0    | 37.0    | 22.0  | 9.2   |
| Pre-tax return on total assets (%)   | Avg | 12.0 |  | 5.0   | 9.1     | 14.8    | 15.6    | 19.0    | 11.6  | 4.9   |
| Effective tax rate (%) #   | Avg | 23.8 |  | 7.0   | 30.3    | 24.7    | 22.4    | 25.4    | 30.0  | 26.6  |
| Gross premium per employee – (R'000)**                                     |     | 7.1  |  | 4 436 | 4 012   | 3 836   | 3 795   | 3 317   | 3 163 | 2 940 |
| # Continuing activities  |     |      |  |       |         |         |         |         |       |       |
| * Alternative Risk Transfer premiums excluded                              |     |      |  |       |         |         |         |         |       |       |
| <b>SOLVENCY AND LIQUIDITY</b>  |     |      |  |       |         |         |         |         |       |       |
| Dividend cover (times)   | Avg |      |  | 1.5   | 2.3     | 4.1     | 4.6     | 5.3     | 3.3   | 1.6   |
| Solvency margin (%)  | Avg | 56.5 |  | 44.0  | 42.0    | 62.0    | 61.3    | 69.9    | 56.3  | 59.9  |
| <b>OTHER STATISTICS</b>  |     |      |  |       |         |         |         |         |       |       |
| Number of permanent employees  |     |      |  | 2 807 | 2 840   | 2 789   | 2 733   | 2 791   | 2 880 | 2 656 |
| Number of shareholders   |     |      |  | 3 871 | 4 552   | 4 556   | 4 457   | 4 242   | 3 764 | 3 946 |
| <b>SANTAM SHARE PERFORMANCE AND RELATED INDICATORS</b>                     |     |      |  |       |         |         |         |         |       |       |
| Market price per share (cents)   |     |      |  |       |         |         |         |         |       |       |
| Closing  |     |      |  | 7 930 | 10 400  | 8 745   | 8 050   | 7 100   | 5 140 | 3 225 |
| Highest  |     |      |  | 9 500 | 13 720  | 9 500   | 8 500   | 7 100   | 5 200 | 4 200 |
| Lowest   |     |      |  | 6 200 | 8 202   | 6 300   | 5 650   | 4 500   | 2 990 | 3 000 |
| Market capitalisation (R million)  |     |      |  | 8 934 | 11 656  | 10 287  | 9 358   | 8 180   | 5 840 | 3 607 |
| Santam share price index**   |     |      |  | 957   | 1 287   | 1 066   | 973     | 847     | 585   | 330   |
| FTSE – JSE financial index**   |     |      |  | 394   | 610     | 615     | 388     | 323     | 190   | 158   |
| Closing price/earnings (times)   |     |      |  | 13.5  | 11.5    | 5.6     | 5.2     | 4.6     | 6.9   | 11.8  |
| Closing price/equity per share (times)                                     |     |      |  | 2.1   | 2.9     | 1.5     | 1.6     | 1.5     | 1.5   | 1.1   |
| Closing dividend yield (%)   |     |      |  | 5.4   | 3.9     | 4.3     | 4.2     | 4.1     | 4.3   | 5.3   |
| Number of shares issued (million)  |     |      |  | 112.7 | 112.1   | 117.6   | 116.2   | 115.2   | 113.6 | 111.8 |
| Number of shares traded (million)  |     |      |  | 24.4  | 39.3    | 34.9    | 22.2    | 22.3    | 15.5  | 19.0  |
| Number of shares traded as a % of total number of shares in issue (%)      |     |      |  | 21.7  | 35.1    | 29.7    | 19.1    | 19.4    | 13.7  | 17.0  |
| Value of shares traded (R million)   |     |      |  | 20198 | 4 270.9 | 2 728.3 | 1 541.3 | 1 172.3 | 569.9 | 686.7 |
| ** Base year 1992  |     |      |  |       |         |         |         |         |       |       |

The results for 2002 have been restated due to accounting policy changes and are unaudited. Results for 2008 and 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.

|   |      | Seven year<br>compound<br>growth %<br>/average | 2008    | 2007    | 2006    | 2005    | 2004   | 2003   | 2002  |
|---|------|--|---------|---------|---------|---------|--------|--------|-------|
| <b>INCOME STATEMENTS</b>  |      |  |         |         |         |         |        |        |       |
| Gross premium income  | 9.6  |  | 14 179  | 13 173  | 12 115  | 11 355  | 9 735  | 9 513  | 8 197 |
| Net premium income  | 13.2 |  | 11 873  | 10 919  | 10 104  | 9 344   | 7 723  | 7 022  | 5 635 |
| Underwriting result   | 31.6 |  | 739     | 664     | 627     | 775     | 1 125  | 530    | 142   |
| Investment return on insurance funds                                    |      |  | 540     | 319     | 250     | 241     | 203    | 205    | 115   |
| <b>Net insurance result</b>   |      |  | 1 279   | 983     | 877     | 1 016   | 1 328  | 735    | 257   |
| Investment income and associated companies                              |      |  | (498)   | 805     | 1 515   | 1 309   | 1 056  | 486    | 178   |
| Amortisation of intangible asset/Impairment of goodwill                 |      |  | (7)     | (2)     | (2)     | (4)     | (2)    | (37)   | (3)   |
| <b>Income before taxation</b>   |      |  | 774     | 1 786   | 2 390   | 2 321   | 2 382  | 1 184  | 432   |
| Taxation  |      |  | 54      | 542     | 593     | 520     | 604    | 356    | 116   |
| Minority interest   |      |  | 21      | 26      | 23      | 23      | 24     | 22     | 14    |
| <b>Net income from continuing operations</b>                            |      |  | 699     | 1 218   | 1 774   | 1 778   | 1 754  | 806    | 302   |
| Results from discontinued operations                                    |      |  | 25      | (168)   | 70      | –       | –      | –      | –     |
| <b>Net income attributable to equity holders</b>                        | 15.7 |  | 724     | 1 050   | 1 844   | 1 778   | 1 754  | 806    | 302   |
| <b>BALANCE SHEETS</b>   |      |  |         |         |         |         |        |        |       |
| Property and equipment  |      |  | 42      | 38      | 59      | 57      | 55     | 70     | 41    |
| Intangible assets   |      |  | 155     | 135     | 108     | 80      | 87     | 109    | 33    |
| Deferred tax asset  |      |  | 81      | 40      | 27      | 22      | 10     | 14     | 14    |
| Financial assets  | 11.4 |  | 6 130   | 7 530   | 7 756   | 6 116   | 5 417  | 3 835  | 3 208 |
| Technical assets  |      |  | 2 252   | 2 265   | 2 291   | 2 375   | 1 979  | 2 302  | 2 072 |
| Current assets  |      |  | 7 788   | 5 419   | 6 575   | 6 208   | 4 992  | 4 379  | 3 548 |
| Non-current assets held for sale  |      |  | –       | 2 060   | –       | –       | –      | –      | –     |
| <b>Total assets</b>   |      |  | 16 448  | 17 487  | 16 816  | 14 858  | 12 540 | 10 709 | 8 916 |
| Shareholders' funds   | 4.3  |  | 4 402   | 4 107   | 6 750   | 5 852   | 5 482  | 4 009  | 3 414 |
| Equity – non-current assets held for sale                               |      |  | –       | 71      | –       | –       | –      | –      | –     |
| Non-current liabilities   |      |  | 1 917   | 1 907   | 902     | 774     | 195    | 135    | 34    |
| Technical provisions  |      |  | 8 238   | 7 729   | 7 768   | 6 716   | 5 198  | 5 156  | 4 226 |
| Current liabilities and provisions                                      |      |  | 1 891   | 2 067   | 1 396   | 1 516   | 1 665  | 1 409  | 1 242 |
| Non-current liabilities held for sale                                   |      |  | –       | 1 606   | –       | –       | –      | –      | –     |
| <b>Total equity and liabilities</b>                                     |      |  | 16 448  | 17 487  | 16 816  | 14 858  | 12 540 | 10 709 | 8 916 |
| <b>CASH FLOW STATEMENTS</b>   |      |  |         |         |         |         |        |        |       |
| Cash generated from operating activities after finance costs            | 5.6  |  | 1 375   | 2 094   | 2 196   | 2 365   | 2 094  | 1 510  | 991   |
| Income tax paid   |      |  | (669)   | (288)   | (606)   | (778)   | (361)  | (233)  | (96)  |
| <b>Net cash from operating activities</b>                               |      |  | 706     | 1 806   | 1 590   | 1 587   | 1 733  | 1 277  | 895   |
| Cash generated/(utilised) in investment activities                      |      |  | 921     | 12      | (390)   | 578     | (714)  | (31)   | 352   |
| (Investment)/Disposal in associated companies                           |      |  | (55)    | 21      | 24      | 11      | (29)   | (69)   | 8     |
| (Investment)/Disposal in subsidiaries                                   |      |  | (3)     | (61)    | 153     | (41)    | 9      | (408)  | (36)  |
| Cash (sold)/acquired through sale/acquisition of subsidiary             |      |  | (1 139) | 52      | (188)   | 281     | –      | 406    | 144   |
| Cash utilised in additions to fixed assets                              |      |  | (47)    | (29)    | (17)    | (19)    | (12)   | (36)   | (21)  |
| Net sale/(acquisition) of book of business                              |      |  | 51      | (2)     | (2)     | –       | –      | –      | –     |
| <b>Net cash used in investing activities</b>                            |      |  | (272)   | (7)     | (420)   | 810     | (746)  | (138)  | 447   |
| Proceeds from issuance of ordinary shares                               |      |  | 2       | 34      | 29      | 27      | 41     | 39     | 21    |
| Net purchase of treasury shares   |      |  | (19)    | (726)   | –       | –       | –      | –      | –     |
| Return of surplus capital to shareholders                               |      |  | –       | –       | –       | (1 156) | –      | –      | –     |
| Increase in debt securities   |      |  | –       | 964     | –       | –       | –      | –      | –     |
| Increase in investment contract liabilities                             |      |  | (138)   | 230     | –       | –       | –      | –      | –     |
| Dividends paid  |      |  | (476)   | (2 977) | (1 185) | (360)   | (296)  | (200)  | (178) |
| Increase in cell owners' interest                                       |      |  | 111     | 8       | 61      | 88      | 25     | –      | –     |
| <b>Net cash used in financing activities</b>                            |      |  | (520)   | (2 467) | (1 095) | (1 401) | (230)  | (161)  | (157) |
| Net (decrease)/increase in cash and cash equivalents                    |      |  | (86)    | (668)   | 75      | 996     | 757    | 979    | 1 185 |
| Cash and cash equivalents at beginning of year                          |      |  | 1 983   | 2 659   | 4 927   | 3 927   | 3 203  | 2 272  | 1 087 |
| Translation gains/(losses) on cash and cash equivalents                 |      |  | 41      | (8)     | 140     | 4       | (33)   | (47)   | –     |
| <b>Cash and cash equivalents at end of year</b>                         |      |  | 1 938   | 1 983   | 5 142   | 4 927   | 3 927  | 3 203  | 2 272 |
| Non-current assets classified as held for sale                          |      |  | –       | (812)   | –       | –       | –      | –      | –     |
| <b>Cash and cash equivalents at end of year – Continuing operations</b> |      |  | 1 938   | 1 171   | 5 142   | 4 927   | 3 927  | 3 203  | 2 272 |

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

\* From 2007 cash and cash equivalents were restated to exclude short-term money market instruments.







## OUR BRAND

Santam's approach to building sustainable business performance is to seek and develop partnerships with like-minded, performance-driven and far-sighted organisations and individuals. It is a way of acknowledging that the foundations of past successes, racked up over 90 years, are joint efforts that create success and opportunity for all the members of that partnership..

Santam does not go out to win awards – yet a number of initiatives have been implemented successfully and subsequently awarded. Those awards, however, point to deepening partnerships, mutual benefits shared by Santam and its key stakeholders, and a firmer foundation for future success.

### **1. The Deloitte Best Company To Work For survey – Santam achieved 2nd place overall in the large company category.**

The people of Santam are critical to everything the business does, and will need to do. Talk of customer service excellence, client-centricity, brand ambassadorship, efficiency and the like are dependent on staff being completely engaged with the business strategy and direction. It is quite impossible to create a winning business without engaged staff. In effect, the people of Santam are the foundation of the business, its most important partnership.

This fact is recognised by executive management, and is driven throughout the business by them. There is a simple dictum that explains Santam's approach to staff: make work safe, nice, and exciting. In essence, extend to staff the same invitation that the business extends to clients: partner with Santam to make your life better, take the decisions you need to now to make sure tomorrow is not an unpleasant surprise.

With this basic approach in place, Santam undertook a number of exercises to align its value systems and the expectations of a large and diverse staff complement to create a single vision for the future. Among the exercises undertaken to create an aligned work place were a series of "values workshops" that over 18 months involved more than 1 500 people in identifying a set of current and desired future values. Audits taken at various times in the process have shown distinctly that a common set of values in the way staff want to behave and be perceived, is emerging and an alignment towards the core value philosophies of "Think Big", "Embrace" and "Inspire" is occurring.

Values notwithstanding, more is needed to create a fruitful work partnership. Basic rewards, effective leadership and a culture that appreciates and rewards performance that does not encourage dishonesty and unfairness are key to future successes. In each of these areas, Santam has notched up significant kudos: a KPMG audit has shown a strong ethical climate; the performance review process has been refreshed to incorporate the values; and (as will be seen later in this section) the performance of Santam's leadership has been recognised by their short-term insurance sector peers.

### **2. Financial Intermediaries Association – Personal and Commercial Insurer of the Year**

Santam is a fully intermediated business – much of the business that is brought to Santam is the result of a decision of a broker and a client to choose Santam over all the other players in the sector. Clearly, this makes intermediaries a most valuable partner for the company. The decision by Santam to remain intermediated when there is an acknowledged trend towards direct marketers is deliberate and is based upon another simple and client-centric principle: intermediaries are able to add value to clients through their professionalism, knowledge and trusting relationships. Santam believes that cost is but one element of the risk management project and should include information about the financial strength of the insurer, the level of professionalism of intermediaries and their experience, and their commitment to the wellbeing of clients.

The continuous focus on innovation and improvement should ensure that Santam's partnership with this absolutely critical stakeholder – its clients – will continue to be strengthened.

To be recognised as the FIA Insurer of the Year in these categories is a crucial acknowledgement of the work of the broker distribution teams and the relationships they have built with intermediaries. A key initiative undertaken has been the Broker Management Model Programme (BMMP) which recognised that intermediaries and clients want simple transaction processes and uncomplicated customer services. To this end, a three-year programme has created a centralised call centre able to deal with any number of issues for each client, and Relationship Managers that will service intermediaries. The system has markedly improved customer service levels and has attracted the business of intermediaries even in challenging economic times.

short-term insurance sector; they do have a partnership between them to jointly try to create a stable society. To be recognised as excellent contributors to this joint effort ensures a stronger relationship between Santam and the rest of the sector.

**Santam's commitment to client service never slipped. The company's performance improved year-on-year, despite already having performed at a high level the previous year.**

### **3. Ask Afrika Orange Index – Best Customer Service in Short-term Insurance Sector**

The independently researched index measures client service in a variety of sectors. Despite a challenging year in the economy overall and a busy operational year in which a number of initiatives were underway, Santam's commitment to client service never slipped. The company's performance improved year-on-year, despite already having performed at a high level the previous year.

The awards described above demonstrate how Santam is building on its strong heritage to continually strengthen its relationships with, in this case, each of its four key stakeholders: clients, staff, intermediaries and the short-term insurance sector. Efforts to continue to build already strong partnerships are ongoing and there is every expectation that in a year from now, Santam will be able to report on further successes.

The continuous focus on innovation and improvement should ensure that Santam's partnership with this absolutely critical stakeholder – its clients – will continue to be strengthened. Santam focuses on meeting their needs through product excellence, understanding and meeting client expectations and gearing up for clients' future expectations and needs.

### **4. The PricewaterhouseCoopers Emerging Trends and Strategic Issues Insurance 2008 survey**

As part of this survey, PricewaterhouseCoopers asked constituents of the financial sector to perform a peer review of companies. Santam received extremely high ratings in a number of the categories: in the category motor insurer, Santam was placed second; in the category property insurance, Santam was placed first; in the category Zimele products, Santam was placed second; in the category "technically competent staff", Santam was placed second. Clearly, the rest of the short-term insurance industry, and indeed the financial sector at large, consider Santam a leading business.

Although there is competition among short-term insurers to market as many services and products as they can to the

## BOARD OF DIRECTORS



MJ Reyneke, RK Morathi, GE Rudman, DCM Gihwala, JP Möller,

BP Vundla, DK Smith,





J van Zyl, IM Kirk, BTPKM Gamedze, JG le Roux

JP Rowse, P deV Rademeyer, NM Magau

## BOARD OF DIRECTORS

### DK SMITH (61)

Chairperson, BSc, FASSA  
Appointed 1 April 1994

Chairperson of Reinsurance Group of America (SA), Director of Clover Industries Ltd, Clover Danone Beverages (Pty) Ltd, Embryo Financial Services (Pty) Ltd, First International Security Trust (Pty) Ltd, Medi-Clinic Holdings (Pty) Ltd, Plexus Asset Consulting (Pty) Ltd, Plexus Asset Management (Pty) Ltd, Plexus Holdings (Pty) Ltd, Snyman & Van der Vyver, Strategy Partners (Pty) Ltd, Sygnia Life Ltd. Member of the Advisory Council of the University of Stellenbosch Graduate School of Business and Long-Term Advisory Committee of the Financial Services Board. Member of Council of the Ombudsman for Long-term Insurance.

### BTPKM GAMEDZE (50)

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

Director of Simeka Consultants and Actuaries (Pty) Ltd. President of the Association of the South African Black Actuarial Professionals (ASABA).

### DCM GIHWALA (55)

BProc, HDip Tax Prac  
Appointed 28 May 2008

Chairman of Cliffe Dekker Hofmeyr. Director of Seena Marena Financial Services (Pty) Ltd, Seena Marena Investments (Pty) Ltd, Makalani Holdings (Pty) Ltd, Outward Investments (Pty) Ltd, Amistad Bulk (Pty) Ltd, Amistad Offshore (Pty) Ltd, Redefine Income Fund Ltd, Ngatana Property Investments (Pty) Ltd, Independent Regulatory Board of Auditors (IRBA), Sando Holdings (Pty) Ltd, FirstRand Executive Trust, Various directorships by virtue of curatorship of Fidentia Holdings (Pty) Ltd.

### IM KIRK (50)

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

Director of Centriq Insurance Holdings Ltd, SAIA, The Standard General Insurance Company Ltd, Infnit Group Risk Solutions (Pty) Ltd, Stalker Hutchison Admiral (Pty) Ltd and Beaux Lane (SA) Properties (Pty) Ltd.

### JG LE ROUX (63)

Director, BSc (Agric)  
Appointed 23 May 2000

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

### NM MAGAU (56)

Director, DEd  
Appointed 28 May 2002

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) and Board member of the National Research Foundation.

### JP MÖLLER (49)

Director, CA(SA)  
Appointed 16 October 2006

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

**RK MORATHI (39)**

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

Executive director of Sanlam Ltd, Director of Sanlam Investment Management (Pty) Ltd, Afrisam (South Africa) (Pty) Ltd and Identity Capital Partners (Pty) Ltd.

**P DEV RADEMEYER (61)**

Director, CA(SA)  
Appointed 20 February 2001

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

**MJ REYNEKE (51)**

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

Director of 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 Namibia Ltd, Stalker Hutchison & Associates (Pty) Ltd, The Lion of Africa Insurance Company Ltd and The Lion of Africa Holdings Company (Pty) Ltd, Aegis Insurance Company Ltd, Central Plaza Investments 112 (Pty) Ltd, Guardian National Insurance Company Ltd, Nova Risk Partners Ltd and Pinion Administrators (Pty) Ltd.

**JP ROWSE (54)**

Director, BCom, MBA  
Appointed 20 November 2006

Director of Kwaaiwater Investments (Pty) Ltd, Tokiso Commercial Dispute Settlement (Pty) Ltd and Leadway Assurance Company (Ltd) (Nigeria).

**GE RUDMAN (65)**

Director, BSc, FASSA, FFA  
Appointed 23 January 1996

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

**J VAN ZYL (52)**

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

CEO and executive director of Sanlam Ltd and Sanlam Life Insurance Ltd. Director of Sanlam Developing Markets Ltd, Sanlam Investment Management Ltd, Sanlam UK Ltd, MiWay Ltd and Sanlam Netherland Holdings BV. Council member of the University of Pretoria and Trustee of the Hans Merensky Foundation.

**BP VUNDLA (61)**

Director, BA (Unisa)  
Appointed 28 May 2002

Director of Alcatel-Lucent South Africa (Pty) Ltd, New Seasons Investment Holdings (Pty) Ltd, Wesbank Ltd, Mail & Guardian Ltd, AMB Capital, Fidelity Security Services and SABC Ltd.

## EXECUTIVE MANAGEMENT



IAN KIRK (50)  
Chief Executive Officer  
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.





**JAN DE KLERK (48)**  
 Information Management  
 MDP (Pretoria)  
 Appointed 2007

Has overall responsibility for Information Technology of the company, ensuring that information and technology is leveraged to tactically enable the business strategy. This includes building systems capabilities to enhance Santam's agility and operational effectiveness and ensuring efficient operation of Santam's IT infrastructure. Also responsible for IT integration between Santam and Sanlam.



**EDWARD GIBBENS (39)**  
 Broker Distribution  
 AIISA, BCom, MBA  
 Appointed 1992

Responsible for growth of gross premium income and underwriting profit in the intermediary 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.



## EXECUTIVE MANAGEMENT



**MARGARET MASSIE (35)**  
People & Brand Services  
BCompt (Hons), CA(SA)  
Appointed 2006

Executive responsibility for Marketing & Communications, Human Resources, Sustainability & expansion into India and South East Asia. 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 world wide best practice. Sustainability is focused on positioning Santam as a good corporate citizen.



**TEMBA MVUSI (53)**  
Market Development  
BA, ELP (Warton School of Business, MAP (Wits), PDP (UCT)  
Appointed 2008

Deliver strategic input into developing and growing the business into new markets through strategic stakeholder relationships. Exploring new opportunities in the intermediate model, by unlocking value in previously unserved markets. Drive transformation on a group-wide level to ensure business sustainability and ongoing growth of the company's BBBEE responsibilities and set targets. Benchmarking company performance and progress against industry standards, while maintaining strategic stakeholder relations.



HENDRI NIGRINI (57)  
Risk Services  
BCom, ACII  
Appointed 1986

Executive responsibility for Insurance Underwriting, which includes underwriting strategy and pricing, reinsurance, development of product solutions and actuarial services. This includes the development and maintenance of systems and processes to support sustainable profitable growth.

## EXECUTIVE MANAGEMENT



**HENNIE NORTJE (45)**  
Insurance Services  
BCom (Hons), CA(SA)  
Appointed 2008

Executive responsibility for the management of the total claims value chain, including client services, processing and procurement for superior delivery of client service and optimal insurance results. Plans, leads, integrates and co-ordinates all the activities within insurance services. This includes the development of claim philosophy, policies, quality assurance practices and effective structuring of a preferred supplier network. Further responsible for the attainment of the Financial Sector Charter procurement dimensions.



**MACHIEL REYNEKE (51)**  
Financial 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 Sanlam on the board of the group's investments in group and associated companies.





MPUMI TYIKWE (43)  
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 an additional task and responsibility of executing the company's strategy in respect of other emerging countries in the rest of Africa. Responsible for the growth and profitability in the premium income for the division in a sustainable and profitable manner.

## UMBRELLA – STICK INSECT

Perfectly at home, the stick insect relies on leaves and stems to hide from predators.

But because camouflage cannot be provided for many insects, the population is limited, as is the feeding on the leaves – a flawless symbiotic coexistence.







## THE CHAIRMAN'S REPORT

The 2008 financial year presented us, and the entire financial market, with a number of obstacles both locally and in the global environment – a challenging year to say the least. Whilst this financial downturn was not completely unexpected, the extent of the impact on world markets could not have been predicted.

In view of the above, it is particularly gratifying for me that the decisive actions taken by Santam's management team during the year, as well as our focus on maintaining our leadership position in the South African environment, paid off. During 2008 we reaped the benefits of our internal efforts to understand the interrelationships between our reinsurance programme and the nature of our investment portfolio, to optimise our solvency margin.

Through proactive action we substantially reduced the negative impact of the investment market downturn which occurred in the last quarter of the year.

- o Firstly, our decision in 2007 to enhance our balance sheet by paying a hefty special dividend of 2200 cents per share to our shareholders in December of that year, reduced our exposure to the capital markets.
- o In addition, our board of directors took cognisance of the uncertainty in the markets and monitored the situation closely. We made an informed decision in the course of the year to reduce Santam's equity exposure. This was fortuitous as it was executed a week before the downward correction of the market in September 2008.
- o Our decision to exit the non-profitable European insurance operations (which exercise we began mid 2007) was completed prior to the substantial weakening of the European economy as well as our local currency towards the end of 2008. The benefits of this timely exit are numerous and saved Santam a certain substantial loss.

The benefits of our ongoing focus on retaining profitable business lines and clients are also demonstrated in our strong net insurance results for the year ended 31 December 2008. However, our results were impacted by market volatility, overall reducing the net earnings.

Reported headline earnings per share decreased by 35% to 586 cents from 906 cents the previous year. The net insurance premium revenue showed good growth of 9%, reflecting the strength of our core operating activities. However, the extreme volatility in the financial markets detracted from Santam's performance, with a 47% decline in results from operating activities to R934 million from R1 755 million in 2007. Return on shareholders' funds was healthy at 18% for 2008, a slight increase from 16.5% in 2007.

The reported net asset value per share increased by 4.8% to 3785 cents from 3610 cents in 2007.

Notwithstanding the global uncertainty and slowing domestic economy, Santam's core short-term insurance activities have continued to deliver a solid performance. However, the excellent performance of our personal and commercial lines was dampened by the high claims incidence on our corporate book during the first half of the financial year. We maintained our efforts to ensure the long-term sustainability and profitability of all our short-term insurance products, not only through innovation but also by continuous improvement of our back-office systems and support infrastructure.

Return on shareholders' funds was healthy at 18% for 2008, a slight increase from 16.5% in 2007.

### INDUSTRY CHALLENGES AND ACHIEVEMENTS

The weaker economy translated into a tighter and more competitive pricing environment across the industry. Whilst this was not unexpected, it placed significant pressure on players in the short-term insurance industry. This trend was exacerbated by an industry-wide experience of an unusually high number of large corporate claims in the first half of the financial year, which placed pressure on underwriting margins among all short-term insurance industry players.

Against this backdrop of uncertainty, I am pleased to say that Santam has continued to go from strength to strength. Both private and corporate clients have turned to us based on our long-standing track record, quality service and financial strength. Santam is and has been a trusted name and brand in the local market. This trustworthiness has never been more important for consumers than at times as experienced during 2008 and looking forward to 2009.

From a legislative perspective, the impact of the Financial Advisory and Intermediary Services Act, 2002 (FAIS) has largely been assimilated by the industry. However, we continued to offer our broker network support in coming to terms with the impact of this legislation to ensure their



long-term sustainability. As reported last year, two thirds of clients still prefer the broker and intermediary channel above all others.

During the year further amendments to the Short-term Insurance Act (1998) were promulgated; however, regulations encompassed in the Act are still under discussion by industry stakeholders, which include Santam. We are actively engaging with participants to ensure that the broader implications of these changes in the broker environment are fully understood.

The long anticipated alignment between the Financial Services Charter (FSC) and the Dti Codes of Good Practice remains unresolved. The FSC resulted from extensive engagement between industry players and government stakeholders after careful consideration of all the aims and implications of transformation, while the Dti Codes still fail to address some of the more unique ramifications specific to the financial services sector. Santam will continue to play an integral part in all industry negotiations and discussions to protect the interests of our business and all our stakeholders.

**I remain confident in Santam's positioning as a market leader in the short-term insurance industry. I believe that this will be sustained in spite of the challenging economic climate which currently prevails.**

Despite the disparity between these frameworks, Santam remains on track with its transformation initiatives.

#### THE SANLAM RELATIONSHIP

During the year, we maintained our efforts to extract the inherent synergies between Santam and Sanlam. The steering committee established during 2007 to optimise these synergies, provides regular feedback to the Santam board of directors. A number of initiatives with well-defined benefits have been accepted and are currently being rolled out. Some of them were mentioned in last year's report and provisional feedback from these initiatives is pleasing.

Throughout this process, we are cognisant of the importance of ensuring the viability of business cases which are adopted and we are taking care that the independence of Santam is not compromised.

We anticipate that the financial benefits of the programmes will start to flow during 2009. Having successfully exited our European insurance operations, we remain committed to expanding the reach of

Santam's brand outside of South Africa. Our approach is conservative and we are working with Sanlam and its partners in Africa and the Asia Pacific region with a view to expanding our reach into these new territories in a measured manner.

#### STRATEGIC REVIEW

I am pleased to report that we continued to make progress with the roll-out of our group strategy during 2008. As such, I remain confident in Santam's positioning as a market leader in the short-term insurance industry. I believe that this will be sustained in spite of the challenging economic climate which currently prevails.

During the year, we also continued to make progress with the implementation of Project 2010. In particular, the Broker Management Model Project (BMMP) was rolled out and the success of this initiative was confirmed when the Financial Intermediaries Association of Southern Africa (FIA) acknowledged Santam as the Personal and Commercial insurer of the Year in May 2008.

Taking cognisance of the tougher prevailing market conditions, we decided to adjust the implementation of our Insurance Services Transformation Project (ISTP) to fine-tune the project and reduce the costs of implementation. This has resulted in our moving the completion date to October 2010.

#### BOARD OF DIRECTORS

I welcome Mr Dines Gihwala who was appointed to the board as an independent non-executive director on 28 May 2008. Mr Gihwala is the chairman of Cliffe Dekker Hofmeyr, one of South Africa's largest law firms. He has also served as a judge of the high court in Bloemfontein and Cape Town. We look forward to having him join our team and to working with him.

Having reached the retirement age of 70, Mr Alwyn Martin retired as an independent non-executive director on 9 May 2008. Mr Martin joined Santam's board in November 1996 and served on our audit and risk committee and the BBBEE subcommittee. We thank him for his loyal commitment and involvement in Santam, and we wish him well on his retirement.

Mr Haroon Lorgat resigned as an independent non-executive director on 30 June 2008 due to his appointment as chief executive officer of the International Cricket Council (ICC) which is based in Dubai. On behalf of Santam, I wish Mr Lorgat well in his new position at the ICC and thank him for his contribution.

Given the current economic storm and the resulting volatility and uncertainty in financial markets and to ensure

that all investment decisions taken are appropriate and well considered, the investment committee (which was established last year) continued to be actively involved in our investment process in 2008. The committee, chaired by Mr P de V Rademeyer, is mandated to assist the board in formulating the investment strategy, including the appointment of asset managers and setting of mandates.

## CORPORATE GOVERNANCE

As always, Santam remains committed to good corporate governance. Our directors remain committed to the principles of integrity and ethical business behaviour and accept responsibility to our stakeholders in applying and maintaining the necessary and highest standards of professionalism, independence, social responsibility and fairness.

## SUSTAINABILITY

We have always recognised that Santam is part of a broader socio and economic environment. Two years ago we embarked on our current journey to cement our sustainability framework and create an approach that encourages leadership. This focus forms an integral part of our strategy and cuts across all business functions within Santam – and each of these businesses have committed to taking ownership in making this happen.

We are also escalating our commitment to the broader principles of sustainability, and particularly climate change, as these relate to our business of short-term insurance. For example, during the past five years the southern Cape has endured three severe storms where it had previously been considered normal for these to occur only once a century.

These occurrences are having a very real impact on our business and significant implications for long-term viability. There is no doubt that our weather patterns are changing although the exact impacts are difficult to pinpoint. In order for us to mitigate our clients' risk, we continually endeavour to understand the issues which impact on our clients and their risk profiles, whilst mitigating our exposure to these risks. It is our business providing one of the most appropriate mechanisms for client protection – insurance. As evidence of changing climatic conditions emerges, we will include it in our approach to risk.

For more information on our sustainable development policy, please refer to pages 43 to 45.

## PROSPECTS AND PRIORITIES

Santam is geared to maintain its leadership position despite the adverse market conditions. We have a highly diversified portfolio of short-term insurance products. And we are well positioned to continue benefiting from our clients' preference to acquire short-term insurance products from

a long-established and secure player such as ourselves. We are currently operating in an unprecedented economic paradigm. As such we can only anticipate that this extreme volatility in the financial markets will persist in the medium term. Therefore we have adopted a conservative approach to our investments for the immediate future to ride out these challenging times while preserving our capital.

Looking forward, we will continue to operate within the solvency margins which we have set for ourselves. While we are comfortable with our overall underwriting portfolio, we have identified those areas of the business which still require attention and we will take proactive steps to address these. These actions should ensure that we meet the overall return requirements set for Santam.

We will also continue to closely monitor our investment portfolio in light of the global and local markets and make changes as and when required.

Notwithstanding systemic uncertainty which will affect the entire financial services industry, Santam is well placed. We are benefiting from a flight to quality from both corporate and personal clients as they seek out trusted partners to ensure sustainable solutions to manage their own risk profiles.

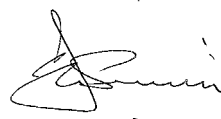
## ACKNOWLEDGEMENTS

The 2008 financial year was tumultuous and the market in which we operated changed overnight as the global credit crisis took hold. Amid the uncertainty, the broader Santam family remained focused on our business of short-term insurance and we defended our position in this highly challenging environment.

A survey amongst our staff ranked Santam as one of the top large companies to work for and I am proud of and encouraged by these results. I am indebted to each staff member for playing an active role in the performance of our core businesses and remaining motivated during these troubled times.

My thanks to our brokers and intermediaries for your support and loyalty during the year. Your role in the implementation of the BMMP has enabled Santam to emerge better equipped to meet future challenges head on.

The robust debate among our directors is gratifying and I appreciate your passion and commitment to the business. Serving on this board and with these members is an honour and a pleasure.



**DESMOND SMITH**  
Chairman



## LILY – FROG

The frog rests on the flat surface of the lily in his favourite hunting ground, the pond, where its food source is at its most abundant. The frog also helps control the local insect population.

In this holistic system, there is strength through interaction.





# CHIEF EXECUTIVE OFFICER'S REPORT

While navigating the path of Santam through these uncharted economic times, I am continually reminded that our long-term success has been predicated on our sound business strategy. At the same time, we believe that challenge brings opportunity, and in 2008 we embraced it to widen that gap between Santam and its competitors.

## INTRODUCTION

2008 will be remembered as the year during which the world economic paradigm shifted fundamentally – commencing with a severe credit and liquidity crisis and blowing into a worldwide economic recession in the developed world. Initially, South Africa was not significantly affected by the financial crisis in 2008, but as it unfolded it became clear that the local impact would be considerable.

The local consumer had his share of economic pressures, high interest rates, rampant fuel prices, inflation and the consequences of the global financial market contagion. These had a negative impact on economic confidence, and consumer spending started to decrease.

Despite having some impact on Santam's growth and on the investment performance metrics, we delivered an improved operating result. It was also a year in which a number of Santam initiatives proved to be successful and we made enormous strides in entrenching our market leadership and cementing our business model to ensure our long-term success.

## OPERATING ENVIRONMENT

The short-term insurance cycle, which commenced its downward movement in 2006, continued to decline in line with our expectations. As such, the challenging operating situation persisted throughout 2008. Although we had previously anticipated the cycle to improve in the second half of 2009, the current global economic turmoil will undoubtedly delay this recovery.

We have observed pricing action among several personal lines insurers in an attempt to defend and increase their market share. Furthermore, against the backdrop of the highly indebted and financially strained consumer, the industry has been unable to increase premiums sufficiently to the correct level for the risk.

In the corporate and commercial sector, the high level of competitiveness and the difficult economic environment

have similarly limited the ability of insurers to achieve appropriate premiums, placing further pressure on profit margins. While inflation passed the 10% mark during the year, the industry has on average shown only single-digit growth in premium rates, demonstrating the extent of market pressures on premium rates.

As a result of our diversification, our relationship with intermediaries throughout the country and by increasing operational efficiencies we successfully increased underwriting margins over most classes, with the notable exception of our corporate insurance business.

Overall we are pleased with the operating performance of the group in 2008. From a financial perspective, our underwriting margin remains above the industry average and also significantly exceeds that of our intermediate competitors. Santam also retains the dominant market share in the South African market, an important element of our leadership position.

**Santam's diversification once again placed us in a unique position in the market and has repeatedly carried Santam through challenging times, with the current economic straits being no exception.**

Key stakeholders also confirmed this leadership position for Santam in the South African market during the year:

- o Through our intermediaries, the Financial Intermediaries Association of Southern Africa (FIA) voted Santam the Personal and Commercial Insurer of the Year in May 2008.
- o We were placed second in the "Best Company to Work for" survey. This is an achievement of which we are particularly proud as it demonstrates that our employees are contented and motivated despite the uncertainty resulting from our internal re-engineering processes.
- o Our policyholders voted Santam as the top financial services company in South Africa and as the fourth company overall in the Ask Africa Orange Index, which measures service excellence among South African consumers.

## FINANCIAL REVIEW

The net underwriting result of R739 million (2007: R664 million) from the continuing operations increased 11% over 2007. It is pleasing to see the 2008 margin of 6.4% ending higher than the 6.2% in 2007. The net insurance result of R1.28 billion, impacted by higher returns achieved on insurance assets, was 30% higher than 2007, equating to a margin of 10.9% against the 9.2% of 2007. Stable retention levels were reported, underpinned by the quality of Santam's book, with its limited exposure to the higher-risk market segments. The reinsurance earned premium – at 16.8% of gross earned premium – increased marginally from 16.5% in 2007.

Our investment portfolio performed in line with the volatility and general decline on local markets as the prolonged international financial, liquidity and economic crises continue to impact negatively on developing markets in general. However, having progressively reduced our exposure to equity markets at the end of 2007 and again up to the third quarter of 2008, we reduced our exposure to substantial losses in our investment portfolio. Although the higher interest rates had a positive impact on interest-bearing and cash-related investments, this benefit could not compensate for the negative investment returns on our equity portfolio and we ended the year over R1.17 billion down on 2007's outcome on this metric.

Santam completed its exit from the European insurance operations by disposing of both Westminster Motor Insurance Association and Santam Europe before year-end. The net result of the discontinued operations was a profit after tax of R25 million, including a release of the translation reserve credit of R71 million on disposal of the operations.

Due to the impact of investment losses, headline earnings decreased by 35% to R659 million (2007: R1 030 million), equating to 586 cents per share (2007: 906 cents per share). Basic earnings per share of 644 cents per share were 30% lower than the 924 cents per share of 2007.

Cash generated from operations decreased to R1.53 billion (2007: R2.14 billion) including a R453 million operational cash outflow on the discontinued operations.

The group's solvency margin of 44% was at the upper end of the target band of 35% to 45%.

## IMPLEMENTATION OF STRATEGY

As reported last year, we have previously established a strong association between Santam and the concept of risk management across our base of clients. We further entrenched ourselves in this strategy during 2008. Consistent messaging into the market was supported

by product enhancements incentivising our customers who proactively managed their risks with the reward of enhanced cover.

We continued to make progress with the execution of strategic change projects during 2008, focusing on the roll-out of the Broker Management Model Project (BMMP). BMMP entailed re-engineering the national front-office environment and centralising the back-office support operations, i.e. quotations, policy administration. We implemented the new model across our national branch network, with only the Pretoria region still outstanding. We are pleased with the results and we are realising tangible benefits from this new structure, including:

- o greater consistency and accuracy of quotations;
- o quotations being produced more quickly (to the added benefit of our brokers); and
- o increased quality in the technical support provided to our branches from the centres of expertise.

We were placed second in the “Best Company to Work for” survey. This is an achievement of which we are particularly proud as it demonstrates that our employees are contented and motivated despite the uncertainty resulting from our internal re-engineering processes.

The roll-out of the Insurance Services Transformation Project (ISTP) commenced in 2008 and this will be accelerated in 2009.

Based on requests from the pilot implementation in two regions, we are confident that this re-engineering of our claims support environment will lead to more efficient claims processing, resulting in lower costs and shorter turnaround times.

## OPERATIONAL REVIEW

### Corporate and commercial lines

The solid performance of our traditional commercial businesses was underpinned by its selective approach to premium growth in the average market and tight management of claims. Growth was supported by high levels of infrastructure spend in South Africa, and our specialist business classes performed exceptionally well for the year. Our liability business continued to lead the way as the synergies from combining Stalker Hutchinson & Associates and Admiral Professional Underwriting Agency were unlocked. The crop business also returned to profitability with the absence of drought claims and fewer hail damages.

The transportation class was profitable, although its performance was negatively impacted by increased numbers of private aviation accidents. Good results from the commercial motor lines countered a below average performance from our commercial property book due to a large number of industrial claims. However, the implementation of BMMP and the improved quoting process are delivering tangible benefits.

The performance of our corporate business for the year was negatively impacted by the industry-wide incidence of very large industrial claims during the first half of the year. We subsequently instituted decisive corrective action, shedding business where we were unable to obtain an appropriate risk-adjusted premium for risk insured.

Thankfully, increased enforcement of risk management actions by our corporate policyholders resulted in fewer corporate claims during the second half of 2008 and we recouped some of the losses reported in the first half, but the outcome for the year was negative. Looking forward, we will continue to pursue improved overall profitability to secure the sustainability of this business sector for Santam.

## PERSONAL LINES

Santam's traditional personal lines once again delivered good results, with premium growth of 10%. Although growth was slightly below our target and the anticipated market growth, the results are pleasing given severe pricing pressure in the market, especially from direct underwriters. Despite pressure on consumers' disposable income, Santam was shielded from higher lapse rates as a result of our limited exposure to the higher-risk segments in the middle income markets. Within our customer base, the tighter consumer environment was characterised by a pursuit of lower premiums by cutting sums insured or increasing excesses. Claims experience was less favourable than in 2007 due to several climatic events during the year, including severe storm and flood damage in KwaZulu-Natal and the Western and southern Cape.

The personal lines motor book continued to perform ahead of other intermediate industry players, albeit with claims costs indicating a rising trend. Claims cost pressures persist, against the backdrop of increasing repair cost associated with the higher proportion of imported vehicles with a weakening local currency. Actions are afoot to maintain the positive performance of the book despite the current repair cost environment coupled with road infrastructure challenges and the increased prevalence of unlicensed drivers.

Santam's portfolio management business recovered significantly from the negative performance levels in 2007. Growth was well above that of traditional personal lines, a clear indication of the suitability of this business model.

We continue to refine our portfolio and implemented a strategy of declining certain risks where we were unable to achieve sufficient premium levels to compensate for the assessed risks. Having shed these unacceptable risks, and with a more rigorous application of our existing models and technology solutions to manage the exposure, our portfolio management business is on a sound footing to succeed in the tough current operating environment.

## ALTERNATIVE RISK

The alternative risk business housed in the Centriq group delivered healthy after-tax returns, underpinned by reasonable premium growth but higher fee income.

## PROSPECTS

Despite the backdrop of the local and international economic uncertainty, we believe that Santam is in a favourable position to continue delivering on its financial objectives. We have continued with the roll-out of Project 2010 and we are now reaping the benefits of these actions.

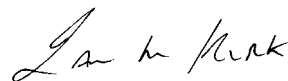
Looking forward to 2009, we have set ourselves the target of increased market share gains, capitalising on the market's pursuit of quality in times of uncertainty. With the implementation of BMMP behind us, we are now positioned to focus on premium growth across all segments while remaining selective and closely monitoring risks to ensure that we retain our profitability. The outlook for the investment market remains gloomy and Santam will maintain its conservative approach to ensure the preservation of capital, especially while the financial market volatility and uncertainty persists.

## ACKNOWLEDGEMENTS

In conclusion, I commend all those who have interacted with Santam during what can only be described as a difficult year. As a team, we have risen to the challenge, delivering an excellent operating performance despite a number of obstacles. We have successfully implemented new structures which will assist with our continued industry leadership over the medium to long term.

I wish to thank every employee, our loyal intermediaries and supply chain, my committed executive team and our experienced board of directors for your ongoing support during the year.

I look forward to working with you all in a challenging 2009.



**IAN KIRK**  
Chief Executive Officer









## REPORT BY THE FINANCIAL DIRECTOR

After a difficult first half of the year, the Santam Group experienced an excellent second half, resulting in a pleasing overall performance for 2008 against the backdrop of the economic climate.

The group's southern African operations showed a substantial increase in both underwriting profit and net insurance result.

### OVERVIEW

- o Continuing operations achieved gross written premium growth of 8% in a challenging market
- o Underwriting result of R739 million translating into a net underwriting margin of 6.4%
- o Net insurance result of R1 279 million translating into a net insurance margin of 10.9%
- o Headline earnings of 586 cps, a decrease of 35%
- o R1.98 billion cash generated by continuing operations
- o Group solvency ratio of 44%
- o Total dividend per share of 430 cps

### BASIS FOR REPORTING

The group consolidated financial statements for the year ended 31 December 2008 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.

There have been no changes to the accounting policies during the period. The financial statements provide comprehensive information regarding the assets, liabilities, income and expenditure of the group and company. In addition, detailed background is provided regarding the recognition and measurement of insurance contracts as well as insurance and financial risks.

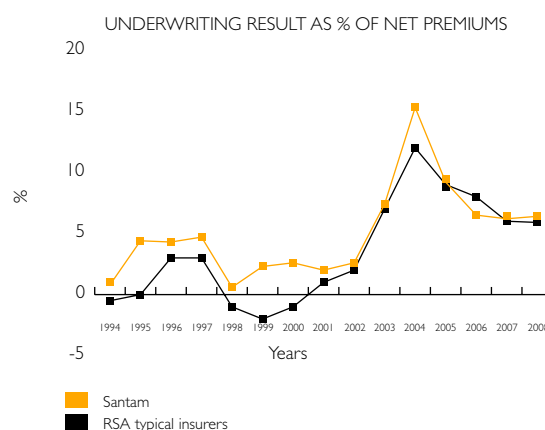
As reported in 2007, the group classified its European insurance operations (Santam Europe and Westminster Motor Insurance Association) as "Discontinued operations" as defined by IFRS 5 – *Non-current assets Held for Sale and Discontinued Operations*, and reported it as such in the group financial statements. 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 line in the income statement for both 2008 and 2007.

### FINANCIAL RESULTS

Headline earnings of 586 cps for the year were 35% lower than the 906 cps for 2007. This was mainly due to the negative returns from listed equities, which were in line with the sharp decline in equity markets during the year.

#### Underwriting performance

Santam has a strong track record of outperforming the industry's net underwriting margin. Although the group's underwriting results are inherently cyclical, and are strongly correlated to the performance of the "typical" short-term insurer in South Africa, Santam's underwriting margin has, on average, remained higher than its peer group's margins.



The 2008 net underwriting result of R739 million from continuing operations showed an increase of 11% from R664 million in 2007. The overall net underwriting margin increased marginally to 6.4% from 6.2% in 2007 and outperformed the industry's "average level through the cycles" of between 4% and 6%.

The southern African operations achieved an 8% increase in gross written premiums, experiencing growth across most classes of business. This was pleasing, given the softer trading conditions and the corrective action taken by Santam to procure and retain quality business – especially in the corporate business unit.

From an underwriting result perspective, the personal and commercial business classes delivered an improved performance from 2007, despite several catastrophic floods in KwaZulu-Natal and the southern Cape and continued pressure on premium rates. In line with industry experience, Santam incurred a number of large industrial accident and fire-related claims during the first half of the year in the corporate business unit.



This led to a negative performance from the property class for the year and the current reinsurance programme did provide sufficient balance sheet protection against these claims. In the specialist classes, the liability and engineering businesses performed very well whilst the crop business returned to profitability in the absence of drought claims. The ongoing focus on cost efficiencies paid off as the net acquisition cost ratio declined to 25.2%, from 25.7% in 2007.

Having reached optimum retention levels with an acceptable risk profile, the level of reinsurance earned premium was 16.8% of gross earned premium, in line with the ratio of 16.5% in 2007. Excluding the impact of cell business, the ratio for the year decreased to 5.9% from 8.2% in 2007.

### Net insurance result

As reported last year, a special dividend payment of R2.5 billion was declared at the end of 2007. As a result, the deployment of the company's float (funds generated by insurance activities) changed from being completely invested in interest bearing instruments to include an equity component. Consequently, the method of calculating the investment return on insurance funds in 2008 was adjusted and is now based on the actual return of the underlying assets as opposed to exclusively applying the actual cash rate return.

Equity investments included in the float balance recorded negative returns during the first half of the year. However, these losses were recouped at the beginning of the third quarter when the financial sector recovered. Shortly thereafter, the company eliminated its equity exposure in the float, in line with Santam's overall strategy to reduce its exposure to equity markets. Higher interest rates and average float levels had a favourable impact on earnings for most of the year. This supported a substantial increase in the investment return on insurance funds to R540 million from R319 million in 2007.

The combined effect of continuing insurance activities resulted in a net insurance income of R1 279 million, representing a margin of 10.9% for the year compared to R983 million with a margin of 9.2% in 2007.

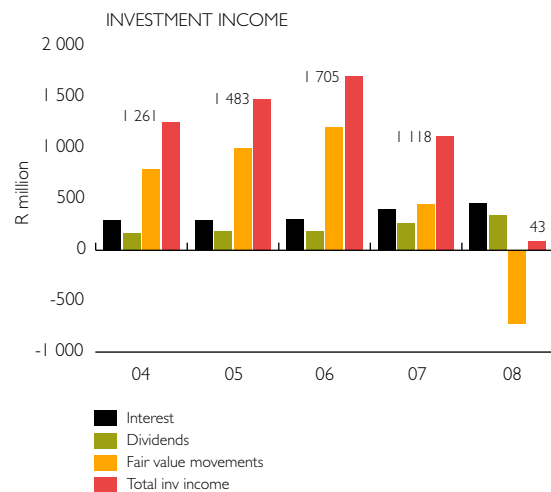
### Investment income

Investment income comprises interest, dividends, realised and unrealised investment gains. Interest earnings were positively affected by the higher interest rates, while dividend income was also higher.

Santam was not immune to the negative impact of equity investment devaluations during 2008, precipitated by *inter alia*, the worsening global credit and financial crises.

The performance of the investment portfolio remained under pressure for the year, as the negative trend which started in the last quarter of 2007 persisted. However, this showed some improvement in the second half of 2008. Although higher interest rates had a positive impact on cash related investments, the equity portfolio performed significantly below the exceptional performance of 2007 as the global financial and economic crisis spilled over into the South African financial market. The result was a net loss of R721 million on financial assets and liabilities at fair value which was reflected through income. This compares to the net gain of R454 million in 2007, and represents a negative variance of R1.17 billion year-on-year.

However, the impact was mitigated through the proactive steps taken by the company to decrease its equity exposure by disposing of equities amounting to R1 billion and by implementing a hedge to eliminate the downside



risk on a further R500 million of equity exposure. The investment portfolio was also substantially reduced due

to the buy-back of shares and payment of the special dividend in 2007.

Earnings from associated companies were negative for the year and were well below 2007. This was mainly due to start-up losses in MiWay in 2008 as well as a general decrease in earnings from associated companies.

### Cash flows

The group's operating activities generated R1.53 billion in cash for the year, down from R2.1 billion in 2007. Cash generated by continuing operations amounted to R1.98 billion, a marginal increase from the R1.91 billion in 2007.

### Dividends

The company paid an interim dividend of 166 cents per share, on par with the 166 cents per share paid in 2007.

Furthermore the company declared a final dividend of 264 cents per share for 2008 (2007: 244 cents), resulting in a total dividend of 430 cents per share for the year (2007: 410 cents per share) and representing an increase of 4.8%.

## INVESTMENTS

Santam follows a policy of managing its investment portfolios in a diversified manner, with investments in all the major classes of financial instruments, ranging from pure equities to cash-related investments. Our aim is to spread investment risk whilst earning the appropriate return given Santam's risk appetite. In terms of this policy the company decided during the year to decrease its exposure to equities. As a result, the company's equity exposure was reduced by R500 million in June 2008 with a further reduction of R500 million in September 2008. The remaining 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 utilises derivative instruments on a limited basis to hedge positions consisting mainly of quoted futures and interest rate swaps. During June 2008 the company entered into an additional derivative structure to minimise the downside volatility of its equity portfolio amounting to R500 million. Santam does not follow a speculative approach in its dealings with financial or derivative instruments.

Refer to page 139 for a detail analysis of the investments. The composition of Santam's total investments (including the discontinued operations) was as follows as at 31 December:

| ASSET CLASS COMPOSITION             | 2008 R'm      | 2008 %       | 2007 R'm      | 2007 %       |
|-------------------------------------|---------------|--------------|---------------|--------------|
| Equities – Quoted                   | 2 199         | 19.7         | 3 912         | 31.1         |
| Equities – Unquoted                 | 347           | 3.1          | 20            | 0.2          |
| Preference shares – Quoted          | 196           | 1.8          | 215           | 1.7          |
| Preference shares – Unquoted        | 543           | 4.9          | 727           | 5.8          |
| Bonds                               | 2 145         | 19.2         | 2 173         | 17.2         |
| Unitised funds                      | 369           | 3.3          | 308           | 2.4          |
| Derivative                          | 136           | 1.2          | (47)          | (0.4)        |
| Cash and cash equivalents           | 1 938         | 17.4         | 1 171         | 9.3          |
| Short-term money market instruments | 3 089         | 27.7         | 2 274         | 18.1         |
| Associated companies                | 195           | 1.7          | 175           | 1.4          |
| Classified as Held for Sale         | –             | –            | 1 661         | 13.2         |
| <b>TOTAL</b>                        | <b>11 157</b> | <b>100.0</b> | <b>12 589</b> | <b>100.0</b> |

Santam has, for many years, followed a consistent approach where the management of the bulk of its investments is outsourced to independent external fund managers under pre-determined mandates, for both the local and international operations. The overall performance of the fund managers against their mandates is monitored and tracked by an independent multi manager, reporting back to the Santam Investment Committee on a quarterly basis. As at the end of 2008 approximately R9.7 billion of the total group investments were managed by external investment managers. Their mandates consist of a combination of various benchmarks, *inter alia* different JSE indices, SWIX and SteFi.

## 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 relating to:

- o The amount and sources of capital in the business, which is linked to the capital required in terms of Financial Condition Reporting (FCR);
- o The allocation of capital between business units; and
- o The appetite, level and type of risk within the company.

### Issue of shares

During the year the company allotted 178 417 ordinary shares in terms of staff share incentive programmes. Refer to note 15 of the annual financial statements for a reconciliation of the issued shares.

### Treasury shares

Following the voluntary share buy-back in 2007, the group held a total of 7 087 168 of Santam shares, classified as treasury shares. During 2008, the group acquired a further 366 630 shares in the open market at a cost of R29.1 million. Of these shares 772 750 shares were reissued in terms of the staff share incentive programme. Total number of treasury shares in stock as at 31 December 2009 was 6 681 048.

### Credit rating

Fitch Ratings have maintained Santam's existing Insurer Financial Strength rating at AA+, as well as a financial instrument rating of AA- for the Santam subordinated debt of R1 billion issued in 2007.

## DISCRETIONARY CAPITAL AND SOLVENCY LEVEL

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

- o To act as a buffer over regulatory capital requirements (currently a solvency level of 25%);
- o To fund new business growth;
- o To give full confidence to our clients, intermediaries and business partners on the financial strength of Santam, as evidenced by its insurer financial strength credit rating; and
- o To fund any potential investment opportunities

The group solvency ratio of 44% at 31 December 2008 remained at the high end of the long-term target range of 35% to 45 %, compared to 42% at the end of 2007. The net asset value per share increased from 3610 cents at the end of 2007 to 3785 cents at the end of 2008.

## BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

The Santam BBBEE scheme consist of three components namely:

- o the Emthunzini BEE Staff Trust,
- o the Emthunzini BEE Business Partners Trust, and
- o the Emthunzini BBBEE Community Trust.

The value in the scheme is proportionally allocated to these three trusts. Within the trusts allocations are made to beneficiaries according to the specific rules in the respective trust deeds.

During 2008, the trustees awarded units to black business partners including black empowered short-term insurance brokers and other strategic black business partners. Further allocations of units to black staff members and strategic black business partners will be made during 2009.

In total, 25% of the value in the scheme will be allocated to specific projects within previously disadvantaged communities. Early cash distributions may be made to participating projects during 2009 if market conditions are favourable.

The initial bridging finance that was arranged to launch the scheme was successfully refinanced during 2008 and replaced with appropriate term funding for a scheme of this nature.

## TAX MATTERS

The effective tax rate for 2008 was 7%. This was well below the tax rate of 30.3% in 2007 mainly due to large dividend income, realised tax losses on equities and interest bearing instruments sold being well in excess of accounting losses.

## CORPORATE ACTIONS

The only significant corporate action during the year was the acquisition of a 25.25% shareholding in MiWay Group (Pty) Ltd which took place in January 2008. A total of R50 million has been invested in this initiative.

Full details of the company's holdings in subsidiaries and associated companies are contained in note 44 to the financial statements.

## FINANCIAL CONDITION REPORTING (FCR)

As previously reported, Santam developed an internal DFA (Dynamic Financial Analysis) model of the business to assist with risk quantification and decision making, in line with best practice. This was done to assist management with risk quantification and decision-making. The model is used extensively in the business operations, and spans capital management, underwriting margin and reinsurance programme management as well as risk appetite assessment and asset mix decisions. Santam intends to use this internal model to determine its capital requirements once FCR has been enacted by the Financial Services Board. Expectations are that capital requirements for Santam under this approach will be somewhat lower than the current 25% statutory solvency requirement.

The recently enacted Insurance Laws Amendment Act, Act No 27 of 2008 (the Act) laid the foundation for the implementation of FCR. Although the intended timelines are unclear, Santam is well prepared for implementation in the future, based on the current available information.

## NEW LEGISLATION

The most significant piece of legislation which came into effect in 2008 was the Insurance Laws Amendment Act, Act No 27 of 2008 (the Act). The Act amends various provisions of the existing Short-term Insurance Act which relate *inter alia* to:

- o the definition of accident and health policy
- o the appointment of a statutory actuary
- o the appointment and constitution of an Audit Committee
- o the financial soundness of a short-term insurer
- o Section 48 intermediaries and binder agreements

The Act came into operation on 15 December 2008. Exceptions to these amendments relate to the definition of accident and health policy, and section 48 intermediary and binder agreements. These amendments relating to section 48 intermediaries and binder agreements are subject to regulations which must still be promulgated. Santam and SAIA are currently participating in the process of drafting these regulations.

A handwritten signature in black ink, appearing to read 'M. Reyneke', with a stylized, cursive script.

**MACHIEL REYNEKE**  
Financial Director



## HONEYCOMB – BEE (APIS FLOREA)

Honeybees signal each other using many different substances and scents. This communication network is the backbone of the seamless cooperation of the hive.

The animal kingdom demonstrates how a stable system relies heavily on communication.



# ABRIDGED SUSTAINABILITY REPORT

The Santam sustainability framework that was defined in 2007 has since been steadily implemented throughout the business. The framework, which comprises of ten categories, each underpinned by measurable objectives, is outlined in detail in the annual Sustainability Report. Implementation of the activities of each category today will ensure a strong business in the future.

These categories are:

- o A sustained client base
- o Solutions aligned to social and environmental needs
- o A sustained intermediary base
- o Igniting human capital
- o Extending influence to benefit society
- o A sustained supplier base
- o Managing impacts on the environment
- o Transformation of ownership and control
- o Cultivating ethical culture and managing fraud
- o Responsible investing

Santam continued throughout 2008 its concerted efforts to implement the sustainability framework. The actions and progress are summarised below.

## **A sustained client base**

For Santam, nothing less than wholly innovative and business-wide approaches to creating a sustained client base will do. Top of the list of innovations currently underway is Santam's approach to a commonly used term in business, 'client-centricity.'

Through market segmentation, prioritising those segments, and developing a customised approach to each segment rather than adopting standard methods of dealing with all clients, Santam is developing a better understanding of the client experience.

The business believes that the key client experience will occur through Santam staff, and it is staff who must demonstrate the values, service ethic, innovation, flexibility and client-centric mindset of the business to its clients and intermediaries. So, the brand journey starts at home.

An informed client base is critical for Santam, hence the company contributes to pooled funds focused on financial literacy managed by the South African Insurance Association (SAIA) – the representative body of short-term. Santam contributed R6.3 million to these initiatives over the last two years (2008: R2.9 million and 2007: R3.4 million).

## **Solutions aligned to social and environmental needs**

Santam was among the first insurers to offer household policies to the entry level market. In the first quarter

of 2006 Santam launched the MultiHome product to a client base in Soweto, and since then has continued to expand the product footprint nationally. During 2008 some product enhancements were made, such as the decoupling of home and motor car insurance, while legal, funeral, accident and cell phone cover has been added. A great deal of attention was also paid to improving access to the product. During 2008 a targeted marketing campaign was undertaken, specifically to increase awareness of the products and services offered by Santam.

Santam has also been active in understanding and developing products. In addition to launching customised solutions for guesthouses and the tourism industry, the business will be focussing its energy going forward on the agriculture sector in order to offer climate change benefits to farmers.

## **A sustained intermediary base**

Santam's partnerships with professional intermediaries offer significant value to clients. Clients receive good advice and professional service, while industry standards are maintained and supported by Santam's approach to look beyond cost to long-term risk management. Building a strong and transforming base of intermediaries is therefore fundamental to building a sustainable short-term insurer.

Over the last few years, it has become apparent to the business that improvements could still be made towards achieving excellence in administrative support to intermediaries. The Broker Management Model Programme (BMMP), due to be wrapped up in March 2009, brings a series of benefits to brokers, but principally the creation of one transactional point with the business and one relationship in form of a Key Account Manager. The programme had five main initiatives when it commenced: the conversion of broker consultants to Key Account Managers; centralised call centre transactions; the creation of centres of excellence; and making it all possible through harnessing technology. Almost all of these initiatives have been achieved.

To grow the number of black intermediaries in the sector, Santam initiated the Santam Black Intermediary Development Initiative (SBIDI). This programme will assist Santam to grow its black intermediary base to 500 by 2012. In 2008, Santam launched the pilot programme comprising of 69 participants. It is intended that the programme will increasingly become a model to be used to contribute to the overall transformation of intermediaries in the short-term insurance industry.

## **Igniting human capital**

Only the people of Santam can drive the business towards sustainability. To facilitate their role and ensure staff



members are enabled to make their full contribution, Santam has adopted a basic principle which directly supports their role as brand ambassadors: namely to ensure staff experience a work environment that is safer, nicer and more rewarding.

To ensure that employees and the business share a similar outlook on work and performance, the organisation underwent an 18-month process to re-evaluate existing values, identify desired values, behaviours and philosophies. More than 1 500 employees took part in workshops nationwide and uncovered the three desired value philosophies of the future: Think Big, Embrace and Inspire.

Culture audits conducted in 2008 showed that the business has made exceptional progress in creating a strong and enabling corporate culture, based on increasingly aligned values.

The development of staff remains a critical strategic business imperative. One of the identified development opportunities available to staff is the study assistance programme which focuses on three identified areas: work-related, postgraduate and insurance-related studies: 177 staff members utilised this benefit in 2008 and R697 125 was invested, of which 46% of the total spend (R319 796) was spent on 101 black applicants.

Accelerated development is undertaken in support of employment equity and to assist with specific skills deficits. As at the end of 2008, more than 60 black assessors were trained. Santam completed its fourth learnership programme cycle in 2008. In total, 72 learners have been through the programme, with a further 25 new recruits anticipated for 2009. The 2008 programme included 14 persons with disabilities.

Despite the structural problems caused by the skills deficit, Santam has progressed well by meeting several of the targets described in the Financial Sector Charter. A full account of Santam's employment equity performance is contained in the full Sustainability Report.

Santam has undertaken various programmes to care for the wellbeing of staff. The Employee Assistance Programme (EAP) provides counselling (including HIV/Aids), psychological support and other support to staff (number of staff who used this service in 2008: 257 and 2007: 208). Santam also performs HIV/Aids "Know Your Status" programmes for staff. A total of 802 staff members (41.7% voluntarily took the HIV/Aids test in 2008).

Yell for Yellow in turn is an innovative lifestyle management programme that supports employees by offering a comprehensive personal concierge service. In 2008 Yell for Yellow handled an average of 3 900 calls per month and achieved satisfaction levels of 95.6%.

The safety of staff is of paramount importance to Santam and the organisation has been found to be largely compliant with the requirements of various employee safety regulations by an independent consultancy and is committed to filling in the gaps where compliance is not 100%.

A sustainable business relies on the positive contributions of its entire work force. This reliance makes it critical that

For Santam, nothing less than wholly innovative and business-wide approaches to creating a sustained client base will do.

staff feel they are able to contribute to strategic discussions, that their views are valuable, and that communication channels are in place to enable two-way communication. Currently 30.75% of Santam staff members belong to a union (2007: 33.12%). A bi-monthly staff magazine, *Essence*, introduces, explains and tracks key corporate initiatives and strategies. The company's intranet and a dedicated e-mail communication channel complement *Essence*, while the employment equity forums afford staff the opportunity to contribute to transformation.

#### Extending influence to benefit society

Santam has a long history of involvement in communities. In fact, the Santam Child Art programme is among the longest running Corporate Social Investments (CSI) initiative in the country. Santam ran several projects in 2008 to serve communities:

- o **Young Entrepreneurs Performing** which provides support and materials for the teaching and practice of entrepreneurship in schools.
- o **The Khayelitsha Auto Training Centre** provides panel beating training for potential entrepreneurs and artisans through on-the-job training.
- o **Santam Child Art** provides a platform for children to express their thoughts and emotions.

- o **Operation Firewatch** sees Santam partner with communities to conduct awareness campaigns and to provide tools – methods of detecting and extinguishing blazes to help prevent harm and personal injury.
- o **Santam Financial Management Training Programme for Black Women and Emerging Entrepreneurs.** This programme is a skills training and job creation intervention for unemployed black women.
- o **Life College** aims to provide the young people of South Africa with exposure to, and mentorship from, high profile achievers.

#### **A sustained supplier base**

In 2008, Santam spent approximately R2.6 billion with various suppliers, R1.8 billion of which was disbursed in claim settlements. The majority of these claims were from motor vehicle repair and related claims, household goods and building repairs. About R800 million was spent procuring goods and services from suppliers for Santam internal requirements such as auditors, legal firms, travel service suppliers, IT vendors and other professional and specialised services. Santam remains committed to increasing its procurement spend with black suppliers by 8% annually.

#### **Managing impacts on the environment**

Santam has a particular interest in finding ways to protect the environment. Santam has spent a great deal of 2008 creating a deep understanding within the business of the increasing environmental challenges and how they affect the business. A number of engagements and discussions have subsequently taken place with reinsurers, local and national government agencies, short-term insurance sector committees, study groups and international insurers.

A team has been appointed to create an informed Santam response to climate change - using current and unfolding data. The team has also been investigating the effects of climate change on the way the business underwrites related risk. Santam is also able to better manage the effects of climate change on its own business and enhance its own sustainability.

The key challenge throughout 2009 will be to openly and transparently communicate the effects of climate change to staff initially and later to clients. Our aim is to help clients to adapt their lifestyles accordingly by adopting effective risk management to ensure their future insurability.

#### **Transformation of ownership and control**

Santam concluded its BBBEE broad-base deal in 2007. Santam is 53.8% owned by Sanlam with the empowerment transaction placing 10% of the company's equity in the hands of black shareholders through three vehicles:

- o Emthunzini BEE Staff Trust (26%)
- o Emthunzini BBBEE Community Trust (25%)
- o Emthunzini BEE Business Partners Trust (49%).

Santam is committed to ensuring it has at its helm a diverse group of individuals who deeply understand the complexity of doing business in South Africa. This understanding will create strategies, services, products and solutions that will address the diverse range of financial services needs of the local markets. Santam currently has 2 black executive managers out of a total of 9. The business is engaged in various skills development initiatives to develop black executives from within its ranks of high potential individuals.

#### **Cultivating ethical culture and managing fraud**

Sustainable businesses demonstrate strong ethical behaviour. According to a KPMG report released in March 2008, ethics at Santam "showed strong performance throughout the organisation, with no significant differences between business units."

The ethical behaviour of any business is rooted in the integrity of its staff members. For this reason, Santam places a strong focus on trustworthiness, track records, values and the demonstration of a personal record of responsibility in its recruitment processes.

The Santam complaints process offers fertile ground for information that can be used to improve Santam's standards for openness and honesty. Santam's internal complaints management processes are complimentary to the Ombudsman for Short-Term Insurance so that clients have the right to refer complaints to the Ombudsman even after they have received feedback and advice from the Santam complaints process.

Santam has developed a strong working relationship with the Ombudsman's office. During 2008 Santam dealt with 2 165 complaints, 47% relating to rejections, 21% relating to claims administration and 22% relating to fulfilment/settlement.

#### **Responsible investing**

There may be a tendency to consider responsible investing as purely an economic imperative. There is however also a human rights element to making responsible investment. The compilers of the Financial Sector Charter described and designated 'Empowerment Finance' as one of the scorecard categories. This involves the financing of black businesses and the financing of equity in established businesses.


It also encourages investments in agriculture, low-cost housing and targeted infrastructure. From a sustainability point of view, these investments help create opportunities

for job creation, providing decent living conditions, and the growth of small business and support for food production.

Santam drives its investment commitments through the Sanlam Group Company, namely Sanlam Investment Management (SIM). The funds provided by Santam to SIM are targeted investments in bonds that are compliant with the Charter definitions and are therefore geared towards social responsibility and socio-economic development.

#### **In conclusion**

Santam's sustainability is reported against internationally accepted standards and incorporates various verified trends and stakeholder requirements. This ensures that the sustainability framework, categories and the measured objectives are relevant, transparent and authentic. A key framework used in the compilation of the sustainability report is the Global Reporting Initiative (GRI). A full account of the application of the GRI indicators is included in the full Sustainability Report which is available on Santam's website: [www.santam.co.za](http://www.santam.co.za).



The key challenge will be  
to openly and transparently  
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FLOWER – HUMMINGBIRD  
(MELLISUGA HELENAE)

The flowers' long thin shape matches the hummingbird's long beak and tongue. The flowers also allow small bugs to live inside – an excellent source of protein for the bird.

Nature confirms this perfect circle – stability through relationships.

# 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. The board has taken cognisance of the impending King III report.

## 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 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.

### Constitution of the board

The board currently comprises 14 directors. During the year 2008, 15 directors served on the board. There were 2 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

The board has the following board committees:



- o 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;
- o 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;
- o adopting clear and formal procedures that includes the board charter; and
- o conducting the company's affairs in accordance with the company's code of ethics.

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 possess extensive skills and business experience. It is their responsibility to ensure that their judgement is exercised freely and independently. 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.

### Changes during the year under review

- o Mr H Lorgat resigned from the board in July 2008.
- o Mr DCM Gihwala was appointed to the board in May 2008.
- o Mr AR Martin retired from the board in May 2008

| Board members during 2008 |           |               |                           |                            |                              |
|---------------------------|-----------|---------------|---------------------------|----------------------------|------------------------------|
| Name                      | Executive | Non-executive | Independent Non-executive | Race<br>W=White<br>B=Black | Gender<br>M=Male<br>F=Female |
| BTPKM Gamedze             |           | *             |                           | B                          | M                            |
| DCM Gihwala               |           |               | *                         | B                          | 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                            |

There is no business or relationship within the current structure that could materially interfere with the exercise of its judgement.

## ACCESS TO THE COMPANY SECRETARY

Directors also have access to the services and advice of the group 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:

- o the company's articles of association,
- o the Companies Act,
- o the Short-term Insurance Act; and
- o the JSE Listing 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

#### A. 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 last reviewed on 26 November 2008, and occasional amendments thereto govern the exercise of these powers.

The following matters are reserved to the board:

I. Approval of:

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

## B. 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 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.

## C. Board composition and mix

The efficacy of the board depends on its composition. The independent non-executive directors has a standing closed session agenda item to deliberate on any issues that it may want to discuss with either the chairman of the board or the chief executive and or any other directors. There is an appropriate balance of power and authority in the board.

## D. Board evaluation

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. Every year, a collective board-effectiveness evaluation is conducted. The 2008 assessment, which was performed by an external service provider, was aimed at determining how the board's effectiveness could be improved. The Human Resources Committee considers the results of the evaluation process and makes recommendations to the board where deemed appropriate. The board-effectiveness review was conducted by Deloitte. The results were positive and placed Santam in the top quartile of board's reviewed by Deloitte. The assessment included an effectiveness assessment of the board itself collectively, an assessment of the key board committees and the chairman.

## E. 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 Listings 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 Listings 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 Bank Limited.



## F. 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 Committee that convenes at least four times a year and reports directly to the board on, *inter alia*, the aforementioned issues.

## MEETINGS AND ATTENDANCE

### Board meeting

During the period under review, the board met four times at scheduled meetings. The board schedules to meet at least once every quarter and holds a strategy session in August.

The independent non-executive directors has a standing agenda item to deliberate on any issues as well as those that they may want to discuss with any board member including the chairman and the chief executive.

## 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.

| The attendance of directors at board meetings was as follows:   | 26 February 2008 | 28 May 2008 | (Strategy Session)<br>26 August 2008 | 27 August 2008 | 26 November 2008 |
|---|------------------|-------------|--------------------------------------|----------------|------------------|
| BOARD MEETINGS  |                  |             |                                      |                |                  |
| BTPKM Gamedze   | *                | *           | *                                    | *              | *                |
| DCM Gihwala   | —                | * (App)     | *                                    | *              | *                |
| IM Kirk   | *                | *           | *                                    | *              | *                |
| JG le Roux  | *                | *           | *                                    | A              | *                |
| H Lorgat  | *                | *           | —                                    | (Res)          | —                |
| NM Magau  | *                | *           | *                                    | *              | A                |
| AR Martin   | *                | (Res)       | —                                    | —              | —                |
| JP Möller   | *                | *           | *                                    | *              | *                |
| RK Morathi  | *                | *           | *                                    | *              | *                |
| P de V Rademeyer  | *                | *           | *                                    | *              | *                |
| MJ Reyneke  | *                | *           | *                                    | *              | *                |
| JP Rowse  | *                | *           | *                                    | *              | *                |
| GE Rudman   | *                | *           | *                                    | *              | *                |
| DK Smith  | *                | *           | *                                    | *              | *                |
| J van Zyl   | *                | *           | *                                    | *              | *                |
| BP Vundla   | *                | A           | *                                    | *              | *                |
| Key:<br>(*) = Present<br>(A) = Apologies<br>(—) = Not appointed then<br>(App) = Appointed<br>(Res) = Resigned<br>(Recused) — Board members recused due to potential conflicts of interest |                  |             |                                      |                |                  |

## BOARD COMMITTEES

### AUDIT COMMITTEE

| AUDIT & RISK COMMITTEE  |   |
|---|---|
| 18 February 2008  |   |
| H Lorgat  | * |
| AR Martin   | * |
| P de V Rademeyer  | * |
| GE Rudman (Chairman)  | * |
| Key:<br>(*) = Present<br>(A) = Apologies<br>(-) = Not appointed<br>(Res) = Resigned |   |

## 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 board approved a revised structure as follows:

- o The Statutory Audit Committee;
- o The Financial Reporting Review Committee (FRRC); and
- o The Risk Committee.

The abovementioned three subcommittees replaced the Audit and Risk Committee. The members of the Statutory Audit Committee would have at least two members that consist only of non-executive directors of the company who would act independently.

| RISK COMMITTEE  | 6 May 2008 | 13 August 2008 | 17 November 2008 |
|---|------------|----------------|------------------|
| IM Kirk   | *          | *              | *                |
| H Lorgat  | A          | —              | —                |
| AR Martin   | *          | —              | —                |
| JP Möller   | *          | *              | *                |
| HN Nigrini  | *          | *              | *                |
| P de V Rademeyer  | *          | *              | *                |
| MJ Reyneke  | *          | *              | *                |
| GE Rudman (Chairman)  | *          | *              | *                |
| Key:<br>(*) = Present<br>(A) = Apologies<br>(-) = Not appointed<br>(Res) = Resigned |            |                |                  |

| FINANCIAL REPORTING REVIEW COMMITTEE  | 6 May 2008 | 13 August 2008 | 17 November 2008 |
|---|------------|----------------|------------------|
| H Lorgat  | A          | —              | —                |
| AR Martin   | *          | —              | —                |
| JP Möller   | *          | *              | *                |
| P de V Rademeyer  | *          | *              | *                |
| GE Rudman (Chairman)  | *          | *              | *                |
| Key:<br>(*) = Present<br>(A) = Apologies<br>(-) = Not appointed<br>(Res) = Resigned |            |                |                  |

| STATUTORY AUDIT COMMITTEE   | 6 May 2008 | 17 November 2008 |
|---|------------|------------------|
| DCM Gihwala   | —          | *                |
| H Lorgat  | *          | —                |
| AR Martin   | *          | —                |
| DK Smith  | —          | *                |
| Key:<br>(*) = Present<br>(A) = Apologies<br>(-) = Not appointed<br>(Res) = Resigned |            |                  |

The primary function of the audit committees made up of the Statutory Audit Committee, Financial Reporting Review Committee and the Risk Committee is to help the board with its responsibilities for financial matters and risk management activities. The committees have adopted formal terms of reference that the board has approved. A non-executive director chairs the committees.

The Risk Committee functions include:

- o Setting and overseeing the overall standard for risk management within Santam;
- o Providing oversight over the maturity and effectiveness of the risk management process; and
- o Monitoring the overall risk profile including significant risks faced by Santam.

The Financial Reporting Committee functions include:

- o Corporate governance and Internal Control;
- o Ethics;
- o Interim and Annual Financial reporting;
- o External Audit – certain roles not included in the terms of reference of the Statutory Audit Committee;
- o Internal Audit;
- o Forensic Investigations and Fraud Prevention; and
- o Compliance to laws and regulations.

The Statutory Audit Committee functions include:

- o External Auditors
  - Appointment
  - Remuneration
  - Terms of Reference
  - Independence
- o Receiving and dealing with complaints relating to
  - Accounting practices
  - External audit
  - Internal audit
  - The content or auditing of the financial statements or any other related matter
- o To undertake the prescribed functions (in terms of section 270A(l) of the Corporate Laws Amendment Act, 2006) on behalf of subsidiary companies.

External audit:

- o During the year under review the audit committee reviewed communication from the external auditors and, after conducting its own review, confirmed the independence of the auditors.
- o As required by the JSE Listing Requirement 3.84(h), the audit committee has satisfied itself that the financial director has appropriate expertise and experience.
- o The audit committee agenda provides for confidential meetings between the committee members and the internal and external auditors.

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

## HUMAN RESOURCES COMMITTEE

| HUMAN RESOURCES COMMITTEE   | 13 February 2008 | 4 May 2008 | 26 August 2008 | 13 November 2008 |
|---|------------------|------------|----------------|------------------|
| JG le Roux  | *                | *          | *              | *                |
| NM Magau  | *                | *          | *              | *                |
| DK Smith  | *                | *          | *              | *                |
| J van Zyl (Chairperson)   | *                | *          | *              | *                |
| Key:<br>(*) = Present<br>(A) = Apologies<br>(–) = Not appointed<br>(Res) = Resigned |                  |            |                |                  |

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 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:

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

fill board and top management vacancies exists. The committee manages this process through constant interaction with the executives and annual assessment of competency levels.

The financial statements on pages 64 to 138 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 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  | 13 February 2008 | 7 May 2008 | 12 August 2008 | 13 November 2008 |
|---|------------------|------------|----------------|------------------|
| JG le Roux  | *                | *          | *              | *                |
| NM Magau (Chairperson)  | *                | *          | *              | *                |
| JP Rowse  | *                | *          | *              | *                |
| BP Vundla   | *                | *          | A              | *                |
| Key:<br>(*) = Present<br>(A) = Apologies<br>(-) = Not appointed<br>(Res) = Resigned |                  |            |                |                  |

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

- o Meet the company's moral duty to provide secure accessible risk management for the company's clients.
- o Meet legal recommendations and requirements such as King II, JSE Listing Requirements, legislation and the Financial Sector Charter and Dti Codes of Good Practice targets.
- o Minimise risks associated with social, economic and environmental impacts including stakeholder activism and government regulation.
- o 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;
  - Improving the management of HIV/AIDS and other risks;

The Sustainability Committee consists of at least 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 formally at least quarterly or as required for the effective performance of its duties.

## INVESTMENT COMMITTEE

| INVESTMENT COMMITTEE  | 24 April 2008 | 29 October 2008 |
|---|---------------|-----------------|
| IM Kirk   | *             | *               |
| RK Morathi  | *             | *               |
| P de V Rademeyer (Chairperson)  | *             | *               |
| MJ Reyneke  | *             | *               |
| Key:<br>(*) = Present<br>(A) = Apologies<br>(-) = Not appointed<br>(Res) = Resigned |               |                 |

This committee reports to the board and meets quarterly to evaluate and monitor the investment portfolio and the performance of investment managers. These meetings are made up of quarterly analysts feedback sessions as well as two formal investment committee meetings held bi-annually. The investment committee guides the board regarding the investment managers' mandates, and makes recommendations to the board regarding the company's investment philosophy.

## AD HOC BOARD COMMITTEES

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.

A Sanlam/Santam co-operation committee meeting was held on 14 April 2008 and 14 November 2008 and two BBBEE subcommittee meetings were held on 21 January 2008 and 12 May 2008.

## 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 chairs this committee, which comprises the executive management of all the significant business units of the company. It meets bi-weekly and deals with all matters relating to

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

The board reviews the levels of delegated authority to this committee annually as well as 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, 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:

- o Institutional investors;
- o Investment analysts;
- o Shareholders;
- o Employees; and
- o 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. It is accountable for the establishment of appropriate risk and control policies and for communicating these policies throughout the group. It also confirms that the process of risk management and the system of internal controls are regularly reviewed for effectiveness.

#### Enterprise risk management process (ERM)

Santam adopted and implemented an ERM framework to assist in identifying, assessing and managing risks. Santam's board, executive management and line management acknowledge that risk management is integral to create new opportunities and to enhance and protect value.

Santam's approach to risk management and control is in line with the King II report on corporate governance standards in South Africa. Santam are also aligning to the Australian and New Zealand risk management standards in preparation for compliance with the international best practice standard for ERM, the ISO standard, in its final stages of approval.

Santam's risk management strategy and processes have matured significantly over the last few years. We have moved from silo-based processes to a much more integrated risk management programme with participation from all levels of management. Santam is convinced that risk management governance structures and processes

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

influence decision-making and improves transparency in the internal control environment. To this end and also for compliance reasons, the audit and risk committee was also split into three subcommittees: the Risk Committee, the Financial Reporting Review Committee and the Statutory Audit Committee. The establishment of the risk committee ensures adequate focus and attention to risk related matters. The risk function reporting structures were also elevated and are now directly reporting to the Financial Director. The head of the risk function also has direct access to the chief executive and his executive management team.

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 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 and monitor Santam's risk profile and covers all categories of risk including strategic, operational, insurance, credit, market, liquidity and reputational risk.

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

#### Santam's risk profile

Risk management provides management with insight into the most significant risks they are faced with and assesses



whether adequate risk strategies have been adopted within the overall risk appetite as defined by the board. Below is a summary of the most significant risks for Santam during 2008 as well as the key strategic risks which have a longer time horizon.

Key risks faced during 2008 included the following:

- o Financial market volatility posed challenges for our investment portfolio and has resulted in Santam re-assessing its risk appetite, asset allocation, hedging strategy, portfolio construction and manager selection. Volatility in the global and local equity markets is expected to continue testing Santam's ability to meet expected returns on equity. Management are comfortable that actions taken should ensure sustainable expected performance of the investment portfolio.
- o Measuring and quantification of benefits from strategic projects combined with change management posed some challenges. This has provided the platform to further improve project and programme management disciplines and governance to support business change going forward.
- o Underwriting and profitability challenges in the Corporate and Portfolio management areas of our business required a review and improvement of specific processes and controls. Management are confident that the actions taken will be adequate to maintain and improve margins for these business areas which are closely monitored.
- o The portfolio management business model poses a number of inherent challenges introduced by external factors such as regulatory changes as well as internal challenges in terms of profitability, underwriting and access to information. Specific action was taken to address short-term issues and a strategic project has been initiated to improve governance, process efficiency and profitability.
- o The impact of the economic slow down specifically on growth, claims, client retention and procurement have been considered and reviewed. Santam, as a leader in our industry, is well positioned to attract new and retain existing business, given our reputation, stability and the strength of our balance sheet. Specific actions have also been initiated to mitigate risks associated with declining growth, increased claims, loss of clients and increased costs associated with procurement.
- o The intermediated business model has certain cost disadvantages and the cost of doing business is ever increasing. Cost reduction and efficiency are receiving attention and acquisition costs need to be managed within tight ranges.
- o Transformation challenges provide the backdrop to improve our diversity across the board including meeting the Financial Services Charter targets. A

number of initiatives is ongoing and significant progress was made with improving our internal Employment Equity initiatives.

- o Our international operations in Europe did not perform as planned and a decision was taken to disinvest. A detailed analysis of the causes and lessons learnt has been prepared and discussed within the company.
- o Attracting and retaining specialist skills remained a challenge for most of 2008. Santam has launched numerous initiatives to assist in the attraction, development and retention of staff.
- o Climate change will remain 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. Santam is committed to leading the local short-term insurance industry in dealing with climate change both from an insurance perspective and also its own environmental footprint.
- o Pressure on growth and market share coupled with shifting market demographics and aggressive competitor / distributor activity are and will remain some of Santam's key strategic challenges. Santam's ability to price correctly and adapt to market conditions are key to ensure growth and profit targets are maintained and improved. Operational excellence is also regarded as critical in order to ensure Santam remains competitive both from a product but also service perspective. An international strategy has been approved to ensure diversification.
- o Santam is dependent on its intermediated business partners. A key focus area remains to improve the efficiency & effectiveness of current intermediated channels.
- o Information Technology plays a pivotal role to enhance business' ability to take advantage of market opportunities, promote innovation and increase efficiency. Significant progress has been made to develop an IT strategy and develop a capability to support business strategy beyond 2010.
- o 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. Detailed assessments were done to determine the risk pertaining to the electricity grid and it is management's opinion that adequate measures are in place to manage this risk. The 2010 Soccer initiative has also seen focused spending on improving infrastructure.
- o Legal and regulatory challenges will continue. Santam acknowledges the importance of stakeholder engagement and lobbying with regulators to understand, pre-empt and influence regulations to prevent delayed reactive responses and possible unintended negative implications.

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.

One of our key operational risks that spans across the business is that Santam might 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. Santam has tested its crisis management capability with executive and senior management in 2008. Simulation tests were then conducted for most of our business critical business areas. Technology recovery plans have also been tested twice in 2008. A number of actions have been identified to further improve our business continuity and technology recovery capability. A steering committee has been established for oversight and overall review and monitoring of progress.

#### Conclusion

Risk management processes will continue to evolve and mature to provide Santam with the resilience required to achieve excellent results and preserve value for all our stakeholders.

#### INTERNAL CONTROL

To enable the directors to meet their responsibilities, management implements systems of internal control, comprising of policies and standards, procedures, systems and information to assist in achieving 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 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 has a corporate governance policy that 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. It is recognised that such a system provides reasonable but not absolute assurance regarding the achievement of organisational objectives with respect to:

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

**A number of actions have been identified to further improve our business continuity and technology recovery capability. A steering committee has been established for oversight and overall review and monitoring of progress.**

#### CONTROL OPINION

In conducting 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 enterprise risk management process. Where necessary, programmes for remedial action have been initiated. Furthermore, the chief executive, the executive head of each business unit, as well as the heads of divisions, signs 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 & Forensics is 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 & Forensics approaches its mandate through the following main disciplines:

- o Independent assurance on corporate governance practices, risk management practices and the control environment
- o Consultation and facilitation on corporate governance, strategic projects and other key concerns / issues
- o Fraud investigations
- o 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 assists internal audit to focus on issues that matter most to Santam. The Financial Reporting Review Committee (FRRC) 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. This enables the committee to ensure that prompt action has been taken to address the key areas of concern.

The responsibilities of the department are set out in a charter approved by the FRRC. The head of audit & forensics reports administratively to the executive head finance and has regular meetings with the chief executive, quarterly meetings with the FRRC, and access to the chairperson of the FRRC as and when required.

The Forensics Services unit also enjoys company support, respect and credibility in Santam. The department operates efficiently within the mandate of the Santam group policy on fraud, theft, corruption, money laundering, dishonesty and computer crimes (Fraud Policy), and focuses on the following initiatives:

- o Deter fraud: Deterrence of fraud consists of measures or initiatives taken to discourage the perpetration of fraud. An important concept relating to fraud deterrence is the implementation of control measures. The primary responsibility for establishing and maintaining these controls rests with management. To ensure that the unit remains effective, staff, business partners and the public are regularly made aware of deterrent measures. The unit has communicated the Santam stance both in print and radio, including communicating internally all convictions via the naming and shaming initiative.

A whistle-blowing line is available to encourage employees and other stakeholders to report confidentially and anonymously acts of an illegal nature affecting the company's interests.

- o Prevent fraud: Fraud prevention is a component of risk management and includes creating an environment which inhibits fraud.
- o Search for fraud: There is no single method that can be implemented which will detect fraud the moment it is committed. However, the unit implements measures to increase the chances of detecting fraud before it reaches significant levels via data mining activities.
- o Investigate fraud: Fraud investigation is a structured process which is focused on the gathering of sufficient reliable information to enable an investigator to either prove or disprove allegations received. All cases are duly investigated and reported, disciplinary action taken where necessary and reports made to the relevant authorities for further investigation or action, where applicable. Forensic Services reports the status of all cases reported and any action taken to the FRRC on a quarterly basis. Santam has for many years adopted a zero tolerance approach. We continue to institute both criminal and civil prosecutions and terminate business relations with perpetrators.

Santam is committed to build relationships with the South African Police Services, the National Prosecutions Association and regulators like the Financial Services Board to root out fraud in the industry. We are involved in the South African Insurance Crime Bureau initiative together with industry players in an effort to improve the way organised insurance crime is detected and managed.

The compliance function is incorporated in the corporate legal services department. The FRRC approves their 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.

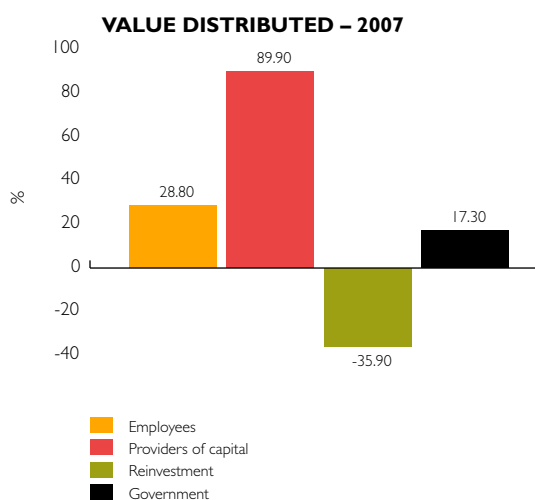
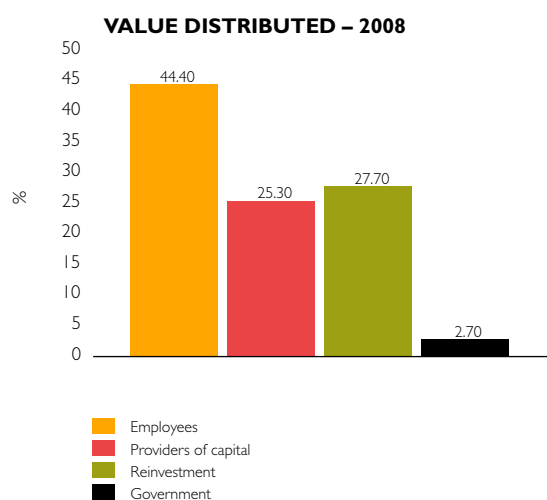
Santam has a formal pre-approval policy on the use of external auditors for non-audit services. This policy was approved by the board in August and adheres to the Corporate Law Amendment Act. The purpose of this policy is to ensure that the independence of the external auditors is not impaired. The services rendered by the auditors are monitored by the Statutory Audit Committee on a quarterly basis. Non-audit services rendered by the group's external auditors amounted to R473 000. This includes R150 000 for assurance-related services, R27 000 for tax-related services and R296 000 for other services.

#### **Other assurance**

There is regular interaction and consultation between internal audit and other internal assurance providers, for example the quality assurance functions in the distribution, claims and underwriting departments, and the compliance officer. The assurance providers meet from time to time to coordinate their efforts, discuss matters of mutual interest and potential risk areas, as well as highlight critical matters of concern.

## VALUE ADDED STATEMENT

|  | Group<br>2008<br>R million | Group<br>2007<br>R million |
|--|----------------------------|----------------------------|
| <b>VALUE ADDED</b>                                       |                            |                            |
| Gross written premium                                    | 14 179                     | 13 173                     |
| Claims paid and cost of other services                   | 12 189                     | 11 161                     |
|  | 1 990                      | 2 012                      |
| Investment income net of fees                            | 42                         | 1 124                      |
|  | 2 032                      | 3 136                      |
| <b>VALUE DISTRIBUTED</b>                                 |                            |                            |
| Employee benefits  | 902                        | 902                        |
| Government   | 54                         | 542                        |
| Direct taxation on income                                | 29                         | 306                        |
| STC  | 25                         | 236                        |
| Providers of capital                                     | 513                        | 2 819                      |
|  | 1 469                      | 4 263                      |
| Retained for reinvestment and future support of business | 563                        | (1 127)                    |
| Depreciation   | 21                         | 16                         |
| Retained income before transfer to reserves              | 311                        | (1 606)                    |
| Value (gained)/lost due to discontinued operations       | (25)                       | 168                        |
| Compulsory reserves for future support of business       | 256                        | 295                        |
|  | 2 032                      | 3 136                      |





## CONTENTS TO FINANCIAL STATEMENTS

|   |     |
|---|-----|
| Approval of annual financial statements                       | 62  |
| Secretarial certification                                     | 62  |
| Independent auditor's report to the members of Santam Limited | 63  |
| Directors' report   | 64  |
| Balance sheets  | 70  |
| Income statements   | 71  |
| Statements of changes in equity                               | 72  |
| Cash flow statements  | 73  |
| Notes to the financial statements                             | 74  |
| Investments – Composition                                     | 139 |
| Analysis of shareholders                                      | 143 |

## 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.

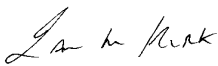
The Audit and Risk Committee has confirmed that adequate internal financial control systems are being maintained. There were no material breakdowns in the functioning of the internal financial control systems during the year. The board is satisfied that the financial statements fairly present the financial 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



**I M KIRK**  
Chief Executive Officer  
24 February 2009

## 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  
24 February 2009

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SANTAM LIMITED

We have audited the group annual financial statements and annual financial statements of Santam Limited, which comprise the consolidated and separate balance sheets as at 31 December 2008, and the consolidated and separate income statements, the consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 64 to 138.

### *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 audit 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 management, 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 a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Santam Limited as at 31 December 2008, and its consolidated and separate financial performance and its consolidated and separate 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*

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### **PRICEWATERHOUSECOOPERS INC.**

Director: C van den Heever

Registered Auditor

Cape Town

24 February 2009

## DIRECTORS' REPORT

### ACTIVITIES

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

### OPERATING RESULTS

After a difficult first half the Santam Group experienced an excellent second half, resulting in a pleasing overall performance for 2008 against the backdrop of the difficult economic climate.

From an underwriting perspective the group did very well in its Southern African operations, showing a substantial increase in both underwriting profit and net insurance result over 2007. Overall earnings for the group were below 2007, attributable to lower investment returns as a result of the continued turmoil and substantial decline in equity markets. Headline earnings of R659 million were 35% lower than 2007, equating to headline earnings per share of 586 cents compared to 906 cents in 2007.

The Southern African operations achieved an 8% increase in gross written premiums, experiencing growth across most classes of business. This was pleasing, given the softer market and the corrective action taken by Santam to procure and retain quality business, especially in the corporate business unit.

Santam experienced a substantially improved second half of the year mainly due to fewer large industrial accident and fire-related claims in the corporate business unit, compared to the first half. Nevertheless, the underwriting margin of the property class ended negative for the year. The current reinsurance programme provided sufficient protection. The personal and commercial business classes outperformed 2007, despite several catastrophic flooding events in KwaZulu-Natal and Southern Cape and continued pressure on premium rates. Of the specialist classes, the liability and engineering businesses performed well while the crop business experienced a return to profitability. The net acquisition cost ratio of 25.2% ended below the 25.7% for 2007 as focus on cost efficiencies continued.

The net underwriting result of R739 million for the continuing operations ended 11% higher than the R664 million for 2007. The net underwriting margin of 6.4% improved slightly from the 6.2% in 2007.

As reported previously, the European operations are treated as 'Discontinued operations' as defined by IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. In total the discontinued operations showed an after tax profit of R25 million for the year against a loss of R168 million for 2007. In two separate transactions Santam managed to successfully dispose of Santam Europe and Westminster Motor Insurance Association before year-end for a pre-tax profit of R13 million after goodwill write-off, effectively concluding its disinvestment from the European insurance operations. Both transactions involve a deferred compensation mechanism whereby Santam shares in potential release of excessive claims reserves. The discontinued results also include R71 million of realised translation reserve due to the sale of the international entities.

As reported with our interim results, subsequent to the payment of the special dividend of R2.5 billion at the end of 2007, the deployment of the company's float (funds generated by insurance activities) changed from only being invested in interest bearing instruments to also include an equity component. Although equity returns were negative for the first half of the year, these losses were recovered early into the third quarter, while the company also eliminated its equity exposure in the float in this period as part of its overall strategy of reducing its equity exposure. Higher interest rates and average float levels had a favourable impact for most of the year. Consequently the investment return on insurance funds of R540 million ended significantly higher than the R319 million reported in 2007. Cash generated by continuing operations amounted to R1.98 billion, a marginal increase from the R1.91 billion generated in 2007. The winding down of the discontinued operations decreased the group's cash generated from operations to R1.53 billion.

The combined effect of the insurance activities of the continuing operations resulted in a net insurance margin of 10.9% for the year compared to 9.2% for 2007.

Performance of the remainder of the investment portfolio remained under considerable pressure for the year, continuing the negative trend since the last quarter of 2007, but showed some improvement in the second half. Although higher interest rates had a positive impact on cash-related investments, the equity portfolio performed significantly below the performance of 2007 largely due to the spill-over effect the global financial and economic crisis had on the South African financial markets. The company took some decisive steps to decrease its equity

exposure by disposing of R1 billion of equities as well as hedging downside risk on a further effective R0.5 billion, steps which were very significant in preserving shareholder value. Cognisance should also be taken of the fact that the investment portfolio, equities in particular, reduced substantially due to the buy-back of shares and payment of the special dividend in December 2007.

Earnings from associated companies were negative for the year and thus well below 2007 mainly due to lower earnings from key associates and start-up losses in new ventures.

The tax charge of R54 million for the year was affected by the large dividend income as well as differences between realised accounting and capital gains tax losses on the equity and bond investment portfolio.

The group solvency ratio of 44% at 31 December 2008 was at the higher end of the long-term target range of 35% to 45%, a slight increase from the 42% reported at the end of 2007.

Santam's Broad-based Black Economic Empowerment Scheme was finalised during 2008. The initial bridging finance was refinanced and allocations were made to strategic black business partners during the second half of the year. The next allocation to black staff is expected in 2009.

## ORDINARY SHARES ISSUED

The shares in issue have increased to 119 346 417 shares of no par value (including 6 681 048 treasury shares). In accordance with the share incentive scheme, as approved at the annual general meeting on 23 January 1997, no additional share options were awarded under the scheme during the period under review, 43 550 share options lapsed as a result of resignations and 950 810 shares were issued as a result of share options being exercised or released. In terms of the deferred share plan (DSP), implemented in 2007, 702 120 shares were granted to employees on a deferred delivery basis, 68 469 shares were granted in lieu of the special dividend paid on 22 December 2008, 25 416 shares lapsed as a result of resignations and 6 220 shares were issued in terms of the DSP to staff that went into early retirement. Full details are set out in note 16 to the annual financial statements.

A subsidiary in the group holds 6 681 048 Santam shares. 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

For details on debt securities, refer to note 19 to the financial statements.

## DIVIDENDS

The following dividends were paid and are proposed.

Interim dividend of 166c per share (2007: 166c)

Final dividend of 264c per share (2007: 244c)

Special dividend (2007: 2200c)

| Group     |           |
|-----------|-----------|
| 2008      | 2007      |
| R million | R million |
| 198       | 197       |
| 315       | 291       |
| —         | 2 465     |
| 513       | 2 953     |

## SUBSIDIARIES

Details of the holding company's interest in subsidiaries are set out in note 44 to the financial statements. The interest of Santam Limited in the total profits (R297 million) and losses (R3 million) of the subsidiaries after providing for taxation amounted to a net profit of R294 million (2007: R48 million) for the past financial year. The following changes in shareholding took place during the year:

- On 15 September 2008 Santam UK sold its 100% interest in Santam Europe Ltd
- On 22 December 2008 Santam International sold its 100% share in Westminster Motor Insurance Association.



## ASSOCIATED COMPANIES

Details of the holding company's interest in associated companies are set out in note 44 to the financial statements. The following changes in shareholding took place during the year:

- During January 2008, Swanvest 120 (Pty) Ltd bought a 25.25% shareholding in Miway Group Holdings (Pty) Ltd.
- During May 2008, Swanvest 120 (Pty) Ltd increased its shareholding in Indwe Broker Holdings Group (Pty) Ltd by 2.4% to 37.82%.

## 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 42 to the financial statements.

Details of directors' remuneration and their interest in the company's shares appear in the directors' report and note 30 to the financial statements.

## HOLDING COMPANY

Sanlam Limited, the company's holding company, holds 53.8% of the ordinary share capital.

## SEGMENT REPORTING

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

## DIRECTORATE AND COMPANY SECRETARY

| Committee memberships             |                   |   |                                 |                                 |                             |                         |
|-----------------------------------|-------------------|---|---------------------------------|---------------------------------|-----------------------------|-------------------------|
|                                   | Risk<br>Committee | Financial<br>Reporting<br>Review<br>Committee | Statutory<br>Audit<br>Committee | Human<br>Resources<br>Committee | Sustainability<br>Committee | Investment<br>Committee |
| <b>Non-executive directors</b>    |                   |   |                                 |                                 |                             |                         |
| BTPKM Gamedze                     |                   |   |                                 |                                 |                             |                         |
| DCM Gihwala                       |                   |   | √                               |                                 |                             |                         |
| 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                         |                   |   |                                 |                                 | √                           |                         |
| <b>Executive directors</b>        |                   |   |                                 |                                 |                             |                         |
| IM Kirk (Chief Executive Officer) | √                 |   |                                 |                                 |                             | √                       |
| MJ Reyneke (Financial Director)   | √                 |   |                                 |                                 |                             | √                       |

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

DCM Gihwala – Appointed on 28 May 2008

H Lorgat – Resigned on 1 July 2008

AR Martin – Retired on 9 May 2008

#### Company secretary

S Bray

#### Registered office

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 of South Africa and the JSE Limited's Listing Requirements.

### Share options granted to executive directors

No additional share options were granted to the directors of the group during the year (2007: Nil). The company commenced with a new staff retention scheme in 2006 and no longer issue options in terms of the Santam Share Incentive Scheme (refer to note 1.21 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 30 000 (2007: 76 090).

A revised share incentive scheme, 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 (refer to note 16 to the financial statements).

## SHARE OPTION SCHEME – DIRECTORS' PARTICIPATION

|                            | As at<br>31 Dec 2007 | Number of<br>share options<br>exercised during<br>year | Gain per share<br>on options<br>exercised<br>R | Option price<br>per share**<br>R | Date<br>awarded | As at<br>31 Dec 2008 |
|----------------------------|----------------------|--|--|----------------------------------|-----------------|----------------------|
| <b>Executive directors</b> |                      |  |  |                                  |                 |                      |
| MJ Reyneke                 | 7 200                | (7 200)  | 89.33  | 1.00                             | 26/02/03        | –                    |
|                            | 34 890               | (34 890)   | 89.33  | 1.00                             | 01/09/02        | –                    |
|                            | 10 000               | (4 000)  | 83.68  | 6.65                             | 31/03/04        | 6 000                |
|                            | 24 000*              | –  | –  | 42.80                            | 10/11/05        | 24 000               |
| <b>TOTAL</b>               | <b>76 090</b>        | <b>(46 090)</b>  |  |                                  |                 | <b>30 000</b>        |

\* 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.

## DEFERRED SHARE PLAN (DSP) – DIRECTORS' PARTICIPATION

|                            | As at<br>31 Dec 2007 | Number<br>of shares<br>granted<br>during year | Date<br>awarded | As at<br>31 Dec 2008 |
|----------------------------|----------------------|---|-----------------|----------------------|
| <b>Executive directors</b> |                      |   |                 |                      |
| IM Kirk                    | –                    | 8 302   | 01/06/07        | 8 302                |
| MJ Reyneke                 | –                    | 5 409   | 01/06/07        | 5 409                |
|                            | –                    | 2 734   | 01/06/08        | 2 734                |
| <b>Subtotal</b>            | –                    | <b>8 143</b>                                  |                 | <b>8 143</b>         |
| <b>TOTAL</b>               | –                    | <b>16 445</b>                                 |                 | <b>16 445</b>        |

## DIRECTORS' INTEREST IN THE SHARES OF THE COMPANY

|                                | Holdings at<br>31 December<br>2008 | Holdings at<br>31 December<br>2007 |
|--------------------------------|------------------------------------|------------------------------------|
| <b>Executive directors</b>     |                                    |                                    |
| IM Kirk                        | 61 118                             | 61 118                             |
| MJ Reyneke                     | 51 079                             | 20 169                             |
| <b>Non-executive directors</b> |                                    |                                    |
| BTPKM Gamedze                  | 200                                | 90                                 |
| DCM Gihwala                    | 100                                | –                                  |
| JG le Roux                     | 180                                | 100                                |
| H Lorgat                       | 100                                | 100                                |
| NM Magau                       | 110                                | 90                                 |
| AR Martin                      | 350                                | 350                                |
| JP Möller                      | 108                                | 108                                |
| RK Morathi                     | 112                                | 112                                |
| P de V Rademeyer               | 450                                | 450                                |
| JP Rowse                       | 225                                | 225                                |
| GE Rudman                      | 900                                | 900                                |
| DK Smith                       | 100                                | 100                                |
| J van Zyl                      | 108                                | 108                                |
| BP Vundla                      | 199                                | 99                                 |
|                                | <b>114 989</b>                     | <b>84 119</b>                      |

## 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 resolution was passed by Santam Ltd:

- Authorise the company or any of its subsidiaries to, by way of general approval, acquire ordinary shares issued by the company.

## BALANCE SHEETS

|  | Notes  | Group         |               | Company       |               |
|--|--------|---------------|---------------|---------------|---------------|
|  |        | 2008          | 2007          | 2008          | 2007          |
|  |        | R million     | R million     | R million     | R million     |
| <b>ASSETS</b>  |        |               |               |               |               |
| <b>Non-current assets</b>  |        |               |               |               |               |
| Property and equipment   | 5      | 42            | 38            | 36            | 31            |
| Intangible assets  | 6      | 155           | 135           | 22            | 11            |
| Deferred income tax  | 18     | 81            | 40            | 32            | 1             |
| Investments in subsidiaries  | 7      |               |               | 1 552         | 1 703         |
| Investments in associates  | 8      | 195           | 175           | 157           | 163           |
| Financial assets – at fair value through income  |        |               |               |               |               |
| Equity securities  | 9      | 3 111         | 4 454         | 2 511         | 4 186         |
| Debt securities  | 9      | 2 688         | 2 901         | 2 378         | 2 357         |
| Derivatives  | 10     | 136           | –             | 136           | –             |
| <b>Current assets</b>  |        |               |               |               |               |
| Reinsurance assets   | 11, 23 | 1 981         | 2 026         | 1 428         | 1 505         |
| Deferred acquisition costs   | 23.2   | 271           | 239           | 239           | 203           |
| Loans and receivables including insurance receivables                                      | 12     | 2 688         | 1 947         | 1 908         | 1 747         |
| Income tax assets  |        | 73            | 27            | 64            | –             |
| Cash and short-term money market instruments   |        |               |               |               |               |
| Cash and cash equivalents  | 13     | 1 938         | 1 171         | 1 170         | 734           |
| Short-term money market instruments  | 13     | 3 089         | 2 274         | 1 589         | 613           |
| <b>Non-current assets classified as held for sale</b>                                      | 14     | –             | 2 060         | –             | –             |
| <b>Total assets</b>  |        | <b>16 448</b> | <b>17 487</b> | <b>13 222</b> | <b>13 254</b> |
| <b>EQUITY</b>  |        |               |               |               |               |
| <b>Capital and reserves attributable to the company's equity holders</b>                   |        |               |               |               |               |
| Share capital  | 15     | 107           | 105           | 107           | 105           |
| Treasury shares  | 15     | (680)         | (726)         | –             | –             |
| Other reserves   | 17     | 1 251         | 1 147         | 1 114         | 1 012         |
| Distributable reserves   | 17     | 3 586         | 3 448         | 3 344         | 3 246         |
| Amounts recognised directly in equity relating to non-current assets held for sale         | 14     | –             | 71            | –             | –             |
|  |        | <b>4 264</b>  | <b>4 045</b>  | <b>4 565</b>  | <b>4 363</b>  |
| <b>Minority interest</b>   |        | <b>138</b>    | <b>133</b>    |               |               |
| <b>Total equity</b>  |        | <b>4 402</b>  | <b>4 178</b>  | <b>4 565</b>  | <b>4 363</b>  |
| <b>LIABILITIES</b>   |        |               |               |               |               |
| <b>Non-current liabilities</b>   |        |               |               |               |               |
| Deferred income tax  | 18     | 12            | 91            | –             | 74            |
| Financial liabilities – at fair value through income                                       |        |               |               |               |               |
| Debt securities  | 19     | 972           | 908           | 972           | 908           |
| Investment contracts   | 20     | 393           | 525           | –             | –             |
| Derivatives  | 10     | –             | 47            | –             | 47            |
| Financial liabilities – at amortised cost  |        |               |               |               |               |
| Cell owners' interest  | 21     | 447           | 336           | –             | –             |
| Collateral guarantee contracts   | 22     | 93            | 84            | 93            | 84            |
| <b>Current liabilities</b>   |        |               |               |               |               |
| Insurance liabilities  | 23     | 8 156         | 7 630         | 6 057         | 5 636         |
| Deferred reinsurance acquisition revenue   | 23.2   | 82            | 99            | 59            | 64            |
| Provisions for other liabilities and charges   | 24     | 25            | 87            | 25            | 86            |
| Trade and other payables   | 25     | 1 828         | 1 408         | 1 451         | 1 545         |
| Income tax liabilities   |        | 38            | 488           | –             | 447           |
| <b>Liabilities directly associated with non-current assets classified as held for sale</b> | 14     | –             | 1 606         | –             | –             |
| <b>Total liabilities</b>   |        | <b>12 046</b> | <b>13 309</b> | <b>8 657</b>  | <b>8 891</b>  |
| <b>Total shareholders' equity and liabilities</b>  |        | <b>16 448</b> | <b>17 487</b> | <b>13 222</b> | <b>13 254</b> |



## INCOME STATEMENTS

|   | Notes | Group             |                   | Company           |                   |
|---|-------|-------------------|-------------------|-------------------|-------------------|
|   |       | 2008<br>R million | 2007<br>R million | 2008<br>R million | 2007<br>R million |
| <b>Continuing operations</b>  |       |                   |                   |                   |                   |
| <b>Gross written premium</b>  |       | 14 179            | 13 173            | 12 172            | 11 135            |
| Less: reinsurance written premium   |       | 2 306             | 2 254             | 1 036             | 1 019             |
| <b>Net premium</b>  |       | 11 873            | 10 919            | 11 136            | 10 116            |
| Less: change in unearned premium  |       |                   |                   |                   |                   |
| Gross amount  |       | 94                | 330               | 246               | 276               |
| Reinsurers' share   |       | 63                | (127)             | (10)              | (23)              |
| <b>Net insurance premium revenue</b>  |       | 11 716            | 10 716            | 10 900            | 9 863             |
| Investment income   | 26    | 949               | 666               | 970               | 961               |
| Income from reinsurance contracts ceded   |       | 340               | 306               | 244               | 198               |
| Net (loss)/gain on financial assets and liabilities at fair value through income            | 27    | (721)             | 454               | (651)             | 427               |
| <b>Net income</b>   |       | 12 284            | 12 142            | 11 463            | 11 449            |
| Insurance claims and loss adjustment expenses   | 28    | 9 422             | 8 552             | 7 847             | 7 135             |
| Insurance claims and loss adjustment expenses recovered from reinsurers                     | 28    | (1 415)           | (1 250)           | (461)             | (463)             |
| <b>Net insurance benefits and claims</b>  |       | 8 007             | 7 302             | 7 386             | 6 672             |
| Expenses for the acquisition of insurance contracts   | 29    | 2 014             | 1 794             | 1 842             | 1 633             |
| Expenses for marketing and administration   | 29    | 1 296             | 1 262             | 1 290             | 1 242             |
| Expenses for asset management services  | 29    | 26                | 27                | 21                | 23                |
| Amortisation of intangible assets   | 6, 29 | 7                 | 2                 | 7                 | –                 |
| Impairment of investment in subsidiaries  | 7     | –                 | –                 | 151               | –                 |
| <b>Expenses</b>   |       | 11 350            | 10 387            | 10 697            | 9 570             |
| <b>Results of operating activities</b>  |       | 934               | 1 755             | 766               | 1 879             |
| Finance costs   | 31    | (152)             | (45)              | (152)             | (43)              |
| Net income from associates  | 8     | (8)               | 76                | 14                | 107               |
| <b>Profit before tax</b>  |       | 774               | 1 786             | 628               | 1 943             |
| Income tax expense  | 32    | (54)              | (542)             | 22                | (479)             |
| <b>Profit for the year from continuing operations</b>                                       |       | 720               | 1 244             | 650               | 1 464             |
| <b>Discontinued operations</b>  |       |                   |                   |                   |                   |
| Profit/(loss) for the year from discontinued operations                                     | 14    | 25                | (168)             | –                 | –                 |
| <b>Profit for the year</b>  |       | 745               | 1 076             | 650               | 1 464             |
| <b>Attributable to:</b>   |       |                   |                   |                   |                   |
| – equity holders of the company   |       | 724               | 1 050             | 650               | 1 464             |
| – minority interest   |       | 21                | 26                | –                 | –                 |
|   |       | 745               | 1 076             | 650               | 1 464             |
| <b>Earnings attributable to the equity holders</b>  | 33    |                   |                   |                   |                   |
| Basic earnings per share (cents)  |       | 644               | 924               |                   |                   |
| Diluted earnings per share (cents)  |       | 640               | 914               |                   |                   |
| Headline earnings per share (cents)   |       | 586               | 906               |                   |                   |
| Diluted headline earnings per share (cents)   |       | 582               | 897               |                   |                   |
| <b>Weighted average number of shares (millions)</b>   |       | 1 12.50           | 1 13.67           |                   |                   |
| <b>Weighted average number of ordinary shares for diluted earnings per share (millions)</b> |       | 1 13.10           | 1 14.81           |                   |                   |
| Ordinary dividend per share (cents)   | 34    | 430               | 410               |                   |                   |
| Special dividend per share (cents)  | 34    | –                 | 2 200             |                   |                   |

# STATEMENTS OF CHANGES IN EQUITY

Attributable to equity holders of the company

|  | Share<br>capital<br>R million | Treasury<br>shares<br>R million | Other<br>reserves<br>R million | Distributable<br>reserves<br>R million | Amounts<br>recognised<br>directly in<br>equity relating<br>to non-current<br>assets held for sale<br>R million | Minority<br>interest<br>R million | Total<br>R million |
|--|-------------------------------|---------------------------------|--------------------------------|--|--|-----------------------------------|--------------------|
| <b>GROUP</b>   |                               |                                 |                                |  |  |                                   |                    |
| <b>Balance as at 1 January 2007</b>  | 71                            | —                               | 1 119                          | 5 437                                  | —  | 123                               | <b>6 750</b>       |
| Share issue  | 34                            | —                               | —                              | —                                      | —  | —                                 | <b>34</b>          |
| Net purchase of treasury shares  | —                             | (726)                           | —                              | —                                      | —  | —                                 | <b>(726)</b>       |
| Profit for the year  | —                             | —                               | —                              | 1 050                                  | —  | 26                                | <b>1 076</b>       |
| Transfer to reserves   | —                             | —                               | 93                             | (93)                                   | —  | —                                 | <b>—</b>           |
| Share-based payments   | —                             | —                               | —                              | 14                                     | —  | —                                 | <b>14</b>          |
| Currency translation differences   | —                             | —                               | 6                              | —                                      | —  | —                                 | <b>6</b>           |
| Dividends paid   | —                             | —                               | —                              | (2 960)                                | —  | (17)                              | <b>(2 977)</b>     |
| Interest acquired by minorities  | —                             | —                               | —                              | —                                      | —  | 1                                 | <b>1</b>           |
| Amounts recognised directly in equity relating to non-current assets classified as held for sale | —                             | —                               | (71)                           | —                                      | 71   | —                                 | <b>—</b>           |
| <b>Balance as at 31 December 2006</b>  | 105                           | (726)                           | 1 147                          | 3 448                                  | 71   | 133                               | <b>4 178</b>       |
| Share issue  | 2                             | —                               | —                              | —                                      | —  | —                                 | <b>2</b>           |
| Purchase of treasury shares  | —                             | (29)                            | —                              | —                                      | —  | —                                 | <b>(29)</b>        |
| Sale of treasury shares  | —                             | 75                              | —                              | —                                      | —  | —                                 | <b>75</b>          |
| Profit for the year  | —                             | —                               | —                              | 724                                    | —  | 21                                | <b>745</b>         |
| Transfer to reserves   | —                             | —                               | 99                             | (99)                                   | —  | —                                 | <b>—</b>           |
| Share-based payments   | —                             | —                               | —                              | 39                                     | —  | —                                 | <b>39</b>          |
| Loss on sale of treasury shares  | —                             | —                               | —                              | (66)                                   | —  | —                                 | <b>(66)</b>        |
| Currency translation differences   | —                             | —                               | 5                              | —                                      | —  | —                                 | <b>5</b>           |
| Dividends paid   | —                             | —                               | —                              | (460)                                  | —  | (16)                              | <b>(476)</b>       |
| Interest acquired by minorities  | —                             | —                               | —                              | —                                      | —  | —                                 | <b>—</b>           |
| Amounts recognised directly in equity relating to non-current assets classified as held for sale | —                             | —                               | —                              | —                                      | (71)   | —                                 | <b>(71)</b>        |
| <b>Balance as at 31 December 2008</b>  | 107                           | (680)                           | 1 251                          | 3 586                                  | —  | 138                               | <b>4 402</b>       |
| <b>COMPANY</b>   |                               |                                 |                                |  |  |                                   |                    |
| <b>Balance as at 1 January 2007</b>  | 71                            | —                               | 920                            | 4 989                                  | —  | —                                 | <b>5 980</b>       |
| Share issue  | 34                            | —                               | —                              | —                                      | —  | —                                 | <b>34</b>          |
| Profit for the year  | —                             | —                               | —                              | 1 464                                  | —  | —                                 | <b>1 464</b>       |
| Transfer to reserves   | —                             | —                               | 92                             | (92)                                   | —  | —                                 | <b>—</b>           |
| Share-based payments   | —                             | —                               | —                              | 14                                     | —  | —                                 | <b>14</b>          |
| Dividends paid   | —                             | —                               | —                              | (3 129)                                | —  | —                                 | <b>(3 129)</b>     |
| <b>Balance as at 31 December 2007</b>  | 105                           | —                               | 1 012                          | 3 246                                  | —  | —                                 | <b>4 363</b>       |
| Share issue  | 2                             | —                               | —                              | —                                      | —  | —                                 | <b>2</b>           |
| Profit for the year  | —                             | —                               | —                              | 650                                    | —  | —                                 | <b>650</b>         |
| Transfer to reserves   | —                             | —                               | 102                            | (102)                                  | —  | —                                 | <b>—</b>           |
| Share-based payments   | —                             | —                               | —                              | 39                                     | —  | —                                 | <b>39</b>          |
| Dividends paid   | —                             | —                               | —                              | (489)                                  | —  | —                                 | <b>(489)</b>       |
| <b>Balance as at 31 December 2008</b>  | 107                           | —                               | 1 114                          | 3 344                                  | —  | —                                 | <b>4 565</b>       |

## CASH FLOW STATEMENTS

|  | Notes | Group             |                   | Company           |                   |
|--|-------|-------------------|-------------------|-------------------|-------------------|
|  |       | 2008<br>R million | 2007<br>R million | 2008<br>R million | 2007<br>R million |
| Cash generated from operations   | 36    | 1 527             | 2 139             | 1 796             | 1 656             |
| Interest paid  |       | (152)             | (45)              | (152)             | (43)              |
| Income tax paid  | 37    | (669)             | (288)             | (593)             | (200)             |
| <b>Net cash from operating activities</b>  |       | <b>706</b>        | <b>1 806</b>      | <b>1 051</b>      | <b>1 413</b>      |
| <b>Cash flows from investing activities</b>                                      |       |                   |                   |                   |                   |
| Cash utilised in investment activities   |       | 921               | 12                | (93)              | 581               |
| Acquisition of subsidiary, net of cash acquired                                  | 38    | (3)               | (61)              | –                 | –                 |
| Proceeds from sale of subsidiary   | 38    | –                 | –                 | –                 | –                 |
| Cash (sold)/acquired through sale/acquisition of subsidiary                      | 38    | (1 139)           | 52                | –                 | –                 |
| Purchases of equipment and software  |       | (48)              | (32)              | (38)              | (25)              |
| Proceeds from sale of equipment  |       | 1                 | 3                 | 1                 | –                 |
| Acquisition of associated companies  |       | (55)              | –                 | –                 | –                 |
| Proceeds from sale of associated companies                                       |       | –                 | 21                | –                 | –                 |
| Proceeds from sale of business operations  |       | 61                | –                 | –                 | –                 |
| Acquisition of book of business  |       | (10)              | (2)               | –                 | –                 |
| <b>Net cash used in investing activities</b>                                     |       | <b>(272)</b>      | <b>(7)</b>        | <b>(129)</b>      | <b>556</b>        |
| <b>Cash flows from financing activities</b>                                      |       |                   |                   |                   |                   |
| Proceeds from issuance of ordinary shares  |       | 2                 | 34                | 2                 | 34                |
| Purchase of treasury shares  |       | (29)              | (726)             | –                 | –                 |
| Proceeds on sale of treasury shares  |       | 10                | –                 | –                 | –                 |
| Increase in debt securities  |       | –                 | 964               | –                 | 964               |
| (Decrease)/Increase in investment contract liabilities                           |       | (138)             | 230               | –                 | –                 |
| Dividends paid to company's shareholders   | 39    | (460)             | (2 960)           | (489)             | (3 129)           |
| Dividends paid to minority interests   | 39    | (16)              | (17)              | –                 | –                 |
| Increase in cell owners' interest  |       | 111               | 8                 | –                 | –                 |
| <b>Net cash used in financing activities</b>                                     |       | <b>(520)</b>      | <b>(2 467)</b>    | <b>(487)</b>      | <b>(2 131)</b>    |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                      |       | <b>(86)</b>       | <b>(668)</b>      | <b>435</b>        | <b>(162)</b>      |
| Cash and cash equivalents at beginning of year                                   |       | 1 983             | 2 659             | 735               | 897               |
| Translation gains/(losses) on cash and cash equivalents                          |       | 41                | (8)               | –                 | –                 |
| <b>Cash and cash equivalents at end of year</b>                                  | 13    | <b>1 938</b>      | <b>1 983</b>      | <b>1 170</b>      | <b>735</b>        |
| Non-current assets classified as held for sale                                   |       | –                 | (812)             | –                 | –                 |
| <b>Cash and cash equivalents at end of year – Continuing operations</b>          |       | <b>1 938</b>      | <b>1 171</b>      | <b>1 170</b>      | <b>735</b>        |
| <b>Cash flows relating to discontinued operations</b>                            |       |                   |                   |                   |                   |
| Included in the above are the following cash flows from discontinued operations. |       |                   |                   |                   |                   |
| Operating cash flows   |       | (453)             | 233               | –                 | –                 |
| Investing cash flows   |       | (400)             | (25)              | –                 | –                 |
| Financing cash flows   |       | (1)               | (197)             | –                 | –                 |
| <b>Net increase in cash and cash equivalents</b>                                 |       | <b>(854)</b>      | <b>11</b>         | <b>–</b>          | <b>–</b>          |
| Cash and cash equivalents at beginning of year                                   |       | 812               | 808               | –                 | –                 |
| Translation gains on cash and cash equivalents                                   |       | 42                | (7)               | –                 | –                 |
| <b>Cash and cash equivalents at end of year</b>                                  |       | <b>–</b>          | <b>812</b>        | <b>–</b>          | <b>–</b>          |

# NOTES TO THE FINANCIAL STATEMENTS

## I. 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.

### I.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.

### I.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 consolidated financial statements, are disclosed in note 2.

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

In the 2008 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*.

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 2008

The following amendments to published standards are mandatory for the group's accounting periods beginning on or after 1 January 2008:

- IFRIC 11 – *IFRS 2 – Group and Treasury Share Transactions*  
This interpretation clarifies the application of IFRS 2 to certain share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group, e.g. equity instruments of its parent. This interpretation does not have a significant impact on the group's financial statements.
- IFRIC 14 – *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*  
This interpretation addresses the interaction between the minimum funding requirement and the limit on the measurement of the defined asset or liability. To determine the limit, the interpretation requires an entity to measure any economic benefits available to them through either refunds or a reduction in future contributions. This interpretation does not have any impact on the group's financial statements.

#### b) 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 2009 or later periods, the group has not early adopted:

- IAS 1 (Revised) – *Presentation of Financial Statements* (effective from 1 January 2009)
- IFRS 1 and IAS 27 (Revised) – *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective 1 January 2009)
- IFRS 2 (Amended) – *Vesting Conditions and Cancellations* (effective from 1 January 2009)
- IFRS 3 and IAS 27 (Revised) – *Revision to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements* (effective from 1 July 2009)
- IFRS 8 – *Operating Segments* (effective 1 January 2009)
- IAS 23 (Amended) – *Borrowing Costs* (effective 1 January 2009)
- IAS 32 (Amended) – *Financial Instruments Puttable at Fair value* (effective from 1 January 2009)
- IAS 39 (Amended) – *Eligible Hedged Items* (effective from 1 January 2009)

c) **Interpretations to published standards not yet effective and not relevant to the group's operations**

- IFRIC 15 – *Real Estate Sales* (effective from 1 January 2009)
- IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation* (effective from 1 October 2008)

### I.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 (refer note I.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 I.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 (refer note I.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.



#### **I.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.

#### **I.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.

#### **I.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 from 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 or 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 (CGUs) for the purpose of impairment testing. 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 expenses when incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the group, 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.

### **I.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 measured 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. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

**1.12 Cash and short-term money market instruments**

It consists of cash and cash equivalents, including cash on hand, deposits held at call with banks, and other current short-term highly liquid investments with a maturity of less than 12 months.

**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.

#### **I.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.

#### **I.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.

#### **I.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.

The assets relating to the cell captives are under the control of the insurer and are therefore reflected as part of financial assets at fair value through income or cash and cash equivalents depending on the nature of the assets.

**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 one. 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 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 employed by 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.

**I.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.

**I.25 Other revenue recognition****a) Interest income**

Interest income from financial assets that are classified as at fair value through income and short-term money market instruments 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.

**I.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.

**I.27 Solvency margin**

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

**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.

**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. Applying this methodology an amount of R27 million (2007: R65.4 million) of surplus reserves was released to the profit and loss.

In the Southern African operations, excluding alternative risk business, a 5% upward adjustment in the level of sufficiency of the IBNR reserve would result in an additional charge of approximately R22 million while a downward adjustment in the level of sufficiency would result in a release of reserves on the income statement of approximately R19 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 policyholder. 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 the 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 consists 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 basis using a number of assumptions. Assumptions 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 note 16).



### 3. RISK AND CAPITAL MANAGEMENT

#### 3.1 Risk management framework

The group has an established 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

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<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|--|----------------------------|----------------------------|------------------------------|------------------------------|
| Quoted equity securities   | 2 764                      | 4 434                      | 2 500                        | 4 177                        |
| Unquoted equity securities   | 347                        | 20                         | 11                           | 9                            |
| <b>Total equity securities</b>                                     | <b>3 111</b>               | <b>4 454</b>               | <b>2 511</b>                 | <b>4 186</b>                 |
| Quoted debt securities   | 2 145                      | 2 173                      | 1 978                        | 1 931                        |
| Unquoted debt securities   | 543                        | 728                        | 400                          | 426                          |
| <b>Total debt securities</b>                                       | <b>2 688</b>               | <b>2 901</b>               | <b>2 378</b>                 | <b>2 357</b>                 |
| <b>Derivatives</b>   | <b>136</b>                 | <b>–</b>                   | <b>136</b>                   | <b>–</b>                     |
| Receivables due from contract holders                              | 1 421                      | 1 358                      | 1 118                        | 1 105                        |
| Reinsurance receivables  | 679                        | 237                        | 254                          | 108                          |
| Other loans and receivables  | 588                        | 352                        | 536                          | 534                          |
| <b>Total loans and receivables including insurance receivables</b> | <b>2 688</b>               | <b>1 947</b>               | <b>1 908</b>                 | <b>1 747</b>                 |
| Reinsurance assets   | 1 981                      | 2 026                      | 1 428                        | 1 505                        |
| Deferred acquisition costs   | 271                        | 239                        | 239                          | 203                          |
| Cash and cash equivalents  | 1 938                      | 1 171                      | 1 170                        | 734                          |
| Short-term money market instruments                                | 3 089                      | 2 274                      | 1 589                        | 613                          |
| Non-current assets classified as held for sale                     | –                          | 2 060                      | –                            | –                            |
| <b>Total financial and insurance assets</b>                        | <b>15 902</b>              | <b>17 072</b>              | <b>11 359</b>                | <b>11 345</b>                |

| Financial and insurance liabilities  | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|--|----------------------------|----------------------------|------------------------------|------------------------------|
| Debt securities  | 972                        | 908                        | 972                          | 908                          |
| Investment contracts   | 393                        | 525                        | –                            | –                            |
| Derivatives  | –                          | 47                         | –                            | 47                           |
| Cell owners' interest  | 447                        | 336                        | –                            | –                            |
| Collateral guarantee contracts   | 93                         | 84                         | 93                           | 84                           |
| Insurance liabilities  | 8 156                      | 7 630                      | 6 057                        | 5 636                        |
| Deferred reinsurance acquisition revenue                                     | 82                         | 99                         | 59                           | 64                           |
| Trade and other payables   | 1 828                      | 1 408                      | 1 451                        | 1 545                        |
| Liabilities directly associated with non-current classified as held for sale | –                          | 1 606                      | –                            | –                            |
| <b>Total financial and insurance liabilities</b>                             | <b>11 971</b>              | <b>12 643</b>              | <b>8 632</b>                 | <b>8 284</b>                 |

### 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 group-wide 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

Market risk arises due to fluctuations in both the value of liabilities and the value of investments held. On a 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 6.1% of the total listed equities and 1% of the total assets. The company's largest investment in any one company comprises 6% of the total listed equities and 1.1% of the total assets.

The company implemented several actions during the year to reduce the group's price risk exposure. This included the sale of quoted equity securities to the value of R500 million in June 2008 and a further R500 million in September 2008. A derivative structure was furthermore entered into in June 2008 with the objective to minimise the downside volatility of equities to the value of R500 million.

At 31 December 2008, the group's listed equities were recorded at their fair value of R2 764 million (2007: R4 434 million). These figures include units in the Sanlam Alternative Income Fund (SAIF) to the value of R331 million and linked policy investments to the value of R112 million. The group is not exposed to significant price risk in respect of these investments. A hypothetical 10% decline in each individual share price would have the net effect of decreasing profit before taxation by R201 million (2007: R444 million), after taking into account the effect of the derivative. A hypothetical 10% increase in each individual share price would have the net effect of increasing profit before taxation by R199 million (2007: R444 million), after taking into account the effect of the derivative. The company's listed equities were recorded at their fair value of R2 500 million (2007: R4 177 million) which included the units in the SAIF. A hypothetical 10% decline in each individual share price would have the net effect of decreasing profit before taxation by R186 million (2007: R418 million), after taking into account the effect of the derivative. A hypothetical 10% increase in each individual share price would have the net effect of increasing profit before taxation by R184 million (2007: R418 million), after taking into account the effect of the derivative.

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 board 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 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 2008, 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                                    | 2008<br>1% increase<br>R million | 2008<br>1% decrease<br>R million | 2007<br>1% increase<br>R million | 2007<br>1% decrease<br>R million |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| <b>Financial assets</b>                  |                                  |                                  |                                  |                                  |
| Quoted debt securities                   | (55.5)                           | 59.9                             | (48.2)                           | 51.2                             |
| Unquoted debt securities                 | (1.4)                            | 1.4                              | 3.0                              | (3.0)                            |
| Derivative instruments                   | (0.3)                            | 0.3                              | –                                | –                                |
| Short-term money market instruments      | (27.3)                           | 27.3                             | (14.2)                           | 14.2                             |
| <b>Total interest-bearing securities</b> | <b>(84.5)</b>                    | <b>88.9</b>                      | <b>(59.4)</b>                    | <b>62.4</b>                      |

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 R52.2 million (2007: R30 million) or an increase in income of R56.6 million (2007: R27.4 million) respectively.

| GROUP                        | 2008<br>1% increase<br>R million | 2008<br>1% decrease<br>R million | 2007<br>1% increase<br>R million | 2007<br>1% decrease<br>R million |
|------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| <b>Financial liabilities</b> |                                  |                                  |                                  |                                  |
| Debt securities – quoted     | (57.6)                           | 57.6                             | (55.5)                           | 60.4                             |
| Derivative instruments       | –                                | –                                | (2.7)                            | 2.9                              |
| <b>Total debt securities</b> | <b>(57.6)</b>                    | <b>57.6</b>                      | <b>(58.2)</b>                    | <b>63.3</b>                      |

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 R57.6 million (2007: R58.2 million) or a decrease in income of R57.6 million (2007: R63.1 million) respectively.

| COMPANY                                  | 2008<br>1% increase<br>R million | 2008<br>1% decrease<br>R million | 2007<br>1% increase<br>R million | 2007<br>1% decrease<br>R million |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| <b>Financial assets</b>                  |                                  |                                  |                                  |                                  |
| Quoted debt securities                   | (49.8)                           | 53.6                             | (43.6)                           | 46.4                             |
| Derivative instruments                   | (0.3)                            | 0.3                              | –                                | –                                |
| Short-term money market instruments      | (13.7)                           | 13.7                             | (5.2)                            | 5.2                              |
| <b>Total interest-bearing securities</b> | <b>(63.8)</b>                    | <b>67.6</b>                      | <b>(48.8)</b>                    | <b>51.6</b>                      |

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 R42.0 million (2007: R33.5 million) or an increase in income of R45.7 million (2007: R30.8 million) respectively.

| COMPANY                      | 2008<br>1% increase<br>R million | 2008<br>1% decrease<br>R million | 2007<br>1% increase<br>R million | 2007<br>1% decrease<br>R million |
|------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| <b>Financial liabilities</b> |                                  |                                  |                                  |                                  |
| Debt securities – quoted     | (57.6)                           | 57.6                             | (55.5)                           | 60.4                             |
| Derivative instruments       | –                                | –                                | (2.7)                            | 2.7                              |
| <b>Total debt securities</b> | <b>(57.6)</b>                    | <b>57.6</b>                      | <b>(58.2)</b>                    | <b>63.1</b>                      |

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 R57.6 million (2007: R58.2 million) or a decrease in income of R57.6 million (2007: R63.1 million) respectively.

Included in debt securities are debt securities relating to cells and investment contracts on which the group has no direct exposure to risk.

### 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 the British pound (refer note 14). In addition, the Southern African operations have foreign exchange exposure in respect of net monetary assets denominated in foreign currency, predominantly US dollar and the British pound.

The group does not take cover on foreign currency balances, but evaluates the need for cover on transactions on a case by case basis.

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

| GROUP                                    |                           |  |  |   |
|--|---------------------------|--|--|---|
| <b>31 December 2008</b>                  | <b>Euro<br/>€ million</b> | <b>United<br/>States dollar<br/>\$ million</b> | <b>British<br/>pound<br/>£ million</b> | <b>Total<br/>exposure<br/>R million</b> |
| Cash, deposits and similar securities    | 0.24                      | 49.26  | 5.25                                   | 554                                     |
| Reinsurance assets                       | –                         | 2.05   | 0.43                                   | 25                                      |
| Deferred acquisition costs               | 0.05                      | 0.49   | 0.09                                   | 6                                       |
| Trade and other receivables              | –                         | 0.55   | 0.02                                   | 5                                       |
| Insurance liabilities                    | (0.92)                    | (5.46)   | (0.47)                                 | (69)                                    |
| Deferred reinsurance acquisition revenue | –                         | (0.31)   | (0.08)                                 | (4)                                     |
| Trade and other payables                 | –                         | (0.60)   | (12.80)                                | (180)                                   |
| <b>Foreign currency exposure</b>         | <b>(0.63)</b>             | <b>45.98</b>                                   | <b>(7.56)</b>                          | <b>337</b>                              |

| COMPANY                                  |                           |  |  |   |
|--|---------------------------|--|--|---|
| <b>31 December 2008</b>                  | <b>Euro<br/>€ million</b> | <b>United<br/>States dollar<br/>\$ million</b> | <b>British<br/>pound<br/>£ million</b> | <b>Total<br/>exposure<br/>R million</b> |
| Cash, deposits and similar securities    | 0.24                      | 26.15  | 5.25                                   | 319                                     |
| Reinsurance assets                       | –                         | 2.05   | 0.43                                   | 25                                      |
| Deferred acquisition costs               | 0.05                      | 0.49   | 0.09                                   | 6                                       |
| Trade and other receivables              | –                         | 0.55   | 0.02                                   | 5                                       |
| Insurance liabilities                    | (0.92)                    | (5.46)   | (0.47)                                 | (69)                                    |
| Deferred reinsurance acquisition revenue | –                         | (0.31)   | (0.08)                                 | (4)                                     |
| Trade and other payables                 | –                         | (0.60)   | (12.80)                                | (180)                                   |
| <b>Foreign currency exposure</b>         | <b>(0.63)</b>             | <b>22.87</b>                                   | <b>(7.56)</b>                          | <b>102</b>                              |

Exchange rates:

|              |         |        |         |
|--------------|---------|--------|---------|
| Closing rate | 12.9986 | 9.3378 | 13.7044 |
| Average rate | 12.0776 | 8.2751 | 15.1137 |

| <b>GROUP</b><br><b>31 December 2007</b>                              | <b>Euro</b><br><b>€ million</b> | <b>United</b><br><b>States dollar</b><br><b>\$ million</b> | <b>British</b><br><b>pound</b><br><b>£ million</b> | <b>Total</b><br><b>exposure</b><br><b>R million</b> |
|--|---------------------------------|--|--|---|
| 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)   |
|  | <b>0.14</b>                     | <b>42.33</b>   | <b>34.26</b>                                       | <b>758</b>  |
| Non-current assets classified as held for sale                       | –                               | –  | (33.32)  | (454)   |
| <b>Foreign currency exposure</b>                                     | <b>0.14</b>                     | <b>42.33</b>   | <b>0.94</b>  | <b>304</b>  |

| <b>COMPANY</b><br><b>31 December 2007</b> | <b>Euro</b><br><b>€ million</b> | <b>United</b><br><b>States dollar</b><br><b>\$ million</b> | <b>British</b><br><b>pound</b><br><b>£ million</b> | <b>Total</b><br><b>exposure</b><br><b>R million</b> |
|---|---------------------------------|--|--|---|
| Cash, deposits and similar securities     | –                               | 19.80  | 3.38   | 182   |
| Trade and other receivables               | –                               | 1.55   | –  | 11  |
| Trade and other payables                  | –                               | (1.11)   | (12.86)  | (183)   |
| <b>Foreign currency exposure</b>          | <b>–</b>                        | <b>20.24</b>   | <b>(9.48)</b>                                      | <b>10</b>   |

Exchange rates:

|              |         |        |         |
|--------------|---------|--------|---------|
| Closing rate | 10.0181 | 6.8616 | 13.6245 |
| Average rate | 9.6812  | 7.0692 | 14.0926 |

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:**

| <b>GROUP</b>                             | <b>10% increase</b><br><b>in Rand/GBP</b><br><b>R million</b> | <b>10% decrease</b><br><b>in Rand/GBP</b><br><b>R million</b> | <b>10% increase</b><br><b>in Rand/</b><br><b>USD</b><br><b>R million</b> | <b>10% decrease</b><br><b>in Rand/USD</b><br><b>R million</b> |
|--|---|---|--|---|
| Impact on net assets at 31 December 2008 | (10.36)   | 10.36   | 42.93  | (42.93)   |
| Impact on net assets at 31 December 2007 | 46.67   | (46.67)   | 29.05  | (29.05)   |

| <b>COMPANY</b>                           | <b>10% increase</b><br><b>in Rand/GBP</b><br><b>R million</b> | <b>10% decrease</b><br><b>in Rand/GBP</b><br><b>R million</b> | <b>10% increase</b><br><b>in Rand/</b><br><b>USD</b><br><b>R million</b> | <b>10% decrease</b><br><b>in Rand/USD</b><br><b>R million</b> |
|--|---|---|--|---|
| Impact on net assets at 31 December 2008 | (10.37)   | 10.37   | 21.36  | (21.36)   |
| Impact on net assets at 31 December 2007 | 4.43  | (4.43)  | 13.89  | (13.89)   |

The foreign exchange profits 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. On disposal of the foreign companies, the reserve is realised and released to the income statement. In 2008 R71 million of translation reserve was released to the income statement with the disposal of Westminster Motor Insurance Association and Santam Europe. Valuation movements of continuing operations 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 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.

In respect of investments and cash and cash equivalents, counterparty and credit risk limitations are strictly governed in the investment mandates between Santam and its investment manager, Sanlam Investment Management (SIM). In the past year, management reviewed SIM's credit management processes and systems and the integration of relevant information into the portfolio management decisions and were comfortable that best practice processes are being followed.

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 are set for each counterparty, based on default probabilities that are in turn based on the ratings of the counterparty concerned.

The following table provides information regarding the aggregated credit risk exposure for financial assets with external credit ratings as at 31 December 2008.

| GROUP<br>R million                                   | Credit rating |            |            |            |            |           |           |            |              | Carrying value |
|--|---------------|------------|------------|------------|------------|-----------|-----------|------------|--------------|----------------|
|  | AAA           | AA+        | AA         | AA –       | A+         | A         | A –       | BBB        | Not rated    |                |
| Debt securities – quoted                             | 861           | 175        | 588        | 304        | 153        | –         | 51        | –          | 13           | 2 145          |
| Debt securities – unquoted                           | –             | –          | 140        | 299        | –          | –         | –         | –          | 104          | 543            |
| <b>Total</b>   | <b>861</b>    | <b>175</b> | <b>728</b> | <b>603</b> | <b>153</b> | <b>–</b>  | <b>51</b> | <b>–</b>   | <b>117</b>   | <b>2 688</b>   |
| <b>Derivatives</b>                                   | <b>–</b>      | <b>–</b>   | <b>1</b>   | <b>–</b>   | <b>135</b> | <b>–</b>  | <b>–</b>  | <b>–</b>   | <b>–</b>     | <b>136</b>     |
| Receivables due from contract holders/intermediaries | 31            | 5          | 11         | 21         | –          | –         | –         | 17         | 1 336        | 1 421          |
| Reinsurance receivables                              | 10            | 41         | 4          | 215        | 14         | 19        | 21        | 166        | 189          | 679            |
| Other loans and receivables                          | 43            | 9          | 38         | 11         | 10         | 14        | 1         | –          | 462          | 588            |
| <b>Total</b>   | <b>84</b>     | <b>55</b>  | <b>53</b>  | <b>247</b> | <b>24</b>  | <b>33</b> | <b>22</b> | <b>183</b> | <b>1 987</b> | <b>2 688</b>   |
| Cash and cash equivalents                            | 671           | 256        | 364        | 212        | 211        | 184       | –         | 36         | 4            | 1 938          |
| Short-term money market instruments                  | 824           | 533        | 1 247      | 212        | 203        | 11        | 25        | 9          | 25           | 3 089          |



## NOTES TO THE FINANCIAL STATEMENTS

| COMPANY  | Credit rating |            |            |            |            |           |           |            |              | Carrying value |
|--|---------------|------------|------------|------------|------------|-----------|-----------|------------|--------------|----------------|
|  | AAA           | AA+        | AA         | AA –       | A+         | A         | A –       | BBB        | Not rated    |                |
| Debt securities – quoted                             | 771           | 171        | 531        | 302        | 153        | –         | 50        | –          | –            | 1 978          |
| Debt securities – unquoted                           | –             | –          | –          | 299        | –          | –         | –         | –          | 101          | 400            |
| <b>Total</b>   | <b>771</b>    | <b>171</b> | <b>531</b> | <b>601</b> | <b>153</b> | <b>–</b>  | <b>50</b> | <b>–</b>   | <b>101</b>   | <b>2 378</b>   |
| <b>Derivatives</b>                                   | <b>–</b>      | <b>–</b>   | <b>1</b>   | <b>–</b>   | <b>135</b> | <b>–</b>  | <b>–</b>  | <b>–</b>   | <b>–</b>     | <b>136</b>     |
| Receivables due from contract holders/intermediaries | 31            | 5          | 11         | 21         | –          | –         | –         | 17         | 1 033        | 1 118          |
| Reinsurance receivables                              | 10            | –          | 1          | 49         | 12         | 19        | –         | 149        | 14           | 254            |
| Other loans and receivables                          | 29            | 9          | 38         | 11         | 10         | 1         | 1         | –          | 437          | 536            |
| <b>Total</b>   | <b>70</b>     | <b>14</b>  | <b>50</b>  | <b>81</b>  | <b>22</b>  | <b>20</b> | <b>1</b>  | <b>166</b> | <b>1 484</b> | <b>1 908</b>   |
| Cash and cash equivalents                            | 396           | –          | 218        | 201        | 211        | 144       | –         | –          | –            | 1 170          |
| Short-term money market instruments                  | 403           | 278        | 551        | 114        | 180        | 10        | 25        | 3          | 25           | 1 589          |

31 December 2007

| GROUP  | Credit rating |            |            |            |            |            |          |            |              | Carrying value |
|--|---------------|------------|------------|------------|------------|------------|----------|------------|--------------|----------------|
|  | AAA           | AA+        | AA         | AA –       | A+         | A          | A –      | BBB        | Not rated    |                |
| Debt securities – quoted                             | 705           | 406        | 293        | 416        | 50         | 144        | 9        | 8          | 142          | 2 173          |
| Debt securities – unquoted                           | –             | –          | 34         | 77         | 247        | –          | –        | 302        | 68           | 728            |
| <b>Total</b>   | <b>705</b>    | <b>406</b> | <b>327</b> | <b>493</b> | <b>297</b> | <b>144</b> | <b>9</b> | <b>310</b> | <b>210</b>   | <b>2 901</b>   |
| 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            |
| <b>Total</b>   | <b>9</b>      | <b>21</b>  | <b>132</b> | <b>97</b>  | <b>3</b>   | <b>82</b>  | <b>1</b> | <b>14</b>  | <b>1 588</b> | <b>1 947</b>   |
| Cash and cash equivalents                            | 611           | 176        | 117        | 183        | 49         | –          | 29       | –          | 6            | 1 171          |
| Short-term money market instruments                  | 619           | 39         | 1 400      | 77         | –          | 71         | 12       | 1          | 55           | 2 274          |
| Non-current assets held for sale                     | 799           | –          | 539        | –          | –          | 76         | –        | –          | 110          | 1 524          |

| COMPANY  | Credit rating |            |            |            |            |            |          |           |              | Carrying value |
|--|---------------|------------|------------|------------|------------|------------|----------|-----------|--------------|----------------|
|  | AAA           | AA+        | AA         | AA –       | A+         | A          | A –      | BBB       | Not rated    |                |
| Debt securities – quoted                             | 614           | 404        | 157        | 415        | 49         | 144        | 9        | –         | 139          | 1 931          |
| Debt securities – unquoted                           | –             | –          | 34         | 77         | 247        | –          | –        | –         | 68           | 426            |
| <b>Total</b>   | <b>614</b>    | <b>404</b> | <b>191</b> | <b>492</b> | <b>296</b> | <b>144</b> | <b>9</b> | <b>–</b>  | <b>207</b>   | <b>2 357</b>   |
| 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            |
| <b>Total</b>   | <b>8</b>      | <b>21</b>  | <b>89</b>  | <b>96</b>  | <b>2</b>   | <b>7</b>   | <b>–</b> | <b>15</b> | <b>1 509</b> | <b>1 747</b>   |
| Cash and cash equivalents                            | 416           | 45         | 62         | 166        | 45         | –          | –        | –         | –            | 734            |
| Short-term money market instruments                  | 352           | 39         | 58         | 63         | 3          | 28         | 12       | –         | 58           | 613            |

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

Unrated receivables that are due from contract holders and intermediaries emanating from the Southern African business amounted to R1 336 million (2007: R1 228 million). The group is protected by guarantees provided by the Intermediary Guarantee Facility for the non-payment of premiums collected by intermediaries to the value of R669 million (2007: R699 million). For the company, this amounts to R641 million (2007: R460 million).

Debtors falling into the 'Not rated' category are managed by the internal credit control departments on a daily basis to ensure recoverability of amounts.

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 is 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. BBB rated reinsurance receivables of R166 million relate to reinsurance brokers.

#### 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 (2007: RNil).

Cell owners' credit risk is evaluated before new cell arrangements are established. Solvency levels of cells are assessed on a regular basis.

#### Impairment history

The following table provides 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.

At 31 December 2008

| GROUP<br>R million  | Neither<br>past<br>due nor<br>impaired | Financial assets that are past due but not impaired |                 |                      |                           | Financial<br>assets<br>that have<br>been<br>impaired | Impair-<br>ment | Carrying<br>value |
|---|--|---|-----------------|----------------------|---------------------------|--|-----------------|-------------------|
|   |  | 0 – 3<br>months                                     | 3 – 6<br>months | 6 months<br>– 1 year | Greater<br>than 1<br>year |  |                 |                   |
| Debt securities – quoted                                    | 2 145                                  | –   | –               | –                    | –                         | –  | –               | 2 145             |
| Debt securities – unquoted                                  | 543                                    | –   | –               | –                    | –                         | –  | –               | 543               |
| <b>Total</b>  | <b>2 688</b>                           | –   | –               | –                    | –                         | –  | –               | <b>2 688</b>      |
| <b>Derivatives</b>  | <b>136</b>                             | –   | –               | –                    | –                         | –  | –               | <b>136</b>        |
| Receivables due from<br>contract holders/<br>intermediaries | 1 416                                  | 4   | 1               | –                    | –                         | –  | –               | 1 421             |
| Reinsurance receivables                                     | 481                                    | 198   | –               | –                    | –                         | 17   | (17)            | 679               |
| Other loans and receivables                                 | 588                                    | –   | –               | –                    | –                         | 3  | (3)             | 588               |
| <b>Total</b>  | <b>2 485</b>                           | <b>202</b>  | <b>1</b>        | –                    | –                         | <b>20</b>  | <b>(20)</b>     | <b>2 688</b>      |
| Cash and cash equivalents                                   | 1 938                                  | –   | –               | –                    | –                         | –  | –               | 1 938             |
| Short-term money market<br>instruments                      | 3 089                                  | –   | –               | –                    | –                         | –  | –               | 3 089             |

## NOTES TO THE FINANCIAL STATEMENTS

| COMPANY   | Neither<br>past<br>due nor<br>impaired | Financial assets that are past due but not impaired |                 |                      |                           | Financial<br>assets<br>that have<br>been<br>impaired | Impair-<br>ment | Carrying<br>value |
|---|--|---|-----------------|----------------------|---------------------------|--|-----------------|-------------------|
|   |  | 0 – 3<br>months                                     | 3 – 6<br>months | 6 months<br>– 1 year | Greater<br>than 1<br>year |  |                 |                   |
| R million   |  |   |                 |                      |                           |  |                 |                   |
| Debt securities – quoted                                    | 1 978                                  | –   | –               | –                    | –                         | –  | –               | 1 978             |
| Debt securities – unquoted                                  | 400                                    | –   | –               | –                    | –                         | –  | –               | 400               |
| <b>Total</b>  | <b>2 378</b>                           | –   | –               | –                    | –                         | –  | –               | <b>2 378</b>      |
| <b>Derivatives</b>  | <b>136</b>                             | –   | –               | –                    | –                         | –  | –               | <b>136</b>        |
| Receivables due from<br>contract holders/<br>intermediaries | 1 118                                  | –   | –               | –                    | –                         | –  | –               | 1 118             |
| Reinsurance receivables                                     | 254                                    | –   | –               | –                    | –                         | 17   | (17)            | 254               |
| Other loans and receivables                                 | 536                                    | –   | –               | –                    | –                         | 38   | (38)            | 536               |
| <b>Total</b>  | <b>1 908</b>                           | –   | –               | –                    | –                         | <b>55</b>  | <b>(55)</b>     | <b>1 908</b>      |
| Cash and cash equivalents                                   | 1 170                                  | –   | –               | –                    | –                         | –  | –               | 1 170             |
| Short-term money market<br>instruments                      | 1 589                                  | –   | –               | –                    | –                         | –  | –               | 1 589             |

31 December 2007

| GROUP   | Neither<br>past<br>due nor<br>impaired | Financial assets that are past due but not impaired |                 |                      |                           | Financial<br>assets<br>that have<br>been<br>impaired | Impair-<br>ment | Carrying<br>value |
|---|--|---|-----------------|----------------------|---------------------------|--|-----------------|-------------------|
|   |  | 0 – 3<br>months                                     | 3 – 6<br>months | 6 months<br>– 1 year | Greater<br>than 1<br>year |  |                 |                   |
| R million   |  |   |                 |                      |                           |  |                 |                   |
| Debt securities – quoted                                    | 2 173                                  | –   | –               | –                    | –                         | –  | –               | 2 173             |
| Debt securities – unquoted                                  | 728                                    | –   | –               | –                    | –                         | –  | –               | 728               |
| <b>Total</b>  | <b>2 901</b>                           | –   | –               | –                    | –                         | –  | –               | <b>2 901</b>      |
| Receivables due from<br>contract holders/<br>intermediaries | 1 357                                  | 1   | –               | –                    | –                         | –  | –               | 1 358             |
| Reinsurance receivables                                     | 235                                    | –   | –               | –                    | 2                         | 20   | (20)            | 237               |
| Other loans and receivables                                 | 352                                    | –   | –               | –                    | –                         | 40   | (40)            | 352               |
| <b>Total</b>  | <b>1 944</b>                           | <b>1</b>  | –               | –                    | <b>2</b>                  | <b>60</b>  | <b>(60)</b>     | <b>1 947</b>      |
| Cash and cash equivalents                                   | 1 171                                  | –   | –               | –                    | –                         | –  | –               | 1 171             |
| Short-term money market<br>instruments                      | 2 274                                  | –   | –               | –                    | –                         | –  | –               | 2 274             |
| Non-current assets held<br>for sale                         | 1 524                                  | –   | –               | –                    | –                         | –  | –               | 1 524             |

| COMPANY   | Neither<br>past<br>due nor<br>impaired | Financial assets that are past due but not impaired |                 |                      |                           | Financial<br>assets<br>that have<br>been<br>impaired | Impair-<br>ment | Carrying<br>value |
|---|--|---|-----------------|----------------------|---------------------------|--|-----------------|-------------------|
|   |  | 0 – 3<br>months                                     | 3 – 6<br>months | 6 months<br>– 1 year | Greater<br>than 1<br>year |  |                 |                   |
| R million   |  |   |                 |                      |                           |  |                 |                   |
| Debt securities – quoted                                    | 1 931                                  | –   | –               | –                    | –                         | –  | –               | 1 931             |
| Debt securities – unquoted                                  | 426                                    | –   | –               | –                    | –                         | –  | –               | 426               |
| <b>Total</b>  | <b>2 357</b>                           | –   | –               | –                    | –                         | –  | –               | <b>2 357</b>      |
| Receivables due from<br>contract holders/<br>intermediaries | 1 105                                  | –   | –               | –                    | –                         | –  | –               | 1 105             |
| Reinsurance receivables                                     | 106                                    | –   | –               | –                    | 2                         | 11   | (11)            | 108               |
| Other loans and receivables                                 | 534                                    | –   | –               | –                    | –                         | 78   | (78)            | 534               |
| <b>Total</b>  | <b>1 745</b>                           | –   | –               | –                    | <b>2</b>                  | <b>89</b>  | <b>(89)</b>     | <b>1 747</b>      |
| Cash and cash equivalents                                   | 734                                    | –   | –               | –                    | –                         | –  | –               | 734               |
| Short-term money market<br>instruments                      | 613                                    | –   | –               | –                    | –                         | –  | –               | 613               |

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 other than reinsurance debtors, as the group has a large number of locally and internationally dispersed debtors.

The impairment of financial assets was 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* – Provides 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* – Provides 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 reserving.

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.

## NOTES TO THE FINANCIAL STATEMENTS

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                      | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|-----------------------------------|------|------|------|------|------|------|------|
| Net claims paid and provided (%)* | 68.4 | 68.2 | 68.6 | 65.3 | 57.0 | 64.8 | 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 were disposed of during the year.

### 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 allows 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 will 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 the 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 the 75th percentile level of sufficiency at least.

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 programme 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 markets. 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 event, excluding reinstatement premiums due as a result of the claim against the cover
- Catastrophe cover to the extent of 1.86% of the total exposure of the significant geographical areas, amounting to protection of up to R4 billion per event.

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 2008

| GROUP                          | Within 1 year<br>R million | 2 to 5 years<br>R million | More than 5 years<br>R million | TOTAL<br>R million |
|--------------------------------|----------------------------|---------------------------|--------------------------------|--------------------|
| Debt securities                | 83                         | 413                       | 1 223                          | 1 719              |
| Investment contracts           | 391                        | 2                         | –                              | 393                |
| Cell owners' interest          | 37                         | 410                       | –                              | 447                |
| Collateral guarantee contracts | –                          | –                         | 93                             | 93                 |
| Insurance liabilities          | 7 199                      | 1 035                     | 4                              | 8 238              |
| Trade and other payables       | 1 828                      | –                         | –                              | 1 828              |
| <b>Total</b>                   | <b>9 538</b>               | <b>1 860</b>              | <b>1 320</b>                   | <b>12 718</b>      |

| COMPANY                        | Within 1 year<br>R million | 2 to 5 years<br>R million | More than 5 years<br>R million | TOTAL<br>R million |
|--------------------------------|----------------------------|---------------------------|--------------------------------|--------------------|
| Debt securities                | 83                         | 413                       | 1 223                          | 1 719              |
| Collateral guarantee contracts | –                          | –                         | 93                             | 93                 |
| Insurance liabilities          | 5 097                      | 1 014                     | 5                              | 6 116              |
| Trade and other payables       | 1 451                      | –                         | –                              | 1 451              |
| <b>Total</b>                   | <b>6 631</b>               | <b>1 427</b>              | <b>1 321</b>                   | <b>9 379</b>       |

As at 31 December 2007

| GROUP                          | Within 1 year | 2 to 5 years | More than 5 years | TOTAL         |
|--------------------------------|---------------|--------------|-------------------|---------------|
|                                | R million     | R million    | R million         | R million     |
| Debt securities                | 82            | 413          | 1 306             | 1 801         |
| Investment contracts           | 178           | 148          | 199               | 525           |
| Derivatives                    | –             | –            | 47                | 47            |
| Cell owners' interest          | –             | 336          | –                 | 336           |
| Collateral guarantee contracts | –             | 84           | –                 | 84            |
| Insurance liabilities          | 7 307         | 323          | –                 | 7 630         |
| Trade and other payables       | 1 408         | –            | –                 | 1 408         |
| <b>Total</b>                   | <b>8 975</b>  | <b>1 304</b> | <b>1 552</b>      | <b>11 831</b> |

| COMPANY                        | Within 1 year | 2 to 5 years | More than 5 years | TOTAL        |
|--------------------------------|---------------|--------------|-------------------|--------------|
|                                | R million     | R million    | R million         | R million    |
| Debt securities                | 82            | 413          | 1 306             | 1 801        |
| Derivatives                    | –             | –            | 47                | 47           |
| Collateral guarantee contracts | –             | 84           | –                 | 84           |
| Insurance liabilities          | 5 321         | 315          | –                 | 5 636        |
| Trade and other payables       | 1 545         | –            | –                 | 1 545        |
| <b>Total</b>                   | <b>6 948</b>  | <b>812</b>   | <b>1 353</b>      | <b>9 113</b> |

### 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 a dynamic internal 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) issues 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 effect 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.

### **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 (refer note 43).

#### **3.9.3 Source of capital**

During 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.

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 (refer note 19).

**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 14.

##### 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<br>R million | Investment activities<br>R million | Total<br>R million |
|---|-----------------------------------|------------------------------------|--------------------|
| <b>2008</b>   |                                   |                                    |                    |
| <b>Revenue</b>  | 14 179                            | (472)                              | 13 694             |
| Gross written premium                                     | 14 179                            |                                    | 14 179             |
| Net written premium                                       | 11 873                            |                                    | 11 873             |
| Net earned premium  | 11 716                            |                                    | 11 716             |
| Claims incurred   | 8 007                             |                                    | 8 007              |
| Net commission  | 1 674                             |                                    | 1 674              |
| Management expenses                                       | 1 283                             | 13                                 | 1 296              |
| <b>Underwriting result</b>                                | 752                               | (13)                               | 739                |
| Investment return on insurance funds                      | 540                               |                                    | 540                |
| <b>Net insurance result</b>                               | 1 292                             | (13)                               | 1 279              |
| Investment income net of management fee and finance costs |                                   | (490)                              | (490)              |
| Income from associates                                    |                                   | (8)                                | (8)                |
| Amortisation of intangible asset                          | (7)                               |                                    | (7)                |
| <b>Profit before tax</b>                                  | 1 285                             | (511)                              | 774                |
| <b>Total assets</b>                                       | 10 318                            | 6 130                              | 16 448             |
| <b>Total liabilities</b>                                  | 11 050                            | 996                                | 12 046             |
| <b>2007</b>   |                                   |                                    |                    |
| <b>Revenue</b>  | 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              |
| <b>Underwriting result</b>                                | 664                               | –                                  | 664                |
| Investment return on insurance funds                      | 319                               |                                    | 319                |
| <b>Net insurance result</b>                               | 983                               | –                                  | 983                |
| Investment income net of management fee and finance costs |                                   | 729                                | 729                |
| income from associates                                    |                                   | 76                                 | 76                 |
| Amortisation of intangible asset                          | (2)                               |                                    | (2)                |
| <b>Profit before tax</b>                                  | 981                               | 805                                | 1 786              |
| <b>Total assets</b>                                       | 7 897                             | 7 530                              | 15 427             |
| <b>Total liabilities</b>                                  | 10 724                            | 979                                | 11 703             |

**Insurance activities**

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

| Insurance class      | Gross written premium<br>R million | Under-writing result<br>R million | Total assets*<br>R million | Total liabilities*<br>R million |
|----------------------|------------------------------------|-----------------------------------|----------------------------|---------------------------------|
| <b>2008</b>          |                                    |                                   |                            |                                 |
| Accident and health  | 378                                | 37                                | 30                         | 135                             |
| Alternative risk     | 1 726                              | (31)                              | 549                        | 2 014                           |
| Crop                 | 575                                | 74                                | 151                        | 321                             |
| Engineering          | 539                                | 121                               | 76                         | 288                             |
| Guarantee            | 20                                 | 13                                | 16                         | 30                              |
| Liability            | 1 130                              | 410                               | 684                        | 2 038                           |
| Miscellaneous        | 23                                 | 8                                 | 5                          | 20                              |
| Motor                | 5 535                              | 275                               | 50                         | 1 217                           |
| Property             | 3 859                              | (172)                             | 606                        | 1 864                           |
| Transportation       | 394                                | 17                                | 86                         | 313                             |
| Unallocated          | –                                  | (13)                              | 14 195                     | 3 806                           |
| <b>Total</b>         | <b>14 179</b>                      | <b>739</b>                        | <b>16 448</b>              | <b>12 046</b>                   |
| <b>Comprising</b>    |                                    |                                   |                            |                                 |
| Commercial insurance | 7 176                              | 649                               | 1 684                      | 5 289                           |
| Personal insurance   | 5 277                              | 134                               | 20                         | 937                             |
| Alternative risk     | 1 726                              | (31)                              | 549                        | 2 014                           |
| Unallocated          | –                                  | (13)                              | 14 195                     | 3 806                           |
| <b>Total</b>         | <b>14 179</b>                      | <b>739</b>                        | <b>16 448</b>              | <b>12 046</b>                   |
| <b>2007</b>          |                                    |                                   |                            |                                 |
| 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                           |
| <b>Total</b>         | <b>13 173</b>                      | <b>664</b>                        | <b>15 427</b>              | <b>11 703</b>                   |
| <b>Comprising</b>    |                                    |                                   |                            |                                 |
| 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                           |
| <b>Total</b>         | <b>13 173</b>                      | <b>664</b>                        | <b>15 427</b>              | <b>11 703</b>                   |

\* 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 14.

## 5. PROPERTY AND EQUIPMENT

|  | Owner-occupied properties<br>R million | Computer equipment<br>R million | Furniture, equipment and other assets<br>R million | Total<br>R million |
|--|--|---------------------------------|--|--------------------|
| <b>GROUP</b>                                   |  |                                 |  |                    |
| At 1 January 2007                              |  |                                 |  |                    |
| Cost or valuation                              | 17                                     | 97                              | 53   | 167                |
| Accumulated depreciation                       | –                                      | (71)                            | (37)   | (108)              |
| Net book amount                                | 17                                     | 26                              | 16   | 59                 |
| <b>Year ended 31 December 2007</b>             |  |                                 |  |                    |
| 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                 |
| <b>At 31 December 2007</b>                     |  |                                 |  |                    |
| Cost or valuation                              | 1                                      | 102                             | 57   | 160                |
| Accumulated depreciation                       | –                                      | (80)                            | (42)   | (122)              |
| Net book amount                                | 1                                      | 22                              | 15   | 38                 |
| <b>Year ended 31 December 2008</b>             |  |                                 |  |                    |
| Opening net book amount                        | 1                                      | 22                              | 15   | 38                 |
| Additions                                      | –                                      | 14                              | 14   | 28                 |
| Disposals                                      | –                                      | –                               | (1)  | (1)                |
| Depreciation charge                            | –                                      | (15)                            | (6)  | (21)               |
| Reclassified to intangible assets              | –                                      | (2)                             | –  | (2)                |
| Closing net book amount                        | 1                                      | 19                              | 22   | 42                 |
| <b>At 31 December 2008</b>                     |  |                                 |  |                    |
| Cost or valuation                              | 1                                      | 115                             | 67   | 183                |
| Accumulated depreciation                       | –                                      | (96)                            | (45)   | (141)              |
| Net book amount                                | 1                                      | 19                              | 22   | 42                 |
| <b>COMPANY</b>                                 |  |                                 |  |                    |
| At 1 January 2007                              |  |                                 |  |                    |
| Cost or valuation                              | –                                      | 91                              | 42   | 133                |
| Accumulated depreciation                       | –                                      | (65)                            | (31)   | (96)               |
| Net book amount                                | –                                      | 26                              | 11   | 37                 |
| <b>Year ended 31 December 2007</b>             |  |                                 |  |                    |
| Opening net book amount                        | –                                      | 26                              | 11   | 37                 |
| Additions                                      | –                                      | 18                              | 4  | 22                 |
| Transfer 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                 |
| <b>At 31 December 2007</b>                     |  |                                 |  |                    |
| Cost or valuation                              | 1                                      | 93                              | 44   | 138                |
| Accumulated depreciation                       | –                                      | (73)                            | (34)   | (107)              |
| Net book amount                                | 1                                      | 20                              | 10   | 31                 |
| <b>Year ended 31 December 2008</b>             |  |                                 |  |                    |
| Opening net book amount                        | 1                                      | 20                              | 10   | 31                 |
| Additions                                      | –                                      | 10                              | 10   | 20                 |
| Depreciation charge                            | –                                      | (11)                            | (4)  | (15)               |
| Closing net book amount                        | 1                                      | 19                              | 16   | 36                 |
| <b>At 31 December 2008</b>                     |  |                                 |  |                    |
| Cost or valuation                              | 1                                      | 103                             | 54   | 158                |
| Accumulated depreciation                       | –                                      | (84)                            | (38)   | (122)              |
| Net book amount                                | 1                                      | 19                              | 16   | 36                 |

Depreciation expense has been included in Expenses for marketing and administration in the income statement (refer note 29).

## 6. INTANGIBLE ASSETS

|  | Goodwill   | Computer software | Value of business acquired | Total      |
|--|------------|-------------------|----------------------------|------------|
|  | R million  | R million         | R million                  | R million  |
| <b>GROUP</b>                                     |            |                   |                            |            |
| At 1 January 2007                                |            |                   |                            |            |
| Cost   | 108        | –                 | 2                          | 110        |
| Translation difference                           | 6          | –                 | –                          | 6          |
| Impairment                                       | (6)        | –                 | (2)                        | (8)        |
| <b>Net book amount</b>                           | <b>108</b> | <b>–</b>          | <b>–</b>                   | <b>108</b> |
| <b>Year ended 31 December 2007</b>               |            |                   |                            |            |
| Opening net book amount                          | 108        | –                 | –                          | 108        |
| Acquisition of subsidiaries (refer note 38)      | 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        |
| <b>At 31 December 2007</b>                       |            |                   |                            |            |
| Cost   | 117        | 22                | 4                          | 143        |
| Translation difference                           | 7          | –                 | –                          | 7          |
| Impairment                                       | (6)        | (6)               | (3)                        | (15)       |
| <b>Net book amount</b>                           | <b>118</b> | <b>16</b>         | <b>1</b>                   | <b>135</b> |
| <b>Year ended 31 December 2008</b>               |            |                   |                            |            |
| Opening net book amount                          | 118        | 16                | 1                          | 135        |
| Acquisition of subsidiaries (refer note 38)      | 3          | –                 | –                          | 3          |
| Reclassified from fixed assets                   | –          | 2                 | –                          | 2          |
| Acquisitions                                     | –          | 20                | 10                         | 30         |
| Impairment                                       | –          | (4)               | (2)                        | (6)        |
| Amortisation                                     | –          | (9)               | –                          | (9)        |
| Closing net book amount                          | 121        | 25                | 9                          | 155        |
| <b>At 31 December 2008</b>                       |            |                   |                            |            |
| Cost   | 120        | 43                | 15                         | 178        |
| Translation difference                           | 7          | –                 | –                          | 7          |
| Impairment/Accumulated amortisation              | (6)        | (18)              | (6)                        | (30)       |
| <b>Net book amount</b>                           | <b>121</b> | <b>25</b>         | <b>9</b>                   | <b>155</b> |
| <b>COMPANY</b>                                   |            |                   |                            |            |
| At 1 January 2007                                |            |                   |                            |            |
| Cost   | –          | –                 | 2                          | 2          |
| Impairment                                       | –          | –                 | (2)                        | (2)        |
| <b>Net book amount</b>                           | <b>–</b>   | <b>–</b>          | <b>–</b>                   | <b>–</b>   |
| <b>Year ended 31 December 2007</b>               |            |                   |                            |            |
| Opening net book amount                          | –          | –                 | –                          | –          |
| Reclassified from fixed assets                   | –          | 17                | –                          | 17         |
| Amortisation                                     | –          | (6)               | –                          | (6)        |
| Closing net book amount                          | –          | 11                | –                          | 11         |
| <b>At 31 December 2007</b>                       |            |                   |                            |            |
| Cost   | –          | 17                | 2                          | 19         |
| Accumulated amortisation                         | –          | (6)               | (2)                        | (8)        |
| <b>Net book amount</b>                           | <b>–</b>   | <b>11</b>         | <b>–</b>                   | <b>11</b>  |
| <b>Year ended 31 December 2008</b>               |            |                   |                            |            |
| Opening net book amount                          | –          | 11                | –                          | 11         |
| Acquisitions                                     | –          | 18                | –                          | 18         |
| Amortisation                                     | –          | (7)               | –                          | (7)        |
| Closing net book amount                          | –          | 22                | –                          | 22         |
| <b>At 31 December 2008</b>                       |            |                   |                            |            |
| Cost   | –          | 35                | 2                          | 37         |
| Accumulated amortisation                         | –          | (13)              | (2)                        | (15)       |
| <b>Net book amount</b>                           | <b>–</b>   | <b>22</b>         | <b>–</b>                   | <b>22</b>  |



**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<br>2008<br>R million | Group<br>2007<br>R million |
|--|----------------------------|----------------------------|
| Agri Risk Specialists (Pty) Ltd                    | 19                         | 19                         |
| Admiral Professional Underwriting Agency (Pty) Ltd | 57                         | 54                         |
| Centriq Insurance Holdings Ltd                     | 1                          | 1                          |
| Stalker Hutchinson and Associates (Pty) Ltd        | 44                         | 44                         |
|  | <b>121</b>                 | <b>118</b>                 |

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<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|--|----------------------------|----------------------------|------------------------------|------------------------------|
| At the beginning of the year                           |                            |                            | 1 703                        | 1 703                        |
| Provision for impairment                               |                            |                            | (151)                        | –                            |
| Unlisted shares at cost price less amounts written off |                            |                            | 1 552                        | 1 703                        |
| Directors' valuation                                   |                            |                            | <b>2 026</b>                 | <b>2 379</b>                 |

To the extent that capital is remitted from offshore subsidiaries, the carrying value is adjusted to keep in line with net asset value. Approval is required from the Regulator for the declaration of dividends by Guardian National Insurance Company Ltd.

*Details of investments are set out in note 44.*

**8. INVESTMENT IN ASSOCIATES****GROUP**

|  |            |            |
|--|------------|------------|
| At the beginning of the year                 | 175        | 215        |
| Acquisitions                                 | 55         | –          |
| Share of results after tax                   | (2)        | 76         |
| Share of results before tax                  | (2)        | 110        |
| Share of tax                                 | –          | (34)       |
| Dividends received from associated companies | (27)       | (109)      |
| Transfer to investment in subsidiaries       | –          | (7)        |
| Impairment                                   | (6)        | –          |
| At the end of year                           | <b>195</b> | <b>175</b> |
| Fair value/Directors' valuation              | <b>258</b> | <b>218</b> |

*Details of investments are set out in note 139*

**COMPANY**

|  |            |            |
|--|------------|------------|
| At the beginning of the year             | 163        | 163        |
| Impairment                               | (6)        | –          |
|  | <b>157</b> | <b>163</b> |
| Fair value/Directors' valuation          | <b>169</b> | <b>159</b> |
| Dividend income received from associates | 20         | 107        |
| Impairment of investment in associate    | (6)        | –          |
| Net income from associates               | <b>14</b>  | <b>107</b> |

Investments in associates at 31 December 2008 include goodwill of R4.5 million (2007: R4.5 million).

The aggregate assets, liabilities, revenues, profits/(losses) of the principal associates, all of which are unlisted, were as follows:

|  | Assets<br>R million | Liabilities<br>R million | Revenues<br>R million | After-tax<br>profit/(loss)<br>R million |
|--|---------------------|--------------------------|-----------------------|---|
| <b>2008</b>  |                     |                          |                       |   |
| NICO Holdings Ltd                                    | 1 753               | 1 588                    | 449                   | 75                                      |
| Lion of Africa Holdings Company (Pty) Ltd            | 1 073               | 940                      | 539                   | (20)                                    |
| Credit Guarantee Insurance Corporation of Africa Ltd | 886                 | 599                      | 608                   | 32                                      |
| Indwe Broker Holdings Group Ltd                      | 244                 | 170                      | 277                   | 30                                      |
| MiWay Group Holdings Ltd                             | 87                  | 20                       | 67                    | (98)                                    |
| Thebe Risk Services Holdings (Pty) Ltd               | 20                  | –                        | 24                    | (3)                                     |
| Other  | 5                   | 4                        | 8                     | –                                       |
| <b>Total</b>   | <b>4 068</b>        | <b>3 321</b>             | <b>1 972</b>          | <b>16</b>                               |
| <b>2007</b>  |                     |                          |                       |   |
| NICO Holdings Ltd                                    | 1 218               | 1 078                    | 260                   | 42                                      |
| Lion of Africa Holdings Company (Pty) Ltd            | 954                 | 827                      | 729                   | (13)                                    |
| Credit Guarantee Insurance Corporation of Africa Ltd | 731                 | 457                      | 535                   | 177                                     |
| Indwe Broker Holdings Group Ltd                      | 226                 | 164                      | 241                   | 26                                      |
| Thebe Risk Services Holdings (Pty) Ltd               | 24                  | –                        | 24                    | 1                                       |
| Other  | 4                   | 2                        | 7                     | 1                                       |
| <b>Total</b>   | <b>3 157</b>        | <b>2 528</b>             | <b>1 796</b>          | <b>234</b>                              |

## 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME

The group's financial assets are summarised below by measurement category.

|                                      | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|--------------------------------------|----------------------------|----------------------------|------------------------------|------------------------------|
| Equity securities                    |                            |                            |                              |                              |
| – quoted                             | 2 764                      | 4 434                      | 2 500                        | 4 177                        |
| – unquoted                           | 347                        | 20                         | 11                           | 9                            |
|                                      | <b>3 111</b>               | <b>4 454</b>               | <b>2 511</b>                 | <b>4 186</b>                 |
| Debt securities                      |                            |                            |                              |                              |
| – quoted                             |                            |                            |                              |                              |
| – government and other quoted bonds  | 1 369                      | 1 322                      | 1 202                        | 1 080                        |
| – long-term money market instruments | 776                        | 851                        | 776                          | 851                          |
| – unquoted                           |                            |                            |                              |                              |
| – bonds                              | –                          | 1                          | –                            | 1                            |
| – redeemable preference shares       | 543                        | 727                        | 400                          | 425                          |
|                                      | <b>2 688</b>               | <b>2 901</b>               | <b>2 378</b>                 | <b>2 357</b>                 |
|                                      | <b>5 799</b>               | <b>7 355</b>               | <b>4 889</b>                 | <b>6 543</b>                 |

Financial assets at fair value through income

The details of investments are set out on page 139.

## 10. DERIVATIVES

### Financial assets – at fair value through income

#### Over the counter

|                                |            |          |            |          |
|--------------------------------|------------|----------|------------|----------|
| Interest rate swaps            | 1          | –        | 1          | –        |
| Zero cost collar on the SWIX40 | 135        | –        | 135        | –        |
|                                | <b>136</b> | <b>–</b> | <b>136</b> | <b>–</b> |

The interest rate derivative represents the fair value of interest rate swaps effected on a portion (R400 million) of fixed interest securities held in the investment portfolio underlining the subordinated callable note (refer note 19). 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.

The zero cost collar on the SWIX40 represents an equity derivative that was entered into in June 2008 for the purpose of minimising the downside volatility of equities to the value of R500 million. As a large portion of Santam's equity exposure tracks the SWIX on an enhanced index basis, a SWIX40 structure was the most appropriate match available. However, some basis risk exists to the extent that the underlying equity's exposure differs from the SWIX40. The derivative expires in June 2009.

### Financial liability – at fair value through income

#### Over the counter

|                     |   |      |   |      |
|---------------------|---|------|---|------|
| Interest rate swaps | – | (47) | – | (47) |
|---------------------|---|------|---|------|

**II. REINSURANCE ASSETS**

|   | <b>Group<br/>2008</b> | <b>Group<br/>2007</b> | <b>Company<br/>2008</b> | <b>Company<br/>2007</b> |
|---|-----------------------|-----------------------|-------------------------|-------------------------|
|   | <b>R million</b>      | <b>R million</b>      | <b>R million</b>        | <b>R million</b>        |
| Reinsurers' share of insurance liabilities      | <b>1 981</b>          | 2 026                 | <b>1 428</b>            | 1 505                   |
| Total assets arising from reinsurance contracts | <b>1 981</b>          | 2 026                 | <b>1 428</b>            | 1 505                   |

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 (refer note 12).

**12. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES**

Receivables arising from insurance and reinsurance contracts

|  |              |       |              |       |
|--|--------------|-------|--------------|-------|
| – due from contract holders/intermediaries                         | <b>1 421</b> | 1 358 | <b>1 118</b> | 1 105 |
| – due from reinsurers  | <b>705</b>   | 257   | <b>271</b>   | 119   |
| – less provision for non-recovery of receivables from reinsurers   | <b>(26)</b>  | (20)  | <b>(17)</b>  | (11)  |
| Other loans and receivables:                                       |              |       |              |       |
| – other receivables  | <b>612</b>   | 348   | <b>355</b>   | 247   |
| – less provision for impairment                                    | <b>(64)</b>  | (40)  | <b>(61)</b>  | (40)  |
| – loans to executive management                                    | <b>9</b>     | 9     | <b>9</b>     | 9     |
| – amounts due by Sanlam group                                      | <b>–</b>     | 4     | <b>–</b>     | 4     |
| – loans to associated companies                                    | <b>31</b>    | 31    | <b>19</b>    | 19    |
| – loans to subsidiaries  | <b>–</b>     | –     | <b>252</b>   | 333   |
| – less provision for impairment of loans to subsidiaries           | <b>–</b>     | –     | <b>(38)</b>  | (38)  |
| <b>Total loans and receivables including insurance receivables</b> | <b>2 688</b> | 1 947 | <b>1 908</b> | 1 747 |

The estimated fair values of loans and receivables are the discounted amount of the estimated future cash flows expected to be received.

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.

**13. CASH AND SHORT-TERM MONEY MARKET INSTRUMENTS**

|                                      |              |       |              |       |
|--------------------------------------|--------------|-------|--------------|-------|
| Cash at bank and in hand             | <b>1 938</b> | 1 171 | <b>1 170</b> | 734   |
| Short-term money market instruments* | <b>3 089</b> | 2 274 | <b>1 589</b> | 613   |
|                                      | <b>5 027</b> | 3 445 | <b>2 759</b> | 1 347 |

\* Instruments with a maturity of less than 12 months. Movements in these instruments have been included under investing activities on the cash flow statements. Comparatives have been restated.

**14. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS**

Sanlam Europe Limited and Westminster Motor Insurance Association Limited were disposed of on 15 September 2008 and 22 December 2008 respectively.

|  | <b>Group<br/>2008</b> | <b>Group<br/>2007</b> |
|--|-----------------------|-----------------------|
|  | <b>R million</b>      | <b>R million</b>      |
| <b>a) Non-current assets classified as held for sale</b>                                     |                       |                       |
| 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>b) Amounts recognised directly in equity relating to non-current assets held for sale</b> |                       |                       |
| Translation reserve  | –                     | 71                    |

## c) Liabilities directly associated with non-current assets classified as held for sale

|                          | Group<br>2008<br>R million | Group<br>2007<br>R million |
|--------------------------|----------------------------|----------------------------|
| Insurance liabilities    | –                          | 1 502                      |
| Trade and other payables | –                          | 104                        |
|                          | –                          | 1 606                      |

## d) Analysis of the result of discontinued operations

|   |      |       |
|---|------|-------|
| Gross written premium                                   | 250  | 932   |
| Net premium   | 26   | 872   |
| Net insurance premium revenue                           | 447  | 641   |
| Net investment and reinsurance income                   | 56   | 82    |
| Release of translation reserve                          | 71   | –     |
| Net profit on sale of business operations               | 13   | –     |
| Net insurance benefits and claims                       | 425  | 725   |
| Expenses  | 113  | 188   |
| Profit/(Loss) before tax                                | 49   | (190) |
| Income tax expense                                      | (24) | 22    |
| Profit/(Loss) for the year from discontinued operations | 25   | (168) |

## e) Segment reporting

## Insurance activities – Commercial insurance

|                         | Gross<br>written<br>premium<br>R million | Underwriting<br>result<br>R million | Total<br>assets<br>R million | Total<br>liabilities<br>R million |
|-------------------------|--|-------------------------------------|------------------------------|-----------------------------------|
| <b>2008</b>             |  |                                     |                              |                                   |
| Discontinued operations | 250                                      | (91)                                | –                            | –                                 |
| Unallocated             | –  | –                                   | –                            | –                                 |
| <b>Total</b>            | <b>250</b>                               | <b>(91)</b>                         | <b>–</b>                     | <b>–</b>                          |
| <b>2007</b>             |  |                                     |                              |                                   |
| Discontinued operations | 932                                      | (72)                                | 224                          | 1 501                             |
| Unallocated             | –  | –                                   | 1 836                        | 105                               |
| <b>Total</b>            | <b>932</b>                               | <b>(272)</b>                        | <b>2 060</b>                 | <b>1 606</b>                      |

## 15. SHARE CAPITAL

|                             | Ordinary shares                 |                             | Treasury shares                 |                             |
|-----------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
|                             | Number of shares<br>(thousands) | Stated capital<br>R million | Number of shares<br>(thousands) | Stated capital<br>R million |
| <b>GROUP AND COMPANY</b>    |                                 |                             |                                 |                             |
| At 1 January 2007           | 117 637                         | 71                          | –                               | –                           |
| Proceeds from shares issued | 1 531                           | 34                          | –                               | –                           |
| Purchase of treasury shares |                                 |                             | 7 147                           | 733                         |
| Re-issue of treasury shares |                                 |                             | (60)                            | (7)                         |
| <b>At 31 December 2007</b>  | <b>119 168</b>                  | <b>105</b>                  | <b>7 087</b>                    | <b>726</b>                  |
| Proceeds from shares issued | 178                             | 2                           | –                               | –                           |
| Purchase of treasury shares |                                 |                             | 367                             | 29                          |
| Re-issue of treasury shares |                                 |                             | (773)                           | (75)                        |
| <b>At 31 December 2008</b>  | <b>119 346</b>                  | <b>107</b>                  | <b>6 681</b>                    | <b>680</b>                  |

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.

In 2007 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. In 2008 a further 366 630 shares were bought in the market at an average price of R78.93 per share. 772 750 shares were re-issued in terms of the share option plan. 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 re-issue these shares at a later date subject to approval by the JSE and the Regulator.

## 16. 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 still 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 deferred share plan (DSP) in 2007, 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.

The deferred share plan (DSP) has been implemented during 2007, in terms of which shares are 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 participants during the vesting period.

(i) Deferred share plan (DSP)  
2007

The following shares were awarded and the delivery thereof deferred to a pre-determined future date.

| Date awarded | Latest irreversible date | Grant price | Number of shares |
|--------------|--------------------------|-------------|------------------|
| 1 June 2007  | 31 May 2012              | R94.53      | 305 305          |
|              |                          |             | <b>305 305</b>   |

## 2008

| Date awarded | Latest irreversible date | Grant price | Number of shares |
|--------------|--------------------------|-------------|------------------|
| 1 June 2007  | 31 May 2012              | R94.53      | 343 975          |
| 1 June 2008  | 31 May 2013              | R74.91      | 700 283          |
|              |                          |             | <b>1 044 258</b> |

| Movements during the period                    | Average price |                  |
|--|---------------|------------------|
| As at 1 January 2008                           | R94.53        | 305 305          |
| Shares awarded                                 | R74.91        | 702 120          |
| Shares awarded in lieu of the special dividend | R94.53        | 68 469           |
| Awarded shares lapsed due to resignations      | R93.11        | (25 416)         |
| Shares issued                                  | R94.53        | (6 220)          |
| <b>As at 31 December 2008</b>                  | <b>R81.37</b> | <b>1 044 258</b> |

(ii) Share option scheme  
2007

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:

| 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        |
|                  |                          |                 | <b>1 946 830</b> |

| 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)        |
| <b>As at 31 December 2007</b>              | <b>R26.47</b> | <b>1 946 830</b> |

## 2008

| Date awarded     | Latest irreversible date | Exercise price* | Number of shares |
|------------------|--------------------------|-----------------|------------------|
| 25 February 2003 | 25 February 2009         | R1.00           | 11 850           |
| 31 March 2004    | 31 March 2010            | R6.65           | 240 880          |
| 1 June 2004      | 1 June 2010              | R8.20           | 18 000           |
| 10 November 2005 | 10 November 2011         | R42.80          | 874 500          |
|                  |                          |                 | <b>1 145 230</b> |

| Movements during the period                | Average price |                  |
|--|---------------|------------------|
| As at 1 January 2008                       | R26.47        | 1 946 830        |
| Awarded options lapsed due to resignations | R35.20        | (43 550)         |
| Options exercised                          | R14.27        | (758 050)        |
| <b>As at 31 December 2008</b>              | <b>R34.22</b> | <b>1 145 230</b> |

\* 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  
2007

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 tranches on the third, fourth and fifth anniversary of the option date.

| Date awarded     | Latest irreversible date | Exercise price** | Number of shares |
|------------------|--------------------------|------------------|------------------|
| 25 February 2003 | 25 February 2009         | –                | 81 810           |
| 31 March 2004    | 31 March 2010            | R6.65            | 246 300          |
|                  |                          |                  | <b>328 110</b>   |

| Movements during the period                | Average price |                |
|--|---------------|----------------|
| As at 1 January 2007                       | R2.99         | 897 945        |
| Awarded options lapsed due to resignations | R0.10         | (38 400)       |
| Scheme shares released                     | R1.96         | (531 435)      |
| <b>As at 31 December 2007</b>              | <b>R4.99</b>  | <b>328 110</b> |

## 2008

| Date awarded     | Latest irreversible date | Exercise price** | Number of shares |
|------------------|--------------------------|------------------|------------------|
| 25 February 2003 | 25 February 2009         | –                | 1 500            |
| 31 March 2004    | 31 March 2010            | R6.65            | 133 850          |
|                  |                          |                  | <b>135 350</b>   |

| Movements during the period   | Average price |                |
|-------------------------------|---------------|----------------|
| As at 1 January 2008          | R4.99         | 328 110        |
| Scheme shares released        | R3.88         | (192 760)      |
| <b>As at 31 December 2008</b> | <b>R6.58</b>  | <b>135 350</b> |

\*\* 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 (2007: R54 million). The fair value of deferred shares granted in terms of the DSP scheme amounted to R19.1 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 R39 million (2007: R14 million) have been included in the income statement.

## 17. OTHER RESERVES

|                               | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|-------------------------------|----------------------------|----------------------------|------------------------------|------------------------------|
| Translation reserve           | 65                         | 60                         | —                            | —                            |
| Contingency reserve           | 1 186                      | 1 087                      | 1 114                        | 1 012                        |
| <b>Total other reserves</b>   | <b>1 251</b>               | <b>1 147</b>               | <b>1 114</b>                 | <b>1 012</b>                 |
| Retained earnings             | 3 499                      | 3 400                      | 3 257                        | 3 198                        |
| Share-based payment reserve   | 87                         | 48                         | 87                           | 48                           |
| <b>Distributable reserves</b> | <b>3 586</b>               | <b>3 448</b>               | <b>3 344</b>                 | <b>3 246</b>                 |

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:

|  |           |           |
|--|-----------|-----------|
| At the beginning of the year                                 | 60        | 125       |
| Currency translation differences:                            |           |           |
| – group  | 5         | 6         |
| Reclassified as relating to non-current assets held for sale | —         | (71)      |
| <b>At the end of the year</b>                                | <b>65</b> | <b>60</b> |

#### b) Movements in the contingency reserve were as follows:

|                                 |              |              |              |              |
|---------------------------------|--------------|--------------|--------------|--------------|
| At the beginning of the year    | 1 087        | 994          | 1 012        | 920          |
| Transfer from retained earnings | 99           | 93           | 102          | 92           |
| <b>At the end of the year</b>   | <b>1 186</b> | <b>1 087</b> | <b>1 114</b> | <b>1 012</b> |

**18. DEFERRED INCOME TAX**

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 28% (2007: 29%) in South Africa and the official tax rates in the foreign subsidiaries where applicable.

The amounts are as follows

|  | <b>Group<br/>2008<br/>R million</b> | <b>Group<br/>2007<br/>R million</b> | <b>Company<br/>2008<br/>R million</b> | <b>Company<br/>2007<br/>R million</b> |
|--|-------------------------------------|-------------------------------------|---------------------------------------|---------------------------------------|
| Deferred tax assets                          | (81)                                | (40)                                | (32)                                  | (1)                                   |
| Deferred tax liabilities                     | 12                                  | 91                                  | –                                     | 74                                    |
| <b>Total net deferred income tax account</b> | <b>(69)</b>                         | <b>51</b>                           | <b>(32)</b>                           | <b>73</b>                             |

The gross movement on the deferred income tax account is as follows:

|  |             |           |             |           |
|--|-------------|-----------|-------------|-----------|
| At beginning of year                         | 51          | 270       | 73          | 278       |
| Transfer to non-current assets held for sale | –           | (3)       | –           | –         |
| Acquisition of subsidiaries                  | –           | 7         | –           | –         |
| Change in tax rate                           | (2)         | –         | (2)         | –         |
| Income statement charge                      | (118)       | (223)     | (103)       | (205)     |
| <b>At end of year</b>                        | <b>(69)</b> | <b>51</b> | <b>(32)</b> | <b>73</b> |

The movements in deferred tax assets and liabilities during the year were as follows:

**a) Deferred tax assets**

|  | <b>Unrealised<br/>appreciation<br/>of<br/>investments<br/>R million</b> | <b>Provisions<br/>and accruals<br/>R million</b> | <b>Tax losses<br/>carried<br/>forward<br/>R million</b> | <b>STC credits<br/>R million</b> | <b>Total<br/>R million</b> |
|--|---|--|---|----------------------------------|----------------------------|
| <b>GROUP</b>                                 |   |  |   |                                  |                            |
| At 1 January 2007                            | –   | –  | (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)                       |
| <b>At 31 December 2007</b>                   | <b>–</b>  | <b>–</b>   | <b>(24)</b>   | <b>(16)</b>                      | <b>(40)</b>                |
| Transfer from deferred tax liabilities       | 159   | (88)   | –   | –                                | 71                         |
| Change in tax rate                           | (5)   | 3  | (1)   | –                                | (3)                        |
| Credited to the income statement             | (103)   | 18   | (23)  | (1)                              | (109)                      |
| <b>At 31 December 2008</b>                   | <b>51</b>   | <b>(67)</b>                                      | <b>(48)</b>   | <b>(17)</b>                      | <b>(81)</b>                |
| <b>COMPANY</b>                               |   |  |   |                                  |                            |
| At 1 January 2007                            | –   | –  | –   | –                                | –                          |
| Credited to the income statement             | –   | –  | –   | (1)                              | (1)                        |
| <b>At 31 December 2007</b>                   | <b>–</b>  | <b>–</b>   | <b>–</b>  | <b>(1)</b>                       | <b>(1)</b>                 |
| Transfer from deferred tax liabilities       | 159   | (85)   | –   | –                                | 74                         |
| Change in tax rate                           | (5)   | 3  | –   | –                                | (2)                        |
| Credited to the income statement             | (103)   | 17   | –   | (17)                             | (103)                      |
| <b>At 31 December 2008</b>                   | <b>51</b>   | <b>(65)</b>                                      | <b>–</b>  | <b>(18)</b>                      | <b>(32)</b>                |

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 R1.4 million (2007: R4.3 million).



**b) Deferred tax liabilities**

|  | Unrealised<br>appreciation of<br>investments | Provisions and<br>accruals | Other<br>differences | Total        |
|--|--|----------------------------|----------------------|--------------|
|  | R million                                    | R million                  | R million            | R million    |
| <b>GROUP</b>                               |  |                            |                      |              |
| At 1 January 2007                          | 370  | (95)                       | 22                   | <b>297</b>   |
| (Credited)/charged to the income statement | (197)  | 13                         | (22)                 | <b>(206)</b> |
| <b>At 31 December 2007</b>                 | <b>173</b>                                   | <b>(82)</b>                | <b>–</b>             | <b>91</b>    |
| Transfer from deferred tax assets          | (159)  | 88                         |                      | <b>(71)</b>  |
| Change in tax rate                         | –  | –                          | –                    | –            |
| (Credited)/charged to the income statement | (8)  | –                          | –                    | <b>(8)</b>   |
| <b>At 31 December 2008</b>                 | <b>6</b>                                     | <b>6</b>                   | <b>–</b>             | <b>12</b>    |
| <b>COMPANY</b>                             |  |                            |                      |              |
| At 1 January 2007                          | 354  | (97)                       | 21                   | <b>278</b>   |
| (Credited)/charged to the income statement | (195)  | 12                         | (21)                 | <b>(204)</b> |
| <b>At 31 December 2007</b>                 | <b>159</b>                                   | <b>(85)</b>                | <b>–</b>             | <b>74</b>    |
| Transfer from deferred tax assets          | (159)  | 85                         |                      | <b>(74)</b>  |
| Change in tax rate                         | –  | –                          | –                    | –            |
| Charged/(credited) to the income statement | –  | –                          | –                    | –            |
| <b>At 31 December 2008</b>                 | <b>–</b>                                     | <b>–</b>                   | <b>–</b>             | <b>–</b>     |

No deferred tax has been provided on temporary differences relating from investments in associates amounting to R63 million (2007: R42 million).

**19. DEBT SECURITIES**

|   | Group<br>2008 | Group<br>2007 | Company<br>2008 | Company<br>2007 |
|---|---------------|---------------|-----------------|-----------------|
|   | R million     | R million     | R million       | R million       |
| At the beginning of the year                | <b>908</b>    | –             | <b>908</b>      | –               |
| Debentures issued                           | –             | 955           | –               | 955             |
| Fair value adjustment                       | <b>64</b>     | (47)          | <b>64</b>       | (47)            |
|   | <b>972</b>    | <b>908</b>    | <b>972</b>      | <b>908</b>      |
| Estimated redemption value on maturity date | <b>1 000</b>  | <b>1 000</b>  | <b>1 000</b>    | <b>1 000</b>    |

During 2007 the company issued unsecured subordinated callable notes to the value of R1 billion in two tranches. The fixed effective rate for the R600 million issue was 8.6% and 9.6% 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 (LIBAR-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.

As there was no change in Santam's credit rating during the year, the movement in the fair value of the unsecured subordinated callable notes represents the market movement.

**20. INVESTMENT CONTRACTS (UNIT-LINKED)**

|  | Group<br>2008<br>R million | Group<br>2007<br>R million |
|--|----------------------------|----------------------------|
| At the beginning of the year                 | 525                        | 276                        |
| Investment contracts issued                  | 93                         | 230                        |
| Investment contracts sold/matured            | (230)                      | —                          |
| Net fair value gains on investment contracts | 5                          | 19                         |
| <b>At the end of the year</b>                | <b>393</b>                 | <b>525</b>                 |

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 majority of investment contracts will mature within the next 12 months.

**21. CELL OWNERS' INTEREST**

|   |            |            |
|---|------------|------------|
| At the beginning of the year              | 336        | 329        |
| Net increase in cell owners' interest     | 127        | 44         |
| Preference shares issued by subsidiary    | 1          | 89         |
| Redemption of preference shares           | (2)        | (1)        |
| Dividends paid to preference shareholders | (15)       | (125)      |
| <b>At the end of the year</b>             | <b>447</b> | <b>336</b> |

**22. COLLATERAL GUARANTEE CONTRACTS**

|  | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|--|----------------------------|----------------------------|------------------------------|------------------------------|
| At the beginning of the year               | 84                         | —                          | 84                           | —                            |
| Reclassified from trade and other payables | —                          | 84                         | —                            | 84                           |
| Interest                                   | 9                          | —                          | 9                            | —                            |
| <b>At the end of the year</b>              | <b>93</b>                  | <b>84</b>                  | <b>93</b>                    | <b>84</b>                    |

Santam issued a guarantee on behalf of one of its corporate clients regarding mining rehabilitation. The guarantee was issued on the back of a full collateral guarantee in the form of moneys deposited with Santam. These assets are included in financial assets, debt securities, at fair value through income and has a fair value of R92.3 million (2007: R82.8 million). As a result, the transaction is not recorded as an insurance transaction in terms of IFRS 4, but as a financial instrument in terms of IAS 39. The liability was reclassified from Trade and other payables to non-current financial liabilities. The comparative results were also reclassified to ensure proper comparison.

**23. INSURANCE LIABILITIES AND REINSURANCE ASSETS**

|   | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| <b>Gross</b>  |                            |                            |                              |                              |
| Long-term insurance contracts                           |                            |                            |                              |                              |
| – claims reported and loss adjustment expenses          | –                          | 1                          | –                            | –                            |
| – claims incurred but not reported                      | 9                          | 9                          | –                            | –                            |
| Short-term insurance contracts                          |                            |                            |                              |                              |
| – claims reported and loss adjustment expenses          | 4 075                      | 3 773                      | 3 492                        | 3 371                        |
| – claims incurred but not reported                      | 1 134                      | 1 003                      | 919                          | 866                          |
| – unearned premiums                                     | 2 938                      | 2 844                      | 1 646                        | 1 399                        |
| <b>Total insurance liabilities – gross</b>              | <b>8 156</b>               | <b>7 630</b>               | <b>6 057</b>                 | <b>5 636</b>                 |
| <b>Recoverable from reinsurers</b>                      |                            |                            |                              |                              |
| Long-term insurance contracts                           |                            |                            |                              |                              |
| – claims reported and loss adjustment expenses          | –                          | –                          | –                            | –                            |
| – claims incurred but not reported                      | 2                          | –                          | –                            | –                            |
| Short-term insurance contracts                          |                            |                            |                              |                              |
| – claims reported and loss adjustment expenses          | 1 376                      | 1 330                      | 1 046                        | 1 110                        |
| – claims incurred but not reported                      | 171                        | 166                        | 87                           | 110                          |
| – unearned premiums                                     | 432                        | 530                        | 295                          | 285                          |
| <b>Total reinsurers' share of insurance liabilities</b> | <b>1 981</b>               | <b>2 026</b>               | <b>1 428</b>                 | <b>1 505</b>                 |
| <b>Net</b>  |                            |                            |                              |                              |
| Long-term insurance contracts                           |                            |                            |                              |                              |
| – claims reported and loss adjustment expenses          | –                          | 1                          | –                            | –                            |
| – claims incurred but not reported                      | 7                          | 9                          | –                            | –                            |
| Short-term insurance contracts                          |                            |                            |                              |                              |
| – claims reported and loss adjustment expenses          | 2 699                      | 2 443                      | 2 446                        | 2 261                        |
| – claims incurred but not reported                      | 963                        | 837                        | 832                          | 756                          |
| – unearned premiums                                     | 2 506                      | 2 314                      | 1 351                        | 1 114                        |
| <b>Total insurance liabilities – net</b>                | <b>6 175</b>               | <b>5 604</b>               | <b>4 629</b>                 | <b>4 131</b>                 |

## 23.1 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

## a) Claims and loss adjustment expenses

| GROUP  | 2008               |                          |                  | 2007               |                          |                  |
|--|--------------------|--------------------------|------------------|--------------------|--------------------------|------------------|
|  | Gross<br>R million | Reinsurance<br>R million | Net<br>R million | Gross<br>R million | Reinsurance<br>R million | Net<br>R million |
| 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              |
| At the beginning of the year                                       | 4 786              | (1 496)                  | 3 290            | 4 968              | (1 631)                  | 3 337            |
| Cash paid for claims settled in the year – Continuing operations   | (8 996)            | 1 269                    | (7 727)          | (7 971)            | 1 299                    | (6 672)          |
| Cash paid for claims settled in the year – Discontinued operations | –                  | –                        | –                | (472)              | –                        | (472)            |
| Increase in liabilities  |                    |                          |                  |                    |                          |                  |
| – arising from current year claims – Continuing operations         | 9 422              | (1 415)                  | 8 007            | 8 552              | (1 250)                  | 7 302            |
| – arising from current year claims – Discontinued operations       | –                  | –                        | –                | 749                | (29)                     | 720              |
| – arising from portfolio transfer                                  | 6                  | 2                        | 8                | –                  | –                        | –                |
| Classified as non-current assets held for sale                     | –                  | –                        | –                | (1 028)            | 118                      | (910)            |
| Net exchange differences   | –                  | –                        | –                | (12)               | 2                        | (10)             |
| Cell accounting  | –                  | 91                       | 91               | –                  | (5)                      | (5)              |
| <b>At the end of the year</b>                                      | <b>5 218</b>       | <b>(1 549)</b>           | <b>3 669</b>     | <b>4 786</b>       | <b>(1 496)</b>           | <b>3 290</b>     |
| Notified claims  | 4 075              | (1 376)                  | 2 699            | 3 774              | (1 330)                  | 2 444            |
| Incurred but not reported  | 1 143              | (173)                    | 970              | 1 012              | (166)                    | 846              |
| <b>At the end of the year</b>                                      | <b>5 218</b>       | <b>(1 549)</b>           | <b>3 669</b>     | <b>4 786</b>       | <b>(1 496)</b>           | <b>3 290</b>     |

| COMPANY                                  | 2008               |                          |                  | 2007               |                          |                  |
|--|--------------------|--------------------------|------------------|--------------------|--------------------------|------------------|
|  | Gross<br>R million | Reinsurance<br>R million | Net<br>R million | Gross<br>R million | Reinsurance<br>R million | Net<br>R million |
| Notified claims                          | 3 371              | (1 110)                  | 2 261            | 2 961              | (1 195)                  | 1 766            |
| Incurred but not reported                | 866                | (111)                    | 755              | 881                | (161)                    | 720              |
| At the beginning of the year             | 4 237              | (1 221)                  | 3 016            | 3 842              | (1 356)                  | 2 486            |
| Cash paid for claims settled in the year | (7 674)            | 1 300                    | (6 374)          | (6 740)            | 598                      | (6 142)          |
| Increase in liabilities                  |                    |                          |                  |                    |                          |                  |
| – arising from current year claims       | 7 848              | (1 212)                  | 6 636            | 7 135              | (463)                    | 6 672            |
| <b>At the end of the year</b>            | <b>4 411</b>       | <b>(1 133)</b>           | <b>3 278</b>     | <b>4 237</b>       | <b>(1 221)</b>           | <b>3 016</b>     |
| Notified claims                          | 3 492              | (1 046)                  | 2 446            | 3 371              | (1 110)                  | 2 261            |
| Incurred but not reported                | 919                | (87)                     | 832              | 866                | (111)                    | 755              |
| <b>At the end of the year</b>            | <b>4 411</b>       | <b>(1 133)</b>           | <b>3 278</b>     | <b>4 237</b>       | <b>(1 221)</b>           | <b>3 016</b>     |

**b) Provision for unearned premiums**

| GROUP   | 2008               |                          |                  | 2007               |                          |                  |
|---|--------------------|--------------------------|------------------|--------------------|--------------------------|------------------|
|   | Gross<br>R million | Reinsurance<br>R million | Net<br>R million | Gross<br>R million | Reinsurance<br>R million | Net<br>R million |
| At the beginning of the year                              | 2 844              | (530)                    | 2 314            | 2 726              | (449)                    | 2 277            |
| Charged to the income statement – Continued operations    | 94                 | 63                       | 157              | 330                | (126)                    | 204              |
| Charged to the income statement – Discontinued operations | –                  | –                        | –                | 244                | (14)                     | 230              |
| Portfolio transfer  | –                  | –                        | –                | 26                 | –                        | 26               |
| Net exchange differences                                  | –                  | –                        | –                | (8)                | 1                        | (7)              |
| Classified as non-current assets held for sale            | –                  | –                        | –                | (474)              | 34                       | (440)            |
| Cell accounting   | –                  | 35                       | 35               | –                  | 24                       | 24               |
| <b>At the end of the year</b>                             | <b>2 938</b>       | <b>(432)</b>             | <b>2 506</b>     | <b>2 844</b>       | <b>(530)</b>             | <b>2 314</b>     |

**COMPANY**

|                               |              |              |              |              |              |              |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| At the beginning of the year  | 1 399        | (285)        | 1 114        | 1 123        | (262)        | 861          |
| Movement for the period       | 247          | (10)         | 237          | 276          | (23)         | 253          |
| <b>At the end of the year</b> | <b>1 646</b> | <b>(295)</b> | <b>1 351</b> | <b>1 399</b> | <b>(285)</b> | <b>1 114</b> |

**23.2 MOVEMENTS IN DEFERRED ACQUISITION COSTS AND DEFERRED REINSURANCE ACQUISITION REVENUE****a) Deferred acquisition costs**

|   | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| At the beginning of the year                      | 239                        | 211                        | 203                          | 170                          |
| Movement for the period – Continuing operations   | 32                         | 51                         | 36                           | 33                           |
| Movement for the period – Discontinued operations | –                          | 45                         | –                            | –                            |
| Net exchange differences                          | –                          | (2)                        | –                            | –                            |
| Cell accounting                                   | –                          | 6                          | –                            | –                            |
| Classified as non-current assets held for sale    | –                          | (72)                       | –                            | –                            |
| <b>At the end of the year</b>                     | <b>271</b>                 | <b>239</b>                 | <b>239</b>                   | <b>203</b>                   |

**b) Deferred reinsurance acquisition revenue**

|   | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| At the beginning of the year  | 99                         | 74                         | 64                           | 58                           |
| Movement for the period (included in income from reinsurance contracts ceded) | (17)                       | 25                         | (5)                          | 6                            |
| <b>At the end of the year</b>   | <b>82</b>                  | <b>99</b>                  | <b>59</b>                    | <b>64</b>                    |

### 23.3 CLAIMS PAID 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 2008 and 2007.

#### GROUP

| Reporting year                      | Claims paid in respect of |           |           |           |           |              |
|-------------------------------------|---------------------------|-----------|-----------|-----------|-----------|--------------|
|                                     | Total                     | 2008      | 2007      | 2006      | 2005      | 2004 & prior |
| Short-term insurance claims – gross | R million                 | R million | R million | R million | R million | R million    |
| Actual claims costs:                |                           |           |           |           |           |              |
| – 2008                              | 8 996                     | 7 181     | 1 547     | 156       | 47        | 65           |
| – 2007                              | 7 971                     | –         | 6 219     | 1 385     | 132       | 235          |
| – 2006                              | 6 988                     | –         | –         | 5 521     | 1 062     | 405          |
| – 2005                              | 5 955                     | –         | –         | –         | 4 711     | 1 244        |
| – 2004                              | 4 797                     | –         | –         | –         | –         | 4 797        |
| – 2003                              | 5 076                     | –         | –         | –         | –         | 5 076        |
| – 2002                              | 4 832                     | –         | –         | –         | –         | 4 832        |
| Cumulative payments to date         | 44 615                    | 7 181     | 7 766     | 7 062     | 5 952     | 16 654       |

#### Short-term insurance claims – net

|                             |        |       |       |       |       |        |
|-----------------------------|--------|-------|-------|-------|-------|--------|
| Actual claims costs:        |        |       |       |       |       |        |
| – 2008                      | 7 728  | 6 173 | 1 381 | 93    | 31    | 50     |
| – 2007                      | 6 672  | –     | 5 292 | 1 197 | 99    | 84     |
| – 2006                      | 6 020  | –     | –     | 4 924 | 909   | 187    |
| – 2005                      | 5 185  | –     | –     | –     | 4 223 | 962    |
| – 2004                      | 4 064  | –     | –     | –     | –     | 4 064  |
| – 2003                      | 4 194  | –     | –     | –     | –     | 4 194  |
| – 2002                      | 3 754  | –     | –     | –     | –     | 3 754  |
| Cumulative payments to date | 37 617 | 6 173 | 6 673 | 6 214 | 5 262 | 13 295 |

#### COMPANY

| Reporting year                      | Claims paid in respect of |           |           |           |           |              |
|-------------------------------------|---------------------------|-----------|-----------|-----------|-----------|--------------|
|                                     | Total                     | 2008      | 2007      | 2006      | 2005      | 2004 & prior |
| Short-term insurance claims – gross | R million                 | R million | R million | R million | R million | R million    |
| Actual claims costs:                |                           |           |           |           |           |              |
| – 2008                              | 7 673                     | 5 905     | 1 507     | 152       | 45        | 64           |
| – 2007                              | 6 740                     | –         | 5 039     | 1 348     | 130       | 223          |
| – 2006                              | 6 110                     | –         | –         | 4 806     | 983       | 321          |
| – 2005                              | 5 193                     | –         | –         | –         | 4 092     | 1 101        |
| – 2004                              | 4 099                     | –         | –         | –         | –         | 4 099        |
| – 2003                              | 4 326                     | –         | –         | –         | –         | 4 326        |
| – 2002                              | 4 230                     | –         | –         | –         | –         | 4 230        |
| Cumulative payments to date         | 38 371                    | 5 905     | 6 546     | 6 306     | 5 250     | 14 364       |

#### Short-term insurance claims – net

|                             |        |       |       |       |       |        |
|-----------------------------|--------|-------|-------|-------|-------|--------|
| Actual claims costs:        |        |       |       |       |       |        |
| – 2008                      | 7 125  | 5 610 | 1 345 | 91    | 30    | 49     |
| – 2007                      | 6 142  | –     | 4 789 | 1 172 | 98    | 83     |
| – 2006                      | 5 614  | –     | –     | 4 611 | 864   | 139    |
| – 2005                      | 4 672  | –     | –     | –     | 3 798 | 874    |
| – 2004                      | 3 609  | –     | –     | –     | –     | 3 609  |
| – 2003                      | 3 794  | –     | –     | –     | –     | 3 794  |
| – 2002                      | 3 542  | –     | –     | –     | –     | 3 542  |
| Cumulative payments to date | 34 498 | 5 610 | 6 134 | 5 874 | 4 790 | 12 090 |

## 23.4 REPORTING DEVELOPMENT

## GROUP

| Reporting year                                | Financial year during which claim occurred |                |                |                |                |                        |
|---|--|----------------|----------------|----------------|----------------|------------------------|
| Short-term insurance claims provision – gross | Total R million                            | 2008 R million | 2007 R million | 2006 R million | 2005 R million | 2004 & prior R million |
| Provision raised:                             |  |                |                |                |                |                        |
| – 2008  | 4 075                                      | 2 579          | 630            | 356            | 260            | 250                    |
| – 2007  | 3 774                                      | –              | 2 804          | 405            | 202            | 363                    |
| – 2006  | 3 218                                      | –              | –              | 2 225          | 375            | 618                    |
| – 2005  | 3 187                                      | –              | –              | –              | 2 340          | 847                    |
| – 2004  | 2 436                                      | –              | –              | –              | –              | 2 436                  |
| – 2003  | 2 303                                      | –              | –              | –              | –              | 2 303                  |
| – 2002  | 1 747                                      | –              | –              | –              | –              | 1 747                  |
| Cumulative provisions to date                 | 20 740                                     | 2 579          | 3 434          | 2 986          | 3 177          | 8 564                  |

## Short-term insurance claims provision – net

Provision raised:

|                               |       |       |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|-------|-------|
| – 2008                        | 2 699 | 1 805 | 403   | 195   | 145   | 151   |
| – 2007                        | 1 331 | –     | 997   | 137   | 69    | 128   |
| – 2006                        | 1 348 | –     | –     | 924   | 160   | 264   |
| – 2005                        | 1 278 | –     | –     | –     | 887   | 391   |
| – 2004                        | 1 056 | –     | –     | –     | –     | 1 056 |
| – 2003                        | 1 104 | –     | –     | –     | –     | 1 104 |
| – 2002                        | 768   | –     | –     | –     | –     | 768   |
| Cumulative provisions to date | 9 584 | 1 805 | 1 400 | 1 256 | 1 261 | 3 862 |

## COMPANY

| Reporting year                                | Financial year during which claim occurred |                |                |                |                |                        |
|---|--|----------------|----------------|----------------|----------------|------------------------|
| Short-term insurance claims provision – gross | Total R million                            | 2008 R million | 2007 R million | 2006 R million | 2005 R million | 2004 & prior R million |
| Actual claims costs:                          |  |                |                |                |                |                        |
| – 2008  | 3 492                                      | 2 030          | 616            | 348            | 254            | 244                    |
| – 2007  | 3 371                                      | –              | 2 430          | 395            | 197            | 349                    |
| – 2006  | 2 962                                      | –              | –              | 2 016          | 355            | 591                    |
| – 2005  | 2 342                                      | –              | –              | –              | 1 547          | 795                    |
| – 2004  | 1 848                                      | –              | –              | –              | –              | 1 848                  |
| – 2003  | 1 206                                      | –              | –              | –              | –              | 1 206                  |
| – 2002  | 1 007                                      | –              | –              | –              | –              | 1 007                  |
| Cumulative provisions to date                 | 16 228                                     | 2 030          | 3 046          | 2 759          | 2 353          | 6 040                  |

## Short-term insurance claims provision – net

Actual claims costs:

|                               |       |       |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|-------|-------|
| – 2008                        | 2 445 | 1 568 | 396   | 191   | 142   | 148   |
| – 2007                        | 1 109 | –     | 800   | 130   | 65    | 114   |
| – 2006                        | 1 195 | –     | –     | 814   | 143   | 238   |
| – 2005                        | 1 023 | –     | –     | –     | 676   | 347   |
| – 2004                        | 863   | –     | –     | –     | –     | 863   |
| – 2003                        | 396   | –     | –     | –     | –     | 396   |
| – 2002                        | 265   | –     | –     | –     | –     | 265   |
| Cumulative provisions to date | 7 296 | 1 568 | 1 196 | 1 135 | 1 026 | 2 371 |

### 23.5 LIABILITY ADEQUACY TEST

An unexpired risk reserve (URR) is required if a company believes that its URR 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, a URR is neither held nor required.

### 24. PROVISION FOR LIABILITIES AND CHARGES

|  | Pension<br>fund holiday<br>exposure * | Litigation<br>exposures | Other **  | Total     |
|--|---------------------------------------|-------------------------|-----------|-----------|
|  | R million                             | R million               | R million | R million |
| <b>GROUP</b>   |                                       |                         |           |           |
| At 1 January 2007  | 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)       |
| <b>Year ended 31 December 2007</b>                           | <b>59</b>                             | <b>28</b>               | <b>—</b>  | <b>87</b> |
| Charged to income statement:                                 |                                       |                         |           |           |
| – additional provisions/releases                             | 4                                     | —                       | —         | 4         |
| – unused amounts reversed                                    | (46)                                  | (19)                    | —         | (65)      |
| Used during the year   | (1)                                   | —                       | —         | (1)       |
| <b>Year ended 31 December 2008</b>                           | <b>16</b>                             | <b>9</b>                | <b>—</b>  | <b>25</b> |
| <b>COMPANY</b>   |                                       |                         |           |           |
| At 1 January 2007  | 53                                    | 35                      | 55        | 143       |
| Leave pay provision reclassified as trade and other payables | —                                     | —                       | (46)      | (46)      |
| Charged to income statement:                                 |                                       |                         |           |           |
| – additional provisions                                      | 5                                     | (7)                     | —         | (2)       |
| Used during the year   | —                                     | —                       | (9)       | (9)       |
| <b>Year ended 31 December 2007</b>                           | <b>58</b>                             | <b>28</b>               | <b>—</b>  | <b>86</b> |
| Charged to income statement:                                 |                                       |                         |           |           |
| – additional provisions/releases                             | 4                                     | —                       | —         | 4         |
| – unused amounts reversed                                    | (46)                                  | (19)                    | —         | (65)      |
| <b>Year ended 31 December 2008</b>                           | <b>16</b>                             | <b>9</b>                | <b>—</b>  | <b>25</b> |

\* This potential exposure emanated 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



**25. TRADE AND OTHER PAYABLES**

|   | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| Amounts due to subsidiaries                                       | –                          | –                          | 530                          | 693                          |
| Trade payables and accrued expenses                               | 763                        | 704                        | 420                          | 403                          |
| Financial liability – Collateral guarantee contracts              | –                          | 84                         | –                            | 84                           |
| Reclassified to financial liabilities at amortised cost (note 22) | –                          | (84)                       | –                            | (84)                         |
| Amounts due to intermediaries                                     | 178                        | 233                        | 173                          | 226                          |
| Amounts due to reinsurers   | 834                        | 422                        | 279                          | 176                          |
| Amounts due to policyholders                                      | 10                         | 10                         | 10                           | 10                           |
| Employee benefits   | 43                         | 39                         | 39                           | 37                           |
| <b>Total</b>  | <b>1 828</b>               | <b>1 408</b>               | <b>1 451</b>                 | <b>1 545</b>                 |

**26. INVESTMENT INCOME**

|                              |            |            |            |            |
|------------------------------|------------|------------|------------|------------|
| Dividend income              | 342        | 262        | 453        | 633        |
| Quoted                       | 227        | 220        | 214        | 211        |
| Unquoted                     | 115        | 42         | 239        | 422        |
| Interest income              | 466        | 402        | 456        | 322        |
| Quoted                       | 389        | 113        | 96         | 74         |
| Unquoted                     | 77         | 289        | 360        | 248        |
| Foreign exchange differences | 141        | 2          | 61         | 6          |
|                              | <b>949</b> | <b>666</b> | <b>970</b> | <b>961</b> |

**27. NET (LOSS)/GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME**

|   |              |            |              |            |
|---|--------------|------------|--------------|------------|
| Net realised gains on financial assets  | 164          | 1 744      | 135          | 1 696      |
| Net fair value losses on financial assets at fair value through income              | (998)        | (1 286)    | (904)        | (1 284)    |
| Net fair value gains/(losses) on derivatives  | 183          | (32)       | 183          | (32)       |
| Net fair value (losses)/gains on financial liabilities at fair value through income | (70)         | 28         | (65)         | 47         |
| Net fair value (losses)/gains on debt securities                                    | (65)         | 47         | (65)         | 47         |
| Net fair value losses on investment contracts                                       | (5)          | (19)       | –            | –          |
|   | <b>(721)</b> | <b>454</b> | <b>(651)</b> | <b>427</b> |

**28. INSURANCE BENEFITS AND CLAIMS****2008****GROUP**

|   |  |
|---|--|
| Claims paid   |  |
| Movement in the expected cost of outstanding claims |  |
| <b>Total claims and loss adjustment expense</b>     |  |

| Gross<br>R million | Reinsurance<br>R million | Net<br>R million |
|--------------------|--------------------------|------------------|
| 8 996              | (1 269)                  | 7 727            |
| 426                | (146)                    | 280              |
| <b>9 422</b>       | <b>(1 415)</b>           | <b>8 007</b>     |

**COMPANY**

|   |  |
|---|--|
| Claims paid   |  |
| Movement in the expected cost of outstanding claims |  |
| <b>Total claims and loss adjustment expense</b>     |  |

|              |              |              |
|--------------|--------------|--------------|
| 7 673        | (549)        | 7 124        |
| 174          | 88           | 262          |
| <b>7 847</b> | <b>(461)</b> | <b>7 386</b> |

**2007****GROUP**

|   |  |
|---|--|
| Claims paid   |  |
| Movement in the expected cost of outstanding claims |  |
| <b>Total claims and loss adjustment expense</b>     |  |

|              |                |              |
|--------------|----------------|--------------|
| 7 971        | (1 299)        | 6 672        |
| 581          | 49             | 630          |
| <b>8 552</b> | <b>(1 250)</b> | <b>7 302</b> |

**COMPANY**

|   |  |
|---|--|
| Claims paid   |  |
| Movement in the expected cost of outstanding claims |  |
| <b>Total claims and loss adjustment expense</b>     |  |

|              |              |              |
|--------------|--------------|--------------|
| 6 740        | (598)        | 6 142        |
| 395          | 135          | 530          |
| <b>7 135</b> | <b>(463)</b> | <b>6 672</b> |

**29. EXPENSES BY NATURE**

|   | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| Auditor's remuneration                                    | 9                          | 8                          | 5                            | 5                            |
| Audit fees  | 7                          | 7                          | 4                            | 4                            |
| – Current year  | 1                          | –                          | –                            | –                            |
| – Prior year  | 1                          | 1                          | 1                            | 1                            |
| Audit-related services                                    | 21                         | 16                         | 15                           | 14                           |
| Depreciation  | 9                          | 8                          | 7                            | 6                            |
| Amortisation of intangible assets                         | –                          | –                          | 151                          | –                            |
| Impairment of investment in subsidiaries                  | 902                        | 902                        | 774                          | 785                          |
| Employee benefit expense (note 30)                        | 10                         | 15                         | 10                           | 15                           |
| Directors' remuneration                                   | 229                        | 185                        | 216                          | 173                          |
| Operating lease rentals                                   | 83                         | 64                         | 71                           | 54                           |
| – Offices   | 128                        | 101                        | 128                          | 101                          |
| – Computer equipment                                      | 3                          | 5                          | 2                            | 4                            |
| – Furniture and mechanical equipment                      | 15                         | 15                         | 15                           | 14                           |
| – Motor vehicles  | 2 014                      | 1 794                      | 1 842                        | 1 633                        |
| Costs incurred for the acquisition of insurance contracts | 26                         | 27                         | 21                           | 23                           |
| Asset management services                                 | 123                        | 130                        | 270                          | 244                          |
| Other expenses  | 3 343                      | 3 085                      | 3 311                        | 2 898                        |
| <b>Total expenses</b>                                     |                            |                            |                              |                              |

**30. EMPLOYEE BENEFIT EXPENSE**

|  | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|--|----------------------------|----------------------------|------------------------------|------------------------------|
| Wages, salaries and bonus                  | 745                        | 768                        | 620                          | 658                          |
| Social security costs                      | 66                         | 84                         | 64                           | 81                           |
| Long-term incentive scheme costs           | 34                         | 14                         | 34                           | 14                           |
| Pension costs – defined-contribution plans | 44                         | 35                         | 43                           | 31                           |
| BBBEE cost                                 | 13                         | 1                          | 13                           | 1                            |
|  | <b>902</b>                 | <b>902</b>                 | <b>774</b>                   | <b>785</b>                   |

**Directors' emoluments****2008****Executive directors***Paid by the company*

IM Kirk

MJ Reyneke

| Salary<br>R'000 | Performance<br>bonus*<br>R'000 | Other<br>benefits<br>R'000 | Total<br>R'000 |
|-----------------|--------------------------------|----------------------------|----------------|
| 2 367           | 3 200                          | 460                        | 6 027          |
| 1 584           | 2 100                          | 228                        | 3 912          |
| <b>3 951</b>    | <b>5 300</b>                   | <b>688</b>                 | <b>9 939</b>   |

**Non-executive directors***Paid by the company*

BTPKM Gamedze\*\*

DCM Gihwala

JG le Roux

H Lorgat

NM Magau

AR Martin

JP Möller\*\*

RK Morathi\*\*

P de V Rademeyer\*\*

JP Rowse

GE Rudman

DK Smith

J van Zyl\*\*

BP Vundla

**Directors' fees****R'000**

211

207

363

138

311

158

262

249

314

275

327

649

262

262

**3 988****TOTAL****13 927**

\* Bonus in respect of 2008 paid in 2009

\*\* Fees were paid to the holding company Sanlam Ltd

## Directors' emoluments

## 2007

## Executive directors

*Paid by the company*

IM Kirk (appointed in June 2007)

SC Gilbert (resigned in June 2007)

MJ Reyneke

| Salary       | Performance<br>bonus*** | Other<br>benefits | Total         |
|--------------|-------------------------|-------------------|---------------|
| R'000        | R'000                   | R'000             | R'000         |
| 1 114        | 1 575                   | 212               | 2 901         |
| 2 326        | 5 543                   | 355               | 8 224         |
| 1 446        | 1 700                   | 240               | 3 386         |
| <b>4 886</b> | <b>8 818</b>            | <b>807</b>        | <b>14 511</b> |

## Non-executive directors

*Paid by the company*

BTPKM Gamedze\*\*

JJ Geldenhuys (resigned in August 2007)

JG le Roux

NM Magau

AR Martin

JP Möller\*\*

RK Morathi

P de V Rademeyer\*\*

JP Rowse

GE Rudman

DK Smith

J van Zyl\*\*

BP Vundla

Directors'  
fees

R'000

207

185

399

351

351

243

255

291

243

315

584

303

303

**4 030****18 541**

## TOTAL

\*\* Fees were paid to the holding company Sanlam Ltd

\*\*\* Bonus in respect of 2007 paid in 2008

## 31. FINANCE COSTS

|   | Group<br>2008 | Group<br>2007 | Company<br>2008 | Company<br>2007 |
|---|---------------|---------------|-----------------|-----------------|
|   | R million     | R million     | R million       | R million       |
| Interest expense                              |               |               |                 |                 |
| – interest on collateral guarantee            | 10            | –             | 10              | –               |
| – interest on pension fund surplus allocation | 33            | –             | 33              | –               |
| – banks and other                             | 2             | 6             | 2               | 5               |
| – subordinated callable note                  | 83            | 37            | 83              | 37              |
| – revenue authorities                         | 24            | 2             | 24              | 1               |
|   | <b>152</b>    | <b>45</b>     | <b>152</b>      | <b>43</b>       |

**32. INCOME TAX EXPENSE**

|   | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| South African normal taxation                     |                            |                            |                              |                              |
| Current year                                      | 153                        | 716                        | 79                           | 666                          |
| – Charge for the year                             | 127                        | 464                        | 56                           | 417                          |
| – STC   | 26                         | 252                        | 23                           | 249                          |
| Prior year  | 3                          | 30                         | 4                            | 18                           |
| Foreign taxation – current year                   | 16                         | 18                         | –                            | –                            |
| <b>Income taxation for the year</b>               | <b>172</b>                 | <b>764</b>                 | <b>83</b>                    | <b>684</b>                   |
| Deferred taxation                                 | (118)                      | (222)                      | (105)                        | (205)                        |
| Current year                                      | (114)                      | (206)                      | (86)                         | (204)                        |
| STC   | (1)                        | (16)                       | (17)                         | (1)                          |
| Prior year  | (3)                        | –                          | (2)                          | –                            |
| <b>Total taxation as per the income statement</b> | <b>54</b>                  | <b>542</b>                 | <b>(22)</b>                  | <b>479</b>                   |
| <b>Reconciliation of taxation rate (%)</b>        |                            |                            |                              |                              |
| Normal South African taxation rate                | 28.0                       | 29.0                       | 28.0                         | 29.0                         |
| Adjusted for                                      |                            |                            |                              |                              |
| – Disallowable expenses                           | 2.7                        | 0.5                        | 1.9                          | 0.4                          |
| – Foreign tax differential                        | (0.6)                      | –                          | –                            | –                            |
| – Exempt income                                   | (9.7)                      | (3.6)                      | (16.3)                       | (9.5)                        |
| – Investment results                              | (15.1)                     | (8.5)                      | (17.5)                       | (7.5)                        |
| – Income from associates                          | (0.3)                      | (1.9)                      | (0.5)                        | (1.6)                        |
| – Previous years' underprovision                  | –                          | 1.4                        | 0.5                          | 0.9                          |
| – Other permanent differences                     | (1.0)                      | 0.2                        | (0.1)                        | –                            |
| – Change in tax rate                              | (0.3)                      | –                          | (0.3)                        | –                            |
| – STC   | 3.3                        | 13.2                       | 0.8                          | 12.9                         |
| Net reduction                                     | (21.0)                     | 1.3                        | (31.5)                       | (4.4)                        |
| <b>Effective rate (%)</b>                         | <b>7.0</b>                 | <b>30.3</b>                | <b>(3.5)</b>                 | <b>24.6</b>                  |

**33. EARNINGS PER SHARE****33.1 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<br>2008 | Group<br>2007 |
|---|---------------|---------------|
| <b>Basic earnings per share</b>                                 |               |               |
| Profit attributable to the company's equity holders (R million) | 724           | 1 050         |
| Weighted average number of ordinary shares in issue (millions)  | 112.50        | 113.67        |
| Earnings per share (cents)                                      | 644           | 924           |
| <b>Basic earnings per share – Continuing operations</b>         |               |               |
| Profit attributable to the company's equity holders (R million) | 699           | 1 218         |
| Weighted average number of ordinary shares in issue (millions)  | 112.50        | 113.67        |
| Earnings per share (cents)                                      | 621           | 1 071         |
| <b>Basic earnings per share – Discontinued operations</b>       |               |               |
| Profit attributable to the company's equity holders (R million) | 25            | (168)         |
| Weighted average number of ordinary shares in issue (millions)  | 112.50        | 113.67        |
| Earnings per share (cents)                                      | 23            | (147)         |

### 33.2 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<br>2008 | Group<br>2007 |
|--|---------------|---------------|
| <b>Diluted earnings per share</b>  |               |               |
| Profit attributable to the company's equity holders (R million)                      | 724           | 1 050         |
| Weighted average number of ordinary shares in issue (millions)                       | 112.50        | 113.67        |
| Adjusted for share options (millions)  | 0.60          | 1.14          |
| Weighted average number of ordinary shares for diluted earnings per share (millions) | 113.10        | 114.81        |
| Diluted basic earnings per share (cents)   | 640           | 914           |
| <b>Diluted earnings per share – Continuing operations</b>                            |               |               |
| Profit attributable to the company's equity holders (R million)                      | 699           | 1 218         |
| Weighted average number of ordinary shares for diluted earnings per share (millions) | 113.10        | 114.81        |
| Diluted basic earnings per share (cents)   | 618           | 1 061         |
| <b>Diluted earnings per share – Discontinued operations</b>                          |               |               |
| Profit attributable to the company's equity holders (R million)                      | 25            | (168)         |
| Weighted average number of ordinary shares for diluted earnings per share (millions) | 113.10        | 114.81        |
| Diluted basic earnings per share (cents)   | 22            | (146)         |

### 33.3 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.

|   |        |        |
|---|--------|--------|
| <b>Headline earnings per share</b>                              |        |        |
| Profit attributable to the company's equity holders (R million) | 724    | 1 050  |
| Loss/(Profit) on sale of subsidiaries and associates            | 8      | (20)   |
| Profit on sale of business operations                           | (2)    | –      |
| Translation reserve released on sale of European operations     | (71)   | –      |
| Headline earnings (R million)                                   | 659    | 1 030  |
| Weighted average number of ordinary shares in issue (millions)  | 112.50 | 113.67 |
| Headline earnings per share (cents)                             | 586    | 906    |
| <b>Headline earnings per share – Continuing operations</b>      |        |        |
| Headline earnings (R million)                                   | 699    | 1 197  |
| Weighted average number of ordinary shares in issue (millions)  | 112.50 | 113.67 |
| Headline earnings per share (cents)                             | 621    | 1 054  |
| <b>Headline earnings per share – Discontinued operations</b>    |        |        |
| Headline earnings (R million)                                   | (40)   | (168)  |
| Weighted average number of ordinary shares in issue (millions)  | 112.50 | 113.67 |
| Headline earnings per share (cents)                             | (35)   | (148)  |

|  | Group<br>2008 | Group<br>2007 |
|--|---------------|---------------|
| <b>33.4 Diluted headline earnings per share</b>                                      |               |               |
| Headline earnings (R million)  | 659           | 1 030         |
| Weighted average number of ordinary shares for diluted earnings per share (millions) | 113.10        | 114.81        |
| Diluted headline earnings per share (cents)  | 582           | 897           |
| <b>Diluted headline earnings per share – Continuing operations</b>                   |               |               |
| Headline earnings (R million)  | 699           | 1 197         |
| Weighted average number of ordinary shares for diluted earnings per share (millions) | 113.10        | 114.81        |
| Diluted headline earnings per share (cents)  | 618           | 1 043         |
| <b>Diluted headline earnings per share – Discontinued operations</b>                 |               |               |
| Headline earnings (R million)  | (40)          | (168)         |
| Weighted average number of ordinary shares for diluted earnings per share (millions) | 113.10        | 114.81        |
| Diluted headline earnings per share (cents)  | (36)          | (146)         |
| <b>34. DIVIDENDS PER SHARE</b>   |               |               |
| <b>Ordinary dividend per share</b>   |               |               |
| Interim of 166 cents per share (2007: 166 cps)                                       | 198           | 197           |
| Approved final of 264 cents per share (2007: 244 cps)                                | 315           | 291           |
|  | <b>513</b>    | <b>488</b>    |
| <b>Special dividend per share</b>  |               |               |
| Special dividend of Nil cents per share (2007: 2200 cps)                             | –             | 2 465         |
|  | <b>–</b>      | <b>2 465</b>  |

### 35. BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

The Santam BBBEE scheme is hosted in a special purpose company (BEE SPV) and consist of three parts, namely the Emthunzini BEE Staff Trust, the Emthunzini BEE Business Partners Trust and the Emthunzini BBBEE Community Trust. The value in the scheme is proportionally allocated to these three trusts and allocations to beneficiaries of these trusts are made according to the specific rules in the trust deeds.

During the 2008 financial year unit allocations were awarded to black business partners including black empowered short-term insurance brokers and other strategic black business partners. Extensive and thorough application review processes were followed to identify and allocate to these partners.

A second allocation of units to black staff members will be made in the first quarter of 2009. These awards will be made to new black employees that joined the company during 2008 and to staff members that were promoted since the previous allocations were made.

More strategic black business partners will be identified and awarded with units during 2009 and a third allocation will be made to black employees at the end of 2009.

25% of the value in the scheme is accrued for identified participating projects of previously disadvantaged communities. Early cash distributions might be made towards participating projects during 2009 if market conditions are favourable.

The acquisition of shares by the BEE SPV was initially funded by a R430 million preference share facility and a bridging loan of R490 million. The BEE SPV settled a portion of the bridging loan and refinanced the remaining portion of R305 million with permanent funding in the form of a mezzanine share facility in May 2008.

With regard to the administration of the scheme, all legal documents have been finalised and all of the suspensive conditions have been duly complied with. All three trusts are now properly constituted and operational.

**36. CASH GENERATED FROM OPERATIONS**

|   | Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| <b>Profit before tax</b>  | <b>823</b>                 | <b>1 596</b>               | <b>628</b>                   | <b>1 943</b>                 |
| – Continuing operations   | 774                        | 1 786                      |                              |                              |
| – Discontinued operations   | 49                         | (190)                      |                              |                              |
| Adjustments for:  |                            |                            |                              |                              |
| Non-cash items  | 75                         | (38)                       | 218                          | 34                           |
| – Loss on disposal of associated companies  | –                          | (1)                        | –                            | –                            |
| – Loss on disposal of subsidiary  | 8                          | –                          | –                            | –                            |
| – Profit on sale of business operations   | (61)                       | –                          | –                            | –                            |
| – Share option costs  | 39                         | 14                         | 39                           | 14                           |
| – Revaluation of property   | 5                          | –                          | –                            | –                            |
| – Amortisation of intangible asset/Impairment of goodwill   | 47                         | 8                          | 7                            | 6                            |
| – Impairment of investment in subsidiaries  | –                          | –                          | 151                          | –                            |
| – Depreciation  | 29                         | 17                         | 15                           | 14                           |
| – Income from associated companies  | 8                          | (76)                       | 6                            | –                            |
| Investment income, realised and fair value gains  | (355)                      | (1 203)                    | (319)                        | (1 388)                      |
| Finance costs   | 152                        | 45                         | 152                          | 43                           |
| <b>Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)</b> | <b>(195)</b>               | <b>925</b>                 | <b>174</b>                   | <b>63</b>                    |
| Reinsurance assets  | (117)                      | (85)                       | 77                           | 113                          |
| Deferred acquisition costs  | 39                         | (100)                      | (36)                         | (33)                         |
| Loans and receivables including insurance receivables   | (580)                      | (608)                      | (136)                        | (362)                        |
| Insurance liabilities   | 126                        | 1 432                      | 421                          | 671                          |
| Deferred reinsurance acquisition revenue  | (17)                       | 25                         | (5)                          | 6                            |
| Provisions for other liabilities and charges  | (62)                       | (72)                       | (61)                         | (57)                         |
| Trade and other payables  | 416                        | 333                        | (86)                         | (275)                        |
| <b>Investment income received in cash</b>   | <b>1 027</b>               | <b>814</b>                 | <b>943</b>                   | <b>961</b>                   |
| Dividends received  | 356                        | 376                        | 453                          | 633                          |
| Interest received   | 546                        | 450                        | 456                          | 322                          |
| Foreign exchange differences  | 146                        | 5                          | 59                           | 4                            |
| Movement in provision for investment income   | (21)                       | (17)                       | (25)                         | 2                            |
| <b>Cash generated from operations</b>   | <b>1 527</b>               | <b>2 139</b>               | <b>1 796</b>                 | <b>1 656</b>                 |

**37. INCOME TAX PAID**

|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Amounts charged in the income statement | (78)  | (520) | 22    | (479) |
| – Continuing operations                 | (54)  | (542) |       |       |
| – Discontinued operations               | (24)  | 22    |       |       |
| Movement in deferred taxation           | (118) | (218) | (105) | (205) |
| Movement in taxation liability          | (473) | 450   | (510) | 484   |
|   | (669) | (288) | (593) | (200) |



**38. BUSINESS COMBINATIONS****2008****Additions**

Additional purchase consideration was paid for Admiral Professional Underwriting Agency (Pty) Ltd on 31 March 2008 when certain financial covenants were met based on the audited accounts on 30 September 2007.

Details of the assets and liabilities acquired are as follows:

Goodwill

**Purchase consideration paid****Disposals**

(i) The group sold its 100% shareholding in Santam Europe Limited on 15 September 2008.

Details of the assets and liabilities sold are as follows:

– Reinsurance assets  
– Loans and receivables  
– Cash and cash equivalents  
– Insurance liabilities  
– Trade and other payables

Net asset value sold

Deferred purchase consideration

Loss on sale of subsidiary

(ii) The group sold its 100% shareholding in Westminster Motor Insurance Association on 22 December 2008.

Details of the assets and liabilities sold of are as follows:

– Property and equipment  
– Investments  
– Reinsurance assets  
– Loans and receivables  
– Cash and cash equivalents  
– Deferred tax  
– Insurance liabilities  
– Trade and other payables  
– Taxation

Net asset value sold

Deferred purchase consideration

Profit on sale of subsidiary

**Total loss on sale of subsidiaries**

| Group<br>2008<br>R million | Group<br>2007<br>R million | Company<br>2008<br>R million | Company<br>2007<br>R million |
|----------------------------|----------------------------|------------------------------|------------------------------|
|                            |                            |                              |                              |
| 3                          | –                          |                              |                              |
| 3                          | –                          | –                            | –                            |
|                            |                            |                              |                              |
|                            |                            |                              |                              |
| 12                         | –                          |                              |                              |
| 24                         | –                          |                              |                              |
| 451                        | –                          |                              |                              |
| (358)                      | –                          |                              |                              |
| (39)                       | –                          |                              |                              |
| 90                         | –                          |                              |                              |
| 82                         | –                          |                              |                              |
| 8                          | –                          |                              |                              |
|                            |                            |                              |                              |
|                            |                            |                              |                              |
| 13                         | –                          |                              |                              |
| 229                        | –                          |                              |                              |
| 303                        | –                          |                              |                              |
| 50                         | –                          |                              |                              |
| 688                        | –                          |                              |                              |
| (1)                        | –                          |                              |                              |
| (861)                      | –                          |                              |                              |
| (62)                       | –                          |                              |                              |
| (14)                       | –                          |                              |                              |
| 345                        | –                          |                              |                              |
| 345                        | –                          |                              |                              |
| –                          | –                          |                              |                              |
| 8                          | –                          | –                            | –                            |

| Group     | Group     | Company   | Company   |
|-----------|-----------|-----------|-----------|
| 2008      | 2007      | 2008      | 2007      |
| R million | R million | R million | 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)       |
| <b>Purchase consideration paid</b>                               | <b>–</b> | <b>61</b> |

### 39. DIVIDENDS PAID

|   |            |              |            |              |
|---|------------|--------------|------------|--------------|
| Amounts paid for the year to company's shareholders | 460        | 2 960        | 489        | 3 129        |
| Amounts paid for the year to minority interests     | 16         | 17           | –          | –            |
|   | <u>476</u> | <u>2 977</u> | <u>489</u> | <u>3 129</u> |

## 40. 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.

**41. 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 29.

The future aggregate minimum lease payments under operating leases are as follows:

|                       | Up to<br>1 year | Between<br>1 to 5 years | More<br>than 5 years | R million<br>Total |
|-----------------------|-----------------|-------------------------|----------------------|--------------------|
| <b>2008</b>           |                 |                         |                      |                    |
| Motor vehicles        | 12              | 11                      | –                    | 23                 |
| Offices               | 52              | 133                     | 90                   | 275                |
|                       | 64              | 144                     | 90                   | 298                |
| <b>2007</b>           |                 |                         |                      |                    |
| Motor vehicles        | 13              | 10                      | –                    | 23                 |
| Computer equipment    | 2               | –                       | –                    | 2                  |
| Offices               | 32              | 8                       | –                    | 40                 |
|                       | 47              | 18                      | –                    | 65                 |
| <b>2008</b>           |                 |                         |                      |                    |
| IT service agreements | 86              | 56                      | –                    | 142                |
| <b>2007</b>           |                 |                         |                      |                    |
| IT service agreements | 98              | 52                      | –                    | 150                |

## 42. RELATED-PARTY TRANSACTIONS

### Major shareholders

Sanlam Limited (incorporated in South Africa) is the ultimate holding company with a 53.8% shareholding in Santam Limited. The balance of the shareholders (47.2%) does 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 143 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 30 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 arm's length basis and are not material.

### Transactions with the Sanlam group

The company transacts with the Sanlam group on various levels, predominantly insurance-related cover, provided to Sanlam group companies of which MiWay is the largest. Sanlam Investment Management acts 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 Pension Fund 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 note 44).

The company also has a shareholders' loan owing by an associated company in the group (refer note 44). 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 note 1.2.1 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 premiums amounted to approximately R1 million in total.

The following is a summary of transactions and balances with related parties:

|   | 2008<br>R million | 2007<br>R million |
|---|-------------------|-------------------|
| <b>a) Sale of insurance contracts and other services</b>              |                   |                   |
| Sale of insurance contracts to:                                       |                   |                   |
| – Sanlam Ltd and related parties                                      | 18                | 11                |
| – MiWay   | 75                | –                 |
| Rendering of services to:   |                   |                   |
| – associates  | –                 | 1                 |
| – subsidiaries  | –                 | 18                |
| – Sanlam Ltd and related parties                                      | 4                 | –                 |
| <b>b) Purchase of services from:</b>                                  |                   |                   |
| – associates (for administration services)                            | (85)              | (143)             |
| – subsidiaries (for administration services)                          | (202)             | (215)             |
| – Sanlam Ltd and related parties (for investment management services) | (17)              | (19)              |
| – Sanlam Ltd and related parties (for joint project costs)            | (4)               | –                 |
| – Santam Pension Fund (rental)  | (15)              | (16)              |

|  | 2008      | 2007      |
|--|-----------|-----------|
|  | R million | R million |
| <b>c) Investment income received from:</b>         |           |           |
| – Sanlam Ltd and related parties                   | 57        | 39        |
| – Santam Pension Fund                              | 6         | 4         |
| – Executive management                             | 1         | 1         |
| <b>d) Key management compensation</b>              |           |           |
| Salaries and other short-term employee benefits    | 26        | 27        |
| Share-based payments                               | 5         | 1         |
| <b>e) Year-end balances with related parties</b>   |           |           |
| Santam Pension Fund                                |           |           |
| – loan   | 51        | 36        |
| – outstanding rental                               | (14)      | –         |
| Sanlam Group: URD Beleggings (Edms) Bpk            |           |           |
| – preference shares                                | 202       | 217       |
| Sanlam Group: Electra Investments (SA) Ltd         |           |           |
| – preference shares                                | 20        | 30        |
| Sanlam Alternative Income Fund                     |           |           |
| – investment                                       | 331       | 303       |
| Sanlam Property Fund                               |           |           |
| – investment                                       | 6         | 5         |
| Sanlam Namibia Money Market Fund                   |           |           |
| – investment                                       | 10        | 9         |
| Sanlam Share Incentive Trust                       |           |           |
| – loan   | –         | –         |
| Sanlam Investment Managers Ltd                     |           |           |
| – derivative financial instrument                  | –         | 6         |
| Sanlam Private Investments                         |           |           |
| – trading cash account                             | –         | 6         |
| Sanlam Capital Markets                             |           |           |
| – Sanlam Bond                                      | 75        | 75        |
| – derivative financial instruments                 | 138       | 52        |
| – money market instruments                         | 102       | –         |
| Sanlam Home Loans                                  |           |           |
| – derivative financial instruments                 | 6         | 6         |
| Sanlam Life Insurance Ltd                          |           |           |
| – bond   | 9         | –         |
| – trade payable                                    | 5         | –         |
| Lion of Africa Holdings Company (Pty) Ltd          |           |           |
| – loan   | 31        | 38        |
| Vulindlela Underwriting Managers (Pty) Ltd         |           |           |
| – loan   | 1         | 1         |
| Admiral Professional Underwriting Agency (Pty) Ltd |           |           |
| – trade payable                                    | –         | 5         |
| MiVWay   |           |           |
| – inward reinsurance                               | (39)      | –         |
| Executive management                               |           |           |
| – loans in terms of share purchase scheme          | 8         | 9         |

#### 43. 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 per the international method. This method differs from the statutory solvency calculation in that it takes into account all reinsurance, whereas the statutory solvency calculation allows only approved reinsurance, as defined in the Short-term Insurance Act, to be taken into account. There is, however, not a material difference between the two different solvency margins.

|   | Group<br>2008<br>R million | Group<br>2007<br>R million |
|---|----------------------------|----------------------------|
| Group capital and reserves attributable to equity holders | 4 264                      | 4 045                      |
| Debt securities   | 972                        | 908                        |
|   | <b>5 236</b>               | <b>4 953</b>               |
| Net written premium (R million)                           | 11 899                     | 11 791                     |
| – Continuing operations                                   | 11 873                     | 10 919                     |
| – Discontinued operations                                 | 26                         | 872                        |
| Group solvency margin (%)                                 | <b>44.0%</b>               | 42.0%                      |

#### 44. ANALYSIS OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

##### INVESTMENT IN SUBSIDIARIES

##### UNLISTED COMPANIES

|   | Nature of<br>business | Country of<br>incorporation | Issued capital<br>R | Proportion<br>held by the<br>company<br>2008 | Proportion<br>held by the<br>company<br>2007 | Book value<br>of shares<br>R million | Owing by<br>Santam Ltd<br>R million | Owing to<br>Santam Ltd<br>R million |
|---|-----------------------|-----------------------------|---------------------|--|--|--------------------------------------|-------------------------------------|-------------------------------------|
| <b>Direct</b>                           |                       |                             |                     |  |  |                                      |                                     |                                     |
| Aegis Insurance Company Ltd             | Insurance             | RSA                         | 179 195 142         | 100.0%                                       | 100.0%                                       | 262                                  | 268                                 | –                                   |
| 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%                                       | –                                    | –                                   | –                                   |
| Guardian National Insurance Company Ltd | Insurance             | RSA                         | 178 603 840         | 100.0%                                       | 100.0%                                       | 608                                  | 13                                  | 109                                 |
| Santam International Ltd                | Holding co.           | Guernsey                    | 692 505 672         | 100.0%                                       | 100.0%                                       | 603                                  | 174                                 | –                                   |
| Santam Namibia Ltd                      | Insurance             | Namibia                     | 8 307 147           | 60.0%  | 60.0%  | 5                                    | –                                   | 1                                   |
| Sentinel Insurance Corporation Ltd      | Investments           | RSA                         | 1 000 000           | 100.0%                                       | 100.0%                                       | –                                    | 4                                   | –                                   |
| Swanvest 120 (Pty) Ltd                  | Holding co.           | RSA                         | 100                 | 100.0%                                       | 100.0%                                       | 1                                    | –                                   | 72                                  |
|   |                       |                             |                     |  |  | <b>1 552</b>                         | <b>459</b>                          | <b>210</b>                          |

## NOTES TO THE FINANCIAL STATEMENTS

|   | Nature of business | Country of incorporation | Issued capital<br>R | Proportion held by the company<br>2008 | Proportion held by the company<br>2007 | Book value of shares<br>R million | Owing by Santam Ltd<br>R million | Owing to Santam Ltd<br>R million |
|---|--------------------|--------------------------|---------------------|--|--|-----------------------------------|----------------------------------|----------------------------------|
| <b>Indirect</b>                                     |                    |                          |                     |  |  |                                   |                                  |                                  |
| Admiral Professional Underwriting Agency (Pty) Ltd  | Underwriting       | RSA                      | 47 619              | 100.0%                                 | 100.0%                                 | 73                                | –                                | –                                |
| 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                                | –                                | –                                |
| Associated Marine Underwriters (Pty) Ltd            | Underwriting       | RSA                      | 873 577             | 100.0%                                 | 100.0%                                 | 5                                 | –                                | 1                                |
| Capricorn Insurance 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                               | –                                | 1                                |
| Centriq Life Insurance Company Ltd                  | Insurance          | RSA                      | 21 000 000          | 66.6%                                  | 66.6%                                  | 22                                | –                                | –                                |
| C-Sure Underwriting Managers (Pty) Ltd              | Underwriting       | RSA                      | 1 000               | 100.0%                                 | 100.0%                                 | 3                                 | –                                | –                                |
| 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                                | –                                | 2                                |
| Novation RSA (Pty) Ltd                              | Underwriting       | RSA                      | 120                 | 100.0%                                 | 100.0%                                 | –                                 | –                                | –                                |
| Pinion Administrators (Pty) Ltd                     | Administration     | RSA                      | 120                 | 100.0%                                 | 0.0%                                   | –                                 | –                                | –                                |
| Pinion Insurance Brokers (Pty) Ltd                  | Underwriting       | RSA                      | 120                 | 100.0%                                 | 0.0%                                   | –                                 | –                                | –                                |
| SA Aviation Insurance Managers (Pty) Ltd            | Underwriting       | RSA                      | 100                 | 51.0%                                  | 51.0%                                  | –                                 | –                                | –                                |
| Santam Europe Ltd                                   | Insurance          | Ireland                  | 206 258 746         | 0.0%                                   | 100.0%                                 | –                                 | –                                | –                                |
| Santam UK Ltd                                       | Holding co.        | UK                       | 100 006 574         | 100.0%                                 | 100.0%                                 | 99                                | –                                | –                                |
| 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%                                 | 100.0%                                 | 53                                | –                                | –                                |
| Webstat Bureau Services (Pty) Ltd                   | Fin. Services      | RSA                      | 100                 | 100.0%                                 | 100.0%                                 | –                                 | –                                | –                                |
| Westminster Motor Insurance Association             | Insurance          | UK                       | 276 170 000         | 0.0%                                   | 100.0%                                 | –                                 | –                                | –                                |
| Wheatfields Investments no 136 (Pty) Ltd            | Underwriting       | RSA                      | 120                 | 100.0%                                 | 100.0%                                 | –                                 | –                                | –                                |
|   |                    |                          |                     |  |  | <b>547</b>                        | <b>71</b>                        | <b>4</b>                         |
| <b>TOTAL INVESTMENTS IN SUBSIDIARIES</b>            |                    |                          |                     |  |  | <b>2 099</b>                      | <b>530</b>                       | <b>214</b>                       |

### INVESTMENTS IN ASSOCIATED COMPANIES UNLISTED COMPANIES

#### Direct

|  |               |        |            |       |       |            |          |           |
|--|---------------|--------|------------|-------|-------|------------|----------|-----------|
| Credit Guarantee Insurance Corporation of Africa Ltd | Insurance     | RSA    | 2 649 333  | 33.6% | 33.6% | 72         | –        | –         |
| 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% | 8          | –        | 31        |
| NICO Holdings Ltd                                    | Fin. Services | Malawi | 55 281     | 25.1% | 25.1% | 37         | –        | –         |
|  |               |        |            |       |       | <b>118</b> | <b>–</b> | <b>31</b> |

#### Indirect

|  |              |     |             |       |       |            |          |           |
|--|--------------|-----|-------------|-------|-------|------------|----------|-----------|
| Bluesure Ltd                                     | Underwriting | UK  | 183 340 550 | 47.3% | 47.3% | –          | –        | –         |
| Indwe Broker Holdings Group (Pty) Ltd            | Broker       | RSA | 28 552 000  | 37.8% | 35.4% | 49         | –        | –         |
| Miway Group Holdings (Pty) Ltd                   | Insurance    | RSA | –           | 25.2% | 0.0%  | 18         | –        | –         |
| Thebe Risk Services Holdings (Pty) Ltd           | Broker       | RSA | 1 000       | 49.9% | 49.9% | 10         | –        | –         |
| Vulindlela Underwriting Management (Pty) Ltd     | Underwriting | RSA | 379 120     | 37.0% | 37.0% | –          | –        | –         |
|  |              |     |             |       |       | <b>77</b>  | <b>–</b> | <b>–</b>  |
| <b>TOTAL INVESTMENTS IN ASSOCIATED COMPANIES</b> |              |     |             |       |       | <b>195</b> | <b>–</b> | <b>31</b> |

## (I) INVESTMENTS – COMPOSITION

2008

## 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 bonds |  | 1 370        |
| Other                       |  | 775          |
|                             |  | <u>2 145</u> |

## Unquoted

|       |  |   |
|-------|--|---|
| Other |  | – |
|-------|--|---|

## Unquoted redeemable preference shares

|   |             |            |
|---|-------------|------------|
| Sanlam Group – URD Beleggings (Edms) Bpk      | 202 185 168 | 202        |
| Electra Investments (SA) Ltd                  | 20 000 000  | 20         |
| Mettle Group – Metcap (Pty) Ltd               | 100         | 140        |
| Misty Sea Trading 267 (Pty) Ltd               | 280         | 3          |
| Investec – AELPREF                            | 77 000      | 77         |
| Kagiso Trust – Active I Investments (Pty) Ltd | 100 000     | 31         |
| Main Street 409 (Pty) Ltd                     | 15 926 915  | 18         |
| Pamodzi Ukuvikela                             | 44 300 000  | 52         |
|   |             | <u>543</u> |

## Total debt securities at fair value through income

2 688

## 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

|   |           |              |
|---|-----------|--------------|
| Absa Bank Ltd                             | 419 735   | 45           |
| African Bank Investments Ltd              | 2 335 714 | 60           |
| Anglo American Plc                        | 373 416   | 79           |
| Anglo Platinum Ltd                        | 119 524   | 62           |
| AngloGold Ashanti Ltd                     | 330 071   | 83           |
| AVI Ltd                                   | 2 072 469 | 44           |
| BHP Billiton Plc                          | 840 786   | 149          |
| Harmony Gold Mining Company Ltd           | 406 844   | 40           |
| Impala Platinum Holdings Ltd              | 339 701   | 46           |
| Imperial Holdings Ltd                     | 799 582   | 48           |
| MTN Group Ltd                             | 1 555 966 | 169          |
| Naspers Ltd                               | 337 040   | 56           |
| Remgro Ltd                                | 561 851   | 43           |
| SAB Miller Ltd                            | 418 368   | 68           |
| Sasol Ltd                                 | 463 754   | 130          |
| Standard Bank Group Ltd                   | 1 498 017 | 124          |
| Telkom SA Ltd                             | 618 066   | 71           |
| The Bidvest Group Ltd                     | 439 551   | 46           |
| Tiger Brands Ltd                          | 301 388   | 43           |
| Zurich Insurance Company South Africa Ltd | 239 742   | 44           |
| Other                                     |           | 749          |
|   |           | <u>2 199</u> |



|   | Group market value/<br>Directors' valuation |
|---|---|
|   | R million                                   |
| <b>Unquoted</b>   | 347   |
| Unitised funds  |   |
| – Quoted  | 369   |
| Irredeemable preference shares                              |   |
| – Quoted  | 196   |
| <b>Total equity securities at fair value through income</b> | <b>3 111</b>                                |
| <b>iii) Derivatives – at fair value through income</b>      | 136   |
| <b>iv) Cash and short-term money market instruments</b>     |   |
| Cash and cash equivalents                                   | 1 938                                       |
| Short-term money market instruments                         | 3 089                                       |
| <b>v) Associated companies</b>                              | 195   |
| <b>Total financial assets net of derivative</b>             | <b>11 157</b>                               |
| <b>B) Analysis based on investment classification:</b>      |   |
| Equities  |   |
| – Quoted  | 2 199                                       |
| – Unquoted  | 347   |
| Preference shares   |   |
| – Quoted  | 196   |
| – Unquoted  | 543   |
| Bonds   | 2 145                                       |
| Unitised funds  | 369   |
| Derivatives   | 136   |
| Cash and cash equivalents                                   | 1 938                                       |
| Short-term money market instruments                         | 3 089                                       |
| Associated companies  | 195   |
|   | <b>11 157</b>                               |

2007

## 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 bonds |  | 1 322        |
| Other                       |  | 851          |
|                             |  | <u>2 173</u> |

## Unquoted

|       |  |   |
|-------|--|---|
| Other |  | 1 |
|-------|--|---|

## Unquoted redeemable preference shares

|   |             |            |
|---|-------------|------------|
| Sanlam Group – URD Beleggings (Edms) Bpk      | 217 185 168 | 217        |
| Electra Investments (SA) Ltd                  | 30 000 000  | 30         |
| Mettle Group – Metcap (Pty) Ltd               | 100         | 302        |
| Investec – AELPREF                            | 77 000      | 77         |
| Kagiso Trust – Active 1 Investments (Pty) Ltd | 100 000     | 34         |
| Main Street 409 (Pty) Ltd                     | 15 926 915  | 18         |
| Pamodzi Ukuvikela                             | 44 300 000  | 49         |
|   |             | <u>727</u> |

## 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                   | 1 13 971  | 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                                |           | <u>1 345</u> |
|                                      |           | 3 912        |

|   | Group market value/<br>Directors' valuation<br>R million |
|---|--|
| <b>Unquoted</b>   | 20   |
| Unitised funds  |  |
| – Quoted  | 308  |
| Irredeemable preference shares                              |  |
| – Quoted  | 214  |
| <b>Total equity securities at fair value through income</b> | <b>4 454</b>   |
| <b>iii) Derivative – at fair value through income</b>       | (47)   |
| <b>iv) Cash and short-term money market instruments</b>     |  |
| Cash and cash equivalents                                   | 1 171  |
| Short-term money market instruments                         | 2 274  |
| <b>v) Associated companies</b>                              | 175  |
| <b>vi) Classified as held for sale</b>                      | 1 661  |
| <b>Total financial assets net of derivative</b>             | <b>12 589</b>  |
| <b>B) Analysis based on investment classification</b>       |  |
| Equities  |  |
| – Quoted  | 3 912  |
| – Unquoted  | 20   |
| Preference shares   |  |
| – Quoted  | 215  |
| – Unquoted  | 727  |
| Bonds   | 2 173  |
| Unitised funds  | 308  |
| Derivative  | (47)   |
| Cash and cash equivalents                                   | 1 171  |
| Short-term money market instruments                         | 2 274  |
| Associated companies  | 175  |
| Classified as held for sale                                 | 1 661  |
|   | <b>12 589</b>  |

**(II) ANALYSIS OF SHAREHOLDERS**

| Analysis of shareholders    | Number of shareholders | % of total shareholders | Number of shares   | % Interest     |
|-----------------------------|------------------------|-------------------------|--------------------|----------------|
| 1 – 100 shares              | 770                    | 19.88%                  | 58 310             | 0.05%          |
| 101 – 1 000 shares          | 1 825                  | 47.16%                  | 777 178            | 0.65%          |
| 1 001 – 50 000 shares       | 1 159                  | 29.94%                  | 7 959 450          | 6.67%          |
| 50 001 – 100 000 shares     | 57                     | 1.47%                   | 3 943 009          | 3.30%          |
| 100 001 – 10 000 000 shares | 58                     | 1.50%                   | 31 203 128         | 26.15%         |
| More than 10 000 000 shares | 2                      | 0.05%                   | 75 405 342         | 63.18%         |
| <b>Total</b>                | <b>3 871</b>           | <b>100.00%</b>          | <b>119 346 417</b> | <b>100.00%</b> |

| Type of shareholder          | Number of shareholders | % of total shareholders | Number of shares   | % Interest     |
|------------------------------|------------------------|-------------------------|--------------------|----------------|
| Individuals                  | 2 830                  | 73.11%                  | 3 760 197          | 3.15%          |
| Companies                    | 255                    | 6.59%                   | 92 315 773         | 77.35%         |
| Growth funds/unit trusts     | 170                    | 4.39%                   | 13 237 216         | 11.09%         |
| Nominee companies or trusts  | 497                    | 12.84%                  | 2 516 903          | 2.11%          |
| Pension and retirement funds | 119                    | 3.07%                   | 7 516 328          | 6.30%          |
| <b>Total</b>                 | <b>3 871</b>           | <b>100.00%</b>          | <b>119 346 417</b> | <b>100.00%</b> |

| Shareholder spread                       | Shareholders in SA |                | Shareholders other than in SA |                | Total shareholders |                |
|--|--------------------|----------------|-------------------------------|----------------|--------------------|----------------|
|  | Nominal number     | % Interest     | Nominal number                | % Interest     | Nominal number     | % Interest     |
| Public shareholders                      | 3 695              | 28.78%         | 156                           | 100.00%        | 3 851              | 31.15%         |
| Directors                                | 16                 | 0.07%          | –                             | –              | 16                 | 0.07%          |
| Trustees of employees' share scheme      | 1                  | 0.01%          | –                             | –              | 1                  | –              |
| Holdings of 5% or more                   | 3                  | 71.14%         | –                             | –              | 3                  | 68.78%         |
| Sanlam Limited                           | 1                  | 55.68%         | –                             | –              | 1                  | 53.83%         |
| Central Plaza Investments 112 (Pty) Ltd* | 1                  | 9.67%          | –                             | –              | 1                  | 9.35%          |
| Guardian National Insurance Limited**    | 1                  | 5.79%          | –                             | –              | 1                  | 5.60%          |
| <b>Total</b>                             | <b>3 715</b>       | <b>100.00%</b> | <b>156</b>                    | <b>100.00%</b> | <b>3 871</b>       | <b>100.00%</b> |

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, 27 May 2009, at 09:30 in the auditorium on the ground floor of the Santam Head Office, 1 Sportica Crescent, Tygervally, Bellville, Cape Town, to deal with the following matters:

1. To consider the financial statements for the year ended 31 December 2008, together with the reports of the directors and auditors.
2. To reappoint PricewaterhouseCoopers Inc. as the auditors for the company.
3. To elect a director in place of Mr JG le Roux who will retire by rotation in accordance with section 63 of the company's articles of association. Mr JG le Roux is available for re-election.
4. To elect a director in place of Mr JP Rowse who will retire by rotation in accordance with section 63 of the company's articles of association. Mr JP Rowse is available for re-election.
5. To elect a director in place of Mr GE Rudman who will retire by rotation in accordance with section 63 of the company's articles of association. Mr GE Rudman is available for re-election.
6. To elect a director in place of Mr DK Smith who will retire by rotation in terms of section 63 of the company's articles of association. Mr DK Smith is available for re-election.
7. To elect a director in place of Mr DCM Gihwala who will retire in terms of section 65 of the company's articles of association. Mr DCM Gihwala is available for re-election.
8. To approve the directors' board fees for the year 2009. The remuneration scale, which will be tabled at the meeting, is as follows:
  - 8.1 The chairman of the board will receive an annual retainer of R654 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).
  - 8.2 The chairman of the Risk Committee will receive an annual retainer of R158 920. In addition, the chairman will receive a maximum attendance fee of R28 252 for the Risk Committee, Financial Reporting Review Committee, as well as the Statutory Audit Committee meetings. A further R14 126 will be received for any other board or committee meetings attended. The members of the Risk Committee, Financial Reporting Review Committee and Statutory Audit Committee (Risk subcommittees) will receive an annual retainer of R158 920. In addition, the members will receive a maximum attendance fee of R14 126 for all the risk subcommittee meetings attended per meeting. For any other board meeting an attendance fee of R14 126 will be received.
  - 8.3 Other directors will receive an annual retainer of R158 920, and an attendance fee of R14 126 per meeting, for each meeting attended as a member (board and committee).
  - 8.4 Executive directors would not receive any board fees.
9. To place 5 million of the unissued ordinary shares under the control of the board, 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.

10. To approve the following special resolution:

Special Resolution Number 1

10.1 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 10.1 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 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 have 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 not exceed 10% of the weighted average of the price at which such ordinary shares are traded on the JSE 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; the market to proceed with the repurchase; and
- i. The company remaining in compliance with the minimum shareholder spread requirements of the JSE Listing Requirements; and
- j. an issuer or its subsidiary may not repurchase securities during a prohibited period as defined in paragraph 3.67 unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period.

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 foregoing 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 Listing Requirements for purposes of the general authority:

- Directors and management – pages 12 to 19;
- Major beneficial shareholders – page 143;
- Directors' interests in ordinary shares – page 68; and
- Share capital of the company – page 112.

**Litigation statement**

In terms of section 11.26 of the JSE Listing Requirements, the directors, whose names appear on page 12 and 13 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 page 12 and 13 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  
24 February 2009

## ABRIDGED CVS OF DIRECTORS AVAILABLE FOR RE-ELECTION AND APPOINTMENT

### JG LE ROUX (63)

Director; B Sc (Agric). Appointed 23 May 2000

#### Director

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

### JP ROWSE (54)

Director; BCom, MBA. Appointed 20 November 2006

#### Director

Director of Kwaaiwater Investments (Pty) Ltd, Tokiso Commercial Dispute Settlement (Pty) Ltd and Leadway Assurance Company (Ltd) (Nigeria).

### GE RUDMAN (65)

Director; B Sc, FASSA, FFA. Appointed 23 January 1996

#### Director

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

### DK SMITH (61)

Chairperson, B Sc, FASSA. Appointed 1 April 1994

#### Director

Chairperson of Reinsurance Group of America (SA), Director of Clover Industries Ltd, Clover Danone Beverages (Pty) Ltd, Embryo Financial Services (Pty) Ltd, First International Security Trust (Pty) Ltd, Medi-Clinic Holdings (Pty) Ltd, Plexus Asset Consulting (Pty) Ltd, Plexus Asset Management (Pty) Ltd, Plexus Holdings (Pty) Ltd, Snyman & Van der Vyver, Strategy Partners (Pty) Ltd, Sygnia Life Ltd. Member of the Advisory Council of the University of Stellenbosch Graduate School of Business and Long-Term Advisory Committee of the Financial Services Board. Member of Council of the Ombudsman for Long-term Insurance.

### DCM Gihwala (55)

BProc, HDip Tax Prac, Appointed 28 May 2008

#### Director

Chairman of Cliffe Dekker Hofmeyr. Director of Seena Marena Financial Services (Pty) Ltd, Seena Marena Investments (Pty) Ltd, Makalani Holdings (Pty) Ltd, Outward Investments (Pty) Ltd, Amistad Bulk (Pty) Ltd, Amistad Offshore (Pty) Ltd, Redefine Income Fund Ltd, Ngatana Property Investments (Pty) Ltd, Independent Regulatory Board of Auditors (IRBA), Sando Holdings (Pty) Ltd, FirstRand Executive Trust, Various directorships by virtue of curatorship of Fidentia Holdings (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, Tygervally, Bellville at 09:30 on Wednesday, 27 May 2009.

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 2008) |              |         |         |
| Ordinary resolution number 2 (To reappoint PWC as auditors)   |              |         |         |
| Ordinary resolution number 3 (To reappoint JG le Roux as director)                                      |              |         |         |
| Ordinary resolution number 4 (To reappoint JP Rowse as director)  |              |         |         |
| Ordinary resolution number 5 (To reappoint GE Rudman as director)                                       |              |         |         |
| Ordinary resolution number 6 (To reappoint DK Smith as director)  |              |         |         |
| Ordinary resolution number 7 (To reappoint DCM Gihwala as director)                                     |              |         |         |
| Ordinary resolution number 8 (To approve directors' remuneration scale for 2009)                        |              |         |         |
| Ordinary resolution number 9 (To place 5 million shares under the control of the directors)             |              |         |         |
| Special resolution No 1 (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 \_\_\_\_\_ 2009

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 initialled 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 an "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 Investor Services, 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 Tuesday, 26 May 2009.
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 initialled 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, DCM Gihwala, JG le Roux, NM Magau,  
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 (Financial Director)

### COMPANY SECRETARY

Sana-Ullah Bray

### SANTAM HEAD OFFICE AND REGISTERED ADDRESS

I Sportica Crescent, Tyger Valley, Bellville 7530,  
PO Box 3881, Tyger Valley 7536  
Tel: 021 915 7000  
Fax: 021 914 0700  
[www.santam.co.za](http://www.santam.co.za)

### REGISTRATION NUMBER 1918/001680/06

ISIN ZAE000093779  
JSE share code: SNT  
NSX share code: SNM

### TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd,  
70 Marshall Street, Johannesburg 2001  
PO Box 61051, Marshalltown 2107  
Tel: 011 370 5000  
Fax: 011 688 7721  
[www.computershare.com](http://www.computershare.com)

### SPONSOR

Investec Bank Limited

