



ANNUAL
REPORT
2009

contents

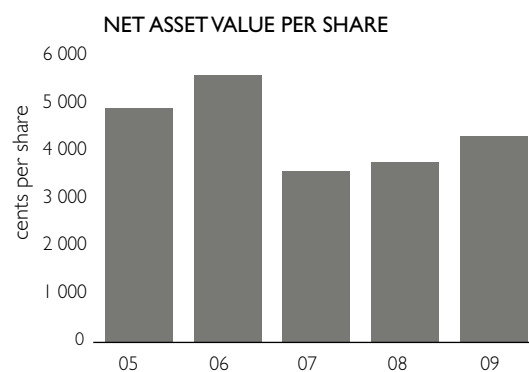
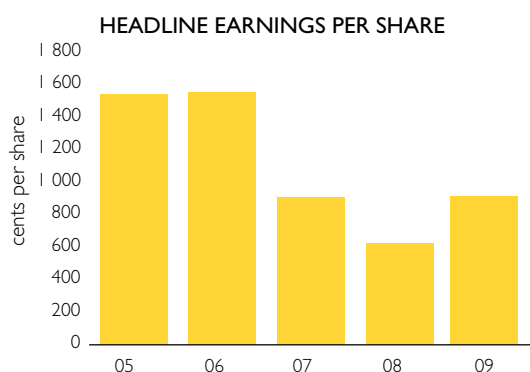
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OVERVIEW OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2009

After a challenging first half, Santam experienced a significantly better second half. This resulted in a pleasing overall performance for the year against the backdrop of the difficult economic climate and underwriting conditions. In line with the industry as a whole, underwriting margins came under considerable pressure, particularly in the first six months. Investment returns improved on firmer equity markets, especially when viewed against the poor performance recorded in 2008.

- Significantly improved headline earnings of R1 022 million up 55% on 2008.
- Headline earnings per share of 906 cents compared to 586 cents in the prior year.
- Growth of 6% in gross written premiums a credible achievement in the economic climate and comparing favourably with the industry.
- Overall net underwriting margin of 3.5% adversely affected by negative margins in the property and motor classes.
- Corporate property book badly affected by unprecedented fire claims in the first half of the year. The company's reinsurance programme provided sufficient balance sheet protection against these claims.
- Significantly improved investment performance as equity markets strengthened.
- Total management expenses restricted to 11% of net premium income which included 1% for strategic change project costs.
- Group solvency ratio at a healthy 44% at 31 December 2009, within the long-term target range of 35% to 45%.

| | Group 2009 | Group 2008 | Change % |
|--|---------------|---------------|-------------|
| Results (R million) | | | |
| <i>Continuing operations</i> | | | |
| Gross written premium | 15 026 | 14 179 | 6 |
| Underwriting result | 453 | 739 | (39) |
| Underwriting margin | 3.5% | 6.4% | |
| Net insurance result | 873 | 1 279 | (32) |
| Net insurance margin | 6.8% | 10.9% | |
| Investment income, realised and fair value gains | 1 072 | 76 | |
| Profit for the year from continuing operations | 1 116 | 720 | 55 |
| <i>Discontinued operations</i> | | | |
| Result for the year from discontinued operations | — | 25 | |
| Profit for the year | 1 116 | 745 | 50 |
| Headline earnings per share (cents) | 906 | 586 | 55 |
| Balance sheet | | | |
| Net asset value per share (cents) | 4 249 | 3 786 | 12 |
| Solvency margin | 44% | 44% | |
| Return on weighted average shareholders' funds | 25.0% | 18.0% | |
| Dividends | | | |
| Normal dividends per share (cents) | 466 | 430 | |
| Cash flow | | | |
| Cash generated by operations (R million) | 1 839 | 1 527 | 20 |



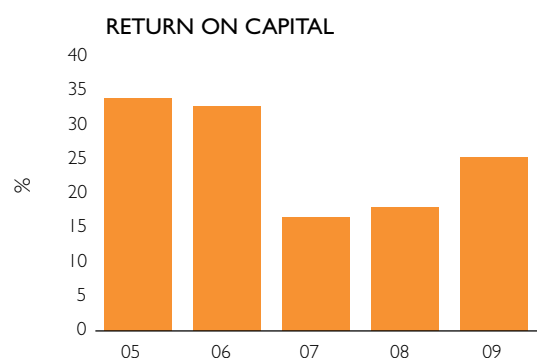
STRATEGIC

Despite another demanding year for the sector, Santam's medium- and long-term strategic planning continued to bear fruit to the benefit of all our stakeholders. Santam has developed unrivalled depth of talent and supporting infrastructure to manage both the company's risk and that of its clients. By concentrating on improving the risk profiles of our clients in partnership with our intermediaries, we are demonstrating that better risk management pays dividends.

- Completed an overhaul of our front-office environment and continued to optimise our back-office systems, aimed at adding value to clients and intermediaries by streamlining and enhancing the entire claims experience.
- Continued to ramp up our risk management solutions over the year, including a web-based actuarial quoting and underwriting tool for commercial business – a first for South Africa – and the creation of commercial contact centres and centres of expertise countrywide.
- We were the proud recipient of several awards from clients, intermediaries and staff, underlining Santam's concerted efforts, over several years, to further improve our operational excellence, entrench market leadership, and live up to our commitment to deliver a World of Certainty to all with whom we do business.

Recognised for improving our service to intermediaries and policyholders

- Rated best short-term insurer by the Financial Intermediaries Association of Southern Africa in the personal, commercial and corporate categories.
- Ranked first in the short-term insurance industry category in the 2009 Ask Afrika Orange Index, for the second year running.
- Voted top short-term insurer in the Marketing Surveys and Statistical Analysis (MSSA) survey by 500 independent brokers.



Recognised for improving the motivation and morale of our people

- Ranked first in the Deloitte Best Company to Work For Survey 2009, in the large company category.

Recognised for improving relative to our peers

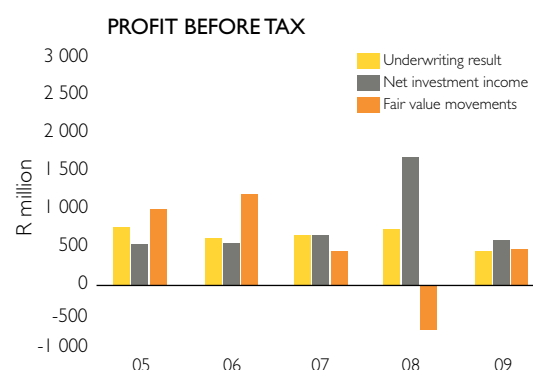
- Voted best business-to-business short-term insurer in the Sunday Times Top Brands Awards.

- Successfully concluded the acquisition of Emerald Risk Transfer, a specialist corporate property underwriting manager, effective 1 January 2010.

SUSTAINABILITY

As a broad measure of Santam's commitment to sustainability, we were included on the JSE's Socially Responsible Investment (SRI) Index, which recognises companies with good sustainability policies and practices. Santam was rated as one of the best performers of 2009 in the low environmental impact category.

- For the first time in Santam's history, black staff made up more than 50% of total staff in 2009.
- Santam's Black Intermediary Development Initiative assisted 59 new black brokers to join the short-term insurance industry in 2009. The initiative aims to develop and support 500 black brokers by 2012.
- First South African and African insurance company to join ClimateWise, a global industry initiative aimed at influencing debate and decision-making on the critical climate change challenge. Participated in the UN climate change negotiations in Copenhagen in December 2009.
- First South African insurance company to participate in the Carbon Disclosure Project, now in its second year. Santam's 2008 carbon footprint measure was finalised in 2009 through an independent assessment. The company met its reductions target for 2008, reducing carbon emissions by 9%.



| | | | Seven-year compound growth %/average | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|-----|------|---|---------|---------|---------|---------|---------|---------|-------|
| PERFORMANCE PER ORDINARY SHARE | | | | | | | | | | |
| cents per share | | | | | | | | | | |
| Headline earnings | 3.2 | | | 906 | 586 | 906 | 1 555 | 1 540 | 1 548 | 751 |
| Continuing operations | | | | 906 | 621 | 1 054 | | | | |
| Discontinued operations | | | | – | (35) | (148) | | | | |
| Dividends | | | | 466 | 430 | 410 | 380 | 335 | 290 | 220 |
| Special dividends | | | | – | – | 2 200 | – | 650 | – | – |
| Capital reduction | | | | – | – | – | – | – | 1 000 | – |
| Net asset value | | | | 4 249 | 3 786 | 3 610 | 5 633 | 4 927 | 4 706 | 3 482 |
| INSURANCE ACTIVITIES* | | | | | | | | | | |
| Net claims paid and provided (%) | Avg | 66.1 | | 70.6 | 68.4 | 68.2 | 68.6 | 65.3 | 57.0 | 64.8 |
| Cost of acquisition (%) | Avg | 26.2 | | 25.9 | 25.2 | 25.6 | 24.9 | 26.0 | 28.3 | 27.4 |
| Net commission paid (%) | Avg | 13.5 | | 14.9 | 14.3 | 13.9 | 14.1 | 13.4 | 12.4 | 11.7 |
| Management expenses (%) | Avg | 12.7 | | 11.0 | 10.9 | 11.7 | 10.8 | 12.6 | 15.9 | 15.7 |
| Combined ratio (%) | Avg | 92.3 | | 96.5 | 93.6 | 93.8 | 93.5 | 91.3 | 85.3 | 92.2 |
| Underwriting result (%) | Avg | 7.7 | | 3.5 | 6.4 | 6.2 | 6.5 | 8.7 | 14.7 | 7.8 |
| Earned premium (%) | | | | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| * Continuing activities expressed as a % of net earned premium | | | | | | | | | | |
| INVESTMENT ACTIVITIES | | | | | | | | | | |
| Interest and dividends net of asset management fees | | | | 568 | 771 | 595 | 455 | 428 | 427 | 414 |
| Net gain/(loss) on financial assets and liabilities at fair value through income | | | | 479 | (721) | 454 | 1 205 | 1 005 | 798 | 289 |
| RETURN AND PRODUCTIVITY | | | | | | | | | | |
| Earnings expressed as % of average shareholders' funds (%) | Avg | 26.5 | | 25.0 | 18.0 | 16.6 | 32.7 | 34.0 | 37.0 | 22.0 |
| Pre-tax return on total assets (%) | Avg | 12.0 | | 8.9 | 5.0 | 9.1 | 14.8 | 15.6 | 19.0 | 11.6 |
| Effective tax rate (%)# | Avg | 23.8 | | 26.5 | 7.0 | 30.3 | 24.7 | 22.4 | 25.4 | 30.0 |
| Gross premium per employee (R'000)** | | | | 4 883 | 4 436 | 4 012 | 3 836 | 3 795 | 3 317 | 3 163 |
| # Continuing activities | | | | | | | | | | |
| * Alternative Risk Transfer premiums excluded | | | | | | | | | | |
| SOLVENCY AND LIQUIDITY | | | | | | | | | | |
| Dividend cover (times) | Avg | 3.3 | | 2.1 | 1.5 | 2.3 | 4.1 | 4.6 | 5.3 | 3.3 |
| Solvency margin (%) | Avg | 54.2 | | 43.7 | 44.0 | 42.0 | 62.0 | 61.3 | 69.9 | 56.3 |
| OTHER STATISTICS | | | | | | | | | | |
| Number of permanent employees | | | | 2 742 | 2 807 | 2 840 | 2 789 | 2 733 | 2 791 | 2 880 |
| Number of shareholders | | | | 4 303 | 3 871 | 4 552 | 4 556 | 4 457 | 4 242 | 3 764 |
| SANTAM SHARE PERFORMANCE AND RELATED INDICATORS | | | | | | | | | | |
| Market price per share (cents) | | | | | | | | | | |
| Closing | | | | 10 850 | 7 930 | 10 400 | 8 745 | 8 050 | 7 100 | 5 140 |
| Highest | | | | 11 000 | 9 500 | 13 720 | 9 500 | 8 500 | 7 100 | 5 200 |
| Lowest | | | | 7 000 | 6 200 | 8 202 | 6 300 | 5 650 | 4 500 | 2 990 |
| Market capitalisation (R million) | | | | 12 245 | 8 934 | 11 656 | 10 287 | 9 358 | 8 180 | 5 840 |
| Santam share price index** | | | | 1 347 | 957 | 1 287 | 1 066 | 973 | 847 | 585 |
| FTSE – JSE financial index** | | | | 506 | 394 | 610 | 615 | 388 | 323 | 190 |
| Closing price/earnings (times) | | | | 12.0 | 13.5 | 11.5 | 5.6 | 5.2 | 4.6 | 6.9 |
| Closing price/equity per share (times) | | | | 2.5 | 2.1 | 2.9 | 1.5 | 1.6 | 1.5 | 1.5 |
| Closing dividend yield (%) | | | | 4.3 | 5.4 | 3.9 | 4.3 | 4.2 | 4.1 | 4.3 |
| Number of shares issued (million) | | | | 112.9 | 112.7 | 112.1 | 117.6 | 116.2 | 115.2 | 113.6 |
| Number of shares traded (million) | | | | 21.9 | 24.4 | 39.3 | 34.9 | 22.2 | 22.3 | 15.5 |
| Number of shares traded as a % of total number of shares in issue | | | | 19.4 | 21.7 | 35.1 | 29.7 | 19.1 | 19.4 | 13.7 |
| Value of shares traded (R million) | | | | 1 915.6 | 2 019.8 | 4 270.9 | 2 728.3 | 1 541.3 | 1 172.3 | 569.9 |

** Base year 1992

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 compound growth %/average | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|----------------|---------------|----------------|----------------|----------------|---------------|---------------|
| STATEMENTS OF COMPREHENSIVE INCOME | | | | | | | | |
| Gross premium income | 7.9 | 15 026 | 14 179 | 13 173 | 12 115 | 11 355 | 9 735 | 9 513 |
| Net premium income | 10.7 | 12 894 | 11 873 | 10 919 | 10 104 | 9 344 | 7 723 | 7 022 |
| Underwriting result | (2.6) | 453 | 739 | 664 | 627 | 775 | 1 125 | 530 |
| Investment return on insurance funds | | 420 | 540 | 319 | 250 | 241 | 203 | 205 |
| Net insurance result | | 873 | 1 279 | 983 | 877 | 1 016 | 1 328 | 735 |
| Investment income and associated companies | | 670 | (498) | 805 | 1 515 | 1 309 | 1 056 | 486 |
| Amortisation of intangible asset/Impairment of goodwill | | (25) | (7) | (2) | (2) | (4) | (2) | (37) |
| Income before taxation | | 1 518 | 774 | 1 786 | 2 390 | 2 321 | 2 382 | 1 184 |
| Taxation | | 402 | 54 | 542 | 593 | 520 | 604 | 356 |
| Minority interest | | 34 | 21 | 26 | 23 | 23 | 24 | 22 |
| Net income from continuing operations | | 1 082 | 699 | 1 218 | 1 774 | 1 778 | 1 754 | 806 |
| Results from discontinued operations | | – | 25 | (168) | 70 | – | – | – |
| Net income attributable to equity holders | 5.0 | 1 082 | 724 | 1 050 | 1 844 | 1 778 | 1 754 | 806 |
| STATEMENTS OF FINANCIAL POSITION | | | | | | | | |
| Property and equipment | | 47 | 42 | 38 | 59 | 57 | 55 | 70 |
| Intangible assets | | 143 | 155 | 135 | 108 | 80 | 87 | 109 |
| Deferred tax asset | | 88 | 81 | 40 | 27 | 22 | 10 | 14 |
| Investments in associates | | 198 | 175 | 215 | 239 | 209 | 150 | 31 |
| Financial assets | 8.9 | 6 337 | 5 955 | 7 315 | 7 517 | 5 907 | 5 267 | 3 804 |
| Technical assets | | 2 070 | 2 252 | 2 265 | 2 291 | 2 375 | 1 979 | 2 302 |
| Current assets | | 8 199 | 7 788 | 5 419 | 6 575 | 6 208 | 4 992 | 4 379 |
| Non-current assets held for sale | | – | – | 2 060 | – | – | – | – |
| Total assets | | 17 082 | 16 448 | 17 487 | 16 816 | 14 858 | 12 540 | 10 709 |
| Shareholders' funds | 3.5 | 4 939 | 4 402 | 4 107 | 6 750 | 5 852 | 5 482 | 4 009 |
| Equity – non-current assets held for sale | | – | – | 71 | – | – | – | – |
| Non-current liabilities | | 1 517 | 1 917 | 1 907 | 902 | 774 | 195 | 135 |
| Technical provisions | | 8 316 | 8 238 | 7 729 | 7 768 | 6 716 | 5 198 | 5 156 |
| Current liabilities, provisions | | 2 310 | 1 891 | 2 067 | 1 396 | 1 516 | 1 665 | 1 409 |
| Non-current liabilities held for sale | | – | – | 1 606 | – | – | – | – |
| Total equity and liabilities | | 17 082 | 16 448 | 17 487 | 16 816 | 14 858 | 12 540 | 10 709 |
| STATEMENTS OF CASH FLOW | | | | | | | | |
| Cash generated from operating activities after finance costs | 2.2 | 1 725 | 1 375 | 2 094 | 2 196 | 2 365 | 2 094 | 1 510 |
| Income tax paid | | (115) | (669) | (288) | (606) | (778) | (361) | (233) |
| Net cash from operating activities | | 1 610 | 706 | 1 806 | 1 590 | 1 587 | 1 733 | 1 277 |
| Cash (utilised)/generated in investment activities | | (1 477) | 921 | 12 | (390) | 578 | (714) | (31) |
| Disposal/(Acquisition) of associated companies | | 26 | (55) | 21 | 24 | 11 | (29) | (69) |
| (Acquisition)/Disposal of subsidiaries net of cash | | (11) | (3) | (61) | 153 | (41) | 9 | (408) |
| Cash (sold)/acquired through sale/acquisition of subsidiary | | (23) | (1 139) | 52 | (188) | 281 | – | 406 |
| Cash utilised in additions to property and equipment | | (36) | (47) | (29) | (17) | (19) | (12) | (36) |
| Disposal/(Acquisition) of book of business | | 54 | 51 | (2) | (2) | – | – | – |
| Net cash used in investing activities | | (1 467) | (272) | (7) | (420) | 810 | (746) | (138) |
| Proceeds from issuance of ordinary shares | | – | 2 | 34 | 29 | 27 | 41 | 39 |
| Net purchase of treasury shares | | (33) | (19) | (726) | – | – | – | – |
| Return of surplus capital to shareholders | | – | – | – | – | (1 156) | – | – |
| Increase in debt securities | | – | – | 964 | – | – | – | – |
| Increase in investment contract liabilities | | (101) | (138) | 230 | – | – | – | – |
| Dividends paid | | (513) | (476) | (2 977) | (1 185) | (360) | (296) | (200) |
| Increase in cell owners' interest | | 87 | 111 | 8 | 61 | 88 | 25 | – |
| Net cash used in financing activities | | (560) | (520) | (2 467) | (1 095) | (1 401) | (230) | (161) |
| Net (decrease)/increase in cash and cash equivalents | | (417) | (86) | (668) | 75 | 996 | 758 | 978 |
| Cash and cash equivalents at beginning of year* | | 1 938 | 1 983 | 2 659 | 4 927 | 3 927 | 3 203 | 2 272 |
| Translation (losses)/gains on cash and cash equivalents | | (142) | 41 | (8) | 140 | 4 | (33) | (47) |
| Cash and cash equivalents at end of year | | 1 379 | 1 938 | 1 983 | 5 142 | 4 927 | 3 927 | 3 203 |
| Non-current assets classified as held for sale | | – | – | (812) | – | – | – | – |
| Cash and cash equivalents at end of year – Continuing operations | | 1 379 | 1 938 | 1 171 | 5 142 | 4 927 | 3 927 | 3 203 |

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

CHALLENGING UNCERTAINTY

Fire, flood, hail, accident and robbery are facts of life. And to these perpetual worries have been added risks seemingly beyond anyone's control: economic meltdown, climate change, globalisation, terrorism and political upheaval. Risk is all around us in the 21st century, and it is easy to feel powerless and hopeless in the face of it.

At Santam we believe that it is not only possible – but imperative – to challenge, and indeed manage, uncertainty.

KEEPING OUR PROMISES

For more than 91 years, individuals and companies, homeowners, farmers, entrepreneurs, businesses large and small, have trusted Santam to protect them from peril. For nine decades our central organising principle has been to keep the promise implicit in the protective yellow umbrella of our brand.

In the last few years, we have done a lot of restructuring of our company to make sure we can live up to this long-standing promise, as our industry and the world change dramatically around us.

In 2009, we chose to restate our promise; to redefine our undertaking to bring certainty to our clients as they make their way through today's world.

Our clients rely on us to live up to our claims (in every sense of the word) when disaster strikes. And they look to us for the best risk management expertise. What they want, more than anything, is peace of mind. Certainty in what they entrust to us.

A WORLD OF CERTAINTY

This brave promise was born from exhaustive research, out of listening to thousands of customers, intermediaries and our own people. It was informed by arguably the most extensive analysis ever undertaken in our industry: of who exactly our clients are, their needs and what they want and expect from us.

As an important measure of how our clients perceive us, we were named the top short-term insurer in the Ask Afrika Orange Index awards in 2009. This ringing endorsement is proof that our brave claim of delivering certainty is resonating with our clients, and of their willingness to engage as partners with Santam in managing their risks and co-creating a World of Certainty.

INVESTING IN CHANGE

In 2009, we entered a third consecutive year of extremely constrained operating conditions. However, our

investment in change, of the way we manage our people and our core processes, made over the past half decade, means that we remain in a strong position to make good on our promise of certainty.

As part of the extensive changes we have improved the way in which our clients experience our products, our service and our brand. Some examples are:

- contracts that use plain language stripped of jargon;
- simplified excess structures for corporate clients;
- products that offer a greater choice of cover for those insured, as well as their possessions; and
- re-engineered internal systems to support exceptional service in general, and greater clarity, speed and efficiency in the claims experience in particular.

PARTNERS IN RISK MANAGEMENT

As an intermediated business, reaching and serving our clients rests largely in the hands of our intermediaries – our brokers and other distribution partners. Another award we received in 2009 was to be named best short-term insurer in the personal, commercial and corporate categories by the Financial Intermediaries Association of Southern Africa (FIA). As our partners in delivering certainty to our clients, this award bestowed by intermediaries speaks volumes.

In partnership with our intermediaries we engage proactively with clients, involving them in how they manage their risks. This three-way partnership approach ensures that customers know where they stand, that the cost of coverage can be carefully managed and, ultimately, made more affordable to more individuals and more businesses.

INVESTING IN PEOPLE

Making all of this possible at the client interface are our people. Santam's 2 700 people make up the most highly trained, most experienced risk management team in our industry. We offer a wealth of experience, actuarial and business knowledge, underpinned by sophisticated operating systems and streamlined back-end processes.

It is impossible to delight clients with an unmotivated and unhappy staff. That our people feel positively engaged and certain of the opportunities of work and personal growth, and the value of their individual contributions to Santam's success, was confirmed when we were named the best large company to work for in the 2009 Deloitte Best Company to Work For awards.

This accolade is the crowning achievement of the fundamental business re-engineering process with which Santam has been engaged since 2005. This process has turned our company into not only a client-centric organisation, but one that is fundamentally people centred.

DEEPENING OUR UNDERSTANDING OF RISK

Effective risk management – understanding, assessing and covering risk – is at the core of our sustainability. Only by pricing risk appropriately and realistically can Santam deliver a World of Certainty to investors, to intermediaries and, most importantly, to clients.

Delivering certainty requires Santam to apply its risk management expertise beyond the factory gates, the fields or the client's front door. Potholes and poorly maintained fire hydrants, for instance, or unpredictable supplies of electricity and changing weather patterns figure prominently in our risk management planning and everyday implementation.

But how does one assess such a complex interplay of risks? Knowing that is Santam's competitive advantage. Suffice it to say, we ask pertinent questions, we do exhaustive research, we develop specialist risk management expertise and continue to deepen our knowledge of risk.

Moreover, only by managing our own risk in an exemplary way, can we seriously stand by our promise. World-class enterprise risk management is at the heart of delivering a World of Certainty to our stakeholders.

AT SANTAM WE BELIEVE THAT IT
IS NOT ONLY POSSIBLE – BUT
IMPERATIVE – TO CHALLENGE, AND
INDEED MANAGE, UNCERTAINTY.

INTO THE FUTURE

Santam does more research, more comparative analysis and has a greater diversity of risk exposure than any of its competitors. These factors add up to one reality: we know risk – all kinds of risk.

As the leader in our industry, Santam is willing, indeed eager, to partner with policymakers, officials and executives at all levels of government, civil society, business and within our own sector, to share our knowledge, analysis and insights to create an environment in which risk is more actively understood and properly managed, to the benefit of all.

For many, 2009 was a year to forget. For Santam 2009 was a year to remember. As we move into a new year and a new decade, we are in a strong position. We can stand by our covenants to all our stakeholders – clients, people, partners and investors, as well as our industry and the communities and countries in which we operate.

Of that you can be certain.

BREAKING DOWN THE BARRIERS



BREAKING
DOWN
THE

BARRIERS

PROVIDING ACCESS, EXPANDING CHOICES

South Africa has made great strides towards socio-economic transformation in the 20 years since democracy. But significant challenges remain, especially in terms of providing the lower-income segment of the population with broader access to formal financial services such as credit, housing finance, savings and insurance.

Coupled to this is the fact that black entrepreneurs experience relatively high barriers to entry into the sector, including the short-term insurance industry.

Santam's Black Intermediary Development Initiative (SBIDI), launched in 2008, attempts to address these challenges by creating and supporting a vibrant black intermediary partner base.



Living our values – thinking big, inspiring, embracing

Edward Gibbens, Executive Head: Broker Distribution at Santam, says to cater more effectively for the short-term insurance needs of the entry-level market, the programme aims to develop, support and increase the number of black intermediaries in South Africa to 500 by 2012. This will result in an 11% increase in Santam's black broker base.

"Developing and creating access for black intermediaries into the short-term insurance industry gives us the opportunity to influence the transformation of our sector, not only in terms of skills transfer, enterprise development and job creation, but also in recognising an emerging market that is under-served in insurance terms."



Edward says the initiative fits well within Santam's client-centric approach and strategies for ensuring sustainable business practices.

"Santam views long-term market growth as being contingent on having brokers who are close to their target market in terms of understanding their financial challenges and particular needs,

including the demand for appropriate and affordable insurance products and services.

"As the low-income market has not traditionally been clients of Santam's personal lines business, increasing the number of new and existing black brokers doing business with Santam will also enable us to diversify our broker base and grow our business in this segment."

Moreover, the initiative is intended to assist Santam to position itself to provide services to the emerging upper- and middle-income segments. These market segments may not be insured at present, or they may be under-insured because provision in this area has not kept pace with their income growth.

In line with its objective of engaging and collaborating with both industry and government stakeholders to create a more inclusive and diversified short-term insurance sector, Santam has partnered with the Financial Intermediaries Association of Southern Africa, the Insurance Sector Education and Training Authority (INSETA) and established intermediaries on this initiative.

Edward says these key partnerships, together with support from the internal stakeholders at Santam, play a vital role in ensuring the success of the project.

59 new black brokers joined industry ranks in 2009

The 10-month SBIDI initiative, an annual initiative, provides classroom and on-the-job training, which includes business development skills, mentoring, exposure to the business and operations of short-term insurance brokers and Santam, and infrastructural support.

The initiative targets a range of entrepreneurs interested or already active in the insurance industry.

Start-up brokers are those who have more than five years' experience in the short-term industry, are compliant with industry (Financial Advisory and Intermediary Services, or FAIS) standards and work in personal and commercial insurance lines. Although they have started their own brokerages already, they experience barriers to entry, prohibiting them from growing their businesses.

Novice brokers are those currently selling life and/or investment products, but are interested in expanding their business by selling short-term insurance, while interns have a post-matric qualification but limited work experience and are interested in pursuing a brokerage as a business.

The SBIDI pilot programme was launched in Gauteng in June 2008, with 20 interns and nine novice brokers, and in Cape Town in October 2008, with 30 interns and 11 novices.

59 candidates successfully completed this first round of the initiative, and 35% of the Gauteng interns have been employed within established brokerages.

In the Western Cape, 83% of interns and 81% of novices have completed the pilot programme, while 56% of these interns have been employed within Santam or with brokers.

As part of its ongoing coaching and mentoring support, Santam is assisting the other candidates to obtain full-time

employment. We have also applied for work-based grants for the unemployed 2009 interns, which can be offered to brokers as salary assistance for one year if they employ the interns from the SBIDI. Some 24 of the unemployed interns have so far secured grants.

A bigger vision

But Santam is looking beyond only training and qualifying black intermediaries – the SBIDI's ultimate aim is to create viable black brokerages.

The SBIDI therefore assists both new and existing black intermediaries to become FAIS-compliant, and they have the opportunity to train, up-skill and accredit their staff. Our support also includes re-skilling and assisting black intermediaries to develop and grow their clientele.

The ultimate goal is to provide black individuals with the appropriate skills to enable them to become independent brokers as well as to provide capacity for Santam.

Edward says Santam has to date invested R1.3 million in this initiative and envisages the programme becoming a long-term, sustainable contribution to the short-term insurance Industry.

What the SBIDI participants have to say

Moses Kistadu, head of Operations and Marketing at Sigalo Intermediaries Co-op Limited, which offers short-term insurance, life insurance, medical aid cover and financial planning services, completed the SBIDI programme in July 2009.

He says the members of Sigalo, based in Cape Town, initially came together because of the synergies their collective expertise offered. In line with Sigalo's strapline "Build, Empower & Enable" the board is fully represented in terms of gender and historically disadvantaged individuals.

"The SBIDI helped us immensely in expanding our skills, structuring our business offering, and identifying and targeting the market areas relevant to our business."

Moses says the next challenge for Sigalo is to define an operating structure to accommodate the business under one roof – currently members of the business are working from their individual offices, which increases the company's administration and business costs.

What we're doing next

In 2010, Santam will look at more innovative ways to place interns in employment at the end of the programme, and grow the number of black brokers doing business with Santam. This will involve more proactive engagement with existing black intermediaries to encourage them to become part of the programme by sharing their skills and experience.

Edward says Santam envisages that such intermediaries will be more amenable to employing the interns once they have successfully completed the programme and have obtained the necessary credits.



BOARD OF DIRECTORS



JG LE ROUX

DCM GIHWALA

JP MÖLLER

BPTKM GAMEDZE

IM KIRK

YG MUTHIEN

J VAN ZYL

BOARD OF DIRECTORS



P DE V RADEMEYER

JP ROWSE

GE RUDMAN

DK SMITH

MJ REYNEKE

NM MAGAU

BP VUNDLA

BOARD OF DIRECTORS

DK SMITH (62)

Chairman, BSc, FASSA
Appointed 1 April 1994

Chairman designate of Sanlam Limited. Chairman of RGA Reinsurance Company of South Africa Ltd and InnovUS Tegnologie Oordrag (Edms) Bpk; director of RGA Southern African Holdings (Pty) Ltd, Clover Industries Ltd, Clover Beverages (Pty) Ltd, Sanlam Life Insurance Ltd, Medi-Clinic Corporation Ltd, Twee Klippen Estates (Pty) Ltd, Tede Beleggings (Pty) Ltd, Snyman & Van der Vyver, International Congress of Actuaries in 2010 (Sec 21) and Overstrand Local Economic Development Agency (Pty) Ltd. Chairman of the Stellenbosch Institute for Advanced Study.

BPTKM GAMEDZE (51)

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

Director of Credit Guarantee Insurance Company (Pty) Ltd. President Elect of the Actuarial Society of South Africa (ASSA) and past President of the Association of the South African Black Actuarial Professionals (ASABA).

DCM GIHWALA (56)

BProc, HDip Tax Prac
Appointed 28 May 2008

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

IM KIRK (51)

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

Chairman of Stalker Hutchison Admiral (Pty) Ltd and The Standard General Insurance Company Ltd. Director of Centriq Insurance Company Ltd, Centriq Insurance Holdings Ltd, Centriq Life Insurance Company Ltd, Nova Risk Partners Ltd, SAIA, Infnit Group Risk Solutions (Pty) Ltd, Relyant Life Assurance Company Ltd, Relyant Insurance Company Ltd, Customer Protection Insurance Company Ltd and Beaux Lane (SA) Properties (Pty) Ltd.

JG LE ROUX (64)

Director, BSc (Agric)
Appointed 23 May 2000

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

NM MAGAU (57)

Director, DEd
Appointed 28 May 2002

Executive director of B and D Solutions (Pty) Ltd. Non-executive director of Murray & Roberts Holdings Ltd. Director of CEO Communications (Pty) Ltd, MAN Military Vehicle Systems (Pty) Ltd, Merryl Lynch (Pty) Ltd, Renako Investments (Pty) Ltd, The International Women's Forum South Africa (Sec 21) and Tselane Basadi Management (Pty) Ltd. Board Member of National Research Foundation (NRF). Trustee of The Hans Merensky Foundation. Advisor to the UCT Business School Advisory Board.

BOARD OF DIRECTORS

JP MÖLLER (50)

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, MiWay Group Holdings (Pty) Ltd, Genbel Securities Limited and Ubuntu-Botho Investment Holdings (Pty) Ltd.

YG MUTHIEN (53)

Director, DPhil (Oxford), MA (Northwestern - USA), BA (Hons) (UWC)
Appointed 25 November 2009

Executive director of Sanlam Ltd and Sanlam Life Insurance Ltd. Trustee of Sasol Inzalo Foundation.

P DEV RADEMEYER (62)

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, Sanlam Customised Insurance Ltd and Ubuntu-Botho Investment Holdings (Pty) Ltd.

MJ REYNEKE (52)

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

Director of Centriq group of companies, Credit Guarantee Insurance Corporation of Africa Ltd, Indwe Broker Holdings Ltd, MiWay group of companies, Santam Namibia Ltd, Stalker Hutchison & Associates (Pty) Ltd, Central Plaza Investments 112 (Pty) Ltd, Guardian National Insurance Company Ltd.

JP ROWSE (55)

Director, BCom, MBA
Appointed 20 November 2006

Director of Kwaiiwater Investments (Pty) Ltd, Tokiso Commercial Dispute Settlement (Pty) Ltd, Leadway Assurance Company (Ltd) (Nigeria) and Madison Financial Services Ltd.

GE RUDMAN (66)

Director, BSc, FASSA, FFA
Appointed 23 January 1996

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

J VAN ZYL (53)

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 Group Holdings (Pty) Ltd, MiWay Finance (Pty) Ltd and Sanlam Netherland Holdings BV. Council member of the University of Pretoria and trustee of the Hans Merensky Foundation.

BP VUNDLA (62)

Director, BA (Unisa)
Appointed 28 May 2002

Director of New Seasons Investment Holdings (Pty) Ltd, WesBank Ltd, Mail & Guardian Ltd, AMB Capital and Fidelity Security Services.



IAN KIRK (51)

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

Primarily responsible for executing strategic plans and policies approved by the board of directors; provides leadership and direction in realising the company's philosophy and achieving its mission, strategy, annual goals and objectives; and ensures the company meets or exceeds its targets, thereby growing profitability sustainably over the medium to long term.



YEGS RAMIAH (42)

People & Brand
BA LLB, MBA, HDip Tax (Admitted Attorney of the
High Court of South Africa)
Appointed 2009

Executive responsibility for Marketing, Communication and Human Resources functions. With these teams under one umbrella, Santam is able to position the brand, aligned with its internal culture, to maintain its leadership position. Our strong brand and good corporate reputation is enhanced by thoroughly understanding the changing demands of our markets and focusing on attracting and developing the best talent and providing for their well-being.



MACHIEL REYNEKE (52)

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

Overall responsibility for the finance function of the company, including financial reporting, corporate finance, investments, tax, internal audit, group procurement and corporate legal services. Also represents Santam on the boards of group and associated companies.



TEMBA MVUSI (54)

Market Development
BA, ELP (Wharton School of Business), MAP (Wits),
PDP (UCT)
Appointed 2008

Responsible for strategic stakeholder relations; provides strategic input into developing and growing the business in new markets and explores new intermediary opportunities in previously unserved markets; drives group-wide transformation to ensure business sustainability, setting targets and ensuring the company meets its broad-based black economic empowerment responsibilities; benchmarks company performance and progress against industry standards.



HENNIE NORTJE (46)

Insurance Services
MCompt, CA(SA)
Appointed 2008

Executive responsibility for managing the settlement of claims, including client services, claims merit and quantum, processing and procurement; leads, plans, integrates and co-ordinates all insurance services activities including the development of claim philosophies, policies, quality assurance practices and effective structuring of a preferred supplier network.



JAN DE KLERK (49)

Information Management
MDP (University of Pretoria)
Appointed 2007

Overall responsibility for Information Technology (IT); tactically enables the achievement of business strategy by leveraging information and technology; oversees the building of systems capabilities to enhance Santam's agility and operational effectiveness, and ensures the efficient operation of the company's IT infrastructure. Also responsible for IT integration within the Sanlam Group.



HENDRI NIGRINI (58)

Risk Services
BCom, ACII
Appointed 1986

Executive responsibility for the underwriting function, including strategy and pricing, reinsurance, product solutions and actuarial services; oversees the development and maintenance of systems and processes to support the administration of this function.



QUINTEN MATTHEW (46)

Specialist Business
FIISA
Appointed 2003 (Appointed to Executive Management – 2010)

Responsible for developing and expanding the underwriting manager model, niche segments and specialist insurance; provides strategic input to each business as well as promotes growth and profit objectives. Focuses on growing individual businesses by advancing entrepreneurship and specialist skills through partnerships, building on the synergies and support of Santam.



EDWARD GIBBENS (40)

Broker Distribution
AIISA, BCom, MBA
Appointed 1992 (Appointed to Executive Management – 2005)

Responsible for growing gross premium income and underwriting profit through the company's intermediated distribution channels; ensures efficient policy administration and operation of sales and administration contact centres; plans, directs and co-ordinates the efforts of business partners and broker distribution staff; analyses the competitive environment and develops future strategies to strengthen the company's competitive position.

BEST COMPANY TO WORK FOR



SOUTH AFRICA'S
LEADING
SHORT-TERM
INSURER IS
ALSO THE

BEST

COMPANY
TO WORK FOR

RECOGNITION THAT WE
ARE 'GETTING IT RIGHT'

Staff have rated Santam as South Africa's employer of choice in the Deloitte *Best Company to Work For: Building and Delivering on Your Employer Brand Survey* of 2009, in the large company (>2,500 full-time employees) category.

Santam managed to beat stiff competition such as WesBank, Edcon, Netcare and Absa in this category and improved its ranking in the financial services: insurance sector category, moving from seventh place in 2008 to sixth place in 2009.

The 2009 survey saw a smaller number of entrants in both the large company and insurance sector categories – an indication, in Santam's view, that companies facing difficult economic times often shy away from exposing themselves to their employees' assessment.

However, Santam took this risk specifically to be able to evaluate employees' responses over time as to how the company designs, implements and manages various staff programmes – and because it is imperative to measure staff fulfilment and approval not only during good times but also during periods of increased economic and business pressure.

Santam's participation in the survey, particularly over the last two years, has significantly raised its employer profile and enhanced its capacity to attract key talent.

What can be measured can be managed – and improved

Rankings in this survey are based exclusively on an organisation's employee input – a randomly selected, stratified sample of employees, distributed across the entire organisation, is required to complete the employee questionnaire.

The survey measured employees' views of Santam's delivery and implementation of:

- change management
- communication
- diversity and transformation
- hr policies and procedures
- innovation
- job satisfaction
- leadership
- management style
- performance management
- recognition
- rewards
- training and development
- values and culture.



Santam's Head of Human Resources (HR), Julia Dyssell, says the dimensions measured in the 2009 survey are very relevant for Santam because they correlate with many aspects of Santam's employee value proposition and therefore touch on the staff concerns and expectations we are addressing in our 'Life Under the Yellow Umbrella' programme.

"They are also similar to those measured in past surveys, which means we have been able to compare our performance closely with that of previous years. It is heartening that our ratings have indicated an improvement on every single aspect that was measured."

Inspiring our people

Santam believes that employees can only deliver on our brand promise to clients and business partners when their work experience is enriching, they get appropriate recognition and rewards, and they receive care and respect in the workplace. 'Inspiring our people' is therefore one of

the issues Santam sees as key to the sustained development of our business.

The Deloitte award shows that we have made great progress in enhancing, communicating and internalising our employee value proposition, which is supported by a range of HR initiatives, including activities from attraction through to appointment, induction, talent management and development, and retention.

Santam has significantly improved its employee rating in the *Communication, HR policies and procedures, Recognition, Reward, and Training and development* dimensions.

The improvement in our score for *Innovation* is also important since this is critical to our business strategy.

Julia says Santam has participated in the Deloitte survey annually for the past five years and improved its ranking from third place in 2007 to second place in 2008, winning the large category section in 2009.

"The feedback received from Deloitte on the surveys and employment ratings over these years inform both the design and refinement of the targeted employee initiatives introduced at Santam.

"For example, implementation of our Recognition Programme to identify staff that are living Santam's values and showing exceptional leadership was a response to 'Recognition' being identified as a key need among staff, and can be related directly to an improved score on this dimension during the 2009 survey."

Julia says the insurance industry is an extremely competitive industry in which the skills and knowledge of staff are a key differentiator – it is no coincidence that the top two companies in the large company category, Santam and Telesure, are short-term insurers.

"Our capacity to bring in key talent impacts directly upon our capacity to grow our business profitably. Imperative to attracting top talent is our leadership positioning generally – top talent likes to work for industry leaders – as well as our employee value proposition, which we are continually revising and enhancing."

To attract, engage, build and retain our talent, Santam has not changed this emphasis during the economic downturn; we have, in fact, adopted the opposite approach.

"It is a credit to our staff – and to Santam's commitment to employee well-being – that in a punishing year like 2009, we have remained profitable and have shown reasonable growth."

True commitment to transformation

Transformation is a strategic imperative for Santam, essential in terms of securing skilled staff, developing a diverse and representative employee base, conforming to industry codes and securing the trust of business stakeholders.

Santam's employee value proposition has two main focus points where developing and retaining staff are concerned – employment equity aims to address the under-representation of black staff at management level, and skills development and training initiatives seek to empower high-potential individuals for specialist, management and leadership positions.

The actionable data received through participation in the Deloitte survey have informed a number of skills development initiatives implemented during 2008 and refined in 2009. This included an 18-month leadership development programme, which provides coaching, mentoring and succession planning opportunities, technical and product training for management staff, and personal development programmes for high-potential candidates.

Analysing trends across companies and sectors

Julia says in terms of analysing employees' responses to the dimensions measured in the survey across companies and economic sectors, year after year 'Rewards' and 'Recognition' have scored relatively low. Another challenging dimension is 'Performance management', which very few companies manage to really get right.

"While all organisations try to implement the best and fairest systems, it finally comes down to the capacity of managers to have difficult conversations with their team members in a constructive manner. Most of us battle with this – which makes it unsurprising that 'Communication' is another issue identified across companies and sectors."

Santam's response to employee ratings and the overarching survey results has shown commitment to practically addressing both 'soft' and bottom-line issues.

For example, staff concerns around performance management were identified as early as 2005; in response, Santam researched and engaged employees in a new performance management system involving significant expense, time and energy.

The positive impact of such investments in staff satisfaction and well-being was evident in 2009, which saw a decrease in staff turnover to 11.1%, from 13.4% in 2008. Terminations also decreased, from 345 in 2008 to 276 in 2009.

In addition, Santam is actively addressing employee perceptions around promotions earned and implemented based on performance, and the provision of a clear career plan, through the more formal emphasis that business units are placing on succession, development and career planning.

Looking ahead

Julia says Santam's progressive thinking around attracting, developing and retaining staff has been noticed by the marketplace.

"Our employer brand has gained prominence and the calibre of people who want to join Santam is extremely encouraging – which in turn instills confidence in our clients and intermediaries around the quality of our product and service offering."

Our key objective for 2010 is to continue the positive engagement with employees and addressing their expectations in a mutually beneficial manner; in addition to consolidating what we already do well.





THROUGH THE SPECIALIST
RISK MANAGEMENT EXPERTISE
BACKING OUR PRODUCTS
AND THE HIGH LEVELS OF
SERVICE DELIVERED BY OUR
PEOPLE, WE ARE ABLE TO
PROMISE OUR CLIENTS A
WORLD OF CERTAINTY.

For 16 remarkable years I have been privileged to witness at first hand the transformation and growth of a very special company. I joined the board of Santam in 1994, and in 2003, was elected Chairman. I leave this position in June 2010 after a tenure in which both Santam and the risk management landscape have changed beyond recognition.

I HAVE BEEN PROUD TO SERVE,
SECURE IN THE KNOWLEDGE
THAT, AT PERHAPS NO PREVIOUS
POINT IN ITS 91-YEAR HISTORY,
HAS THE SANTAM BRAND
COMMANDED SUCH NEAR-
UNIVERSAL RESPECT AMONG
CUSTOMERS, INTERMEDIARIES,
STAFF AND INVESTORS.

RESPECT EARNED

I have been proud to serve, secure in the knowledge that, at perhaps no previous point in its 91-year history, has the Santam brand commanded such near-universal respect among customers, intermediaries, staff and investors.

Until 1999, when we acquired Guardian National, Santam's business was dominated by personal insurance. In the space of only a decade, we have become the leading industry player; a diversified insurer, dominant in sectors that include corporate and commercial, agriculture, engineering, transport and liability.

This diversity has served Santam and its stakeholders exceptionally well. When the world economy stumbled alarmingly, Santam was able to continue purposefully towards the objectives and enhanced levels of service it had targeted in a more prosperous era. By the time that the full ramifications of the international credit crisis became apparent, the Santam board of directors and executive team had already completed a painstaking three-year reappraisal of the fundamental drivers of our business which informed a process of financial re-engineering.

Whereas solvency had historically been in the region of 60%, our analysis led us to conclude that a solvency ratio in the range of 35% to 45% would be more appropriate. This target was achieved (and has been sustained), improving our returns on shareholder capital while impacting positively on our investment, underwriting and reinsurance strategies and activities.

A WORLD OF CERTAINTY

The past decade-and-a-half represent a period of unprecedented change and mounting uncertainty. Not only has Santam responded decisively and in good time to change, through the specialist risk management expertise backing our products and the high levels of service delivered by our people, we are able to promise our clients a World of Certainty. This brave promise is anything but marketing rhetoric; it is what we stand for and the measure of our success.

Clients and brokers alike appreciate that Santam delivers on its commitment to risk management. This translates into peace of mind, and the assurance that they have a secure, dependable safeguard against the unforeseen. Without such a safeguard, individuals would hesitate to invest in cars and property, companies would be reluctant to spend on machinery and equipment, and farmers would think twice about planting their next crops or expanding production.

The latest financial and economic downturn has illustrated that uncertainty is a fact of life in the 21st century; few but the most astute observers predicted the severity and duration of our current malaise, and it has become apparent that policymakers were caught unawares. It is little wonder that individuals, entrepreneurs and corporate decision-makers are now acutely aware of the risks they face. In a world of growing uncertainty, they require specialist help in managing these risks.

Over the last decade, Santam has gone from being a distributor of insurance policies to being a highly respected risk management partner to the corporate, commercial and personal market. This has been achieved through a substantial investment in people, planning procedures and ongoing research. Today, Santam has an unrivalled depth of talent with which to manage both the company's risk and that of its clients. It is thanks to this talent and the enhanced tools our people have at their disposal that Santam has, in recent years, been in a position to assume a greater proportion of its overall risk by reducing its reinsurance offset.

Santam's human capital development has been supported with the roll-out, at considerable expense, of complex re-engineering processes which, in the case of the Broker Management Model Project (BMMP), has placed our front-office systems at the cutting edge of short-term insurance service delivery. In terms of our back-office infrastructure, implementation of the Insurance Services Transformation Project (ISTP) is progressing well and will be fully operational by 2011. By automating and clarifying our claims processes, ISTP will underpin the promise of certainty for our customers and intermediaries.

The BMMP and ISTP are just two of the outcomes of Project 2010, which was initiated in 2005 specifically to place the client and his or her need for certainty at the core of our business. As the Chief Executive details in his report, several other far-reaching operational successes have been achieved in the past year in time for the onset of the new decade.

CORPORATE SUCCESSES AND CHALLENGES

I am confident that Santam's acquisition of Emerald Risk Transfer (Pty) Ltd will, as with the Guardian National deal of a decade ago, prove to be a business fit of the most strategic medium- and long-term importance. Emerald's expertise will go a long way to strengthening aspects of our corporate property book, to the lasting benefit of shareholders and partners.

Looking back at some of our less successful strategic initiatives, our foray into Europe has to be singled out. While there were compelling reasons for our investments in Santam Europe and Westminster Motor Insurance Association, beginning in the early 2000s, we were unable to bring our competitive advantages to bear in those markets. It was fortunate indeed that we succeeded in exiting these investments in 2007 without incurring substantial losses, shortly before a major weakening of the European economy and significant underwriting and investment losses for the general insurance market.

That said, I vacate the Santam chair with few regrets. I must admit to envying my successor in what I have no doubt will be an exciting and rewarding period of development as Santam once again expands internationally – this time into Africa and India. While certainly not without its challenges, I believe that Santam will be playing to its proven strengths, with the wisdom of this strategy being confirmed almost daily.

Santam is intent on expanding into new sectors and new countries. It is also expanding its delivery channels, with some exciting developments in alternative intermediated distribution. However, while there will be no stemming the inexorable rise of consumerism, the direct market and the aggregation model, Santam remains as committed as ever to its intermediaries.

Our brokers are at the heart of our success. For the majority of commercial and corporate clients, it is our view that there is simply no replacing the expert advice of the broker. In meeting our promise of a World of Certainty, brokers will remain partners of the utmost importance. It is for this reason that Santam has invested so extensively in enhancing our relationships with brokers, in the process helping them to better inform their clients' risk management decisions. In line with our emphasis on intermediation and unlocking synergies, Santam has tapped into several promising non-traditional channels, particularly in the retail, automotive and financial services spheres. We will invest considerable effort in developing these opportunities in the coming years.

TEMPERING UNCERTAINTY WITH HOPE

In the 16 years that I have been a director of Santam, South Africa has moved from conflict and isolation to reconciliation and democracy, crowned with the great honour of hosting the world's biggest single sports event. There are many reasons for celebration and optimism, but with change come inevitable challenge. Many of the country's challenges have direct implications for risk management. They include issues relating to infrastructure, skills, security and service delivery. A World of Certainty is incompatible with the threats posed by some of the world's most pronounced disparities in income, education and even life expectancy.

Political uncertainty and the threat of violence and disease are realities that can, however, be analysed, quantified and incorporated into decision-making. Santam is ready and willing to work with decision-makers in our industry, in other sectors of business, and especially with government at all levels to make available our expertise and research. We can make a substantial contribution to reducing the cost of risk management, to economic growth and towards safeguarding a brighter future for all South Africans. Such an approach can bring insurance to more people and help to contain its cost to those who already enjoy its benefits.

As real as our political and socioeconomic risks are, the hazards posed by climate change deserve equal attention. Santam has taken the lead in gathering intelligence on, and raising awareness of, the impact that a warming world is having on individuals, business and agriculture. In recent years, in our own country, we have witnessed freak incidents of hail, unprecedented storms and even the erosion of our coastline. Santam believes that climate change risks need to be understood and addressed, and that we are uniquely placed to confront these new realities. We were the first South African short-term insurer to join ClimateWise, the worldwide industry body lobbying for debate and decision-making on the issue, and we have sponsored groundbreaking, detailed research, conferences and seminars at which global warming issues and mitigating actions are discussed candidly.

In many quarters, climate change is perceived to be only about threats but for those leaders willing to grasp the nettle, climate change can be as much about opportunity. I am proud to say that Santam is such a leader and is busy on many fronts.

THE WORLD OF SUSTAINABILITY

Similarly, Santam does not pay lip service to transformation but embraces it as a moral imperative, as well as being good for business. In 2007, in terms of a broad-based black economic empowerment arrangement, 10% of our equity was structured into three trusts owned by black staff, communities and strategic partners. It is worth recording that, unlike so many similar trusts, these remain extremely liquid and are set to share in the wealth we continue to build for our shareholders.

As a broad measure of Santam's commitment to sustainability, we recently qualified for the JSE's socially responsible investment index and were rated one of the best performers of 2009 in the low environmental impact category.

In 2009 we sold our 35% stake in Lion of Africa Insurance Company. With this 100% black-owned business turning in excellent results, our partners and Santam considered it appropriate to exit this investment once its success had been assured. We are proud of a partnership that spanned more than 11 years with South Africa's first black owned insurance company, and wish the company and its management success with their future endeavours.

The pilot phase of the Santam Black Intermediary Development Initiative programme was completed in mid-2009 and Santam is placing these graduates in employment either at Santam or at brokerages within our channel. We are confident of reaching our target of developing 500 black brokers by 2012.

When it comes to our own, in 2009 Santam's appointment of new black staff to vacant positions reached 77%. In 2008, 50% of those promoted were black; in 2009 this rose to 57.5%. More than half of all of our staff are black.

By the end of 2009, our preferential procurement (unverified) score had reached 18 out of 20 in terms of Department of Trade and Industry's broad-based generic codes.

CORPORATE GOVERNANCE

When I assumed the chair at Santam, I inherited a strong tradition of adhering to the highest standards of integrity and ethical business. This is and will, I have not the slightest doubt, remain the case well into the future – in May 2009, the executive committee approved an Ethics Management Programme, at the core of which is a commitment to go beyond a simplistic compliance mentality.

As corporate South Africa confronts the implications of the King III report and the Companies Act of 2008, the board of Santam is confident that the company is already better positioned than most to address the requirements and implications these entail. A working group on King III has advised the board in detail on the report's implications for Santam and we are satisfied that we are already substantially compliant. Santam remains a company that places governance and sustainability at the core of decision-making.

BOARD OF DIRECTORS

Dr Yvonne Muthien joined the board as a non-executive director on 25 November 2009. As Chief Executive: Group Services and executive director of Sanlam, Yvonne brings a wealth of experience and relevant skill to the board and will help us to add even greater depth to Santam's close relations with its majority shareholder.

Ms Raisibe Morathi resigned with effect from 1 August 2009. We wish Raisibe well as she pursues new opportunities in the financial services field.

SANTAM IS READY AND WILLING TO WORK WITH DECISION-MAKERS IN OUR INDUSTRY, IN OTHER SECTORS OF BUSINESS, AND ESPECIALLY WITH GOVERNMENT AT ALL LEVELS TO MAKE AVAILABLE OUR EXPERTISE AND RESEARCH.

APPRECIATION

As a director of Santam and as Chairman for the past six years, I have been honoured to be a part of an extremely committed, hard working and visionary board. These men and women have constituted among the most effective boards of directors I have known. Discussion has been frequently robust yet always incisive and constructive. My sincere appreciation goes to the board for their contribution over the years.

My thanks go to our intermediaries, suppliers and clients, many of whom we have worked with over many years and whose continuing loyalty we will do everything in our power to maintain.

To Ian Kirk, his executive team and all the talented and hard working people at Santam, I offer my thanks for a job well done. It is gratifying that, in 2009, your achievements were so richly recognised by those whose opinions matter the most. I have no doubt that the groundwork of the past years will continue to bear fruit for many years to come. I shall remain close and watch Santam's progress from a new position with keen interest and proud admiration.



Desmond Smith
Chairman

OUR PEOPLE, OUR BRAND, THE
FUNDAMENTAL RE-ENGINEERING
OF OUR PROCESSES AND
SYSTEMS IMPROVEMENTS HAVE
ENABLED SANTAM TO STAY
AHEAD OF THE PACK IN A
CHALLENGING ENVIRONMENT

The past financial year was an extremely challenging one for Santam, as it was for all players in the South African short-term insurance industry.

In the midst of turmoil and uncertainty – even despondency in some quarters – one insurer came through this test of fire with its values of fairness and of keeping its promises intact. One insurer ended 2009 with a larger market share, better systems, more fiercely loyal clients, better motivated staff and a well-founded reputation that the worst recession in eight decades served only to enhance and fortify. That company is Santam.

FACING THE CHALLENGE

The past financial year represented the third successive year of a downturn in the short-term insurance cycle. Of course, what we experienced was much more than that.

Insurance is contingent on, and a reflection of, broader national economic vigour. In recessionary times, insurance markets soften, premium growth slows and claims rise. The latest economic downturn has proved no different to any that went before.

It is thanks to the diversified nature of our business, our faith in the intermediated model – from where we draw our support – and especially, a significant improvement in our investments, that in 2009 Santam emerged from a third year of poor underwriting conditions in robust shape.

In 2009 our personal lines underwriting performance came under enormous pressure. As we experienced the previous year, in a recessionary environment individuals claim larger amounts more frequently. In 2009 we, and our competitors, continued to experience clients cancelling or reducing their cover due to pressure on disposable income. The traditional personal market is now largely saturated and the emerging middle class tends to favour the direct route, if it insures at all. The typical Santam personal lines client is in the mid to upper Living Standards Measures, has a broker and is therefore less likely to cancel cover in times of economic distress, but of course some do reduce their cover. Increasing premiums to cover increased claims costs is extremely difficult to achieve. While our personal book was flat in unit terms, we believe that our performance in this area was creditable, particularly when considering that some of our competitors were more focused on growth than profit.

UNDERSTANDING OUR CLIENTS

Competition between insurers and intermediaries increased sharply in the year under review and premium increases were restricted to lower single-digit percentages. The work we have done to develop an incisive market segmentation model stood us in good stead in this environment. In 2008 Santam set out to ensure that it understood its clients as well as it understood risk. In 2009 we built on our market segmentation programme of the previous year by rolling out a broad range of client-centric initiatives. These focused on

our deep understanding of the differences in clients' needs, attitudes and purchase behaviour, enabling us to meet a variety of insurance requirements more optimally.

For personal clients we improved our claims processes, raised claims limits and offered improved cover, while at the same time giving clients a greater choice of optional extras relevant to their particular needs. We also introduced our Personal Accident Policy in response to amendments in the Road Accident Fund Act. Identifying practical and meaningful rewards for those clients who actively manage their risk is an ongoing priority.

The announcements that Santam would replace certain personal items within eight hours and remove unnecessary jargon from our contracts were groundbreaking initiatives that further differentiate us from our competitors, both intermediated and direct.

In 2009 Santam progressed the development of its "Find a Broker" initiative, just one example of how we are giving both our distribution channel and our clients better service and greater choice and transparency. Our commercial offering is being improved and streamlined, for instance by modifying the renewal model, revising motor premium calculations and simplifying our excess structures.

EARNING LOYALTY

We do not set out to win awards at Santam. Rather, our business practices are guided by a desire to win the loyalty of our clients and partners. However, there are certain respected industry awards that serve as important independent endorsements of our strategic progress in relation to our key stakeholders. To come out on top in each of these, as Santam did in 2009, is both extremely gratifying and a most heartening indicator of our all-round advancement.

This year Santam was named the top short-term insurer in the Ask Afrika Orange awards, in which consumers are asked to rate their preferred suppliers in a number of categories – further proof that our investments in our people in client-centric systems and solutions are working.

Another award which we were delighted to receive was bestowed by the Financial Intermediaries Association of Southern Africa (FIA). This influential organisation named Santam the best short-term insurer in the personal, commercial and corporate categories, a hat-trick that speaks volumes about the quality of our people as well as the resources and systems they have available to service our clients.

In 2009, as mentioned by the Chairman, we finalised the implementation of our Broker Management Model Project (BMMP), a re-engineering of our broker support operations, proving to be as much a boon to our brokers as it has helped

Santam to produce more accurate quotes faster and more efficiently. Other examples, in the past year, of how we have ramped up our risk management solutions include a web-based actuarial quoting and underwriting tool for commercial business – a first for South Africa – and the creation of commercial contact centres and centres of expertise countrywide. In this period our broker managers were provided with additional resources and training, their function changing to that of relationship managers.

Also in 2009, we successfully continued the activation of our Insurance Services Transformation Project (ISTP), an initiative that will encourage customer and broker loyalty by improving their experience of our claims process.

Because of Santam's focus on client centricity and our close working relationships with brokers, in 2009 we were able to marginally increase our overall market share, considerably so among the intermediated insurers. This was a significant achievement, offsetting the inroads made by aggressive direct players and arresting several years in which Santam shed some market share.

Cost containment was a major theme of the year, and total management expenses were restricted to a satisfactory 11% of net premium income, which included 1% for strategic change project costs, another pleasing achievement.

It is because of our people, our brand, the fundamental re-engineering of our processes and systems improvements, of which those mentioned are just a few, that Santam has managed to stay ahead of the pack in a challenging environment.

REALISTIC, APPROPRIATE PRICING

In 2009 the industry was hungry to the point of writing new business at rates that bore little or no relation to the reality of the insured risk. The Santam philosophy on underwriting profit and growth has been as simple as it has been resolute: we are always eager to sign new business but not at unrealistic rates. In keeping with this structure, in 2009 we turned down significant tranches of new revenue and have, on several occasions, declined to renew policies where the client was unwilling to cover the risk at premiums which we judged to be realistic. Balancing growth and profit is a core competency of the Santam business.

RISK MANAGEMENT

Natural catastrophes worldwide continue to rise. In South Africa, external risks are rising all the time, in many cases exponentially. Detailed research over almost four decades proves that our country is getting hotter and drier. Our soil is becoming less fertile, and our roads and communities less safe.

These stark realities pose major threats not only to our industry but to our nation and our world. Santam's response has been intensely practical. We are actively collaborating with like-minded players in our sector to jointly engage with consumers, civil society and government on realistic solutions that will not only manage, but actively mitigate, a rising flood of uncertainty. We are investing more in our own research to better understand how our country is changing, while

incentivising our staff and partners to assist us in creating a World of Certainty.

In this regard, setting appropriate and affordable premium levels at a sustainable basis requires policyholders, personal and commercial, to take some measure of responsibility for their assets. In 2008 and 2009, the standard of risk management practised by the owners of insured assets deteriorated alarmingly. This is another symptom of recession; not only do clients seek to cut back on their premiums, they also cut corners in terms of their safety and security, maintenance and repair regimes. However, the strength of our book, and the loyalty and relative sophistication of those we insure, combined with the strength of our broker network, means that Santam is less exposed to this economic reality than its competitors. These factors also enable us, along with our intermediaries, to engage more meaningfully with our clients, to offer risk management advice that is more likely to be taken up and actually implemented.

Our corporate property portfolio fell well short of targets in 2009, with property and motor being particularly hard hit by rising claims in the personal lines space. We responded proactively to this development, taking sometimes painful corrective action, and are confident of restoring this important section of our business to profitability in 2010.

In the first six months of 2009 our corporate business was badly affected by a number of unprecedented large fire claims. These events served to reinforce our drive to work with clients on managing risk more effectively, to deliver on Santam's promise of a World of Certainty. The second half of the year returned a much more satisfactory corporate property result, with margins improving substantially.

In this respect, the acquisition of Emerald Risk Transfer (Pty) Ltd, with that team's specialist knowledge and skills, will assist us in dealing with the challenge in the corporate property business unit.

FINANCIAL HIGHLIGHTS

Being highly diversified was the key to Santam achieving an underwriting result of R453 million (2008: R739 million). Our specialist business classes all posted excellent results, noteworthy contributions being achieved by liability, engineering, agriculture and alternative risk.

Investment return on insurance funds of R420 million was lower than the R540 million in 2008, mainly as a result of lower interest rates, despite higher float balances. The combined effect of insurance activities resulted in a net insurance margin of 6.8% for the year compared to 10.9% in 2009.

Our investment returns, despite lower interest rates, improved markedly in 2009, as equities returned to positive territory and our hedging strategy achieved very pleasing results. The group delivered significantly improved earnings, with headline earnings of R1022 million up 55% on 2008. This equated to headline earnings per share of 906 cents compared to 586 cents in the prior year.

The group solvency ratio was a healthy 44% at 31 December 2009, on par with 2008, and within our long-term target range of between 35% and 45%.

EXPANDING INTERNATIONALLY

Our underwriting business is today almost exclusively focused on South Africa, but we are committed to diversifying by entering new markets where we believe we can add value to the market and our partners, and where we are confident of an acceptable return on investment. As the Chairman has discussed, Santam recently exited its European ventures with a minimal impact on the balance sheet. We have by no means, however, retreated from our goal of exporting our brand. In 2009 we were greatly encouraged by the achievements of the new phase of our international expansion strategy, focusing on emerging markets in Africa and India.

Working in these markets with well-established partners who value Santam's expertise and brand values, we are well on the way towards making new investments.

Our move into markets including Ghana, Zambia, Zimbabwe, Malawi, Mozambique, Tanzania and India has been significantly assisted by using the footprint of our majority shareholder, Sanlam. In 2009, we further cemented this relationship by working closely with Sanlam Personal Finance and Sanlam Sky on introducing new, bundled products. Our relationship with Sanlam is, of course, as old as our history. It is a relationship that encompasses operational, service and strategic issues that have helped Santam achieve economies of scale and drive down costs, and has always been of the greatest benefit to Santam. At the same time, Sanlam respects our independence and the position of our minority shareholders.

FOCUSING ON OUR PEOPLE

International expansion aims to add shareholder value, further diversify our risk and broaden the career prospects of many of our staff. These are exciting times to be working at Santam. Our internal re-engineering process resulted in a small reduction in headcount but staff overwhelmingly endorsed change as being in the best interests of the company, themselves and their clients.

Our people feel secure, appreciated and listened to. This was borne out by one of our most outstanding achievements of recent years: winning the 2009 Deloitte Best Company To Work For award in the large company category.

We expect a great deal from our people. In recent years we have required even more from them, expecting them to adapt to new circumstances, new and better ways of working and, especially, to sharpen their focus on our clients. In return, we as a company have concentrated on understanding our people's needs and in light of this insight, empowering them.

The result is a company that we are all proud to work for, and one with which our intermediaries and clients are proud to be associated.

Our focus on our people extends to the communities in which they – and our clients – live. Santam has a long history of involvement in communities, and can proudly boast one of the longest-running Corporate Social Investment (CSI) initiatives in the country. CSI is not only about giving back, it is also about

ensuring a sustainable business future by supporting those that support us, and defending an enabling environment in which to operate. Santam's CSI programme was assessed in 2008, resulting in a more targeted approach to such investments. An outcome was a focus on youth, initiated in 2009, while other strategic focus points include tactical CSI investments and staff volunteerism.

LOOKING FORWARD

While there are some tentative signs of a modest economic improvement in the world economy, the likelihood is that South Africa, having taken longer to slip into downturn, will take longer to recover. A more subdued economic growth rate, higher unemployment rate and sluggish investment growth is anticipated.

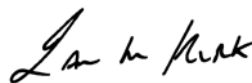
Our claims experience will remain challenging in 2010 and much work remains to be done in all underwriting classes. Meaningful premium increases will be a challenge to obtain. In particular, we need to maintain our tight focus on managing costs and on pricing risks across the board appropriately.

There is great value in being a good all-rounder, particularly in volatile times. Our robust and diversified domestic business recognised advances in each of our strategic thrusts and exciting growth prospects in other developing markets in which we have clear competitive advantages, give me convincing reasons to believe that Santam's prospects are bright.

COST CONTAINMENT WAS A MAJOR THEME OF THE YEAR, AND TOTAL MANAGEMENT EXPENSES WERE RESTRICTED TO A SATISFACTORY 11% OF NET PREMIUM INCOME, WHICH INCLUDED 1% FOR STRATEGIC CHANGE PROJECT COSTS, ANOTHER PLEASING ACHIEVEMENT.

APPRECIATION

I wish to thank our board of directors, especially our outgoing Chairman, Desmond Smith, for their unflagging support and inspiring leadership. Desmond has been involved with Santam for a lengthy period, the past 16 years on the board. He moves on to a new challenge as Chairman of Sanlam and considers it appropriate to stand down as Chairman of Santam in favour of an independent chair. We thank him sincerely for his very significant contribution to Santam. We congratulate him on his appointment and wish him well. My team of executives, all of our people, intermediaries, suppliers and partners deserve to be congratulated on ensuring that for Santam, 2009 was a year to remember.



Ian Kirk
Chief Executive



WHILE UNDERWRITING MARGINS CAME UNDER PRESSURE, ESPECIALLY IN THE FIRST HALF OF THE YEAR, INVESTMENT RETURNS IMPROVED SIGNIFICANTLY, WHICH ALLOWED THE GROUP TO LIFT HEADLINE EARNINGS BY 55%.

After a very challenging first six months, the Santam Group experienced a significantly better second half, resulting in a pleasing overall performance for 2009 against the backdrop of the difficult economic climate.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The group consolidated financial statements for the year ended 31 December 2009 are prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board (IASB), in compliance with the JSE Limited's Listing Requirements.

The accounting policies that have been applied during the reporting period are consistent with those applied in 2008. The financial statements provide comprehensive information regarding the assets, liabilities, income and expenditure of the group as well as those of the company. In addition, detailed background is provided regarding the recognition and measurement of insurance contracts, as well as insurance and financial risks.

In the 2008 statement of comprehensive income, the European insurance operations are presented in terms of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- IAS 1 (revised) – *Presentation of Financial Statements*
The revised standard prohibits the presentation of items of income and expenses (that is “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity. All “non-owner changes in equity” are required to be shown in a performance statement.

Entities may choose to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The group has elected to present one performance statement: a statement of comprehensive income, and to rename the balance sheet “the statement of financial position”.

• IFRS 8 – *Operating Segments*

This standard requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes.

Segments have been identified by business activity, i.e. insurance activities and investment activities. The insurance activities comprise commercial insurance, personal insurance and alternative risks.

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers have been identified as the group executive committee (exco), under the leadership of the Chief Executive.

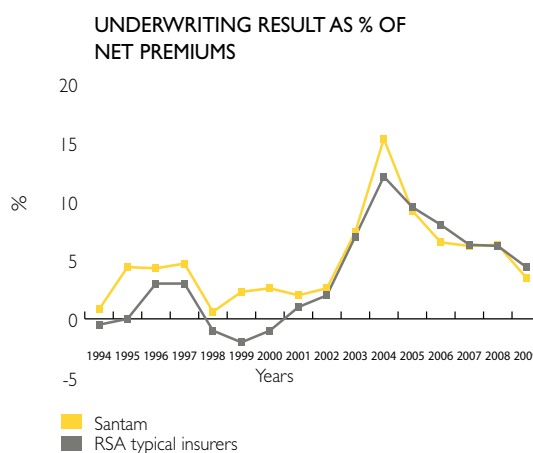
FINANCIAL RESULTS

The salient financial statistics are set out on pages 2 and 3.

Underwriting margins were under pressure for the year, in line with the experience of the industry overall, especially during the first half of the year. Investment returns improved significantly on firmer equity markets, especially when viewed against the poor performance and fair value losses suffered in 2008. As a result, overall earnings for the group showed a significant improvement, with headline earnings of R1 022 million, 55% higher than 2008, equating to headline earnings per share of 906 cents compared to 586 cents in 2008.

Underwriting performance

Santam's underwriting result is inherently cyclical and strongly correlated to the performance of the “typical” short-term insurer in South Africa. The group has, on average, achieved a higher underwriting margin than its peer group, except for the current year, as shown in the following graph.



From an underwriting perspective, 2009 was a year of opposite halves. The net underwriting result of R453 million for the full year was a significant improvement compared to the R88 million reported at the halfway mark. Despite the recovery in the second half, we nevertheless ended the year well below the R739 million of 2008, while the net underwriting margin of 3.5% was well below the 6.4% achieved in 2008.

The underwriting performance of the personal and non-specialist commercial business came under pressure as there was a marked increase in both claims frequency and cost. Although margins in commercial motor remained satisfactory, personal lines motor recorded negative results, in particular that component sourced through the portfolio management business unit. The industry and, particularly the company, were hard hit this year by a number of very large industrial accident and fire-related claims, adversely affecting underwriting margins as evidenced by the negative result of the property class. Our current reinsurance programme did provide sufficient balance sheet protection against these claims. Of the specialist classes, the liability, engineering and crop businesses continued to perform particularly well.

Growth of 6% in gross written premiums was a creditable achievement given the prevailing economic conditions, comparing favourably with industry experience. Positive growth was achieved across most classes of business with the exception of some smaller specialist classes. Santam continued with its policy of only procuring and retaining quality business, especially in the corporate business unit. It remains a challenge, however, to achieve an appropriate rate for the risk insured in certain classes of business.

During 2009, we focused specifically on cost efficiencies to ensure sustainability. The increase in management expenses was limited to growth in net earned premium. The net acquisition cost ratio of 25.9% increased slightly from 25.2% in 2008, mainly due to a higher net commission ratio as a result of reduced reinsurance commission earned.

In line with our aim of optimum retention levels within acceptable risk profiles, the level of reinsurance earned premium as a percentage of gross earned premium reduced by 2% from 16.8% in 2008 to 14.8%. Excluding the impact of cell business, the ratio decreased to 4.5% from 5.9% in 2008.

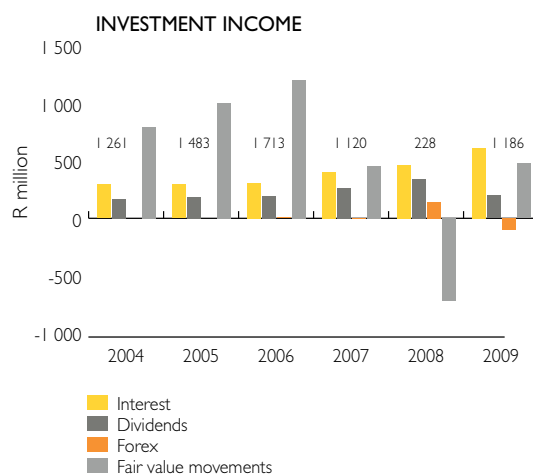
Net insurance result

The investment return on insurance funds of R420 million reduced from R540 million earned in 2008. These lower returns resulted from lower interest rates, despite substantially increased float balances.

The combined effect of the insurance activities resulted in net insurance income of R873 million, representing a margin of 6.8% for the year compared to R1 279 million or a margin of 10.9% in 2008.

Investment income

Investment income comprises interest, dividends, realised and unrealised investment gains and foreign exchange differences. With interest rates at the bottom of the current cycle, the yield on cash instruments was adversely affected. Dividend income was substantially lower in 2009 as listed companies cut back on dividend payments due to the effects of the economic crisis. Following the depressed state of the equity market in 2008, share prices recovered remarkably from March 2009 and the company benefited substantially from its equity portfolio. In light of market uncertainty and volatility at the time, as well as concern that the market had improved too rapidly and the pressure on the underwriting margin, in June Santam hedged a large portion of its listed equity investments in the structure described below.



The strengthening of the Rand during 2009 had a negative impact on the valuations of our foreign currency assets held by our local operations.

Net earnings from associated companies of R49 million was a notable reverse from the negative returns in 2008. This was the direct result of improved earnings achieved by key associates.

Cash flows

The group's operating activities generated R1.84 billion in cash for the year, down from the R2.1 billion generated in 2008 by continuing operations. The lower underwriting profitability was the main contributor.

Dividends

The company paid an interim dividend of 166 cents per share, on par with the 166 cents per share in 2008. The company furthermore declared a final dividend of 300 cents per share for 2009 (2008: 264 cents per share), resulting in a total dividend of 466 cents per share for the year (2008: 430 cents per share) and representing an increase of 8.4%.

Investments

Santam follows a policy of managing its investment portfolios in a diversified manner, investing in all of the major classes of financial instruments, ranging from pure equities to cash-related investments. Our aim is to optimise investment income within the approved risk appetite profile.

Santam utilises derivative instruments to protect its capital on a tactical basis and does not follow a speculative approach in its dealings with financial or derivative instruments. During the latest economic crisis, Santam took further steps to protect its capital from major fluctuations. In 2008 it took a decision to hedge a proportion of its equity exposure by hedging R500 million of its equities through a zero cost collar derivative structure. In June 2009, the company closed out the collar and replaced it with a derivative fence structure covering R2 billion of equities, or approximately 95% of its listed equity securities. The fence structure is linked to the SWIX40 index, which has a strong correlation to the underlying equity securities. The fence has an attachment point of 4471 (SWIX40 index) with downside protection of 10% from said attachment point, as well as upside participation of 20% from said point. At 31 December 2009, the SWIX40 index closed at 5244, 17% above the attachment point. On 31 December 2009, the structure had a negative fair value of R108 million, which was accounted for. This will effectively be released to income over the next six months if the structure is maintained to maturity. It expires in three equal tranches during May, June and July 2010 respectively.

Santam has, for many years, followed a consistent approach, with management of the bulk of its investments being outsourced to independent external fund managers under pre-determined mandates. 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 2009, approximately R7.8 billion of 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.

Refer to page 138 for a detailed analysis of the investments. In short, the composition of Santam's total investments was as follows at 31 December:

| ASSET CLASS COMPOSITION | 2009 R'm | 2009 % | 2008 R'm | 2008 % |
|-------------------------------------|---------------|--------------|---------------|--------------|
| Equities – Quoted | 2 855 | 23.1 | 2 199 | 19.7 |
| Equities – Unquoted | 319 | 2.6 | 347 | 3.1 |
| Preference shares – Quoted | 2 | — | 196 | 1.8 |
| Preference shares – Unquoted | 396 | 3.2 | 543 | 4.9 |
| Bonds | 2 395 | 19.4 | 2 145 | 19.2 |
| Unitised funds | 370 | 3.0 | 369 | 3.3 |
| Derivative | (117) | (0.9) | 136 | 1.2 |
| Cash and cash equivalents | 1 379 | 11.2 | 1 938 | 17.4 |
| Short-term money market instruments | 4 554 | 36.9 | 3 089 | 27.7 |
| Associated companies | 198 | 1.6 | 195 | 1.7 |
| TOTAL | 12 351 | 100.0 | 11 157 | 100.0 |

GROWTH OF 6% IN GROSS WRITTEN PREMIUMS WAS A CREDITABLE ACHIEVEMENT GIVEN THE PREVAILING ECONOMIC, CONDITIONS COMPARING FAVOURABLY WITH INDUSTRY EXPERIENCE.

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, also linked to the current and future regulatory capital requirements in terms of the existing as well as to the newly formulated Solvency Assessment & Management (SAM) requirements;
- the allocation of capital between business units; and
- the appetite, level and type of risk within the company.

Issue of shares

The company did not issue any new shares during the year. Refer to note 14 of the annual financial statements for detail of the issued shares.

Treasury shares

Following on the large voluntary share buy-back in 2007, the group held a total of 7 087 168 Santam shares, classified as treasury shares. During 2009, the group bought back a further 607 406 shares in the open market at a cost of R52.8 million. A total of 795 365 shares were reissued in terms of the staff share incentive programme.

Credit rating

In May 2009, Fitch Ratings affirmed Santam's Insurer Financial Strength rating of AA+ (double A plus), but revised the outlook from stable to negative. The revised outlook was as a result of the deterioration in economic and market conditions in South Africa. Fitch revised Santam's rating of AA- (double A minus) on the Santam subordinated debt of R1 billion issued in 2007, to A+.

During July 2009, Global Credit Ratings Company (GCR) accorded Santam a domestic ZAR currency claims paying ability rating of AAA (triple A), which is the highest rating that can be attained by an insurance company. Furthermore, a domestic ZAR currency long-term subordinated debt rating of AA- (double A minus) was assigned to the company's R1 billion subordinated debt issue. This is indicative of very high credit quality and strong protection factors.

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 purely economic risk capital perspective, the current solvency requirement is slightly below 20%. The excess is maintained for the following reasons:

- as a buffer over regulatory capital requirements (currently a solvency level of 25%);
- to fund new business growth;
- to maintain Santam's insurer financial strength credit rating; and
- to allow for any potential investment opportunities.

The group solvency ratio of 44% at 31 December 2009 was at the higher end of the long-term target range of 35% to 45%, similar to the 44% reported at the end of 2008. Net asset value per share increased from 3 785 cents at the end of 2008 to 4 249 cents at the end of 2009.

THE AIM IS TO INCREASE
SHAREHOLDER WEALTH BY
ASSISTING MANAGEMENT TO
MAKE INFORMED, STRATEGIC
BUSINESS DECISIONS

BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

The Santam BBBEE scheme consists of three components, 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. Within the trusts, allocations are made to beneficiaries according to the specific rules of the respective trust deeds. At 31 December 2009, the total value in the scheme was approximately R280 million. During 2009, the dividend income received by the structure housing the scheme was sufficient to fully service the senior debt facility.

During 2009, the scheme made a third unit allocation in the Emthunzini BEE Staff Trust to new black staff members that joined the Santam group during the year; as well as to black staff who were promoted since the previous allocation.

It is intended to identify more strategic black partners for further awards during 2010 and a fourth unit allocation will be made to black employees at the end of 2010.

In total, 25% of the value in the scheme will be allocated to specific projects in previously disadvantaged communities. Early cash distributions might be made towards participating projects during 2010 if market conditions are favourable.

CORPORATE ACTIONS

The following corporate transactions were completed during the year ended 31 December 2009:

- on 26 July 2009, the group increased its investment in Isure Services (Pty) Ltd from 25% to 100%;
- on 1 October 2009, the group sold its 100% shareholding in Pinion Insurance Brokers and Pennant Administrators (Pty) Ltd;
- during 2009, the group increased its shareholding in MiWay Group Holdings (Pty) Ltd from 25.25% to 31.3%;
- on 17 December 2009, the group sold its 35% interest in Lion of Africa Holdings Company (Pty) Ltd.

The following corporate transactions were completed in the period 1 January 2010 to 3 March 2010:

- acquisition of Emerald Risk Transfer (Pty) Ltd, a specialist corporate property underwriting agency, effective 1 January 2010;
- the group concluded an agreement for the acquisition of Kagiso's 33.33% of Centriq Insurance Company Ltd, effective 1 January 2010. This transaction is still subject to regulatory approval.

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

REGULATORY SOLVENCY AND CAPITAL REQUIREMENTS

The Financial Services Board (FSB) is in the process of developing a new solvency regime for the South African long-term and short-term insurance industries to be in line with international standards. This will be done under the new Solvency Assessment and Management (SAM) banner. Earlier work on a revised capital regime for the short-term insurance industry, under the Financial Condition Reporting (FCR) banner, will now be superseded by, and incorporated into, the SAM project.

The basis of the SAM regime will be the principles of the Solvency II Directive, adopted by the European Parliament, but adapted to South African specific circumstances where necessary.

The proposed implementation date for the standardised approach for short-term insurers is January 2014, given the considerable work that has already been undertaken in this area through the FCR project. The target date for implementation of the internal model approach for short-term insurers is also January 2014.

As previously reported, Santam developed an internal DFA (Dynamic Financial Analysis) model of the business to assist management with risk quantification and decision-making, in line with best practice. The model is used extensively in the various 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 for determining its capital requirements once SAM has been enacted by the FSB, and will be ready to implement the model by the 2014 deadline. Expectations are that capital requirements for Santam under this approach will be somewhat lower than the current 25% solvency requirement.

NEW LEGISLATION

There were developments on the legislative front that will have an impact on Santam. In summary they are:

Insurance Laws Amendment Act, 2008 (Act No. 27 of 2008)

The Insurance Laws Amendment Act (ILAA) was promulgated at the end of 2008 to amend certain definitions of the Short-term Insurance Act, among others. The ILAA came into effect on 17 December 2008, with the exception of provisions relating to the definition of "accident and health policies" and section 48 intermediaries. Government, in consultation with stakeholders, is in the process of drafting regulations relating to "accident and health policies" and binder agreements, which will provide more detail and clarity on what is or is not permissible. It is envisaged that the regulations will be finalised during 2010, although their effective date might be deferred to a later date, given their foreseen impact on the industry.

Companies Act, 2008 (Act No. 71 of 2008)

The Companies Act (promulgated 9 April 2009) provides for the creation of various bodies that will each regulate various aspects of the Act. The Act further provides for more transparency, disclosure and accountability. Liquidity requirements are also provided for in the Act, and the common law duties of directors are codified therein. The Act, among other things, regulates the composition of audit committees, fundamental transactions, affords greater protection to shareholders and provides for business rescue in certain circumstances. It is anticipated that the Act will come into effect later in 2010.

Competition Amendment Act, 2009 (Act No. 1 of 2009)

The Competition Amendment Act (Amendment Act) was promulgated in August 2009, and will come into effect on a date yet to be proclaimed by the President. The Amendment Act seeks to regulate anti-competitive conduct more rigorously; thus the Act provides for the personal liability of directors and management in the event of restrictive horizontal practices; prohibits firms from paying fines and legal costs on behalf of managers and directors convicted of anti-competitive conduct; and empowers the Competition Commission to initiate market inquiries. The Amendment Act also provides for complex monopolies in order to deal with abuse in concentrated markets.

Consumer Protection Act, 2008 (Act No. 68 of 2008)

The Consumer Protection Act was enacted in April 2009, and will come into effect in October 2010. The Act aims to rid the market of unethical trading practices, unsafe products, unfair discriminatory marketing, and to protect consumers' rights to privacy and information about products or services being offered. The Act specifically provides for strict liability on producers, importers, distributors and retailers of all products, among other things, which will impact Santam.



Machiel Reyneke
Financial Director

GLOBAL CREDIT RATINGS
COMPANY (GCR) ACCORDED
SANTAM A DOMESTIC
ZAR CURRENCY CLAIMS
PAYING ABILITY RATING
OF AAA (TRIPLE A)

SEEING THE WORLD THROUGH OUR CLIENTS' EYES



SEEING
THE WORLD
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CLIENTS' EYES

PUTTING CLIENTS AT
THE CENTRE OF OUR
THINKING.

Whether they buy food, clothing or electronic equipment, global trends have seen customers become increasingly demanding about what they buy and from whom they buy it. They are looking for greater choice and more transparency in their products – and they want to know such items have been produced and sourced in an ethical fashion.

Recent developments and experiences in the local short-term insurance sector have been no different. Clients have made it clear that the industry should cut to the chase: they want straight-talking insurance that is easy to understand but detailed enough to suit their specific needs. In short, they require greater product transparency, choice, simplicity and value-add.

Santam has listened to these demands. But more than that, we have responded by introducing a set of insurance products that our clients want to buy, rather than what we want to sell to them.



In-depth research and market segmentation have given us a better understanding of our clients as unique individuals with distinctive insurance needs and risk behaviour. And it has enabled us to introduce a customised approach to clients that puts them at the centre of all our decision-making, rather than adopt a standard method of dealing with clients.

Fulfilling our core objective – to proactively and sustainably manage our clients' risk in conjunction with our intermediaries and clients themselves – encompasses constant aligning of our product and service offering with the requirements of particular market segments. As such, we believe in regular introspection, especially when economic conditions change or we identify new risks and opportunities in the sector.

The building blocks of client centricity

Sonja Sanders, Santam's Innovation Hub Manager, says client centricity entails more than improving client service – it influences how Santam staffs its departments, develops processes and solutions, and invests in systems.

"Client centricity affects all aspects of our business – information technology, marketing, risk services, insurance services and human resources.

It is a company-wide, concerted effort to provide relevant solutions, prioritise efficient implementations and deliver a total client experience that is consistent across Santam and that will ultimately give us a competitive advantage."

Santam has concentrated on ensuring our client-centric philosophy becomes an integrated function of our company strategy for 2010 and beyond.

Conducting extensive research among short-term insurance users, we have grouped them into market segments based on similarities and differences in how they think about short-term insurance, their needs and their purchase behaviour.

This deep segment insight has enabled Santam to develop targeted insurance and risk management solutions that meet the needs of current policyholders and future clients more optimally.

We have also identified priority sectors with the best future potential and strategic fit with our operating model. Focusing our resources on areas where we stand to achieve the greatest return on investment underpins the sustainability of our business and is in the best interests of our clients, partners and stakeholders.

Product innovation ensures a sustained client base

Sonja says the client-centric approach has introduced a number of innovations in Santam's personal insurance lines.

One of the most significant changes is the upgrade of Santam's flagship product, formerly known as MultiPlex. Clients are now able to access higher cover limits, while new basic covers are available, such as loss of water and cover before vehicle or property transfer. Better targeted optional extras, such as 4x4 and B&B cover extensions have also been incorporated.

In addition, the policy wording has been simplified and a new policy schedule layout has been introduced.

To speed up the claims process and improve clients' claims experience, Santam has introduced regular claims status updates, pre-approved Santam suppliers and a repair guarantee. In addition, personal claims managers now handle clients' claims from start to finish.

Willoe Myburgh from Santam Product Development says since the product's launch, Santam has recorded low cancellation figures compared to the past five years, and product sales have stayed constant in difficult market conditions.

"Additional growth and retention actions by the Personal Lines Underwriting department and the Personal Lines Call Centres contributed to the positive trend, which was sparked by the product innovation."

In the commercial market, Santam has also amended its products and services for a number of sectors, such as the agriculture, tourism and entertainment industries.

Client centricity shapes client behaviour around risk management

While Santam has worked extremely hard at improving the quality of our clients' experience, our risk management approach necessitates that they participate in assessing and limiting their own risk.

Developing client-centric differentiation opportunities provide clients with customised but also competitive solutions, which enable them to better control the likelihood and consequence of risk.

However, Santam is aware that clients cannot manage all the risk introduced into their environments, in particular from a policy and legislative perspective. For example, the 2008 amendments to the Road Accident Fund Act significantly reduced a road user's claim against the Fund following injury due to a vehicle accident.

Sonja says from a short-term insurance perspective the best solution for an insured person would be to ensure appropriate and sufficient personal accident protection.

"It is against this background that Santam now offers a Personal Accident Policy, which provides protection to South African consumers for accidents, whether on the road or elsewhere."

Clients trust our intermediary network, and so do we

Client centricity means we put the policyholder at the core of our decision-making.

But this does not mean direct interaction with the client without input from our intermediaries. Rather, the client-centric approach enables Santam to provide our intermediary network with the tools and expertise to build longer-lasting, better-quality relationships with clients – because they can offer a differentiated experience.

Sonja says research has shown that the majority of its valuable clients sees great benefit in using a broker and prefers this channel.

Santam's client-centric approach therefore also encompasses channel innovation – ensuring improved collaboration with our intermediaries and offering them greater service choice and ease of access – which translate into better product and service delivery.

Sonja says feedback from our network on how staff and intermediaries deliver on Santam's client-centric way of doing business has been extremely positive.

"Compared to offerings from competitors, our new product upgrades score best in terms of limits, choice and ease of use."

Independent feedback shows Santam's client-centric brand stands out

Our journey towards client centricity has improved Santam's brand awareness in the marketplace. This was borne out when the SundayTimes Top Brands Awards 2009 rated us as one of South Africa's top brands in the business-to-business category for short-term insurance.

The SundayTimes Top Brands are identified from interviews with individuals and business people on which brands they use regularly and on their ratings of such brands. The survey also looks at 'brand clout' – how much better a brand is rated than average among its users and non-users – and whether a brand's users are much happier than the users of other brands.

Santam treats client satisfaction metrics – whether applied externally through surveys or internally as part of Santam's sustainability strategy – as equally important to financial scorecards in evaluating groups and people. And these leave us with no doubt – our clients appreciate Santam putting itself in their shoes.



Background

In this section of the Annual Report, we briefly describe our approach to managing sustainability at Santam. For a comprehensive review of our management of sustainability and our performance on matters related to the environment, society and governance (ESG), for the period 1 January – 31 December 2009, please refer to:

- Our full 2009 Annual Sustainability Report, published online at (www.santam.co.za).
- Other sections of the 2009 Annual Report which provide sustainability-related information, including Highlights and Challenges (page 2), Introducing a World of Certainty (page 6), Chairman's review (page 27) and Chief Executive's report (page 31).
- Our majority shareholder, Sanlam, which owns 53.51% of Santam, publishes the Group Sustainability Report for 2009, available at (www.sanlam.co.za).

Should you require more information or if you have any queries about sustainability at Santam, or wish to comment on the effectiveness of our sustainability reporting, please contact:

Ray-Ann Sedres

Head: Integrated Sustainability & Corporate Social Investment (CSI)

Ray-Ann.Sedres@santam.co.za or 021 915 7289.

Our approach to sustainability

It is commonplace for companies to report annually on their sustainability performance, yet often they do so without clearly articulating why sustainability is relevant to their business and its ongoing performance.

At Santam, we have developed a clear business case for sustainability. We recognise that taking account of ESG risks and opportunities is the only way to ensure our business will continue to thrive within a complex and shifting external environment. At the same time, we acknowledge that we must act in a prudent and responsible way to fulfil our social and environmental contract with society.

In this changing business environment, we know we need to manage escalating expectations and increasingly complex relations in society. We understand and respect the interdependence between Santam and our people, our brokers and other intermediaries, our suppliers and our many other stakeholders such as regulators and government. We strive to understand the needs of these stakeholders and to enter into relationships with them that serve our interests as well as theirs. We know these relationships are vital to maintaining our position as the leading short-term insurer in South Africa.

Our approach is also guided by various standards and legislation, such as the third King Report on Governance for

South Africa (King III), the Financial Sector Charter (FSC) and the Department of Trade and Industry's Codes of Good Practice for Broad-based Black Economic Empowerment (dti codes), the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines and the JSE Limited's Socially Responsible Investment (SRI) Index. Santam was included once again on the SRI Index in 2009 and was rated one of the best performers in the low-impact sector. King III, in particular, has provided valuable insights on governance and sustainability, and Santam has made good progress in aligning to most of King III's requirements, although there are others that require more attention.

What sustainability means to Santam

To become a truly sustainable business, we began by defining what sustainability means to Santam. Some three years ago, we developed a very clear sustainability management framework to articulate our sustainability risks and opportunities, and to define how we respond. The process

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of developing the framework drew from leading practice among international insurers, GRI recommendations, and other recognised codes and standards. Importantly, it also involved consultation with senior managers to ensure that the issues included were relevant to our business and consistent with our existing systems. Engaging management in this process helped us devolve the ownership of each sustainability issue to those responsible for day-to-day operations. Our sustainability management framework covers 10 main sustainability objectives, which are divided into four clear themes to make them tangible for the business. The four themes are:

- inspire our people;
- grow the business;
- protect the environment; and
- transform the business.

The 10 sustainability objectives are subdivided into some 40 unique sustainability elements that we consider crucial to our business. Each element has its own points of managerial responsibility and systems across the organisation to support the implementation of the framework. The objectives are:

1. **A sustained client base** – A crucial driver of our client-centric strategy, incorporating the following elements: alignment of products, processes and initiatives to client needs and expectations; client satisfaction, retention and growth; and client privacy/confidentiality.
2. **A sustained broker/intermediary base** – Incorporating the following elements: maintaining equitable relationships with intermediaries; growing the black broker intermediary base; the impact of HIV/Aids on our intermediary base; and intermediary compliance with industry standards (such as FAIS).
3. **A sustained supplier base** – Incorporating preferential procurement; and environment, health and safety in the supply chain.
4. **Maintaining an ethical culture and managing fraud** – Incorporating management of fraud; management of ethical behaviour related to advertising; and application of ethical behaviour through the values process aimed at staff.
5. **Solutions aligned to social and environmental needs** – Focusing specifically on growing our product and service offerings for the emerging market.
6. **Human capital** – Incorporating the attraction, retention and development of employees with the emphasis on equity; the impact of HIV/Aids on our workforce; and occupational health and safety of staff while at work.
7. **Extending influence for the benefit of society** – Incorporating the following elements: aligning CSI initiatives with social, business, economic and environmental needs; and our broader socio-economic influence on society.
8. **Transformation, including ownership and control** – Covering all elements of broad-based BEE in line with the dti codes.
9. **Responsible investments** – Covering direct investment to address social, economic and environmental needs.
10. **Managing impacts on the environment** – Incorporating products and solutions adapted for environmental change; and internal facilities management to support Santam's environmental positioning.

How we govern and manage sustainability

Santam has clear structures in place to ensure that we integrate sustainability into our business strategies, processes and operations, in line with our sustainability management framework described above.

At governance level, we have a four-member board sustainability committee, which meets quarterly to deliberate on sustainability matters. We have also formalised a sustainability charter which provides management with a high-level expression of intent.

The governance of sustainability draws on the established systems and reporting templates used for the risk management process. At each sustainability committee meeting, general feedback is provided on each of Santam's 10 sustainability objectives via a sustainability risk log. This documents progress and highlights aspects that require attention in the following quarter. In addition, at each quarterly meeting more detailed feedback is provided on specific components of the sustainability management framework in accordance with an annual schedule of report submissions. Feedback in accordance with the risk log is reviewed by Internal Audit. The chairman of the sustainability committee reports to the board on pertinent issues.

At management level, Santam has established a dedicated Integrated Sustainability unit. The head of this unit reports to the Executive Head of Market Development, which ensures direct access to the Santam executive committee. The head of Integrated Sustainability facilitates, co-ordinates, oversees and reports on sustainability, as opposed to direct implementation, and this role is defined by and measured against clear key performance areas.

Over the past three years, we have made good progress in setting up structures that have the necessary executive authority and provide the crucial reach into our business operations. To ensure that sustainability is integrated within

WE RECOGNISE THAT
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TO THRIVE.

the business, accountability for each of the 10 identified sustainability objectives has been placed with a senior line manager (referred to as component owners) in each functional area. These component owners are responsible for monitoring and reporting on progress in the elements pertaining to each objective. In addition, we have established dedicated positions and appointed staff to take custody of enterprise development, environmental management and stakeholder relations.

Integrating sustainability

King III advocates an integrated approach to sustainability management and reporting. At Santam we have achieved a level of integration through our sustainability management structures. We also have co-operative relationships with business functions such as risk management, strategy development and stakeholder relations. In this way we aim to provide better value to the business and to avoid duplicating the management of issues. However, we do recognise that we still have some work to do to improve the way we integrate sustainability into the business through our management structures and business processes.

We believe that reporting on sustainable practices should be a consequence of business actions and not an end in itself. Throughout this Annual Report we have highlighted our achievements and progress on select issues that form part of our sustainability management framework.

SUSTAINABILITY, THEN, IS AS MUCH A MEASURE OF BUSINESS PERFORMANCE AS ARE PURELY FINANCIAL MATTERS SUCH AS MARGINS, PRODUCTS AND MARKETING.

A breakdown of pertinent sustainability issues in relevant sections of the Annual Report follows:

- Highlights and Challenges give an overview of ratings and awards that reflect our achievements in sustainability, while indicating the areas where our performance has not met our expectations.
- Introducing a World of Certainty deals with the concept of risk management from a stakeholder and systems perspective.
- The Chairman's review discusses our initiatives in talent management, broker relations, climate change, transformation and ethics.
- The CE's report focuses on client segmentation, client centricity and the broker intermediation model, as well as staff satisfaction and community development.

In addition, this Annual Report includes four case studies, all of which provide more detail on initiatives that are integral to our sustainability framework.

In the past year, we have also made good progress towards integrating sustainability messaging in our corporate communications. This is not only important in terms of

reputation, but also to positively influence the behaviour of our stakeholders and ensure that our intentions with regard to sustainability management are clearly understood. This Annual Report and our online Annual Sustainability Report are examples of communication media that carry the sustainability message. Other forms of communication which provide extensive coverage of sustainability issues include our internal magazines for staff and brokers. *Essence* is produced bi-monthly for all internal staff, while *Focus* is produced as a quarterly magazine for brokers.

Our management priorities for 2010

We view our sustainability management framework as a work-in-progress, and recognise that ongoing effort is needed to refine its underlying objectives and integrate it further with our business operating systems. In this way we aim to ensure that the concept of sustainability remains relevant and is embedded in our business. During 2010, we will focus on the following improvements:

- Focusing on better management, communication and stakeholder engagement.
- Aligning the sustainability risk log with the overall Santam risk management universe through the introduction of the CURA enterprise risk management system.
- Ensuring greater rigour in the management and reporting of sustainability performance by component owners.
- Increasing integration and alignment between sustainability and other oversight functions, such as business strategy, risk management and stakeholder engagement.
- Integrating our sustainability and business reporting more comprehensively.
- Continuing to take very seriously the effects of climate change on our business, and managing this risk through in-depth investigations and practical initiatives, as well as interacting with our global peers through ClimateWise.

At Santam we recognise that we need a stable society, a growing economy and a healthy natural environment for our business to sustain the level of success it has enjoyed until now. Indeed, it is our own and our peers' efforts in this regard that will make for a more prosperous South Africa, and so enlarge our marketplace while reducing the levels of crime, poverty and environmental degradation that threaten our country. This holds true for the other developing countries in which we seek to grow our business in future. Sustainability, then, is as much a measure of business performance as are purely financial matters such as margins, products and marketing. No one element is more important than another and, in concert, they offer us business opportunities that will continue to position Santam for future success and growth.



BPVUNDLA

JP ROWSE

NM MAGAU

JG LE ROUX

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 in all the company's undertakings.

The board supports the Code of Corporate Practices and Conduct set out in both the King II and King III Report on Governance for South Africa, and is satisfied that the company has met the requirements of transparency, integrity and accountability in the year under review.

COMPLIANCE WITH THE CODE OF CORPORATE PRACTICES AND CONDUCT

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

BOARD AND COMMITTEES

Structure

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

Composition

In 2009, 15 directors served on the board, including two executive directors and 13 non-executive directors. The board currently comprises 14 directors.

Effective operation of the board is principally the responsibility of the Chairman who is an independent non-executive director. There is a clear division of responsibility between the various roles within the company's corporate governance structure.

The company's governance structure is set out below:



The board is accountable for:

- allocating major roles and responsibilities according to the company's Delegation of Authority framework. This ensures that individuals take the interests of all stakeholders into account in the performance of their duties;
- adopting clear and formal procedures, including a board charter;
- ensuring there are clear and formal procedures in key areas, so that regulators and auditors can readily review decisions and actions, both internally and externally; and
- conducting business in accordance with the company's code of ethics.

Non-executive directors are all able to influence decision-making. They come from various industries and possess extensive skills and business experience. It is their responsibility to ensure 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 impartial judgement of any non-executive directors.

Changes during the year

- Ms RK Morathi resigned from the board in August 2009.
- Dr YG Muthien was appointed to the board in November 2009.

| BOARD MEMBERS IN 2009 | | | | | |
|-----------------------|-----------|---------------|---------------------------|----------------------------|------------------------------|
| Name | Executive | Non-executive | Independent Non-executive | Race W=White B=Black | Gender M=Male F=Female |
| BTPKM Gamedze | | * | | B | M |
| DCM Gihwala | | | * | B | M |
| IM Kirk | * | | | W | M |
| JG le Roux | | | * | W | M |
| NM Magau | | | * | B | F |
| JP Möller | | * | | W | M |
| RK Morathi | | * | | B | F |
| YG Muthien | | * | | 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 |
| Key: (*) = Present | | | | | |

- the company's Articles of Association;
- the Companies Act;
- the Short-term Insurance Act; and
- 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 it exercises full control over significant matters including strategy, finance and compliance. The board is regularly advised and updated on the activities of the company. On appointment, directors complete a formal induction programme and receive appropriate training and guidance on their duties and responsibilities.

A copy of the board charter is available on request from the Group Secretary.

Salient features

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,

ACCESS TO THE COMPANY SECRETARY

Directors have access to the services and advice of the Group Secretary and may take independent professional advice, at the company's expense, as and when required in fulfilling their duties.

BOARD CHARTER

Objective

The board's responsibility to ensure best practice in company conduct is entrenched in the board charter. The charter delineates the powers of the board, which ensures an appropriate balance of power and authority.

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

while the Companies Act of 1973, the common law as enforced in the courts of the country and the Delegation of Authority document, last reviewed by the board on 25 November 2009, and occasional amendments thereto, govern the exercise of these powers.

The following matters are reserved for the board:

I. Approval of

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

2. Composition of the board, board committees and board evaluation.

3. Monitoring risk management and internal controls.

4. Sustainability management.

The board regularly reviews its charter to ensure alignment with the principles of good corporate governance.

B. Responsibility and accountability

Delegation of authority

The company's Delegation of Authority document provides an approval framework to ensure the company is optimally managed within a decentralised management environment. At the annual general meeting (AGM), shareholders grant general authority to the board 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. The board reviews all delegated authorities annually.

Chairman

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

Chief Executive

The Chief Executive is in charge of managing the company. He plays a critical and strategic role in the operational success of the company.

Executive and non-executive directors

The directors 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 they act in the best interest of the company at all times, and do not 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. Ultimate responsibility rests with the board and the board does not abdicate its responsibility to the committees. The responsibilities of the committees are contained in their respective charters, which are approved by the board. The chair of each committee makes a presentation to the board on issues tabled for discussion at the committee meeting.

Group Secretary

The Group Secretary 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. There is an appropriate balance of power and authority on the board. The independent non-executive directors have a standing closed-session agenda item to deliberate on any issues that they may want to discuss with the Chairman or the Chief Executive and/or any other directors due to Sanlam Limited being a control shareholder.

D. Board evaluation

The board regularly reviews the range of skills, experience and effectiveness of its directors. This is done using a formal evaluation questionnaire developed according to the recommendations of the King II and King III reports. Every year, a collective board-effectiveness evaluation is conducted. This assessment is 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 as appropriate.

E. Dealing in securities

The company has a policy in place that sets out the procedure directors have to follow before they or any of their associates, as defined in the JSE Listing Requirements, deal in the company's securities.

Directors must obtain written authorisation from the Chairman to deal in company securities. In terms of the policy, directors and senior management must also comply with JSE Listing Requirements. Employees that may access

price-sensitive information by virtue of their positions are prohibited from trading in Santam securities during the company's closed periods, which correspond to the preparation and publication of its financial results. In terms of the policy, directors' dealings in securities are disclosed to the JSE Limited via the company's sponsor, Investec Securities 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 issues listed above.

BOARD MATTERS

BOARD MEETINGS

The board met four times at scheduled meetings in 2009. The board meets at least once every quarter and holds a strategy session in August.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Executive and non-executive directors are subject to rotation every three years. Shareholders have the right to nominate a director and five other shareholders must second the nomination. An abridged CV of the nominated director is sent with the notice 14 days before the 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 following AGM and stand for re-election by shareholders.

| ATTENDANCE SCHEDULE | | | | | |
|---|---------------------|----------------|--|-------------------|---------------------|
| | 24 February 2009 | 27 May 2009 | (Strategy session) 25 August 2009 | 26 August 2009 | 25 November 2009 |
| BTPKM Gamedze | * | * | * | * | * |
| DCM Gihwala | * | * | * | * | * |
| IM Kirk | * | * | * | * | * |
| JG Le Roux | * | * | * | * | * |
| NM Magau | * | * | A | * | A |
| JP Möller | * | * | * | * | * |
| RK Morathi | * | * | (Res) | — | — |
| P de V Rademeyer | * | * | * | * | * |
| MJ Reyneke | * | * | * | * | * |
| JP Rowse | * | * | * | * | * |
| YG Muthien | — | — | — | — | (App) |
| GE Rudman | * | * | * | * | * |
| DK Smith | * | * | * | * | * |
| J van Zyl | * | * | * | * | * |
| BP Vundla | * | * | * | * | * |
| Key: (*) = Present (A) = Apology (—) = Not a member at the time (App) = Appointed (Res) = Resigned | | | | | |

BOARD COMMITTEES
ASSURANCE COMMITTEES
RISK COMMITTEE

| ATTENDANCE SCHEDULE | | | | |
|----------------------|------------------|------------|----------------|------------------|
| | 16 February 2009 | 7 May 2009 | 13 August 2009 | 17 November 2009 |
| IM Kirk | * | * | * | * |
| JP Möller | * | A | * | * |
| HN Nigrini | * | * | * | * |
| P de V Rademeyer | * | * | * | * |
| MJ Reyneke | * | * | * | * |
| GE Rudman (chairman) | * | * | * | * |

FINANCIAL REPORTING REVIEW COMMITTEE

| ATTENDANCE SCHEDULE | | | | |
|----------------------|------------------|------------|----------------|------------------|
| | 16 February 2009 | 7 May 2009 | 13 August 2009 | 17 November 2009 |
| JP Möller | * | A | * | * |
| P de V Rademeyer | * | * | * | * |
| GE Rudman (chairman) | * | * | * | * |

STATUTORY AUDIT COMMITTEE

| ATTENDANCE SCHEDULE | | |
|--|------------|------------------|
| | 7 May 2009 | 17 November 2009 |
| DCM Gihwala (chairman) | * | * |
| DK Smith | * | A |
| Key: (*) = Present (A) = Apology | | |

The primary function of the assurance committees, made up of the risk committee, financial reporting review committee and statutory audit committee, is to help the board oversee financial matters and risk management activities. The committees have adopted formal terms of reference approved by the board. The committees are chaired by independent non-executive directors.

The functions of the risk committee include:

- setting and overseeing the overall standard for risk management within Santam;
- overseeing the maturity and effectiveness of the risk management process; and
- monitoring the overall risk profile including significant risks faced by Santam.

The functions of the financial reporting committee include:

- corporate governance and internal control;
- ethics;
- interim and annual financial reporting (including accounting practices used);

- monitoring the external audit, which encompasses certain roles not included in the terms of reference of the statutory audit committee;
- internal audit;
- forensic investigations and fraud prevention; and
- compliance with laws and regulations.

The functions of the statutory audit committee include:

- the appointment, remuneration, terms of reference and independence of the external auditors;
- Receiving and dealing with complaints relating to accounting practices, external audit, internal audit and the content or auditing of the financial statements or any other related matter; and
- undertaking the prescribed functions (in terms of section 270A(1) of the Corporate Laws Amendment Act, 2006) on behalf of subsidiary companies.

External audit:

- During the year under review the statutory audit committee reviewed communication from the external auditors and, after conducting its own review, confirmed the independence of the auditors.
- As required by JSE Listing Requirement 3.84(h), the assurance committees have satisfied themselves that the Financial Director has appropriate expertise and experience.
- The agendas of the assurance committees provides for confidential meetings between the committee members and the external auditors.

The assurance committees are satisfied that they fulfilled their responsibilities according to their terms of reference in 2009.

HUMAN RESOURCES COMMITTEE

The human resources committee combines the roles of a remuneration and nominations committee. The board is of the opinion that the two functions are inter-related and has set the terms of reference of the committee to adequately cover the two functions without compromising governance standards in the company.

The committee comprises of only non-executive directors. The Chief Executive attends meetings by invitation but does not participate in discussions and decisions regarding his remuneration and benefits.

The committee has the responsibility and authority to consider and make recommendations to the board on, *inter alia*, the following:

- succession planning;
- employee issues;
- remuneration policy and performance bonuses;
- executive remuneration;

| ATTENDANCE SCHEDULE | | | | | | |
|--|---------------------|---------------------------------|---------------|-------------------|--------------------|---------------------------------|
| | 10 February 2009 | 24 February 2009 (ad hoc) | 6 May 2009 | 12 August 2009 | 4 November 2009 | 25 November 2009 (ad hoc) |
| JG le Roux | * | * | * | * | * | * |
| NM Magau | * | A | * | * | * | A |
| DK Smith | * | * | * | * | * | * |
| J van Zyl (chairman) | * | * | * | * | * | * |
| Key: (*) = Present (A) = Apology | | | | | | |

- composition of the board and board committees in terms of size, diversity, skills and experience;
- composition of top management in terms of diversity, skills and experience;
- the Share Incentive Trust and Share Option Scheme policy; and
- the Employee Retention Scheme.

The committee uses external market surveys and benchmarks to determine the remuneration of and allocation of share options to executive directors. The company's remuneration philosophy guides the structuring of remuneration packages that provide long- and short-term incentives according to the achievement of business objectives and delivery of shareholder value.

The committee assesses the effectiveness of the board annually. 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 its assessment to the board.

REMUNERATION MATTERS

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 related to performance. As such, the eligibility of executives for annual bonuses is linked to appropriate group targets.

The financial statements on pages 68 to 137 reflect the total earnings and other benefits of executive and non-executive directors in accordance with the requirements of the Companies Act of 1973 and the JSE Listing Requirements.

Remuneration policy

Santam's remuneration philosophy and strategy supports the business strategy by implementing processes that align agreed strategic objectives with the behaviour required to meet and exceed these objectives. Reward structures are created taking into account prevailing economic conditions, national and international governance principles and the

management of risk in the context of both short- and long-term incentive allocation.

During 2009, steps were taken to ensure alignment with the regulatory and governance requirements and specifically those of King III.

The human resources committee (HRC) and its role

The human resources committee of the board (HRC) is responsible for developing Santam's remuneration strategy and presenting it to the Santam board for approval. It approves mandates for bonus and all long-term incentive schemes and takes decisions about executive remuneration packages, relative to industry benchmarks. The HRC may make all remuneration decisions it deems appropriate and may amend Santam's remuneration policy as required by changing circumstances. The HRC also makes recommendations to the board regarding the remuneration of Santam directors, other than the HRC's committee fees.

To fulfil the role described above, the HRC undertakes the following:

- Develops and recommends to the board for approval the remuneration strategy for executive directors and members of the executive committee (exco);
- Develops and recommends to the board for approval short-term incentive schemes. It sets annual targets, monitors targets and reviews the incentive schemes regularly to ensure that a strong link with performance is maintained;
- Develops and recommends to the board for approval long-term share incentive schemes. It sets guidelines for annual allocations and regularly reviews the structure of the schemes;
- Sets appropriate performance drivers for both short-term and long-term incentives and monitors and tests the drivers;
- Manages the contracts of employment of executive directors and exco members ensuring that their terms are compliant with good practice principles;
- Determines individual remuneration packages for executive directors and exco members, including total cost to company, benefits, short-term incentives, long-term incentives and conditions of employment; and

- Makes recommendations to the board regarding the remuneration of non-executive directors.

Santam's remuneration philosophy and strategy

Philosophy

The board agrees that appropriate remuneration for executive directors and exco members is essential for the development and retention of top-level talent and intellectual capital within Santam. Given the current economic climate, changes in the regulatory requirements and the ongoing skills shortage, it is essential that adequate measures be implemented to attract and retain the required skills. To meet the strategic objective of a high-performance organisation, the remuneration philosophy is positioned to reward exceptional performance and to maintain that performance over time. Santam's remuneration philosophy aims to:

- Inform stakeholders of Santam's approach to rewarding its employees;
- Identify those aspects of the reward philosophy that are prescribed and to which all businesses of which Santam is the sole or part owner should adhere. The organisation recognises the difference between these entities and allows the businesses relative autonomy in positioning themselves to attract, retain and reward their employees appropriately within an overarching framework.
- Provide a general framework for all the other elements of the reward philosophy;
- Offer guidelines for short- and long-term incentive and retention processes; and
- Offer general guidelines about how the businesses should apply discretion in their own internal remuneration allocation and distribution.

The principle of management discretion, with regard to individual employees, is central to the remuneration philosophy, with the condition that all rewards must be based on merit. However, the principles and design of the remuneration structure are consistent, to support a common philosophy and to ensure good corporate governance, with differentiation where appropriate.

To this end, the company has adopted a Total Reward Strategy for its staff members. This value proposition consists of remuneration (which includes cash remuneration and short- and long-term incentives), benefits (retirement funds, group life, etc.), learning and development, a supportive work environment and a range of lifestyle benefits.

Strategy

In applying the remuneration philosophy and implementing the Total Reward Strategy, a number of principles are followed:

- *Pay for performance:* Performance is the cornerstone of the remuneration philosophy and there is clear differentiation between individuals with regard to performance. A clear

link is maintained between the performance hurdle that is being rewarded and the business strategy.

- *Competitiveness:* Remuneration packages should enable the company to attract and retain talented individuals to ensure the continued success of the organisation.
- *Leverage and alignment:* The reward consequences for individual employees are, as far as possible, aligned with, linked to and influenced by the interests of the shareholders, the performance of the company as a whole and the employee's own contribution.
- *Consistency:* The reward philosophy strives to be both consistent and transparent. Differentiation in terms of market comparison for specific skills groups or roles and performance is, however, imperative.
- *Attraction and retention:* Remuneration practices are recognised as a key instrument in attracting and retaining the required talent to meet the company's objectives.
- *Shared participation:* It is important that individuals identify with the success of Santam as it is directly linked to both company and individual performance.
- *Best practice:* Reward packages and practices must reflect local and international best practice. Accurate and current market information and information on trends are crucial to determine the quantum of remuneration packages.
- *Communication:* The remuneration philosophy and practices, as well as the processes to determine individual pay levels, must be transparent and communicated effectively to all employees.

An overview of the executive remuneration structure

The different components of the remuneration paid to executive directors and members of exco are summarised in the following table. A detailed description of each component follows in the next section. In general terms, the quantum of the different components of the package is determined as follows:

- The guaranteed component is based on market-relatedness in conjunction with the individual's performance, competence and potential.
- The short-term variable component of remuneration is based on a combination of individual and annual business performance.
- The long-term variable component is based on the individual's performance, potential and the overall value to the business.

Succession planning

The human resources committee ensures that a proper plan exists to identify and select appropriate candidates to fill board and top management vacancies. The committee manages this process by constantly interacting with executives and annually assessing competency levels.

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

| ELEMENT | PURPOSE | PERFORMANCE PERIOD AND MEASURES | OPERATION AND DELIVERY |
|---|---|---|---|
| Basic salary (guaranteed)* | Core element that reflects market value of role and individual performance | Reviewed annually based on performance against contracted output and market surveys | Benchmarked against comparator group and positioned on average on the 50th percentile |
| Benefits (guaranteed)* | Retirement and lifestyle benefits which assist employees in carrying out their duties | Reviewed annually | Included in comparator benchmarking |
| Annual bonus (short-term variable) | Create a high performance culture through a cash bonus in relation to performance against predetermined outputs | Annually | Based on different levels and predetermined performance hurdles of business and personal targets. |
| Long-term incentives (long-term variable) | Alignment with shareholder interests | Annual grants and three-to five year vesting period | Upon satisfaction of return target |

*Offered within flexible Total Guaranteed Package (TGP)

The above arrangements will be modified in 2010 should significant changes in operating conditions or governance framework occur.

SUSTAINABILITY COMMITTEE

| ATTENDANCE SCHEDULE | | | | |
|------------------------|---------------------|---------------|-------------------|--------------------|
| | 13 February 2009 | 6 May 2009 | 12 August 2009 | 4 November 2009 |
| JG le Roux | * | * | * | * |
| NM Magau (chairman) | * | * | * | * |
| JP Rowse | * | * | * | * |
| BP Vundla | * | * | * | * |
| Key: (*) = Present | | | | |

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

- Meeting the company's moral duty to provide secure accessible risk management to its clients.
- Meeting laws, regulations and requirements such as King III, JSE Listing Requirements, the targets of the Financial Sector Charter and Codes of Good Practice for Broad-based Black Economic Empowerment, and other applicable legislation.

- Minimising the risk associated with social, economic and environmental impacts including stakeholder activism and government regulation.
- Adding 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 committee is supported in its tasks by members of senior management including 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

| ATTENDANCE SCHEDULE | | |
|--|------------------|--------------------|
| | 23 April 2009 | 29 October 2009 |
| IM Kirk | * | * |
| RK Morathi | * | (Res) |
| P de V Rademeyer (chairman) | * | * |
| MJ Reyneke | * | * |
| Key: (*) = Present (Res) = Resigned | | |

Mr JP Möller appointed to the investment committee on 25 November 2009.

The investment committee meets quarterly to evaluate and monitor the investment portfolio and the performance of investment managers. These meetings are made up of quarterly feedback sessions with the company's investment portfolio managers and two formal investment committee meetings a year. The investment committee guides the board on the mandates of investment managers, and makes recommendations regarding the company's investment philosophy.

AD HOC SUBCOMMITTEES

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

OTHER COMMITTEES

Executive committee

Although it is not a board committee, the executive committee is mandated by the board, through the company's Delegation of Authority document, to deal with the day-to-day running of the affairs of the company. The Chief Executive chairs the committee, which comprises the executive management of all the significant business units of the company. It meets and deals with all matters relating to:

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

The board reviews annually the levels of delegated authority to this committee.

STAKEHOLDER RELATIONS

Regular communication is maintained with various stakeholders such as:

- institutional investors;
- investment analysts;
- shareholders;
- employees; and
- communities at large.

The board encourages shareholders to attend the AGM and provides a full explanation of the implications of the proposed resolutions.

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 standards of integrity and ethics in dealing with all its stakeholders. Santam has adopted a code of ethics to guide the behaviour of all its employees in achieving this commitment.

Further information on Santam's initiatives to prevent and combat fraud can be found under *Audit and forensic services* on page 57, and more detail on the implementation of the code of ethics can be found in the 2009 Sustainability Report, available on the company website.

RISK MANAGEMENT AND INTERNAL CONTROL

Santam's board recognises and acknowledges that it is ultimately accountable for the group's risk management process and system of internal control. This includes establishing appropriate risk and control policies, and communicating these policies throughout the group. The board also ensures that the risk management process and system of internal control are regularly reviewed for effectiveness.

Enterprise risk management process (ERM)

While the board is responsible for the overall governance of risk, it is assisted by the risk committee in discharging this responsibility. The risk committee's responsibilities are set out in the risk committee charter. Executive management is accountable to the board in ensuring that suitable risk management and internal control processes are embedded and integrated into the strategic and operational management of the business.

The board is responsible for reviewing and approving the group's risk appetite, policy and plan. Quarterly reports, which outline progress in terms of the risk management framework and include an overview of Santam's risk profile, are tabled at risk committee meetings. Santam's risk profile covers all categories of risk including strategic, operational, insurance, credit, market, liquidity and reputational risk.

Santam has adopted an ERM approach that is credible, relevant and practical. The group's approach is aligned with the principles of King II, ISO 31000, Solvency II and the requirements of our majority shareholder, Sanlam. Santam is well positioned to meet the principles outlined in King III.

Santam implemented various technology solutions in 2009 to improve the efficiency of its risk management processes and assist in improved aggregation, reporting and monitoring of risks. A more structured process for identifying operational risk has also been adopted. This process will assist group businesses to expand their view of risks, include the most significant operational risks and to ensure that effective controls have been implemented.

The Santam ERM process was independently reviewed by PricewaterhouseCoopers Inc. and findings were reported to the risk, financial reporting review and statutory audit committees. Their overall conclusion was that the ERM process is mature and well integrated in the business.

For more information on how Santam manages market, insurance, liquidity, operational and legal categories of risk in terms of its overall risk appetite, please refer to note 3 of the Annual Financial Statements on page 89.

The group will continue to develop and improve its risk management process to ensure it remains resilient, able to achieve good results and preserve value for all its stakeholders.

BUSINESS CONTINUITY

A key operational risk, which spans Santam's business, is the potential impact of 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 meaningful recovery plans are in place. A steering committee is responsible for overseeing, reviewing and monitoring Santam's business continuity capability.

In 2009 executive and senior management successfully tested Santam's crisis management capability using a simulation exercise. The key focus in the year was to develop and align emergency response procedures with business continuity plans. Technology recovery plans were also tested. A number of actions were identified to improve the group's business continuity and technology recovery capability further.

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 ERM process and the system of internal control ensure that weaknesses are addressed as and when they are identified. In conjunction with monitoring by the internal and external auditors, reasonable assurance is provided regarding the reliability of financial information and its presentation to stakeholders.

Santam has a corporate governance policy that formally defines how the group should be governed in line with good corporate governance principles. The framework encourages the efficient use of resources and requires accountable stewardship of the companies in the group, which is essentially a function of leadership and direction, and appropriate risk management and control over their activities.

The overall system of internal control is designed to mitigate, not eliminate, significant risks faced by the group. It is recognised that such a system provides reasonable but not absolute assurance regarding the achievement of organisational objectives, with respect to:

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

Control opinion

In conducting its annual review of the effectiveness of the system of internal control, the board considers key findings from ongoing monitoring and reporting, executive management confirmation, independent assurance reports, reports from internal and external auditors, as well as the ERM process. Remedial action is initiated where necessary. The Chief Executive, the executive heads of each business unit, as well as divisional heads are required to sign a formal representation confirming the effectiveness of internal control.

Nothing has come to the attention of the directors, or to the attention of the internal auditors, to indicate that any material breakdown in the functioning of the internal control system occurred in 2009.

ASSURANCE PROVIDERS

Audit and forensic services

Santam's main internal assurance provider is the audit and forensic services department. The department's scope of work is comprehensive enough to determine whether the group's risk management, internal control and governance processes are adequate and effectively address the significant risks facing the group.

The audit and forensic services department fulfils the following functions:

- independent assurance on corporate governance practices, risk management practices and the control environment;
- consultation and facilitation of corporate governance, strategic projects and other key concerns or issues;
- fraud investigations; and
- facilitation of the fraud management process.

The department follows a risk-based planning approach. Its audit plan is based on an approach where coverage is linked to the significant issues facing the company, including all categories of risk. The plan is structured to respond and adapt to emerging risks and changes in the risk profile, and assists internal audit to focus on the issues that matter most to Santam. An assurance forum ensures a coordinated approach to assurance among all governance functions. The financial reporting review committee (FRRRC) 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 employs a rating system. Progress in implementing required controls is reported to the committee until the item has been satisfactorily resolved. This allows the committee to ensure that prompt action is taken to address key areas of concern.

The responsibilities of the department are set out in a charter approved by the FRRRC. The head of the department reports administratively to the Executive Head of Finance and has regular meetings with the Chief Executive, quarterly meetings with the FRRRC, and access to its chairperson as and when required.

The operations of the forensics services unit are mandated in the group policy on fraud, theft, corruption, money laundering, dishonesty and computer crimes (Fraud Policy), and focus on the following initiatives:

- Fraud deterrence involves measures and initiatives that discourage the perpetration of fraud. Important to this is the implementation of control measures by management. The unit regularly makes employees, business partners and the public aware of the group's approach to financial crime and anti-fraud measures by means of print and radio, and internally, convictions are communicated and perpetrators "named and shamed". A whistle-blowing hotline is available to employees and other stakeholders to report illegal acts, confidentially and anonymously. Santam has for many years adopted a zero tolerance approach to fraud.

- Fraud prevention is a component of risk management and includes creating an environment which inhibits fraud.
- Fraud detection is difficult as there is no single method to identify fraud as it is committed. However, the unit implements measures to increase the chances of detecting fraud before it reaches significant levels. This is achieved by reviewing company data flows.
- Fraud investigation is a structured process focused on gathering sufficient reliable information to enable an investigator to either prove or disprove allegations made. All cases are duly investigated and reported, disciplinary action taken where necessary and reports made to the relevant authorities for further investigation or action, as applicable. Forensic services reports the status of all cases reported and any action taken to the FRRRC on a quarterly basis. Santam continues to institute both criminal and civil prosecutions and to terminate business relationships with perpetrators.

The group is committed to building relationships with the South African Police Services, the National Prosecutions Authority and regulators like the Financial Services Board to combat fraud in the industry. Alongside other industry players, Santam is involved in the South African Insurance Crime Bureau initiative in an effort to improve the way organised insurance crime is detected and managed.

The group's compliance function is incorporated in the corporate legal services department. The FRRRC approves the department's assurance plan and reviews findings from their investigations as well as quarterly reports.

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 interaction takes place between the external auditors and internal audit to align their scopes of work and understand the results of their respective audits.

Santam has a formal pre-approval policy on the use of external auditors for non-audit services. 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 R181 813 in 2009. This included R10 665 for assurance-related services, R117 075 for tax related services and R54 074 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 matters of concern.

Santam's actuarial department provides input into a number of key areas at Santam.

Technical reserves are reviewed biannually in order to ensure sufficiency at the 75th percentile and the results are presented in a report to the board.

The actuarial department develops and maintains Santam's internal dynamic financial analysis model which is used to determine economic solvency requirements, analyse reinsurance structures and pricing as well as calculate the underwriting margins required by the business units to achieve their required return on risk-adjusted capital. The results from the internal model are provided quarterly to the board in a risk appetite document. In addition an annual report on the overall financial condition of the company is compiled.



FOOD

FOR THOUGHT

FARMING IS EVERYBODY'S BREAD AND BUTTER

The importance of agriculture to South Africa's economy is undeniable. The country's agro-industrial sector comprises about 15% of gross domestic product, while primary agriculture makes up almost 9% of formal employment.

Of course, agriculture's impact on the economy stretches beyond its financial contribution. With households spending on average up to 10% of their disposable income on food – and the poorest up to 50% – agriculture affects the lives of all South Africans.

Despite its significance, the sector faces a number of challenges. In a deregulated and extremely competitive international business environment, farmers are compelled to manage their farms as effective commercial enterprises and integrate more fully into agricultural value chains.

The natural environment brings its own set of risks to the sector. Combined with the fact that South Africa has relatively limited arable land and is water constrained, farmers are exposed to the perils of floods and droughts, while reduced water supplies and soil degradation require innovative farming practices.

Stability ensures sustainability

Santam recognises the importance of the agricultural industry to South Africa's continued growth and development, and has made the sector a critical component of its business.

Tobias Doyer, head of Santam Agriculture, says the early vision of our predecessors to make farming more viable by managing its inherent risks, saw the company celebrating 80 years of successful crop insurance in South Africa in 2009.

"By establishing Santam Agriculture through consolidating the company's 91-year-old short-term insurance book with that of 80-year-old Agri Risk Specialists (formerly SentraOes and CUAS), we have become the market leader in providing holistic risk management services to farmers, ensuring the sustainability of their enterprises."



Doyer says that as the largest short-term insurer in the country, Santam has the capacity to offer farmers not only superior crop insurance products, but also specialised knowledge and expertise where the insurance of their assets are concerned.

"Recognising that the insurance needs of the modern farmer go beyond pioneering, technologically-driven products that support crop and asset insurance, we

also provide liability cover against, for example, labour disputes, while specialised insurance includes, among others, emergency medical assistance, ensuring that all risk facets of the agricultural business are covered."

Collaborative relationships make us part of the farming community

Santam firmly believes its staff and intermediaries form an integral part of the solution to offer its agriculture clients the best short-term insurance.

Tobias says Santam Agriculture's client-centric approach has seen the introduction of more flexible and transparent agriculture insurance options, new risk management initiatives and an improved claims service.

"Moreover, providing our intermediary network with timely, relevant information to assist them in advising their

agricultural sector clients means brokers can assess each case according to its unique circumstances."

Tobias says Santam is extremely proud of the fact that its agriculture experts are recognised as the best risk managers in the industry – and as an integral part of the agricultural community.

Providing vital security in a complex, uncertain environment

Globally, calls for efforts to manage intensive agricultural production more sustainably and address issues around volatile food prices, food safety and food security in the light of strong population growth have intensified.

To create a World of Certainty for agriculture's inherently uncertain conditions, Santam endeavours to thoroughly understand the problems this market faces. Its work on the ground underscores this commitment, and enables Santam Agriculture to devise resilient, fair solutions for agricultural enterprises, in particular where weather-related claims are concerned.

35 YEARS OF CROP RESEARCH

Santam Agriculture is the only insurer in South Africa that owns and operates an experimental farm – Mooihoek, near Bloemfontein – where real-life farming practices are replicated to ensure accurate, in-depth assessment of crop damage at different growth stages.

Tobias says the many variables inherent in agricultural production necessitate a strong scientific backing to the insurance offering.

"Our in-depth, hands-on agricultural research, conducted for the last 35 years, enables Santam to determine the correct underwriting methods to enable farmers to select the right insurance for their needs."

Both farmers and partners in the sector, such as banks, co-operatives and other agricultural businesses, benefit greatly from Santam's practical expertise in this area of risk management.

Kobie de Beer, Manager of Insurance Services at Santam Agriculture, says Santam Agriculture assists commercial farmers in assessing and following specific procedures to manage their insurance risk by analysing local data relevant to South Africa's unique climate, soil and cultivars, rather than relying on desktop research based on the experiences of Europe or the US.

Of course, Santam's ability to examine crop susceptibility to damage during the various growth stages enables the insurer to determine the exact extent of damage in order to process accurate claims. But it also means Santam is able to align its products, processes and initiatives more closely to client needs and expectations.

As a result of continuous research – Kobie says crop experiments are never final; as plant breeding improves, research findings are evaluated every few years to ensure procedures are still relevant – various crop insurance products have been tailored to meet the requirements of the grain, fruit and vegetable farmer in terms of hail, frost, strong winds, fire and drought risk.

Specialist schemes are also offered to protect the farmer's crop revenue. Santam Agriculture's Multi-peril Crop Insurance guarantees farmers a predetermined yield for their crops, covering their cultivars from early planting stages through to harvesting. However, farmers are expected to act as partners in this process, proactively evaluating and managing their own risks by carrying out strict evaluations on yield history and soil analysis.

Agricultural development as a tool for poverty reduction is high on the South African government's agenda. Kobie says Santam recognises the huge challenges emerging farmers face on the way to commercialisation, of which weather-related risks remain one of the major concerns.

"We endeavour to increasingly partner with government to share our knowledge and experience in the field of agricultural risk management to effectively support emerging farmers."

Kobie says growing interaction between commercial and development farmers enhances such initiatives.

"We have seen the risk management information and strategies shared with large commercial farmers trickle down to their respective communities, extending Santam's influence to benefit the wider society."

CLIMATOLOGY RESEARCH ENABLES FARMERS TO PLAN THEIR SEASONAL ACTIVITIES MORE EFFECTIVELY

On average, South Africa's temperatures are increasing and its rainfall is decreasing, creating pressure on natural resources, which in turn affects GDP, the wider economy and as a result, insurance.

Of course, adverse weather phenomena have always been part and parcel of conditions in the agricultural sector. For example, a single hailstorm can destroy a farmer's crop and leave him without his biggest, and sometimes only, source of income.

Santam's climatologist, Johan van den Berg, says using the experience gained in this field, the company provides the commercial agricultural sector with comprehensive climatic and seasonal forecasts, enabling farmers to manage the realities of climate variability and plan more effectively when to plant which crops.

"Great progress has been made in aligning the company's underwriting and claims processes by using scientific data gathered through Geographical Information Systems (GIS) technology, records of claims history and input from experts such as structural engineers and geologists.

"This has undoubtedly assisted Santam in refining our risk management ability. But it has also given us the opportunity to work with other service providers – and present our clients with experts from a variety of fields to advise them on risk management and mitigation."

Sharing such information with partners and clients gives them the ability to manage their risk based on solid research principles and reliable information – and contributes to incremental changes towards more sustainable farming practices.

We're for farmers

Santam's insurance offering to the agricultural sector is based on 80 years of crop insurance research and 91 years of asset insurance experience. In a changing economic and natural environment, we deliver on our pledge to provide relevant, responsible risk management solutions to the agricultural sector. We believe our entrenched relationship with farmers, insurance innovations and track record prove one thing beyond doubt – not only farmers are passionate about agriculture.



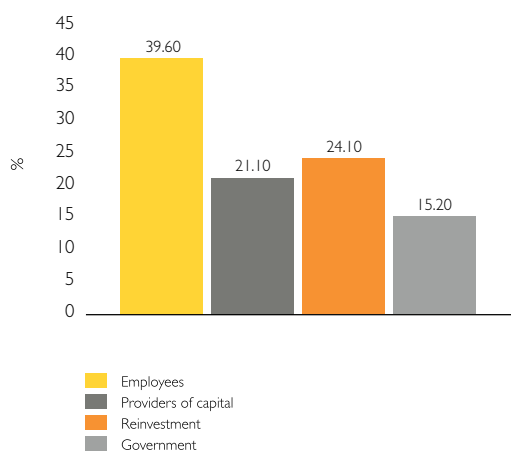
VALUE ADDED STATEMENT

| | Group 2009 R million | Group 2008 R million |
|--|----------------------------|----------------------------|
| VALUE ADDED | | |
| Gross written premium | 15 026 | 14 179 |
| Claims paid and cost of other services | 13 477 | 12 189 |
| | 1 549 | 1 990 |
| Investment income net of fees | 1 090 | 42 |
| | 2 639 | 2 032 |

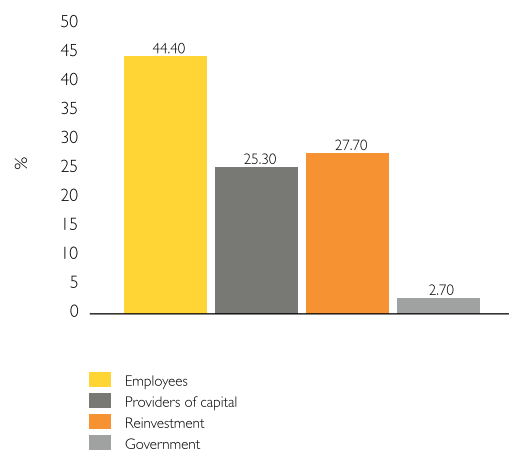
VALUE DISTRIBUTED

| | | |
|--|--------------|--------------|
| Employee benefits | 1 044 | 902 |
| Government | 402 | 54 |
| Direct taxation on income | 361 | 29 |
| STC | 41 | 25 |
| Providers of capital | 556 | 513 |
| | 2 002 | 1 469 |
| Retained for reinvestment and future support of business | 637 | 563 |
| Depreciation and amortisation of intangible assets | 47 | 21 |
| Retained income before transfer to reserves | 495 | 311 |
| Value gained due to discontinued operations | – | (25) |
| Compulsory reserves for future support of business | 95 | 256 |
| | 2 639 | 2 032 |

VALUE DISTRIBUTED – 2009



VALUE DISTRIBUTED – 2008



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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.

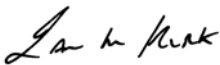
The board has confirmed that adequate internal financial control systems are being maintained. There were no material breakdowns in the functioning of the internal financial control systems during the year. The board is satisfied that the financial statements fairly present the financial position, the 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
3 March 2010

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
3 March 2010

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 statements of financial position as at 31 December 2009, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows 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 68 to 142.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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 aspects, the consolidated and separate financial position of Santam Limited as at 31 December 2009, 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.

Director: C van den Heever

Registered Auditor

Cape Town

3 March 2010

ACTIVITIES

Santam Limited (a public company incorporated in South Africa) and its subsidiaries transact all classes of short-term insurance.

OPERATING RESULTS

After a challenging first half, Santam experienced a significantly better second half. This resulted in a pleasing overall performance for 2009 against the backdrop of the difficult economic climate and underwriting conditions.

In line with the industry as a whole, underwriting margins came under considerable pressure, particularly in the first six months. Investment returns improved on firmer equity markets, especially when viewed against the poor performance in 2008. The group delivered significantly improved earnings, with headline earnings of R1 022 million up 55% on 2008. This equated to headline earnings per share of 906 cents compared to 586 cents in the prior year.

Growth of 6% in gross written premiums was a credible achievement in the economic climate, comparing favourably with the industry. While positive growth was achieved across most classes of business, achieving an appropriate rate for the risk insured remained a challenge.

The improvement in the second half was mainly due to fewer large industrial accident and fire-related claims in the corporate business unit. The net underwriting result of R453 million for the year was lower than the R739 million in 2008, but significantly up on the R88 million recorded at the halfway mark. The overall net underwriting margin of 3.5% was adversely impacted by negative margins in the property and motor classes. Underwriting performance in the personal and non-specialist commercial business came under pressure from a marked increase in claims frequency and cost. Although margins in commercial motor remained satisfactory, personal lines motor posted negative results, in particular business sourced through the portfolio management business unit. The company did not escape the large industrial accident and fire related claims experienced across the industry, which affected underwriting margins as evidenced by the negative result of the property class. Of the specialist classes, the liability, engineering and crop businesses continued to perform well. The net acquisition cost ratio of 25.9% increased slightly from the 25.3% in 2008, mainly due to a higher net commission ratio as a result of reduced reinsurance commission earned.

Investment return on insurance funds of R420 million reduced from R540 million in 2008, mainly as a result of lower interest rates and despite higher float balances. The group's operating activities generated healthy cash flows of R1 839 million during the year, 20% higher than the R1 527 million in 2008.

The combined effect of the insurance activities resulted in a net insurance margin of 6.8% for the year compared to 10.9% in 2008.

Investment performance improved significantly during the year as equity markets strengthened. This was in contrast to the losses sustained during the prior year in which investments markets were severely depressed. The company continued to employ its strategy of proactively hedging its equity investments to minimise capital losses in the event of lower market returns. As a result the company hedged R2 billion of its equity exposure in June 2009 through a one-year derivative fence structure. The fence has an attachment point of 4471 (SWIX40 index) with downside protection of 10% from said attachment point as well as upside participation of 20% from said point. At 31 December 2009, the SWIX40 index closed at 5244, 17% above the attachment point. On 31 December 2009, the structure had a negative fair value of R108 million which was accounted for. This will effectively be released to income over the next six months if the structure is maintained to maturity. Despite a reduction in interest rates during the period, interest earnings were higher in comparison to 2008 due to higher levels of interest-bearing instruments.

Net earnings from associated companies of R49 million improved notably compared to the negative returns in 2008. This was due to improved earnings by key associates.

The group solvency ratio was a healthy 44% at 31 December 2009, on par with 2008 and within our long-term target range of between 35% and 45%.

Santam sold its 35% stake in Lion of Africa Insurance Company during December 2009. With this becoming a 100% black-owned business turning in excellent results, our partners and Santam considered it appropriate for Santam to exit at this point. Santam is proud of its partnership with South Africa's first black-owned insurance company that spanned more than 11 years. We wish the company and its management success with their future endeavours.

Further unit allocations in the Emthunzini BEE Staff Trust were made to black staff in terms of Santam's Broad Based Black Economic Empowerment (BBBEE) scheme.

ORDINARY SHARES ISSUED

The shares in issue remained at 119 346 417 shares of no par value (including 6 493 089 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, 26 400 share options lapsed as a result of resignations and 769 030 treasury shares were sold as a result of share options being exercised or released. In terms of the deferred share plan (DSP), implemented in 2007, 625 585 shares were granted to employees on a deferred delivery basis, 60 129 shares lapsed as a result of resignations and 11 567 treasury shares were sold in terms of the DSP to staff that went into early retirement. Full details are set out in note 15 to the annual financial statements.

A subsidiary in the group holds 6 493 089 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.

DIRECTORS' REPORT

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

RK Morathi – Resigned on 3 August 2009
YG Muthien – Appointed on 25 November 2009

Company secretary

S Bray

Registered office

PO Box 3881, TygerValley 7536
Santam Limited, I Sportica Crescent, Bellville 7530

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

DIRECTORS' EMOLUMENTS AND INTERESTS IN SHARE CAPITAL

Directors' emoluments

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

Share options granted to executive directors

No additional share options were granted to the directors of the group during the year (2008: 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 in the notes to the financial statements for more detail).

The outstanding number of share options granted to the directors of the group in terms of the Santam Share Incentive Scheme at the end of the year was 14 400 (2008: 30 000).

A revised share incentive scheme, 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 (refer to note 15 to the financial statements).

SHARE OPTION SCHEME – DIRECTORS' PARTICIPATION

| | As at 31 December 2008 | Number of shares during year Exercised | Gain per share on options exercised R | Option price per share** R | Date awarded | As at 31 December 2009 |
|----------------------------|------------------------------|---|---|-------------------------------------|-----------------|------------------------------|
| Executive directors | | | | | | |
| MJ Reyneke | 6 000 | (6 000) | 72.85 | 6.65 | 31/03/04 | – |
| | 24 000* | (9 600) | 36.70 | 42.80 | 10/11/05 | 14 400 |
| TOTAL | 30 000 | (15 600) | | | | 14 400 |

* Options granted in terms of the rainmaker share scheme

DEFERRED SHARE PLAN (DSP) – DIRECTORS' PARTICIPATION

| | As at 31 December 2008 | Number of shares granted during year | Date awarded | As at 31 December 2009 |
|----------------------------|------------------------------|--|-----------------|------------------------------|
| Executive directors | | | | |
| IM Kirk | 8 302 | | 01/06/08 | 8 302 |
| | | 49 521 | 01/06/09 | 49 521 |
| | 8 302 | 49 521 | | 57 823 |
| MJ Reyneke | 5 409 | | 01/06/07 | 5 409 |
| | 2 734 | | 01/06/08 | 2 734 |
| | | 26 901 | 01/06/09 | 26 901 |
| | 8 143 | 26 901 | | 35 044 |
| TOTAL | 16 445 | 76 422 | | 92 867 |

DIRECTORS' INTEREST IN THE SHARES OF THE COMPANY

| | Beneficial holding at 31 December | |
|--------------------------------|--------------------------------------|----------------|
| | 2009 | 2008 |
| Executive directors | | |
| IM Kirk | 61 118 | 61 118 |
| MJ Reyneke | 81 859 | 51 079 |
| Non-executive directors | | |
| BTPKM Gamedze | 200 | 200 |
| DCM Gihwala | 100 | 100 |
| JG le Roux | 180 | 180 |
| H Lorgat | – | 100 |
| NM Magau | 110 | 110 |
| AR Martin | – | 350 |
| JP Möller | 108 | 108 |
| RK Morathi | 112 | 112 |
| YG Muthien * | – | – |
| P de V Rademeyer | 450 | 450 |
| JP Rowse | 225 | 225 |
| GE Rudman | 900 | 900 |
| DK Smith | 190 | 100 |
| J van Zyl | 108 | 108 |
| BP Vundla | 100 | 199 |
| | 145 760 | 115 439 |

* Dr Muthien's appointment was just prior to the closed period and she would purchase shares upon termination of the closed period..

AUDITORS

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

POST BALANCE SHEET EVENTS

The following corporate transactions were completed between the period of 1 January 2010 and 3 March 2010, the date of this report:

- The group concluded the acquisition of Emerald Risk Transfer (Pty) Ltd (the underwriting agency), effective 1 January 2010.
- The group concluded the sale agreement for the acquisition of Kagiso's 33.33% shareholding in Centriq Insurance Company Ltd, effective 1 January 2010. Finalisation is still subject to Regulatory approval.

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.

STATEMENT OF FINANCIAL POSITION

| | | Group | | Company | |
|--|--------|-------------------|-------------------|-------------------|-------------------|
| | Notes | 2009 R million | 2008 R million | 2009 R million | 2008 R million |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property and equipment | 5 | 47 | 42 | 39 | 36 |
| Intangible assets | 6 | 143 | 155 | 13 | 22 |
| Deferred income tax | 17 | 88 | 81 | 59 | 32 |
| Investments in subsidiaries | 7 | | | 1 503 | 1 552 |
| Investments in associates | 8 | 198 | 195 | 133 | 157 |
| Financial assets – at fair value through income | | | | | |
| Equity securities | 9 | 3 191 | 3 111 | 2 673 | 2 511 |
| Debt securities | 9 | 3 146 | 2 688 | 2 934 | 2 378 |
| Derivatives | 10 | – | 1 | – | 1 |
| Reinsurance assets | 11 | 382 | 700 | 369 | 672 |
| Current assets | | | | | |
| Financial assets – at fair value through income | | | | | |
| Derivatives | 10 | – | 135 | – | 135 |
| Short-term money market instruments | 9 | 4 554 | 3 089 | 2 541 | 1 589 |
| Reinsurance assets | 11, 22 | 1 429 | 1 281 | 1 163 | 756 |
| Deferred acquisition costs | 22.2 | 259 | 271 | 251 | 239 |
| Loans and receivables including insurance receivables | 12 | 2 262 | 2 688 | 1 733 | 1 908 |
| Income tax assets | | 4 | 73 | – | 64 |
| Cash and cash equivalents | 13 | 1 379 | 1 938 | 919 | 1 170 |
| Total assets | | 17 082 | 16 448 | 14 330 | 13 222 |
| EQUITY | | | | | |
| Capital and reserves attributable to the company's equity holders | | | | | |
| Share capital | 14 | 107 | 107 | 107 | 107 |
| Treasury shares | 14 | (660) | (680) | – | – |
| Other reserves | 16 | 1 268 | 1 251 | 1 202 | 1 114 |
| Distributable reserves | 16 | 4 080 | 3 586 | 3 644 | 3 344 |
| | | 4 795 | 4 264 | 4 953 | 4 565 |
| Minority interest | | 144 | 138 | | |
| Total equity | | 4 939 | 4 402 | 4 953 | 4 565 |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Deferred income tax | 17 | 129 | 12 | 120 | – |
| Financial liabilities – at fair value through income | | | | | |
| Debt securities | 18 | 839 | 972 | 839 | 972 |
| Investment contracts | 19 | – | 142 | – | – |
| Derivatives | 10 | 9 | – | 9 | – |
| Financial liabilities – at amortised cost | | | | | |
| Cell owners' interest | 20 | 535 | 447 | – | – |
| Collateral guarantee contracts | 21 | – | 93 | – | 93 |
| Insurance liabilities | 22 | 1 332 | 2 068 | 1 309 | 2 027 |
| Provisions for other liabilities and charges | 23 | 5 | – | 5 | – |
| Current liabilities | | | | | |
| Financial liabilities – at fair value through income | | | | | |
| Debt securities | 18 | 24 | 24 | 24 | 24 |
| Investment contracts | 19 | 333 | 251 | – | – |
| Derivatives | 10 | 108 | – | 108 | – |
| Financial liabilities – at amortised cost | | | | | |
| Collateral guarantee contracts | 21 | 101 | – | 101 | – |
| Insurance liabilities | 22 | 6 931 | 6 088 | 5 130 | 4 030 |
| Deferred reinsurance acquisition revenue | 22.2 | 53 | 82 | 60 | 59 |
| Provisions for other liabilities and charges | 23 | 27 | 25 | 27 | 25 |
| Trade and other payables | 24 | 1 570 | 1 804 | 1 546 | 1 427 |
| Current income tax liabilities | | 147 | 38 | 99 | – |
| Total liabilities | | 12 143 | 12 046 | 9 377 | 8 657 |
| Total shareholders' equity and liabilities | | 17 082 | 16 448 | 14 330 | 13 222 |

STATEMENT OF COMPREHENSIVE INCOME

| | | Group | | Company | |
|--|-------|-------------------|-------------------|-------------------|-------------------|
| | Notes | 2009 R million | 2008 R million | 2009 R million | 2008 R million |
| CONTINUING OPERATIONS | | | | | |
| Gross written premium | | 15 026 | 14 179 | 13 091 | 12 172 |
| Less: reinsurance written premium | | 2 132 | 2 306 | 1 085 | 1 036 |
| Net premium | | 12 894 | 11 873 | 12 006 | 11 136 |
| Less: change in unearned premium | | | | | |
| Gross amount | | (108) | 94 | 2 | 246 |
| Reinsurers' share | | 106 | 63 | (2) | (10) |
| Net insurance premium revenue | | 12 896 | 11 716 | 12 006 | 10 900 |
| Investment income | 25 | 707 | 949 | 609 | 970 |
| Income from reinsurance contracts ceded | | 209 | 340 | 178 | 244 |
| Net gain/(loss) on financial assets and liabilities at fair value through income | 26 | 479 | (721) | 449 | (651) |
| Net income | | 14 291 | 12 284 | 13 242 | 11 463 |
| Insurance claims and loss adjustment expenses | 27 | 10 241 | 9 422 | 9 216 | 7 847 |
| Insurance claims and loss adjustment expenses recovered from reinsurers | 27 | (1 141) | (1 415) | (748) | (461) |
| Net insurance benefits and claims | | 9 100 | 8 007 | 8 468 | 7 386 |
| Expenses for the acquisition of insurance contracts | 28 | 2 127 | 2 014 | 1 999 | 1 842 |
| Expenses for marketing and administration | 28 | 1 425 | 1 296 | 1 430 | 1 290 |
| Expenses for asset management services | 28 | 25 | 26 | 20 | 21 |
| Amortisation of intangible assets | 6, 28 | 25 | 7 | 13 | 7 |
| Impairment of investment in subsidiaries | 7 | — | — | 49 | 151 |
| Expenses | | 12 702 | 11 350 | 11 979 | 10 697 |
| Results of operating activities | | 1 589 | 934 | 1 263 | 766 |
| Finance costs | 30 | (114) | (152) | (110) | (152) |
| Share of profit/(loss) of associates | 8 | 49 | (2) | 20 | 14 |
| Impairment charge on net investment in associate | | (6) | (6) | — | — |
| Profit before tax | | 1 518 | 774 | 1 173 | 628 |
| Income tax expense | 31 | (402) | (54) | (319) | 22 |
| Profit for the year from continuing operations | | 1 116 | 720 | 854 | 650 |
| DISCONTINUED OPERATIONS | | | | | |
| Profit for the year from discontinued operations | 32 | — | 25 | — | — |
| Profit for the year | | 1 116 | 745 | 854 | 650 |
| Other comprehensive income | | | | | |
| Currency translation differences | | (80) | 5 | — | — |
| Total comprehensive income for the year | | 1 036 | 750 | 854 | 650 |
| Profit attributable to: | | | | | |
| – equity holders of the company | | 1 082 | 724 | 854 | 650 |
| – minority interest | | 34 | 21 | — | — |
| | | 1 116 | 745 | 854 | 650 |
| Total comprehensive income attributable to: | | | | | |
| – equity holders of the company | | 1 002 | 729 | 854 | 650 |
| – minority interest | | 34 | 21 | — | — |
| | | 1 036 | 750 | 854 | 650 |
| Earnings attributable to the equity holders | 33 | | | | |
| Basic earnings per share (cents) | | 959 | 644 | | |
| Diluted earnings per share (cents) | | 942 | 640 | | |
| Weighted average number of ordinary shares (millions) | | 112.80 | 112.50 | | |
| Weighted average number of ordinary shares for diluted earnings per share (millions) | | 114.87 | 113.10 | | |

STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the company

| | Share capital R million | Treasury shares R million | Other reserves R million | Distributable reserves R million | Amounts recognised directly in equity relating to assets and liabilities held for sale R million | Minority interest R million | Total R million |
|--|-------------------------------|---------------------------------|--------------------------------|--|---|-----------------------------------|--------------------|
| GROUP | | | | | | | |
| Balance as at 1 January 2008 | 105 | (726) | 1 147 | 3 448 | 71 | 133 | 4 178 |
| Profit for the year | — | — | — | 724 | — | 21 | 745 |
| Other comprehensive income: | | | | | | | |
| Currency translation differences | — | — | 5 | — | — | — | 5 |
| Total comprehensive income for the year ended 31 December 2008 | — | — | 5 | 724 | — | 21 | 750 |
| Proceeds from shares issued | 2 | — | — | — | — | — | 2 |
| Purchase of treasury shares | — | (29) | — | — | — | — | (29) |
| Sale of treasury shares | — | 75 | — | — | — | — | 75 |
| Loss on sale of treasury shares | — | — | — | (66) | — | — | (66) |
| Transfer to reserves | — | — | 99 | (99) | — | — | — |
| Share-based payments | — | — | — | 39 | — | — | 39 |
| Dividends paid | — | — | — | (460) | — | (16) | (476) |
| Amounts recognised directly in equity relating to assets and liabilities held for sale | — | — | — | — | (71) | — | (71) |
| Balance as at 31 December 2008 | 107 | (680) | 1 251 | 3 586 | — | 138 | 4 402 |
| Profit for the year | — | — | — | 1 082 | — | 34 | 1 116 |
| Other comprehensive income: | | | | | | | |
| Currency translation differences | — | — | (80) | — | — | — | (80) |
| Total comprehensive income for the year ended 31 December 2009 | — | — | (80) | 1 082 | — | 34 | 1 036 |
| Purchase of treasury shares | — | (53) | — | — | — | — | (53) |
| Sale of treasury shares | — | 73 | — | — | — | — | 73 |
| Loss on sale of treasury shares | — | — | — | (53) | — | — | (53) |
| Transfer to reserves | — | — | 97 | (97) | — | — | — |
| Share-based payments | — | — | — | 47 | — | — | 47 |
| Dividends paid | — | — | — | (485) | — | (28) | (513) |
| Balance as at 31 December 2009 | 107 | (660) | 1 268 | 4 080 | — | 144 | 4 939 |
| COMPANY | | | | | | | |
| Balance as at 1 January 2008 | 105 | — | 1 012 | 3 246 | — | — | 4 363 |
| Profit for the year | — | — | — | 650 | — | — | 650 |
| Other comprehensive income: | | | | | | | |
| Currency translation differences | — | — | — | — | — | — | — |
| Total comprehensive income for the year ended 31 December 2008 | — | — | — | 650 | — | — | 650 |
| Proceeds from shares issued | 2 | — | — | — | — | — | 2 |
| Transfer to reserves | — | — | 102 | (102) | — | — | — |
| Share-based payments | — | — | — | 39 | — | — | 39 |
| Dividends paid | — | — | — | (489) | — | — | (489) |
| Balance as at 31 December 2008 | 107 | — | 1 114 | 3 344 | — | — | 4 565 |
| Profit for the year | — | — | — | 854 | — | — | 854 |
| Other comprehensive income: | | | | | | | |
| Currency translation differences | — | — | — | — | — | — | — |
| Total comprehensive income for the year ended 31 December 2009 | — | — | — | 854 | — | — | 854 |
| Transfer to reserves | — | — | 88 | (88) | — | — | — |
| Share-based payments | — | — | — | 47 | — | — | 47 |
| Dividends paid | — | — | — | (513) | — | — | (513) |
| Balance as at 31 December 2009 | 107 | — | 1 202 | 3 644 | — | — | 4 953 |

STATEMENT OF CASH FLOWS

| | Notes | Group | | Company | |
|--|-------|-------------------|-------------------|-------------------|-------------------|
| | | 2009 R million | 2008 R million | 2009 R million | 2008 R million |
| Cash generated from operations | 36 | 1 839 | 1 527 | 1 594 | 1 796 |
| Interest paid | 30 | (114) | (152) | (110) | (152) |
| Income tax paid | 37 | (115) | (669) | (63) | (593) |
| Net cash from operating activities | | 1 610 | 706 | 1 421 | 1 051 |
| Cash flows from investing activities | | | | | |
| Cash (utilised)/generated in investment activities | | (1 477) | 921 | (1 101) | (93) |
| Acquisition of subsidiary, net of cash acquired | 38 | (11) | (3) | — | — |
| Net cash sold through sale of subsidiary | 38 | (23) | (1 139) | — | — |
| Purchases of equipment | | (37) | (48) | (26) | (38) |
| Proceeds from sale of equipment | | 1 | 1 | — | 1 |
| Acquisition of associated companies | | (7) | (55) | — | — |
| Proceeds from sale of associated companies | | 33 | — | 33 | — |
| Proceeds from sale of business operations | | — | 61 | — | — |
| Proceeds from sale of subsidiary | 38 | 56 | — | — | — |
| Acquisition of book of business | | (2) | (10) | — | — |
| Net cash from investing activities | | (1 467) | (272) | (1 094) | (129) |
| Cash flows from financing activities | | | | | |
| Proceeds from issuance of ordinary shares | | — | 2 | — | 2 |
| Purchase of treasury shares | | (53) | (29) | — | — |
| Proceeds on sale of treasury shares | | 20 | 10 | — | — |
| Decrease in investment contract liabilities | | (101) | (138) | — | — |
| Dividends paid to company's shareholders | 39 | (485) | (460) | (513) | (489) |
| Dividends paid to minorities | 39 | (28) | (16) | — | — |
| Increase in cell owners' interest | | 87 | 111 | — | — |
| Net cash used in financing activities | | (560) | (520) | (513) | (487) |
| Net (decrease)/increase in cash and cash equivalents | | (417) | (86) | (186) | 435 |
| Cash and cash equivalents at beginning of year | | 1 938 | 1 983 | 1 170 | 735 |
| Exchange (losses)/gains on cash and cash equivalents | | (142) | 41 | (65) | — |
| Cash and cash equivalents at end of year | | 1 379 | 1 938 | 919 | 1 170 |
| Assets held for sale | | — | — | — | — |
| Cash and cash equivalents at end of year – Continuing operations | | 1 379 | 1 938 | 919 | 1 170 |
| Cash flows relating to discontinued operations | | | | | |
| Included in the above are the following cash flows from discontinued operations. | | | | | |
| Operating cash flows | | — | (453) | — | — |
| Investing cash flows | | — | (400) | — | — |
| Financing cash flows | | — | (1) | — | — |
| Net increase in cash and cash equivalents | | — | (854) | — | — |
| Cash and cash equivalents at beginning of year | | — | 812 | — | — |
| Translation gains on cash and cash equivalents | | — | 42 | — | — |
| Cash and cash equivalents at end of year | | — | — | — | — |

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 applied consistently 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 financial statements are disclosed in note 2.

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

In the 2008 statement of comprehensive income, 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.

Changes in accounting policy and disclosures

a) *New and amended standards and interpretations adopted by the group*

The group has adopted the following new and amended IFRS standards as of 1 January 2009:

- IAS 1 (revised) – *Presentation of Financial Statements*
The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been restated so that it conforms to the revised standard. As the change in accounting policy only impacts presentation aspects, there is no financial impact.
- IAS 23 (amended) – *Borrowing Costs*
This amendment removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. This amendment does not have a material impact on the group or company's financial statements.
- IFRS 2 (amended) – *Share-based Payment*
This amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and other providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties should receive the same accounting treatment. This amendment does not have a material impact on the group or company's financial statements.
- IFRS 7 (amended) – *Financial Instruments – Disclosures*
The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level in a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.
- IFRS 8 – *Operating Segments*
The core principle of IFRS 8 is that an entity should disclose information to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environment in which it operates. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- Amendments to IAS 32 – *Financial Instruments: Presentation* and IAS 1 – *Presentation of Financial Statements*
The amendments require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: a) puttable financial instruments (for example, some shares issued by co-operative entities); b) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities). Additional disclosures are required about the instruments affected by the amendments.

- Amendments to IFRS 1 – *First-Time Adoption of IFRS* and IAS 27 – *Consolidated and Separate Financial Statements*
The amendments allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor.

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 2010 or later periods, the group has not early adopted:

- IFRIC 17 – *Distribution of Non-cash Assets to Owners* (effective 1 July 2009)
- IFRS 3 and IAS 27 (revised) – *Revision to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements* (effective 1 July 2009)
- IFRS 5 (amended) – *Measurement of non-current assets classified as held for sale* (effective 1 January 2010).

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

- IFRIC 18 – *Transfers of Assets from Customers* (effective 1 January 2009).

1.3 Consolidation

a) Subsidiaries and business combinations

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

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

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group and are recorded in the statement of comprehensive income. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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

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

b) Associates

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

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

The group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. 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 have been made to the accounting policies of associates to ensure consistency with the policies adopted by the group.

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

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

1.4 Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group executive committee (Exco) that is responsible for strategic decisions.

1.5 Foreign currency translation

a) *Functional and presentation currency*

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

b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the closing exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. 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 other comprehensive income.

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

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

1.6 Property and equipment

a) *Property*

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 (50 years) 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 necessary. 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 statement of comprehensive income 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. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

b) Computer software

Computer software is recognised at cost less amortisation and impairment charges. Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives, which does not exceed three years.

1.9 Financial assets

The group classifies its investments into the following categories: financial assets at fair value through profit and loss, 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 financial assets are recognised on trade date – the date on which the group commits to purchase or sell the asset. Financial assets are initially recognised at fair value. Transaction costs are recognised in the statement of other comprehensive income. Financial assets 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. Unrealised movements arising from changes in the fair value of the 'financial assets at fair value through income' category are included in the statement of comprehensive income in the period in which they arise. Dividend income and interest accrued from financial assets at fair value through profit and loss is recognised in the statement of comprehensive income as part of investment income when the group's right to receive payments is established. Realised gains on instruments at fair value through income are calculated as the difference between proceeds received and cost. Realised gains are recognised as part of net loss/gain on financial assets and liabilities at fair value through income.

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.

b) Loans and receivables

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

1.10 Impairment of assets

a) Financial assets carried at amortised cost

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

- Significant financial difficulty of the issuer or debtor
- A breach of contract, such as a default or delinquency in payments
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- The disappearance of an active market for that financial asset because of financial difficulties
- 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 statement of other comprehensive income. 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 cash equivalents

Cash and cash equivalents include cash on hand and deposits held on call with banks.

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

1.16 Debt securities

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

Fair value movements are recognised in the income statement. Interest accruals are recognised as finance costs in the statement of comprehensive income. Financial liabilities are derecognised when all obligations have been met.

1.17 Insurance and investment contracts – classification

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

Contracts under which the group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future

change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

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

1.18 Insurance contracts

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

a) *Short-term insurance*

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

- Personal insurance, consisting of insurance provided to individuals providing cover on their assets and liabilities.
- Commercial insurance, providing cover on the assets and liabilities of business enterprises.

Recognition and measurement

i) *Gross written 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.

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) 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 statement of comprehensive income. 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.

ix) 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 statement of financial position. 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. A cell captive is a contractual arrangement entered into by the group with a cell owner, whereby the risks and rewards associated with certain insurance activities accrue to the cell. There are currently two distinct types of cell captive arrangements being:

- first party – where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies; and
- third party – where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. The company is the principle to the insurance contract, although the business is underwritten on behalf of the cell shareholder.

First-party 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 company.

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 agreement transfers the insurance risk to the cell and the cell owner remains responsible for the solvency of the cell. In the event that the cell owner is unable to meet the cell's insurance liabilities, the insurer is still liable in terms of the insurance contract between the insurer and the insured.

The cell owner's interest represents the cell owner's funds held by the insurer and is included under financial liabilities at amortised cost. The carrying value of amounts due to cells is the consideration received for preference shares plus the accumulated funds in respect of business conducted in the cells less repayments to cells.

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 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 statement of comprehensive income.

b) *Investment contracts with fixed terms*

Investment contracts with fixed terms are recognised at amortised cost and are disclosed as 'collateral guarantee contracts'. 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 statement of financial position. 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 statement of comprehensive income.

1.20 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income.

a) *Current tax*

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company, its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 statement of financial position 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:

- the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- 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 statement of comprehensive income. Any surplus on the underlying security is not recognised in the statement of comprehensive income 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 are 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 statement of comprehensive income 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 scheme 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 statement of comprehensive

income 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 reporting date.

1.24 Trade and other payables

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

1.25 Other revenue recognition

Interest income

Interest income from cash and cash equivalents is recognised using the effective interest method.

1.26 Dividend distribution

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

1.27 Solvency margin

The solvency margin is calculated 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

The group makes estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

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 reporting date an assessment is made of whether the provisions for unearned premiums are adequate. A separate provision can be made, based on information available at the reporting date, for any estimated future underwriting losses relating to unexpired risks (unexpired risk provision). Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred and were reported by the reporting date, but that have not yet been finally settled. 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 reporting date. The IBNR provision relates to these events.

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 the 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 developing a 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.

The IBNR reserve is held to be at least sufficient at the 75th percentile of the ultimate cost distribution. Based on the assessment of individual insurance classes, IBNR surplus amounting to R11.9 million (2008: R27 million) was released to profit and loss in the 2009 financial year.

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 R21 million while a downward adjustment in the level of sufficiency would result in a release of reserves on the income statement of approximately R18 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) **Unearned premium provision**

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.

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.

iv) **Unexpired risk provision**

If the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to those policies, after deduction of any deferred commission expenses, management assesses the need for an unexpired risks provision.

The need for an unexpired risks provision is assessed on the basis of information available at the reporting date. Claims events occurring after the balance sheet date in relation to the unexpired period of policies in force at that time are not taken into account in assessing the need for an unexpired risks provision.

Management will base the assessment on the expected outcome of those contracts, including the available evidence of claims experience on similar contracts in the past year, as adjusted for known differences, events not expected to recur, and the normal level of seasonal claims.

b) **Impairment of goodwill**

The group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1.8(a). Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units (CGUs) 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 CGU and a suitable discount rate to calculate the present value.

c) **Provision for doubtful debt**

Management considers each debtor at the reporting 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 exists that the outstanding amount will not be recovered.

d) **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. In determining the share-based payment charge, a number of assumptions are used, which include expected volatility, expected dividend yield, the discount rate and the expected forfeit and lapse rate. In accordance with the principles of valuing equity-settled share-based payments, only a change in the actual experience of forfeit compared to the estimated forfeit rate assumption will impact on the charge in the statement of comprehensive income. All other assumptions are determined at grant date and are not amended (refer note 16).

e) **Fair value of financial assets that are not listed or quoted**

The fair value of financial assets and liabilities that are not listed or quoted in an active market are determined using valuation techniques. The assumptions used in these valuation techniques are described as part of the fair value hierarchy analysis included in note 3.3.

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:

| | Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|--|----------------------------|----------------------------|------------------------------|------------------------------|
| Financial and insurance assets | | | | |
| Quoted equity securities | 2 872 | 2 764 | 2 659 | 2 500 |
| Unquoted equity securities | 319 | 347 | 14 | 11 |
| Total equity securities | 3 191 | 3 111 | 2 673 | 2 511 |
| Quoted debt securities | 2 395 | 2 145 | 2 187 | 1 978 |
| Unquoted debt securities | 751 | 543 | 747 | 400 |
| Total debt securities | 3 146 | 2 688 | 2 934 | 2 378 |
| Derivatives | – | 136 | – | 136 |
| Short-term money market instruments | 4 554 | 3 089 | 2 541 | 1 589 |
| Receivables due from contract holders | 1 385 | 1 421 | 1 109 | 1 118 |
| Reinsurance receivables | 446 | 679 | 155 | 254 |
| Other loans and receivables | 431 | 588 | 469 | 536 |
| Total loans and receivables including insurance receivables | 2 262 | 2 688 | 1 733 | 1 908 |
| Reinsurance assets | 1 811 | 1 981 | 1 532 | 1 428 |
| Deferred acquisition costs | 259 | 271 | 251 | 239 |
| Cash and cash equivalents | 1 379 | 1 938 | 919 | 1 170 |
| Total financial and insurance assets | 16 602 | 15 902 | 12 583 | 11 359 |

| | Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|--|----------------------------|----------------------------|------------------------------|------------------------------|
| Financial and insurance liabilities | | | | |
| Debt securities | 863 | 996 | 863 | 996 |
| Investment contracts | 333 | 393 | – | – |
| Derivatives | 117 | – | 117 | – |
| Cell owners' interest | 535 | 447 | – | – |
| Collateral guarantee contracts | 101 | 93 | 101 | 93 |
| Insurance liabilities | 8 263 | 8 156 | 6 439 | 6 057 |
| Deferred reinsurance acquisition revenue | 53 | 82 | 60 | 59 |
| Trade and other payables | 1 570 | 1 804 | 1 546 | 1 427 |
| Total financial and insurance liabilities | 11 835 | 11 971 | 9 126 | 8 632 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.3 Fair value estimation

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The following table presents the assets and liabilities that are measured at fair value at 31 December 2009

| GROUP | Level 1 | Level 2 | Level 3 | Total |
|--|--------------|--------------|------------|---------------|
| Financial assets | R million | R million | R million | R million |
| Equity securities | | | | |
| Quoted | | | | |
| Listed | 2 848 | – | – | 2 848 |
| Unitised funds | – | 22 | – | 22 |
| Irredeemable preference shares | 2 | – | – | 2 |
| Unquoted | – | – | 319 | 319 |
| Total equity securities | 2 850 | 22 | 319 | 3 191 |
| Debt securities | | | | |
| Quoted | | | | |
| Government and public bonds | 1 624 | – | – | 1 624 |
| Unitised funds | – | 15 | – | 15 |
| Money market instruments > 1 year | – | 756 | – | 756 |
| Unquoted | | | | |
| Unitised funds | – | 355 | – | 355 |
| Redeemable preference shares | – | – | 396 | 396 |
| Total debt securities | 1 624 | 1 126 | 396 | 3 146 |
| Short-term money market instruments | – | 4 554 | – | 4 554 |
| | 4 474 | 5 702 | 715 | 10 891 |

| | | | | |
|--------------------------|------------|------------|------------|--------------|
| GROUP | | | | |
| Financial liabilities | | | | |
| Debt securities | 863 | – | – | 863 |
| Investment contracts | – | 333 | – | 333 |
| Derivatives | | | | |
| Interest rate swaps | – | – | 9 | 9 |
| Fence | – | – | 108 | 108 |
| Total derivatives | – | – | 117 | 117 |
| | 863 | 333 | 117 | 1 313 |

| | | | | |
|--|--------------|--------------|------------|--------------|
| COMPANY | | | | |
| Financial assets | | | | |
| Equity securities | | | | |
| Quoted | | | | |
| Listed | 2 650 | – | – | 2 650 |
| Unitised funds | – | 7 | – | 7 |
| Irredeemable preference shares | 2 | – | – | 2 |
| Unquoted | – | – | 14 | 14 |
| Total equity securities | 2 652 | 7 | 14 | 2 673 |
| Debt securities | | | | |
| Quoted | | | | |
| Government and public bonds | 1 441 | – | – | 1 441 |
| Money market instruments > 1 year | – | 746 | – | 746 |
| Unquoted | | | | |
| Unitised funds | – | 355 | – | 355 |
| Redeemable preference shares | – | – | 392 | 392 |
| Total debt securities | 1 441 | 1 101 | 392 | 2 934 |
| Short-term money market instruments | – | 2 541 | – | 2 541 |
| | 4 093 | 3 649 | 406 | 8 148 |

| COMPANY | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|------------|-----------|------------|------------|
| Financial liabilities | R million | R million | R million | R million |
| Debt securities | 863 | – | – | 863 |
| Derivatives | | | | |
| Interest rate swaps | – | – | 9 | 9 |
| Fence | – | – | 108 | 108 |
| Total derivatives | – | – | 117 | 117 |
| | 863 | – | 117 | 980 |

Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from the stock exchange or pricing service, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the bid price. These instruments are included in level 1 and comprise mainly equity and debt instruments classified as trading securities that are listed on the JSE or Namibian Stock Exchange and debt instruments listed on the Bond Exchange.

Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Level 2 instruments comprise the following:

- Collective Investments Schemes
- Debt and short-term money market instruments where the value is determined by using market observable inputs, e.g. JIBAR, prime rate, listed bond rates of similar instruments, without significant adjustments

Level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value level 3 financial instruments include:

- Unquoted equity instruments
 - o Fair value is determined based on valuation techniques where the inputs are determined by management, e.g. multiples of net asset value, and are not readily available in the market or where market observable inputs are significantly adjusted. Valuations are generally based on price-earnings multiples ranging between 2 and 10 with discounts applied between 10-80% based on the profit history of the company. A 10% decrease or increase in the valuation multiple would decrease or increase the market value by R3.2 million. A 1% increase in the discount rate would result in a R8.9 million decrease in the fair value of these instruments, but a 1% decrease in the discount rate would result in a R9.3 million increase in the fair value, resulting in similar decreases and increases in investment income.
- Unquoted redeemable preference shares
 - o Instruments with limited duration and low credit risk are valued at nominal values
 - o Other instruments are valued based on variable rate instruments available in the market with similar maturity dates or by using discounted cash flow calculations using the R153 and R206 risk-free rate (depending on the instrument's maturity date) as the discount rate. A 1% increase in the discount rate would result in a R1.9 million decrease in the fair value of these instruments, but a 1% decrease in the discount rate would result in a R2 million increase in the fair value, resulting in similar decreases and increases in investment income.
- Derivatives
 - o The interest rate swaps are valued using Sanlam Investment Managers' (SIM) swap curve to separately discount (i.e. calculate the present value) the future flows of the fixed and floating leg. The market value of the swap is the sum of these two present values. A 1% increase in the discount rate would result in a R9.8 million decrease in the fair value of these instruments, but a 1% decrease in the discount rate would result in a R10.5 million increase in the fair value, resulting in similar decreases and increases in investment income.
 - o The fence derivative structure is valued on SIM's Murex valuation system applying Black-Scholes pricing methodologies on all the vanilla type instruments, and Sanlam's proprietary models for all exotic instruments. These proprietary models are based on Black-Scholes assumptions. Black-Scholes uses the following inputs:
 - Risk-free rate
 - Volatilities
 - Dividend yields
 - Spot prices (the Top40 index)
 - Term of the structure

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The risk-free curve is constructed using treasury bills in the short end and government bonds in the medium and long term. The risk-free rate is extracted off the curve. The volatility is fixed as at trade date as supplied by the counterparty bank. The dividend yields are based on forecasts available from Reuters.

The fence structure was entered into in June 2009 and has an attachment point of 4470.61 (SWIX40 index) with downside protection of 10% from said attachment point as well as upside participation of 20% from said point. At 31 December 2009, the SWIX40 index was on 5244.24 points, 17% above the attachment point. A 10% decline in the SWIX40 will result in an increase of R94.4 million in the fair value of the fence and an increase of 10% in the SWIX40 will result in a decrease of R173.4 million in fair value of the fence, resulting in similar decreases and increases in investment income.

The following table presents the changes in level 3 instruments for the year ended 31 December 2009:

| | Equity securities Unquoted R million | Debt securities Unquoted Redeemable preference shares R million | Derivatives R million | Total R million |
|---|---|---|--------------------------|--------------------|
| GROUP | | | | |
| Opening balance | 347 | 543 | 136 | 1 026 |
| Acquisitions, | 1 | 181 | — | 182 |
| Interest and dividends capitalised | — | 17 | — | 17 |
| Disposals | — | (347) | (116) | (462) |
| Exchange rate differences | (41) | — | — | (41) |
| Gains/(losses) recognised in profit or loss | 12 | 2 | (137) | (123) |
| Closing balance | 319 | 396 | (117) | 599 |
| COMPANY | | | | |
| Opening balance | 11 | 400 | 136 | 547 |
| Acquisitions | — | 180 | — | 180 |
| Interest and dividends capitalised | — | 10 | — | 10 |
| Disposals | — | (200) | (116) | (316) |
| Exchange rate differences | — | — | — | — |
| Gains/(losses) recognised in profit or loss | 3 | 2 | (137) | (132) |
| Closing balance | 14 | 392 | (117) | 289 |

3.4 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:

- Equity securities
- Debt securities
- Receivables due from contract holders
- Reinsurance receivables
- Other loans and receivables
- Cash and cash equivalents
- Short-term interest-bearing instruments

Market risk arises due to fluctuations in both the value of liabilities and the value of investments held.

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.

3.4.1 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 is not exposed to commodity price risk.

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 7.3% of the total listed equities and 1.2% of the total assets. The company's largest investment in any one company comprises 7.2% of the total listed equities and 1.2% of the total assets.

The company implemented several actions during the year to reduce the group's price risk exposure. The collar derivative structure, in place at the end of 2008, with the objective to minimise the downside volatility of equities to the value of R500 million, was unwound in June 2009 and replaced with a fence structure aiming to protect the first 10% loss from the market levels at the time of entering into the structure on R2 billion of the company's equity portfolio.

At 31 December 2009, the group's listed equities were recorded at their fair value of R2 872 million (2008: R2 764 million). These figures include linked policy investments to the value of R152 million (2008: R112 million). The group is not exposed to significant price risk in respect of this investment. A hypothetical 10% decline in each individual share price would have the net effect of decreasing profit before taxation by R287 million (2008: R201 million), before 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 R287 million (2008: R199 million), before taking into account the effect of the derivative. The company's listed equities were recorded at their fair value of R2 659 million (2008: R2 500 million). A hypothetical 10% decline in each individual share price would have the net effect of decreasing profit before taxation by R266 million (2008: R217 million), before 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 R266 million (2008: R217 million), before taking into account the effect of the derivative (refer note 3.3 for effect of derivative). 2008 comparatives are shown after taking into account the effect of the zero cost collar 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.

3.4.2 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 methods 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 2009, the group had an interest rate swap agreement to partially mitigate the effects of potential adverse interest rate movements on financial assets underlying the unsecured subordinated callable notes.

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing.

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 | 2009 | 2009 | 2008 | 2008 |
|--|----------------|--------------|---------------|-------------|
| | 1% increase | 1% decrease | 1% increase | 1% decrease |
| | R million | R million | R million | R million |
| Financial assets | | | | |
| Quoted debt securities | (101.7) | 101.7 | (55.5) | 59.9 |
| Unquoted debt securities | (1.3) | 1.3 | (1.4) | 1.4 |
| Derivative instruments | — | — | (0.3) | 0.3 |
| Short-term money market instruments | (22.2) | 22.2 | (27.3) | 27.3 |
| Total interest-bearing securities | (125.2) | 125.2 | (84.5) | 88.9 |

An increase or decrease of 1% in the interest rates relating to interest bearing securities would result in a decrease in income before taxation of R89.0 million (2008: R52.2 million) or an increase in income before taxation of R89.0 million (2008: R56.6 million) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| GROUP | 2009 1% increase R million | 2009 1% decrease R million | 2008 1% increase R million | 2008 1% decrease R million |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Financial liabilities | | | | |
| Debt securities – quoted | (44.9) | 44.9 | (57.6) | 57.6 |
| Derivative instruments | 9.8 | (10.5) | – | – |
| Total interest-bearing securities | (35.1) | 34.4 | (57.6) | 57.6 |

An increase or decrease of 1% in the interest rates relating to debt securities and derivative instruments would result in an increase in income before taxation of R35.2 million (2008: R57.6 million) or a decrease in income before taxation of R34.4 million (2008: R57.6 million) respectively.

| COMPANY | 2009 1% increase R million | 2009 1% decrease R million | 2008 1% increase R million | 2008 1% decrease R million |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Financial assets | | | | |
| Quoted debt securities | (94.1) | 94.2 | (49.8) | 53.6 |
| Derivative instruments | – | – | (0.3) | 0.3 |
| Short-term money market instruments | (7.6) | 7.6 | (13.7) | 13.7 |
| Total interest-bearing securities | (101.7) | 101.8 | (63.8) | 67.6 |

An increase or decrease of 1% in the interest rates relating to interest-bearing securities would result in a decrease in income before taxation of R77.6 million (2008: R42.0 million) or an increase in income before taxation of R77.7 million (2008: R45.7 million) respectively.

| COMPANY | 2009 1% increase R million | 2009 1% decrease R million | 2008 1% increase R million | 2008 1% decrease R million |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Financial liabilities | | | | |
| Debt securities – quoted | (44.9) | 44.9 | (57.6) | 57.6 |
| Derivative instruments | 9.8 | (10.5) | – | – |
| Total interest-bearing securities | (35.1) | 34.4 | (57.6) | 57.6 |

An increase or decrease of 1% in the interest rates relating to debt securities and derivative instruments would result in an increase in income before taxation of R35.2 million (2008: R57.6 million) or a decrease in income before taxation of R34.4 million (2008: R57.6 million) respectively.

Included in debt securities are financial assets relating to cell owners. Interest on these instruments accrue to the cell owners and therefore does not affect profit before tax.

3.4.3 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. In addition, the Southern African operations have foreign exchange exposure in respect of net monetary assets denominated in foreign currency, predominantly US\$ 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 statement of financial position

| GROUP | Euro € million | United States dollar \$ million | British pound £ million | Total exposure R million |
|--|-------------------|---------------------------------------|-------------------------------|--------------------------------|
| 31 December 2009 | | | | |
| Cash, deposits and similar securities | 0.10 | 47.13 | 6.44 | 415 |
| Reinsurance assets | – | 2.76 | – | 20 |
| Deferred acquisition costs | – | 0.80 | – | 6 |
| Trade and other receivables | 0.02 | 6.98 | 0.29 | 55 |
| Insurance liabilities | (0.67) | (6.57) | – | (55) |
| Deferred reinsurance acquisition revenue | – | (0.27) | – | (2) |
| Trade and other payables | – | (0.52) | (12.80) | (156) |
| Foreign currency exposure | (0.55) | 50.31 | (6.07) | 282 |

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| COMPANY | Euro € million | United States dollar \$ million | British pound £ million | Total exposure R million |
|--|-------------------|---------------------------------------|-------------------------------|--------------------------------|
| 31 December 2009 | | | | |
| Cash, deposits and similar securities | 0.10 | 31.91 | 6.44 | 313 |
| Reinsurance assets | – | 2.76 | – | 20 |
| Deferred acquisition costs | – | 0.80 | – | 6 |
| Trade and other receivables | 0.02 | 6.98 | 0.29 | 55 |
| Insurance liabilities | (0.67) | (6.57) | – | (55) |
| Deferred reinsurance acquisition revenue | – | (0.27) | – | (2) |
| Trade and other payables | – | (0.52) | (12.80) | (156) |
| Foreign currency exposure | (0.55) | 35.09 | (6.07) | 180 |

Exchange rates:

| | | | |
|--------------|---------|--------|---------|
| Closing rate | 10.5597 | 7.3622 | 11.8906 |
| Average rate | 11.6193 | 8.3117 | 13.0420 |

GROUP

| | | | | |
|--|---------------|--------------|---------------|------------|
| 31 December 2008 | | | | |
| 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) |
| Foreign currency exposure | (0.63) | 45.98 | (7.56) | 337 |

COMPANY

| | | | | |
|--|---------------|--------------|---------------|------------|
| 31 December 2008 | | | | |
| 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) |
| Foreign currency exposure | (0.63) | 22.87 | (7.56) | 102 |

Exchange rates:

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

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

| | 10% increase in Rand/GBP R million | 10% decrease in Rand/GBP R million | 10% decrease in Rand/USD R million | 10% decrease in rand/USD R million |
|--|--|--|--|--|
| GROUP | | | | |
| Impact on net assets at 31 December 2009 | (7.22) | 7.22 | 38.06 | (38.06) |
| Impact on net assets at 31 December 2008 | (10.36) | 10.36 | 42.93 | (42.93) |
| COMPANY | | | | |
| Impact on net assets at 31 December 2009 | (7.22) | 7.22 | 26.85 | (26.85) |
| Impact on net assets at 31 December 2008 | (10.37) | 10.37 | 21.36 | (21.36) |

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 statement of comprehensive income. In 2008 R71 million of the translation reserve was released to the statement of comprehensive income with the disposal of Westminster Motor Insurance Association and Santam Europe.

3.4.4 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

3.5 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:

- financial assets and cash 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. Internal ratings were used for assets amounting to R1 485 million in the group and for assets amounting to R1 358 million in the company. Santam seeks to avoid concentration of credit risk to groups of counterparties, to business sectors, product types, and geographical segments.

SIM provides management with reports generated by their credit system on a quarterly basis, detailing Santam's counterparty, duration and credit risk. This information is provided to and discussed at the Investment Committee meetings and opportunity is given to discuss any potential concerns with SIM at their quarterly feedback sessions.

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 as at 31 December 2009.

| GROUP | Credit rating | | | | | | | | Not rated | Carrying value |
|--|---------------|-----------|--------------|------------|---------------|------------|-----------|------------|--------------|----------------|
| | AAA | AA+ | AA | AA- | A+ | A | A- | BBB | | |
| | R million | R million | R million | R million | R million | R million | R million | R million | R million | R million |
| Debt securities – quoted | 933 | 29 | 448 | 359 | 215 | 372 | – | 25 | 15 | 2 395 |
| Debt securities – unquoted | – | – | – | 587 | 78 | – | – | – | 86 | 751 |
| Total | 933 | 29 | 448 | 946 | 293 | 372 | – | 25 | 101 | 3 146 |
| Short-term money market instruments | 1 650 | 77 | 1 578 | 947 | 178 | 38 | – | 2 | 84 | 4 554 |
| Receivables due from contract holders/intermediaries | 12 | – | 24 | – | 14 | – | – | 9 | 1 326 | 1 385 |
| Reinsurance receivables | 7 | 63 | 1 | 28 | 24 | 11 | 33 | 116 | 163 | 446 |
| Other loans and receivables | 23 | – | 17 | 16 | 7 | 5 | – | 16 | 347 | 431 |
| Total | 42 | 63 | 42 | 44 | 45 | 16 | 33 | 141 | 1 836 | 2 262 |
| Cash and cash equivalents | 701 | 14 | 299 | 223 | 128 | – | – | 12 | 2 | 1 379 |
| COMPANY | | | | | | | | | | |
| Debt securities – quoted | 852 | 27 | 435 | 353 | 215 | 304 | – | – | – | 2 186 |
| Debt securities – unquoted | – | – | – | 587 | 78 | – | – | – | 82 | 747 |
| Total | 852 | 27 | 435 | 940 | 293 | 304 | – | – | 82 | 2 933 |
| Short-term money market instruments | 1 143 | – | 867 | 344 | 164.65 | 22 | – | – | – | 2 541 |
| Receivables due from contract holders/intermediaries | 12 | – | 24 | – | 14 | – | – | 9 | 1 050 | 1 109 |
| Reinsurance receivables | 7 | 3 | 1 | 7 | 22 | 11 | 1 | 63 | 40 | 155 |
| Other loans and receivables | 22 | – | 16 | 16 | 6 | 5 | – | – | 404 | 469 |
| Total | 41 | 3 | 41 | 23 | 42 | 16 | 1 | 72 | 1 494 | 1 733 |
| Cash and cash equivalents | 533 | – | 139 | 185 | 62 | – | – | – | – | 919 |

| GROUP | Credit rating | | | | | | | | Not rated | Carrying value |
|--|---------------|------------|--------------|------------|------------|------------|-----------|------------|--------------|-------------------|
| | AAA | AA+ | AA | AA- | A+ | A | A- | BBB | | |
| | R million | R million | R million | R million | R million | R million | R million | R million | R million | R million |
| 31 December 2008: | | | | | | | | | | |
| Debt securities – quoted | 861 | 175 | 588 | 304 | 153 | – | 51 | – | 13 | 2 145 |
| Debt securities – unquoted | – | – | 140 | 299 | – | – | – | – | 104 | 543 |
| Total | 861 | 175 | 728 | 603 | 153 | – | 51 | – | 117 | 2 688 |
| Derivatives | – | – | 1 | – | 135 | – | – | – | – | 136 |
| Short-term money market instruments | 824 | 533 | 1 247 | 212 | 203 | 11 | 25 | 11 | 23 | 3 089 |
| 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 |
| Total | 84 | 55 | 53 | 247 | 24 | 33 | 22 | 183 | 1 987 | 2 688 |
| Cash and cash equivalents | 671 | 256 | 364 | 212 | 211 | 184 | – | 36 | 4 | 1 938 |
| COMPANY | | | | | | | | | | |
| 31 December 2008: | | | | | | | | | | |
| Debt securities – quoted | 771 | 171 | 531 | 302 | 153 | – | 50 | – | – | 1 978 |
| Debt securities – unquoted | – | – | – | 299 | – | – | – | – | 101 | 400 |
| Total | 771 | 171 | 531 | 601 | 153 | – | 50 | – | 101 | 2 378 |
| Derivatives | – | – | 1 | – | 135 | – | – | – | – | 136 |
| Short-term money market instruments | 403 | 278 | 551 | 114 | 180 | 10 | 25 | 3 | 25 | 1 589 |
| 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 |
| Total | 70 | 14 | 50 | 81 | 22 | 20 | 1 | 166 | 1 484 | 1 908 |
| Cash and cash equivalents | 396 | – | 218 | 201 | 211 | 144 | – | – | – | 1 170 |

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 326 million (2008: R1 336 million). The group is protected by guarantees provided by the Intermediary Guarantee Facility for the non-payment of premiums collected by intermediaries and through direct control over certain bank accounts used by intermediaries to the value of R737 million (2008: R669 million). For the company, this amounts to R715 million (2008: R641 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 R93 million (2008: R166 million) relate to reinsurance brokers for the group. In the company BBB-rated reinsurance receivables of R63 million (2008: R149 million) relate to reinsurance brokers. The reinsurance receivable balances, disclosed as not-rated on a group level, relate to cell owners (R78 million) and 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 (2008: R Nil).

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 2009

| GROUP | Financial assets that are past due but not impaired | | | | | Financial assets that have been impaired | | Carrying value |
|--|---|---------------------------|---------------------------|--------------------------------|----------------------------------|--|-------------------------|----------------|
| | Neither past due nor impaired R million | 0 – 3 months R million | 3 – 6 months R million | 6 months – 1 year R million | Greater than 1 year R million | Impaired R million | Impairment R million | |
| Debt securities – quoted | 2 396 | – | – | – | – | – | – | 2 396 |
| Debt securities – unquoted | 751 | – | – | – | – | – | – | 751 |
| Total | 3 147 | – | – | – | – | – | – | 3 147 |
| Short-term money market instruments | 4 554 | – | – | – | – | – | – | 4 554 |
| Receivables due from contract holders/intermediaries | 1 363 | 18 | 1 | 2 | 1 | – | – | 1 385 |
| Reinsurance receivables | 241 | 145 | 37 | 16 | 7 | 16 | (16) | 446 |
| Other loans and receivables | 427 | 3 | – | – | 1 | 48 | (50) | 429 |
| Total | 2 031 | 166 | 38 | 18 | 9 | 65 | (66) | 2 260 |
| Cash and cash equivalents | 1 379 | – | – | – | – | – | – | 1 379 |
| COMPANY | | | | | | | | |
| Debt securities – quoted | 2 187 | – | – | – | – | – | – | 2 187 |
| Debt securities – unquoted | 747 | – | – | – | – | – | – | 747 |
| Total | 2 934 | – | – | – | – | – | – | 2 934 |
| Short-term money market instruments | 2 541 | – | – | – | – | – | – | 2 541 |
| Receivables due from contract holders/intermediaries | 1 109 | – | – | – | – | – | – | 1 109 |
| Reinsurance receivables | 104 | – | 35 | 14 | 2 | 10 | (10) | 155 |
| Other loans and receivables | 469 | – | – | – | – | 86 | (86) | 469 |
| Total | 1 682 | – | 35 | 14 | 2 | 96 | (96) | 1 733 |
| Cash and cash equivalents | 919 | – | – | – | – | – | – | 919 |

At 31 December 2008

| | | | | | | | | |
|--|--------------|------------|----------|----------|----------|-----------|-------------|--------------|
| GROUP | | | | | | | | |
| Debt securities – quoted | 2 145 | – | – | – | – | – | – | 2 145 |
| Debt securities – unquoted | 874 | – | – | – | – | – | – | 874 |
| Total | 3 019 | – | – | – | – | – | – | 3 019 |
| Derivatives | 136 | – | – | – | – | – | – | 136 |
| Short-term money market instruments | 3 089 | – | – | – | – | – | – | 3 089 |
| Receivables due from contract holders/intermediaries | 1 416 | 4 | 1 | – | – | – | – | 1 421 |
| Reinsurance receivables | 481 | 198 | – | – | – | 17 | (17) | 679 |
| Other loans and receivables | 588 | – | – | – | – | 3 | (3) | 588 |
| Total | 2 485 | 202 | 1 | – | – | 20 | (20) | 2 688 |
| Cash and cash equivalents | 1 938 | – | – | – | – | – | – | 1 938 |

| COMPANY | Financial assets that are past due but not impaired | | | | | Financial assets that have been impaired | | Carrying value |
|--|---|---------------------------|---------------------------|--------------------------------|----------------------------------|--|-------------------------|----------------|
| | Neither past due nor impaired R million | 0 – 3 months R million | 3 – 6 months R million | 6 months – 1 year R million | Greater than 1 year R million | R million | Impairment R million | |
| Debt securities – quoted | 1 978 | – | – | – | – | – | – | 1 978 |
| Debt securities – unquoted | 731 | – | – | – | – | – | – | 731 |
| Total | 2 709 | – | – | – | – | – | – | 2 709 |
| Derivatives | 136 | – | – | – | – | – | – | 136 |
| Short-term money market instruments | 1 589 | – | – | – | – | – | – | 1 589 |
| Receivables due from contract holders/intermediaries | 1 118 | – | – | – | – | – | – | 1 118 |
| Reinsurance receivables | 254 | – | – | – | – | 17 | (17) | 254 |
| Other loans and receivables | 536 | – | – | – | – | 38 | (38) | 536 |
| Total | 1 908 | – | – | – | – | 55 | (55) | 1 908 |
| Cash and cash equivalents | 1 170 | – | – | – | – | – | – | 1 170 |

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.

3.6 Insurance risk

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

Terms and conditions of insurance contracts

Engineering – Provides cover for risks relating to:

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

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

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

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

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

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

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

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

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

Insurance risk in the group arises from:

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

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 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---------------------------------|------|------|------|------|------|------|------|
| Net claims paid and provided %* | 70.6 | 68.4 | 68.2 | 68.6 | 65.3 | 57.0 | 64.8 |

* 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. The European insurance operations were disposed of during 2008.

Reserving

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

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

In calculating the estimated cost of unpaid claims, the group's estimation methodology is based on standard statistical techniques. For claims that have been reported to Santam by the valuation date, expert assessors estimate the expected cost of final settlement. In addition to this, testing of the entire portfolio is done to determine whether or not these estimates 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 a 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 program has been selected to mitigate accumulation risk within its portfolio.

Reinsurance

The group obtains third-party reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or the company's capital.

This cover is placed on the local and international reinsurance 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 1.6% 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.

3.7 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 cash flow projections. The group has significant liquid resources to cover its obligations.

Insurance liabilities are presented on an undiscounted contractual cash flow basis.

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

As at 31 December 2009

| GROUP | < 1 year | 1 – 5 years | > 5 years | Open ended | Carrying value |
|--|--------------|--------------|------------|------------|----------------|
| Financial assets | R million | R million | R million | R million | R million |
| Debt securities – quoted | 43 | 1 364 | 989 | – | 2 396 |
| Debt securities – unquoted | 499 | 248 | 4 | – | 751 |
| Total | 542 | 1 612 | 993 | – | 3 147 |
| Short-term money market instruments | 4 554 | – | – | – | 4 554 |
| Receivables due from contract holders/intermediaries | 1 384 | 1 | – | – | 1 385 |
| Reinsurance receivables | 444 | 1 | – | – | 445 |
| Other loans and receivables | 415 | 1 | 15 | – | 431 |
| Total | 2 243 | 3 | 15 | – | 2 261 |
| Cash and cash equivalents | 1 379 | – | – | – | 1 379 |

| GROUP | Within 1 year | 2 to 5 years | More than 5 years | Total |
|----------------------------------|---------------|--------------|-------------------|---------------|
| Financial liabilities | R million | R million | R million | R million |
| Debt securities | 83 | 330 | 1 223 | 1 636 |
| Investment contracts | 316 | 17 | – | 333 |
| Derivatives | 108 | – | 9 | 117 |
| Cell owners' interest | 44 | 491 | – | 535 |
| Collateral guarantee contracts | 101 | – | – | 101 |
| Insurance liabilities (incl DAC) | 6 462 | 1 608 | 246 | 8 316 |
| Trade and other payables | 1 570 | – | – | 1 570 |
| Total | 8 684 | 2 446 | 1 478 | 12 608 |

| COMPANY | < 1 year | 1 – 5 years | > 5 years | Open ended | Carrying value |
|--|--------------|--------------|------------|------------|----------------|
| Financial assets | R million | R million | R million | R million | R million |
| Debt securities – quoted | 24 | 1 309 | 854 | – | 2 187 |
| Debt securities – unquoted | 499 | 248 | – | – | 747 |
| Total | 523 | 1 557 | 854 | – | 2 934 |
| Short-term money market instruments | 2 541 | – | – | – | 2 541 |
| Receivables due from contract holders/intermediaries | 1 110 | – | – | – | 1 110 |
| Reinsurance receivables | 154 | – | – | – | 154 |
| Other loans and receivables | 468 | – | – | – | 468 |
| Total | 1 732 | – | – | – | 1 732 |
| Cash and cash equivalents | 919 | – | – | – | 919 |

| COMPANY | Within 1 year | 2 to 5 years | More than 5 years | Total |
|----------------------------------|---------------|--------------|-------------------|--------------|
| Financial liabilities | R million | R million | R million | R million |
| Debt securities | 83 | 330 | 1 223 | 1 636 |
| Derivatives | 108 | – | 9 | 117 |
| Collateral guarantee contracts | 101 | – | – | 101 |
| Insurance liabilities (incl DAC) | 4 771 | 1 483 | 245 | 6 499 |
| Trade and other payables | 1 546 | – | – | 1 546 |
| Total | 6 609 | 1 813 | 1 477 | 9 899 |

As at 31 December 2008

| GROUP | Within 1 year | 2 to 5 years | More than 5 years | Total |
|--------------------------------|---------------|--------------|-------------------|---------------|
| | R million | R million | R million | R million |
| Financial liabilities | | | | |
| 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 |
| Total | 9 538 | 1 860 | 1 320 | 12 718 |

| COMPANY | Within 1 year | 2 to 5 years | More than 5 years | Total |
|--------------------------------|---------------|--------------|-------------------|--------------|
| | R million | R million | R million | R million |
| Financial liabilities | | | | |
| 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 |
| Total | 6 631 | 1 427 | 1 321 | 9 379 |

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 risk management

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

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

3.9.1 Quantification of risk

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

- Calculating internal capital requirements at a global and line of business level

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

The model incorporates the following areas of risk:

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

Internal capital requirements are determined at the 99.5th level of sufficiency over a one-year time period. This level is based on regulatory requirements 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 regulatory 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.

FSB approval was obtained for the debt issue, and Santam obtained regulatory 'equity credit' for the fair value of the full R1 billion debt in issue (refer note 18).

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 are among the most important determinants of risk and hence capital requirements within the organisation.

Santam has further developed its risk appetite policy to allow for the monitoring of non-financial risks. A list of risk appetite criteria are assessed on a continuous basis and the level of compliance is reported quarterly to the board. The risk appetite criteria are categorised as follows:

- Earnings risks
- Solvency risks
- Liquidity risks
- Strategic risks
- Insurance risks
- Market and asset concentration risks
- Credit risks
- Reserve risks
- Brand and reputation risks
- Operational risks

4. SEGMENT INFORMATION

To ensure meaningful disclosure, only the continuing activities are reported on a segmented basis below. The discontinued operations are disclosed in note 32.

Segments have been identified by business activity, i.e. insurance activities and investment activities, as these activities mainly affect the group's risks and returns.

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers have been identified as the group Executive committee (Exco), under the leadership of the Chief Executive.

Exco reviews the group's internal reporting in order to assess performance and allocate resources. The operating segments identified are representative of the internal structure of the group.

Exco reviews the two core activities of the group, i.e. insurance activities, and investment activities, on a monthly basis. Insurance activities are all insurance underwriting activities undertaken by the group and comprise commercial insurance, personal insurance and alternative risks. Insurance activities are also further analysed by insurance class. Investment activities are all investment-related activities undertaken by the group.

Exco considers the performance of insurance activities based on gross written premium as a measure of growth as well as underwriting result and net insurance result as a measure of profitability.

Investment activities are measured based on net investment income and income from associated companies.

Other information provided to Exco is measured in a manner consistent with that in the financial statements.

| Business activity | Insurance activities R million | Investment activities R million | Total R million |
|--|-----------------------------------|------------------------------------|--------------------|
| 2009 | | | |
| Revenue | 15 026 | 695 | 15 721 |
| Gross written premium | 15 026 | | 15 026 |
| Net written premium | 12 894 | | 12 894 |
| Net earned premium | 12 896 | | 12 896 |
| Claims incurred | 9 100 | | 9 100 |
| Net commission | 1 918 | | 1 918 |
| Management expenses | 1 412 | 13 | 1 425 |
| Underwriting result | 466 | (13) | 453 |
| Investment return on insurance funds | 420 | | 420 |
| Net insurance result | 886 | (13) | 873 |
| Investment income net of management fee | | 627 | 627 |
| Income from associates net of impairment | | 43 | 43 |
| Amortisation of intangible asset | (25) | | (25) |
| Income before taxation | 861 | 657 | 1 518 |
| Total assets | 10 547 | 6 535 | 17 082 |
| Total liabilities | 11 271 | 872 | 12 143 |
| 2008 | | | |
| Revenue | 14 179 | (472) | 13 707 |
| 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 |
| Underwriting result | 752 | (13) | 739 |
| Investment return on insurance funds | 540 | | 540 |
| Net insurance result | 1 292 | (13) | 1 279 |
| Investment income net of management fee | | (490) | (490) |
| Income from associates | | (8) | (8) |
| Amortisation of intangible asset | (7) | | (7) |
| Income before taxation | 1 285 | (511) | 774 |
| Total assets | 10 318 | 6 130 | 16 448 |
| Total liabilities | 11 050 | 996 | 12 046 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Insurance activities

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

| Insurance class | Gross written premium R million | Underwriting result R million | Total assets* R million | Total liabilities* R million |
|---------------------|---------------------------------------|-------------------------------------|-------------------------------|------------------------------------|
| 2009 | | | | |
| Accident and health | 382 | 3 | 25 | 147 |
| Alternative risk | 1 638 | 16 | 306 | 1 740 |
| Crop | 472 | 83 | 140 | 302 |
| Engineering | 562 | 127 | 107 | 308 |
| Guarantee | 16 | 6 | 12 | 27 |
| Liability | 1 126 | 517 | 488 | 1 941 |
| Miscellaneous | 19 | (4) | 5 | 17 |
| Motor | 6 147 | (29) | 33 | 1 487 |
| Property | 4 266 | (321) | 890 | 2 082 |
| Transportation | 398 | 68 | 64 | 265 |
| Unallocated | – | (13) | 15 012 | 3 827 |
| Total | 15 026 | 453 | 17 082 | 12 143 |

Comprising:

| | | | | |
|----------------------|---------------|------------|---------------|---------------|
| Commercial insurance | 7 489 | 657 | 1 692 | 5 341 |
| Personal insurance | 5 899 | (207) | 72 | 1 235 |
| Alternative risk | 1 638 | 16 | 306 | 1 740 |
| Unallocated | – | (13) | 15 012 | 3 827 |
| Total | 15 026 | 453 | 17 082 | 12 143 |

2008

| | | | | |
|---------------------|---------------|------------|---------------|---------------|
| 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 |
| Total | 14 179 | 739 | 16 448 | 12 046 |

Comprising:

| | | | | |
|----------------------|---------------|------------|---------------|---------------|
| 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 |
| Total | 14 179 | 739 | 16 448 | 12 046 |

* 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.

5. PROPERTY AND EQUIPMENT GROUP

At 1 January 2008

| | | | | |
|--------------------------|---|------|------|-------|
| Cost or valuation | 1 | 102 | 57 | 160 |
| Accumulated depreciation | – | (80) | (42) | (122) |
| Net book amount | 1 | 22 | 15 | 38 |

Year ended 31 December 2008

| | | | | |
|-----------------------------------|---|------|-----|------|
| 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 |

At 31 December 2008

| | | | | |
|--------------------------|---|------|------|-------|
| Cost or valuation | 1 | 115 | 67 | 183 |
| Accumulated depreciation | – | (96) | (45) | (141) |
| Net book amount | 1 | 19 | 22 | 42 |

Year ended 31 December 2009

| | | | | |
|--|---|------|-----|------|
| Opening net book amount | 1 | 19 | 22 | 42 |
| Disposal of subsidiaries (refer note 38) | – | (3) | (2) | (5) |
| Additions | – | 22 | 10 | 32 |
| Disposals | – | – | – | – |
| Depreciation charge | – | (15) | (7) | (22) |
| Reclassification | – | 1 | (1) | – |
| Closing net book amount | 1 | 24 | 22 | 47 |

At 31 December 2009

| | | | | |
|--------------------------|---|-------|------|-------|
| Cost or valuation | 1 | 130 | 72 | 203 |
| Accumulated depreciation | – | (106) | (50) | (156) |
| Net book amount | 1 | 24 | 22 | 47 |

COMPANY

At 1 January 2008

| | | | | |
|--------------------------|---|------|------|-------|
| Cost or valuation | 1 | 93 | 44 | 138 |
| Accumulated depreciation | – | (73) | (34) | (107) |
| Net book amount | 1 | 20 | 10 | 31 |

Year ended 31 December 2008

| | | | | |
|-------------------------|---|------|-----|------|
| 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 |

At 31 December 2008

| | | | | |
|--------------------------|---|------|------|-------|
| Cost or valuation | 1 | 103 | 54 | 158 |
| Accumulated depreciation | – | (84) | (38) | (122) |
| Net book amount | 1 | 19 | 16 | 36 |

Year ended 31 December 2009

| | | | | |
|-------------------------|---|------|-----|------|
| Opening net book amount | 1 | 19 | 16 | 36 |
| Additions | – | 15 | 7 | 22 |
| Depreciation charge | – | (13) | (6) | (19) |
| Closing net book amount | 1 | 21 | 17 | 39 |

At 31 December 2009

| | | | | |
|--------------------------|---|------|------|-------|
| Cost or valuation | 1 | 118 | 61 | 180 |
| Accumulated depreciation | – | (97) | (44) | (141) |
| Net book amount | 1 | 21 | 17 | 39 |

Depreciation expense has been included in Expenses for marketing and administration in the income statement (refer note 28).

6. INTANGIBLE ASSETS

GROUP

At 1 January 2008

| | Goodwill R million | Computer software R million | Value of business acquired R million | Total R million |
|------------------------|-----------------------|-----------------------------------|---|--------------------|
| Cost | 117 | 22 | 4 | 143 |
| Translation difference | 7 | — | — | 7 |
| Impairment | (6) | (6) | (3) | (15) |
| Net book amount | 118 | 16 | 1 | 135 |

Year ended 31 December 2008

| | | | | |
|---|------------|-----------|----------|------------|
| 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 |

At 31 December 2008

| | | | | |
|------------------------|------------|-----------|----------|------------|
| Cost | 120 | 43 | 15 | 178 |
| Translation difference | 7 | — | — | 7 |
| Impairment | (6) | (18) | (6) | (30) |
| Net book amount | 121 | 25 | 9 | 155 |

Year ended 31 December 2009

| | | | | |
|---|------------|-----------|----------|------------|
| Opening net book amount | 121 | 25 | 9 | 155 |
| Acquisition of subsidiaries (refer note 38) | 5 | — | — | 5 |
| Acquisitions | — | 5 | 2 | 7 |
| Disposals of subsidiaries (refer note 38) | — | — | (2) | (2) |
| Additions through business combinations | — | 3 | — | 3 |
| Amortisation | — | (16) | (9) | (25) |
| Closing net book amount | 126 | 17 | — | 143 |

At 31 December 2009

| | | | | |
|-------------------------------------|------------|-----------|----------|------------|
| Cost | 125 | 51 | 7 | 183 |
| Translation difference | 7 | — | — | 7 |
| Impairment/Accumulated amortisation | (6) | (34) | (7) | (47) |
| Net book amount | 126 | 17 | — | 143 |

COMPANY

At 1 January 2008

| | | | | |
|------------------------|----------|-----------|----------|-----------|
| Cost | — | 17 | 2 | 19 |
| Impairment | — | (6) | (2) | (8) |
| Net book amount | — | 11 | — | 11 |

Year ended 31 December 2008

| | | | | |
|--|----------|-----------|----------|-----------|
| Opening net book amount | — | 11 | — | 11 |
| Reclassified from property and equipment | — | 18 | — | 18 |
| Amortisation | — | (7) | — | (7) |
| Closing net book amount | — | 22 | — | 22 |

At 31 December 2008

| | | | | |
|--------------------------|----------|-----------|----------|-----------|
| Cost | — | 35 | 2 | 37 |
| Accumulated amortisation | — | (13) | (2) | (15) |
| Net book amount | — | 22 | — | 22 |

Year ended 31 December 2009

| | | | | |
|--------------------------------|----------|-----------|----------|-----------|
| Opening net book amount | — | 22 | — | 22 |
| Acquisitions | — | 4 | — | 4 |
| Amortisation | — | (13) | — | (13) |
| Closing net book amount | — | 13 | — | 13 |

At 31 December 2009

| | | | | |
|--------------------------|----------|-----------|----------|-----------|
| Cost | — | 39 | 2 | 41 |
| Accumulated amortisation | — | (26) | (2) | (28) |
| Net book amount | — | 13 | — | 13 |

Impairment tests of goodwill

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

| | Group 2009 R million | Group 2008 R million |
|--|----------------------------|----------------------------|
| Agri Risk Specialists (Pty) Ltd | 19 | 19 |
| Admiral Professional Underwriting Agency (Pty) Ltd | 57 | 57 |
| Centriq Insurance Holdings Ltd | 1 | 1 |
| Isure Services (Pty) Ltd | 5 | – |
| Stalker Hutchinson and Associates (Pty) Ltd | 44 | 44 |
| | 126 | 121 |

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 and multiples on NAV, are approved by the board. Goodwill balances were assessed at the year end and no impairments were deemed necessary. The nature of goodwill mainly relates to staff skill and industry knowledge.

7. INVESTMENT IN SUBSIDIARIES

| | Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|--|----------------------------|----------------------------|------------------------------|------------------------------|
| At the beginning of the year | | | 1 552 | 1 703 |
| Provision for impairment | | | (49) | (151) |
| Unlisted shares at cost price less amounts written off | | | 1 503 | 1 552 |
| Directors' valuation | | | 2 024 | 2 026 |

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 | 195 | 175 |
| Acquisitions | 7 | 55 |
| Share of results after tax | 49 | (2) |
| Share of results before tax | 69 | (2) |
| Share of tax | (20) | – |
| Dividends received from associated companies | (35) | (27) |
| Disposals | (11) | – |
| Transfer to investment in subsidiaries | (1) | – |
| Impairment | (6) | (6) |
| At the end of year | 198 | 195 |
| Fair value/Directors' valuation | 288 | 258 |

Details of investments are set out in note 44.

COMPANY

| | | |
|--|------------|------------|
| At the beginning of the year | 157 | 163 |
| Disposals | (24) | – |
| Impairment | – | (6) |
| | 133 | 157 |
| Fair value/Directors' valuation | 176 | 169 |
| Dividend income received from associates | 20 | 20 |
| Impairment of investment in associate | – | (6) |
| Total income from associates | 20 | 14 |

Investments in associates at 31 December 2009 include goodwill of R4.5 million (2008: R4.5 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

| | Assets R million | Liabilities R million | Revenues R million | After tax profit/(loss) R million |
|--|---------------------|--------------------------|-----------------------|---|
| 2009 | | | | |
| NICO Holdings Ltd | 2 792 | 1 500 | 837 | 62 |
| Credit Guarantee Insurance Corporation of Africa Ltd | 839 | 557 | 622 | 17 |
| Indwe Broker Holdings Group Ltd | 239 | 160 | 48 | 6 |
| MiWay Group Holdings Ltd | 119 | 103 | 58 | (90) |
| Thebe Risk Services Holdings (Pty) Ltd | 20 | – | 3 | 3 |
| Other | 1 | 2 | 3 | – |
| Total | 4 010 | 2 322 | 1 571 | (2) |
| 2008 | | | | |
| 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 | – |
| Total | 4 068 | 3 321 | 1 972 | 16 |

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME (EXCLUDING DERIVATIVES)

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

| | Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| Equity securities | | | | |
| – quoted | 2 872 | 2 764 | 2 659 | 2 500 |
| – unquoted | 319 | 347 | 14 | 11 |
| | 3 191 | 3 111 | 2 673 | 2 511 |
| Debt securities | | | | |
| – quoted | | | | |
| government and other bonds | | | | |
| money market instruments | 1 639 | 1 369 | 1 441 | 1 202 |
| (long-term instruments) | 756 | 776 | 746 | 776 |
| – unquoted | | | | |
| redeemable preference shares | 751 | 543 | 747 | 400 |
| | 3 146 | 2 688 | 2 934 | 2 378 |
| Short-term money market instruments | 4 554 | 3 089 | 2 541 | 1 589 |
| Financial assets at fair value through income | 10 891 | 8 888 | 8 148 | 6 478 |

Financial assets amounting to R81 million was pledged as collateral as at 31 December 2009 for the Zero cost fence.

The details of investments are set out on page 138.

| | Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| 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 |
| | – | 136 | – | 136 |
| Financial liability – at fair value through income | | | | |
| Over the counter | | | | |
| Interest rate swaps | 9 | – | 9 | – |
| Zero cost fence on the SWIX40 | 108 | – | 108 | – |
| | 117 | – | 117 | – |

The interest rate derivative represents the fair value of interest rate swaps effected on a portion (R200 million) of fixed interest securities held in the investment portfolio underlining the subordinated callable note (refer note 18). The interest rate swaps have the effect of swapping a variable interest rate for a fixed interest rate on these assets to eliminate interest rate risk on assets supporting the bond liability. The derivatives mature on 15 September 2017.

The zero cost fence on the SWIX40 represents an equity derivative that was entered into in June 2009 for the purpose of protecting R2 billion of Santam's equity portfolio for the first 10% decrease in the market while participating in the first 20% of the upside above the attachment point. As 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 over a three month period from May 2010 to July 2010.

| | | | | |
|---|-------|-------|-------|-------|
| 11. REINSURANCE ASSETS | | | | |
| Reinsurers' share of insurance liabilities | 1 811 | 1 981 | 1 532 | 1 428 |
| Total assets arising from reinsurance contracts | 1 811 | 1 981 | 1 532 | 1 428 |

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 | 1 385 | 1 421 | 1 109 | 1 118 |
| – due from reinsurers | 462 | 705 | 165 | 271 |
| – less provision for impairment of receivables from reinsurers | (16) | (26) | (10) | (17) |
| Other loans and receivables: | | | | |
| – other receivables | 463 | 612 | 246 | 355 |
| – less provision for impairment | (50) | (64) | (48) | (61) |
| – loans to executive management | 2 | 9 | 2 | 9 |
| – loans to associated companies | 27 | 31 | – | 19 |
| – less provision for impairment of loans to associates | (11) | – | – | – |
| – loans to subsidiaries | – | – | 307 | 252 |
| – less provision for impairment of loans to subsidiaries | – | – | (38) | (38) |
| Total loans and receivables including insurance receivables | 2 262 | 2 688 | 1 733 | 1 908 |

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.

| | Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|--------------------------------------|----------------------------|----------------------------|------------------------------|------------------------------|
| 13. CASH AND CASH EQUIVALENTS | | | | |
| Cash at bank and in hand | 1 379 | 1 938 | 919 | 1 170 |
| | 1 379 | 1 938 | 919 | 1 170 |

14. SHARE CAPITAL

| | Group and Company Ordinary shares | | Group Treasury shares | |
|-----------------------------|--------------------------------------|--------------------------------|------------------------------------|--------------------------------|
| | Number of shares (thousands) | Stated capital R million | Number of shares (thousands) | Stated capital R million |
| At 1 January 2008 | 119 168 | 105 | 7 087 | 726 |
| Proceeds from shares issued | 178 | 2 | — | — |
| Purchase of treasury shares | | | 367 | 29 |
| Re-issue of treasury shares | | | (773) | (75) |
| At 31 December 2008 | 119 346 | 107 | 6 681 | 680 |
| Proceeds from shares issued | — | — | — | — |
| Purchase of treasury shares | | | 607 | 53 |
| Re-issue of treasury shares | | | (795) | (73) |
| At 31 December 2009 | 119 346 | 107 | 6 493 | 660 |

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. In 2009 a further 607 406 shares were bought in the market at an average price of R78.93 per share. 769 030 shares were reissued in terms of the share option plan and 11 567 in terms of the DSP. The net amount of these transactions has been deducted from shareholders' equity. The shares are held as 'Treasury shares'. The company has the right to reissue these shares at a later date subject to approval by the JSE and the Regulator.

15. SHARE OPTIONS

Share options were granted to executive directors, senior and middle management in prior years. The exercise prices of the granted options were equal to the market price of the shares on the date of the grant. Options are conditional on the employee remaining in service. The vesting period is five years and lapses after the sixth year. Options can be exercised from the third year (provided the employee is 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.

15. SHARE OPTIONS (continued)

| | | Date awarded | Latest irreversible date | Grant price | Number of shares |
|--|--|--|--------------------------|-----------------|------------------|
| (i) Deferred share plan (DSP) | | | | | |
| 2008 | The following shares were awarded and the delivery thereof deferred to a pre-determined future date. | 1 June 2007 | 31 May 2012 | R94.53 | 343 975 |
| | | 1 June 2008 | 31 May 2013 | R74.91 | 700 283 |
| | | | | | 1 044 258 |
| | | 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) |
| | | As at 31 December 2008 | | R81.37 | 1 044 258 |
| | | | | | |
| 2009 | | Date awarded | Latest irreversible date | Grant price | |
| | | 1 June 2007 | 31 May 2012 | R94.53 | 322 762 |
| | | 1 June 2008 | 31 May 2013 | R74.91 | 657 186 |
| | | 1 June 2009 | 31 May 2014 | R66.81 | 618 199 |
| | | | | | 1 598 147 |
| | | Movements during the period | | Average price | |
| | | As at 1 January 2009 | | R81.37 | 1 044 258 |
| | | Shares awarded | | R66.81 | 625 585 |
| | | Awarded shares lapsed due to resignations | | R77.54 | (60 129) |
| | | Shares issued | | R92.04 | (11 567) |
| | | As at 31 December 2009 | | R75.74 | 1 598 147 |
| | | | | | |
| (ii) Share option scheme | | | | | |
| 2008 | | Date awarded | Latest irreversible date | Exercise price* | |
| 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: | | 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 |
| | | | | | 1 145 230 |
| | | 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) |
| | | As at 31 December 2008 | | R34.22 | 1 145 230 |
| | | | | | |
| 2009 | | Date awarded | Latest irreversible date | Exercise price* | |
| | | 25 February 2003 | 25 February 2009 | R1.00 | 18 200 |
| | | 10 November 2005 | 10 November 2011 | R42.80 | 461 250 |
| | | | | | 479 450 |
| | | Movements during the period | | Average price | |
| | | As at 1 January 2009 | | R34.22 | 1 145 230 |
| | | Awarded options lapsed due to resignations | | R42.80 | (26 400) |
| | | Options exercised | | R28.46 | (639 380) |
| | | As at 31 December 2009 | | R41.43 | 479 450 |

* 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.

15. SHARE OPTIONS (continued)

| (iii) Deferred payout/delivery scheme | Date awarded | Latest irreversible date | Exercise price** | Number of shares |
|--|------------------------------------|---------------------------------|-------------------------|------------------|
| 2008 | 25 February 2003 | 25 February 2009 | – | 1 500 |
| In terms of the scheme, share options were exercised on condition that the relevant scheme shares may only be released on the fifth anniversary of the option date. It has since been amended to provide for the release of the scheme shares in trenches on the third, fourth and fifth anniversary of the option date. | 31 March 2004 | 31 March 2010 | R6.65 | 133 850 |
| | | | | 135 350 |
| | Movements during the period | | Average price | |
| | As at 1 January 2008 | | R6.58 | 328 110 |
| | Scheme shares released | | R3.88 | (192 760) |
| | As at 31 December 2008 | | R6.58 | 135 350 |
| 2009 | Date awarded | Latest irreversible date | Exercise price** | |
| | 31 March 2004 | 31 March 2010 | R6.65 | 5 700 |
| | | | | 5 700 |
| | Movements during the period | | Average price | |
| | As at 1 January 2009 | | R6.58 | 135 350 |
| | Scheme shares released | | R6.57 | (129 650) |
| | As at 31 December 2009 | | R6.65 | 5 700 |

** 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 is calculated using a model based on a hybrid of the European and American binomial methods, was R54 million (2008: R54 million). The fair value of deferred shares granted in terms of the DSP scheme amounted to R29.5 million. The significant inputs into the model are the share price on grant date, share option exercise price, vesting period, standard deviation of expected share price returns on date of grant and expected staff turnover time. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share price over the last six years.

The valuation model is used for share options under the normal share option scheme as well as the deferred payment scheme.

Shares awarded under the deferred share plan (DSP) are valued at the grant price and expensed to the income statement over the five year vesting period. Total share-option costs for the above options amounting to R47 million (2008: R39 million) has been included in the statement of comprehensive income.

| | Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|--------------------------|----------------------------|----------------------------|------------------------------|------------------------------|
| 16. RESERVES | | | | |
| A) Other reserves | | | | |
| Translation reserve | (15) | 65 | – | – |
| Contingency reserve | 1 283 | 1 186 | 1 202 | 1 114 |
| | 1 268 | 1 251 | 1 202 | 1 114 |

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 statement of comprehensive income as part of the profit or loss on disposal.

The 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.

16. RESERVES (continued)

a) Movements in the translation reserve were as follows:

At the beginning of the year
Currency translation differences:

– group

At the end of the year

| Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|----------------------------|----------------------------|------------------------------|------------------------------|
| 65 | 60 | | |
| (80) | 5 | | |
| (15) | 65 | | |

b) Movements in the contingency reserve were as follows:

At the beginning of the year
Transfer from retained earnings

At the end of the year

| | | | |
|-------|-------|-------|-------|
| 1 186 | 1 087 | 1 114 | 1 012 |
| 97 | 99 | 88 | 102 |
| 1 283 | 1 186 | 1 202 | 1 114 |

B) Distributable reserves

Retained earnings
Share-based payment reserve

| | | | |
|-------|-------|-------|-------|
| 3 946 | 3 499 | 3 510 | 3 257 |
| 134 | 87 | 134 | 87 |
| 4 080 | 3 586 | 3 644 | 3 344 |

The obligation that flows from an agreement between the entity and another party to enter into a share-based payment transaction, which entitles the other party to receive benefits in terms of the agreement are accounted for as part of other comprehensive income as a share-based payment reserve.

a) Movements in the share-based payment reserve were as follows:

At the beginning of the year
Transfer from retained earnings

At the end of the year

| | | | |
|-----|----|-----|----|
| 87 | 48 | 87 | 48 |
| 47 | 39 | 47 | 39 |
| 134 | 87 | 134 | 87 |

17. DEFERRED INCOME TAX

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 28% (2008: 28%) in South Africa and the official tax rates in the foreign subsidiaries where applicable.

The amounts are as follows

Deferred tax assets
Deferred tax liabilities

Total net deferred income tax account

| | | | |
|------|------|------|------|
| (88) | (81) | (59) | (32) |
| 129 | 12 | 120 | – |
| 41 | (69) | 61 | (32) |

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

At beginning of year

Change in tax rate

Income statement charge

At end of year

| | | | |
|------|-------|------|-------|
| (69) | 51 | (32) | 73 |
| – | (2) | – | (2) |
| 110 | (118) | 93 | (103) |
| 41 | (69) | 61 | (32) |

17. DEFERRED INCOME TAX (continued)

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

a) Deferred tax assets

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

GROUP

| | Unrealised appreciation of investments R million | Provisions and accruals R million | Tax losses carried forward R million | STC credits R million | Total R million |
|---|---|--------------------------------------|---|--------------------------|--------------------|
| At 1 January 2008 | – | – | (24) | (16) | (40) |
| 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) |
| At 31 December 2008 | 51 | (67) | (48) | (17) | (81) |
| Transfer (to)/from deferred tax liabilities | (51) | 6 | – | – | (45) |
| Charge to the income statement | – | 14 | 10 | 14 | 38 |
| At 31 December 2009 | – | (47) | (38) | (3) | (88) |

COMPANY

| | | | | | |
|---|-----------|-------------|----------|-------------|-------------|
| At 1 January 2008 | – | – | – | (1) | (1) |
| Transfer from deferred tax liabilities | 159 | (85) | – | – | 74 |
| Change in tax rate | (5) | 3 | – | – | (2) |
| Credited to the income statement | (103) | 17 | – | (17) | (103) |
| At 31 December 2008 | 51 | (65) | – | (18) | (32) |
| Transfer (to)/from deferred tax liabilities | (51) | – | – | – | (51) |
| Charge to the income statement | – | 10 | – | 14 | 24 |
| At 31 December 2009 | – | (55) | – | (4) | (59) |

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 no unrecognised tax losses (2008: R1.4 million).

b) Deferred tax liabilities

GROUP

| | Unrealised appreciation of investments R million | Provisions and accruals R million | Total R million |
|--|---|--------------------------------------|--------------------|
| At 1 January 2008 | 173 | (82) | 91 |
| Transfer from deferred tax assets | (159) | 88 | (71) |
| Credited to the income statement | (8) | – | (8) |
| At 31 December 2008 | 6 | 6 | 12 |
| Transfer (to)/from deferred tax assets | 51 | (6) | 45 |
| Charged to the income statement | 72 | – | 72 |
| At 31 December 2009 | 129 | – | 129 |

COMPANY

| | | | |
|-----------------------------------|------------|----------|------------|
| At 1 January 2008 | 159 | (85) | 74 |
| Transfer from deferred tax assets | (159) | 85 | (74) |
| At 31 December 2008 | – | – | – |
| Transfer from deferred tax assets | 51 | – | 51 |
| Charged to the income statement | 69 | – | 69 |
| At 31 December 2009 | 120 | – | 120 |

No deferred tax has been provided on temporary differences relating from investments in associates amounting to R91 million (2008: R63 million).

| | Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| 18. DEBT SECURITIES | | | | |
| At the beginning of the year | 972 | 908 | 972 | 908 |
| Fair value adjustment | (133) | 64 | (133) | 64 |
| | 839 | 972 | 839 | 972 |
| Accrued interest | 24 | 24 | 24 | 24 |
| | 863 | 996 | 863 | 996 |
| Estimated redemption value on maturity date | 1 000 | 1 000 | 1 000 | 1 000 |

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 (JIBAR-based plus additional margin) will apply.

Per the conditions set by the Regulator, Santam is required to maintain liquid assets equal to the value of the callable notes until their maturity. The callable notes are therefore measured at fair value to minimise undue volatility in the statement of comprehensive income.

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 represent the market movement.

19. INVESTMENT CONTRACTS

| | | |
|--|------------|-------|
| At the beginning of the year | 393 | 525 |
| Investment contracts issued | 104 | 93 |
| Investment contracts sold/matured | (205) | (230) |
| Net fair value gains on investment contracts | 41 | 5 |
| Investment contracts (unit-linked) | 333 | 393 |

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 statement of comprehensive income. The maturity values of these financial liabilities are determined by the fair values of the linked assets.

20. CELL OWNERS' INTEREST

| | | |
|---|------------|------|
| At the beginning of the year | 447 | 336 |
| Net increase in cell owners' interest | 133 | 127 |
| Preference shares issued by subsidiary | 14 | 1 |
| Redemption of preference shares | (1) | (2) |
| Dividends paid to preference shareholders | (58) | (15) |
| At the end of the year | 535 | 447 |

21. COLLATERAL GUARANTEE CONTRACTS

| | | | | |
|------------------------------|------------|----|------------|----|
| At the beginning of the year | 93 | 84 | 93 | 84 |
| Interest | 8 | 9 | 8 | 9 |
| | 101 | 93 | 101 | 93 |

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. 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.

22. INSURANCE LIABILITIES AND REINSURANCE ASSETS

Gross

Long term insurance contracts

- claims reported and loss adjustment expenses
- claims incurred but not reported

Short term insurance contracts

- claims reported and loss adjustment expenses
- claims incurred but not reported
- unearned premiums

Total insurance liabilities – gross

| Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|----------------------------|----------------------------|------------------------------|------------------------------|
| 5 | — | — | — |
| 7 | 9 | — | — |
| 4 283 | 4 075 | 3 842 | 3 492 |
| 1 139 | 1 134 | 950 | 919 |
| 2 830 | 2 938 | 1 647 | 1 646 |
| 8 264 | 8 156 | 6 439 | 6 057 |

Recoverable from reinsurers

Long term insurance contracts

- claims reported and loss adjustment expenses
- claims incurred but not reported

Short term insurance contracts

- claims reported and loss adjustment expenses
- claims incurred but not reported
- unearned premiums

Total reinsurers' share of insurance liabilities

| | | | |
|-------|-------|-------|-------|
| 5 | — | — | — |
| 1 | 2 | — | — |
| 1 331 | 1 376 | 1 161 | 1 046 |
| 132 | 171 | 74 | 87 |
| 342 | 432 | 297 | 295 |
| 1 811 | 1 981 | 1 532 | 1 428 |

Net

Long term insurance contracts

- claims reported and loss adjustment expenses
- claims incurred but not reported

Short term insurance contracts

- claims reported and loss adjustment expenses
- claims incurred but not reported
- unearned premiums

Total insurance liabilities – net

| | | | |
|--------------|--------------|--------------|--------------|
| — | — | — | — |
| 6 | 7 | — | — |
| 2 952 | 2 699 | 2 681 | 2 446 |
| 1 007 | 963 | 876 | 832 |
| 2 488 | 2 506 | 1 350 | 1 351 |
| <u>6 453</u> | <u>6 175</u> | <u>4 907</u> | <u>4 629</u> |

22.1 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

a) Claims and loss adjustment expenses

| Year ended 31 December | Gross R million | 2009 Reinsurance R million | Net R million | 2008 Gross R million | Reinsurance R million | Net R million |
|--|--------------------|----------------------------------|------------------|----------------------------|--------------------------|------------------|
| GROUP | | | | | | |
| 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 |
| Total at beginning of year | 5 218 | (1 549) | 3 669 | 4 786 | (1 496) | 3 290 |
| Cash paid for claims settled in the year | (10 016) | 1 211 | (8 805) | (8 996) | 1 269 | (7 727) |
| Increase in liabilities | | | | | | |
| – arising from current year claims | 10 241 | (1 141) | 9 100 | 9 422 | (1 415) | 8 007 |
| – arising from portfolio transfer | (9) | 10 | 1 | 6 | 2 | 8 |
| Cell accounting | – | – | – | – | 91 | 91 |
| Total at end of year | 5 434 | (1 469) | 3 965 | 5 218 | (1 549) | 3 669 |
| Notified claims | 4 288 | (1 336) | 2 952 | 4 075 | (1 376) | 2 699 |
| Incurred but not reported | 1 146 | (133) | 1 013 | 1 143 | (173) | 970 |
| Total at end of the year | 5 434 | (1 469) | 3 965 | 5 218 | (1 549) | 3 669 |
| COMPANY | | | | | | |
| Notified claims | 3 492 | (1 046) | 2 446 | 3 371 | (1 110) | 2 261 |
| Incurred but not reported | 919 | (87) | 832 | 866 | (111) | 755 |
| Total at beginning of year | 4 411 | (1 133) | 3 278 | 4 237 | (1 221) | 3 016 |
| Cash paid for claims settled in the year | (8 833) | 645 | (8 188) | (7 673) | 549 | (7 124) |
| Increase in liabilities | | | | | | |
| – arising from current year claims | 9 216 | (748) | 8 468 | 7 848 | (461) | 7 387 |
| – arising from portfolio transfer | (2) | 1 | (1) | | | |
| Total at end of year | 4 792 | (1 235) | 3 557 | 4 412 | (1 133) | 3 279 |
| Notified claims | 3 842 | (1 161) | 2 681 | 3 492 | (1 046) | 2 446 |
| Incurred but not reported | 950 | (74) | 876 | 919 | (87) | 832 |
| Total at end of the year | 4 792 | (1 235) | 3 557 | 4 411 | (1 133) | 3 278 |

b) Provision for unearned premiums

Year ended 31 December

GROUP

| | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| At beginning of year | 2 938 | (432) | 2 506 | 2 844 | (530) | 2 314 |
| Charged to the statement of comprehensive income | (108) | 106 | (2) | 94 | 63 | 157 |
| Cell accounting | – | (16) | (16) | – | 35 | 35 |
| Total at end of year | 2 830 | (342) | 2 488 | 2 938 | (432) | 2 506 |

COMPANY

| | | | | | | |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| At beginning of year | 1 645 | (295) | 1 350 | 1 399 | (285) | 1 114 |
| Movement for the period | 2 | (2) | – | 246 | (10) | 236 |
| Total at end of year | 1 647 | (297) | 1 350 | 1 645 | (295) | 1 350 |

22.2 MOVEMENTS IN DEFERRED ACQUISITION COSTS AND DEFERRED REINSURANCE ACQUISITION REVENUE

| | Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| a) Deferred acquisition costs | | | | |
| At beginning of year | 271 | 239 | 239 | 203 |
| Movement for the period | (21) | 32 | 12 | 36 |
| Cell accounting | 9 | – | – | – |
| Total at end of year | 259 | 271 | 251 | 239 |
| b) Deferred reinsurance acquisition revenue | | | | |
| At beginning of year | 82 | 99 | 59 | 64 |
| Movement for the period (included in Income from reinsurance contracts ceded) | (29) | (17) | 1 | (5) |
| Total at end of year | 53 | 82 | 60 | 59 |

22.3 CLAIMS DEVELOPMENT TABLES

The presentation of the claims development tables for the Santam group, is based on the actual date of the event that caused the claim (accident year basis). The claims development tables, represent the development of actual claims paid for continuing operations for 2009 and 2008.

PAYMENT DEVELOPMENT

| GROUP | Claims paid in respect of | | | | | | | 2003 and prior R million |
|--|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------|
| | Total R million | 2009 R million | 2008 R million | 2007 R million | 2006 R million | 2005 R million | 2004 R million | |
| – Short-term insurance claims – gross | | | | | | | | |
| Reporting year | | | | | | | | |
| Actual claims costs: | | | | | | | | |
| – 2009 | 10 016 | 7 702 | 1 959 | 197 | 92 | 28 | 14 | 24 |
| – 2008 | 8 996 | – | 7 181 | 1 547 | 156 | 47 | 46 | 19 |
| – 2007 | 7 971 | – | – | 6 219 | 1 385 | 132 | 193 | 42 |
| – 2006 | 6 988 | – | – | – | 5 521 | 1 062 | 245 | 160 |
| – 2005 | 5 955 | – | – | – | – | 4 711 | 966 | 278 |
| – 2004 | 4 797 | – | – | – | – | – | 3 813 | 984 |
| – 2003 | 5 076 | – | – | – | – | – | – | 5 076 |
| – 2002 | 4 832 | – | – | – | – | – | – | 4 832 |
| Cumulative payments to date | 54 631 | 7 702 | 9 140 | 7 963 | 7 154 | 5 980 | 5 277 | 11 415 |
| – Short-term insurance claims – net | | | | | | | | |
| Reporting year | | | | | | | | |
| Actual claims costs: | | | | | | | | |
| – 2009 | 8 805 | 6 928 | 1 651 | 131 | 41 | 19 | 14 | 21 |
| – 2008 | 7 727 | – | 6 172 | 1 381 | 93 | 31 | 32 | 18 |
| – 2007 | 6 672 | – | – | 5 292 | 1 197 | 99 | 61 | 23 |
| – 2006 | 6 020 | – | – | – | 4 924 | 909 | 90 | 97 |
| – 2005 | 5 185 | – | – | – | – | 4 223 | 820 | 142 |
| – 2004 | 4 064 | – | – | – | – | – | 3 311 | 753 |
| – 2003 | 4 194 | – | – | – | – | – | – | 4 194 |
| – 2002 | 3 754 | – | – | – | – | – | – | 3 754 |
| Cumulative payments to date | 46 421 | 6 928 | 7 823 | 6 804 | 6 255 | 5 281 | 4 328 | 9 002 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22.3 CLAIMS DEVELOPMENT TABLES (continued)

| COMPANY | Claims paid in respect of | | | | | | | 2003 and prior |
|--|---------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------|
| | Total | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | |
| – Short-term insurance claims – gross | R million | R million | R million | R million | R million | R million | R million | R million |
| Reporting year | | | | | | | | |
| Actual claims costs: | | | | | | | | |
| – 2009 | 8 833 | 6 777 | 1 779 | 154 | 72 | 15 | 13 | 23 |
| – 2008 | 7 673 | – | 5 905 | 1 507 | 152 | 45 | 45 | 19 |
| – 2007 | 6 740 | – | – | 5 039 | 1 348 | 130 | 191 | 32 |
| – 2006 | 6 110 | – | – | – | 4 806 | 983 | 188 | 133 |
| – 2005 | 5 193 | – | – | – | – | 4 092 | 864 | 237 |
| – 2004 | 4 099 | – | – | – | – | – | 3 236 | 863 |
| – 2003 | 4 326 | – | – | – | – | – | – | 4 326 |
| – 2002 | 4 230 | – | – | – | – | – | – | 4 230 |
| Cumulative payments to date | 34 141 | 6 777 | 7 684 | 6 700 | 6 378 | 5 265 | 4 537 | 9 863 |
| – Short-term insurance claims – net | | | | | | | | |
| Reporting year | | | | | | | | |
| Actual claims costs: | | | | | | | | |
| – 2009 | 8 188 | 6 434 | 1 552 | 115 | 34 | 15 | 14 | 24 |
| – 2008 | 7 124 | – | 5 609 | 1 345 | 91 | 30 | 31 | 18 |
| – 2007 | 6 142 | – | – | 4 789 | 1 172 | 98 | 60 | 23 |
| – 2006 | 5 614 | – | – | – | 4 611 | 864 | 51 | 88 |
| – 2005 | 4 672 | – | – | – | – | 3 798 | 741 | 133 |
| – 2004 | 3 609 | – | – | – | – | – | 2 930 | 679 |
| – 2003 | 3 794 | – | – | – | – | – | – | 3 794 |
| – 2002 | 3 542 | – | – | – | – | – | – | 3 542 |
| Cumulative payments to date | 42 685 | 6 434 | 7 161 | 6 249 | 5 908 | 4 805 | 3 827 | 8 301 |

22.4 REPORTING DEVELOPMENT

| GROUP | Financial year during which claim occurred | | | | | | | 2003 and prior |
|--|--|-----------|-----------|-----------|-----------|-----------|-----------|-------------------|
| | Total | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | |
| – Short-term insurance claims provision – gross | R million | R million | R million | R million | R million | R million | R million | R million |
| Reporting year | | | | | | | | |
| Provision raised: | | | | | | | | |
| – 2009 | 4 288 | 2 617 | 712 | 401 | 281 | 174 | 69 | 34 |
| – 2008 | 4 075 | – | 2 579 | 630 | 356 | 260 | 133 | 117 |
| – 2007 | 3 774 | – | – | 2 804 | 405 | 202 | 129 | 234 |
| – 2006 | 3 922 | – | – | – | 2 929 | 375 | 223 | 395 |
| – 2005 | 3 187 | – | – | – | – | 2 340 | 277 | 570 |
| – 2004 | 2 436 | – | – | – | – | – | 1 845 | 591 |
| – 2003 | 2 303 | – | – | – | – | – | – | 2 303 |
| – 2002 | 1 747 | – | – | – | – | – | – | 1 747 |
| Cumulative provisions to date | 25 732 | 2 617 | 3 291 | 3 835 | 3 971 | 3 351 | 2 676 | 5 991 |
| – Short-term insurance claims provision – net | | | | | | | | |
| Reporting year | | | | | | | | |
| Provision raised: | | | | | | | | |
| – 2009 | 2 952 | 1 861 | 435 | 280 | 200 | 103 | 50 | 23 |
| – 2008 | 2 699 | – | 1 805 | 403 | 195 | 145 | 79 | 72 |
| – 2007 | 2 444 | – | – | 1 807 | 268 | 134 | 85 | 150 |
| – 2006 | 2 484 | – | – | – | 1 916 | 214 | 130 | 224 |
| – 2005 | 1 909 | – | – | – | – | 1 453 | 153 | 303 |
| – 2004 | 1 056 | – | – | – | – | – | 783 | 273 |
| – 2003 | 1 104 | – | – | – | – | – | – | 1 104 |
| – 2002 | 768 | – | – | – | – | – | – | 768 |
| Cumulative provisions to date | 15 416 | 1 861 | 2 240 | 2 490 | 2 579 | 2 049 | 1 280 | 2 917 |

22.3 CLAIMS DEVELOPMENT TABLES (continued)

| COMPANY – Short-term insurance claims – gross | Financial year during which claim occurred | | | | | | | 2003 and prior R million |
|--|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------------------|
| | Total R million | 2009 R million | 2008 R million | 2007 R million | 2006 R million | 2005 R million | 2004 R million | |
| Reporting year | | | | | | | | |
| Provision raised: | | | | | | | | |
| – 2009 | 3 842 | 2 312 | 663 | 362 | 254 | 149 | 68 | 34 |
| – 2008 | 3 492 | – | 2 030 | 616 | 348 | 254 | 130 | 114 |
| – 2007 | 3 371 | – | – | 2 430 | 395 | 197 | 126 | 223 |
| – 2006 | 2 961 | – | – | – | 2 015 | 355 | 218 | 373 |
| – 2005 | 2 342 | – | – | – | – | 1 547 | 266 | 529 |
| – 2004 | 1 848 | – | – | – | – | – | 1 267 | 581 |
| – 2003 | 1 206 | – | – | – | – | – | – | 1 206 |
| – 2002 | 1 007 | – | – | – | – | – | – | 1 007 |
| Cumulative provisions to date | 20 069 | 2 312 | 2 693 | 3 408 | 3 012 | 2 502 | 2 075 | 4 067 |
| – Short-term insurance claims provision – net | | | | | | | | |
| Reporting year | | | | | | | | |
| Provision raised: | | | | | | | | |
| – 2009 | 2 681 | 1 666 | 404 | 255 | 191 | 93 | 49 | 23 |
| – 2008 | 2 446 | – | 1 569 | 396 | 191 | 142 | 78 | 70 |
| – 2007 | 2 261 | – | – | 1 631 | 265 | 132 | 84 | 149 |
| – 2006 | 1 766 | – | – | – | 1 202 | 212 | 130 | 222 |
| – 2005 | 1 318 | – | – | – | – | 870 | 150 | 298 |
| – 2004 | 863 | – | – | – | – | – | 592 | 271 |
| – 2003 | 396 | – | – | – | – | – | – | 396 |
| – 2002 | 265 | – | – | – | – | – | – | 265 |
| Cumulative provisions to date | 11 996 | 1 666 | 1 973 | 2 282 | 1 849 | 1 449 | 1 083 | 1 694 |

22.5 LIABILITY ADEQUACY TEST

An unexpired risk reserve (URR) is required if a company believes that its UPR will prove insufficient to cover the unexpired risk on its books at the valuation date. An actuarial review indicated that there is no need for a URR.

23. PROVISION FOR OTHER LIABILITIES AND CHARGES GROUP

At 1 January 2008

Charged to statement of comprehensive income:

– additional provisions/releases

– unused amounts reversed

Used during the year

Year ended 31 December 2008

Charged to statement of comprehensive income:

– additional provisions/releases

Year ended 31 December 2009

COMPANY

At 1 January 2008

Charged to statement of comprehensive income:

– additional provisions/releases

– unused amounts reversed

Year ended 31 December 2008

Charged to statement of comprehensive income:

– additional provisions/releases

Year ended 31 December 2009

| Pension fund holiday exposure* R million | Litigation exposures R million | Onerous contracts R million | Total R million |
|---|--------------------------------------|-----------------------------------|--------------------|
| 59 | 28 | – | 87 |
| 4 | – | – | 4 |
| (46) | (19) | – | (65) |
| (1) | – | – | (1) |
| 16 | 9 | – | 25 |
| 2 | – | 5 | 7 |
| 18 | 9 | 5 | 32 |
| 58 | 28 | – | 86 |
| 4 | – | – | 4 |
| (46) | (19) | – | (65) |
| 16 | 9 | – | 25 |
| 2 | – | 5 | 7 |
| 18 | 9 | 5 | 32 |

* This potential exposure emanated in the past when deferred benefit plans were converted to defined contribution plans.

24. TRADE AND OTHER PAYABLES

Amounts due to subsidiaries

Trade payables and accrued expenses

Amounts due to intermediaries

Amounts due to reinsurers

Amounts due to policyholders

Employee benefits

Total

| Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|----------------------------|----------------------------|------------------------------|------------------------------|
| – | – | 590 | 530 |
| 535 | 739 | 332 | 396 |
| 165 | 178 | 152 | 173 |
| 777 | 834 | 403 | 279 |
| 39 | 10 | 20 | 10 |
| 54 | 43 | 49 | 39 |
| 1 570 | 1 804 | 1 546 | 1 427 |

25. INVESTMENT INCOME

Dividend income

Quoted

Unquoted

Interest income

Quoted

Unquoted

Foreign exchange differences

| | | | |
|-------|-----|------|-----|
| 198 | 342 | 183 | 453 |
| 83 | 227 | 76 | 214 |
| 115 | 115 | 107 | 239 |
| 612 | 466 | 491 | 456 |
| 133 | 389 | 114 | 96 |
| 479 | 77 | 377 | 360 |
| (103) | 141 | (65) | 61 |
| 707 | 949 | 609 | 970 |

26. NET GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME

Net realised gains on financial assets

Net fair value gains on financial assets designated as at fair value through income

Net fair value gains on financial assets held for trading

Net fair value gains on derivatives

Net fair value gains on financial liabilities designated as at fair value through income

Net fair value gains on debt securities

Net fair value gains on investment contracts

| | | | |
|-------|-------|-------|-------|
| 240 | 164 | 172 | 135 |
| 252 | (998) | 281 | (904) |
| 32 | – | – | – |
| (137) | 183 | (137) | 183 |
| 92 | (70) | 133 | (65) |
| 133 | (65) | 133 | (65) |
| (41) | (5) | – | – |
| 479 | (721) | 449 | (651) |

27. INSURANCE BENEFITS AND CLAIMS

2009

GROUP

| | | | |
|---|---------------|----------------|--------------|
| Claims paid | 10 016 | (1 211) | 8 805 |
| Movement in the expected cost of outstanding claims | 225 | 70 | 295 |
| Total claims and loss adjustment expense | 10 241 | (1 141) | 9 100 |

COMPANY

| | | | |
|---|--------------|--------------|--------------|
| Claims paid | 8 833 | (645) | 8 188 |
| Movement in the expected cost of outstanding claims | 383 | (103) | 280 |
| Total claims and loss adjustment expense | 9 216 | (748) | 8 468 |

2008

GROUP

| | | | |
|---|--------------|----------------|--------------|
| Claims paid | 8 996 | (1 269) | 7 727 |
| Movement in the expected cost of outstanding claims | 426 | (146) | 280 |
| Total claims and loss adjustment expense | 9 422 | (1 415) | 8 007 |

COMPANY

| | | | |
|---|--------------|--------------|--------------|
| Claims paid | 7 673 | (549) | 7 124 |
| Movement in the expected cost of outstanding claims | 174 | 88 | 262 |
| Total claims and loss adjustment expense | 7 847 | (461) | 7 386 |

28. EXPENSES BY NATURE

| | | | | |
|---|--------------|--------------|--------------|--------------|
| Auditor's remuneration | 10 | 9 | 6 | 5 |
| Audit fees | | | | |
| – Current year | 10 | 7 | 6 | 4 |
| – Prior year | – | 1 | – | – |
| Audit-related services | – | 1 | – | 1 |
| Depreciation | 22 | 21 | 19 | 15 |
| Amortisation of intangible assets | 25 | 9 | 13 | 7 |
| Impairment of investment in subsidiaries | – | – | 49 | 151 |
| Employee benefit expense (note 29) | 1 044 | 902 | 899 | 774 |
| Directors' remuneration | 5 | 10 | 5 | 10 |
| Operating lease rentals | 246 | 229 | 229 | 216 |
| – Offices | 87 | 83 | 74 | 71 |
| – Computer equipment | 143 | 128 | 141 | 128 |
| – Furniture and mechanical equipment | 1 | 3 | – | 2 |
| – Motor vehicles | 15 | 15 | 14 | 15 |
| Costs incurred for the acquisition of insurance contracts | 2 127 | 2 014 | 1 999 | 1 842 |
| Asset management services | 25 | 26 | 20 | 21 |
| Other expenses | 98 | 123 | 272 | 270 |
| Total expenses | 3 602 | 3 343 | 3 511 | 3 311 |

29. EMPLOYEE BENEFIT EXPENSE

| | | | | |
|--|--------------|------------|------------|------------|
| Wages, salaries and bonus | 837 | 745 | 704 | 620 |
| Social security costs | 90 | 66 | 88 | 64 |
| Long-term incentive scheme costs | 51 | 34 | 42 | 34 |
| Pension costs – defined contribution plans | 53 | 44 | 52 | 43 |
| BBBEE cost | 13 | 13 | 13 | 13 |
| Total | 1 044 | 902 | 899 | 774 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Directors' emoluments

2009

Executive directors

Paid by the company

IM Kirk

MJ Reyneke

| | Salary R'000 | Performance bonus* R'000 | Other benefits R'000 | Total R'000 |
|------------|-----------------|--------------------------------|----------------------------|----------------|
| IM Kirk | 2 537 | 4 000 | 640 | 7 177 |
| MJ Reyneke | 1 680 | 2 000 | 272 | 3 952 |
| | 4 217 | 6 000 | 912 | 11 129 |

Non-executive directors

Paid by the company

BTPKM Gamedze**

DCM Gihwala

JG le Roux

NM Magau

JP Möller**

RK Morathi**

YG Muthien

P de V Rademeyer

JP Rowse

GE Rudman

DK Smith

J van Zyl**

BP Vundla

Directors' fees
R'000

244

272

371

314

272

136

—

328

300

343

668

300

286

3 834

TOTAL

14 963

* Bonus in respect of 2009 paid in 2010

** Fees were paid to the holding company Sanlam Ltd

2008

Executive directors

Paid by the company

IM Kirk

MJ Reyneke

| | Salary R'000 | Performance bonus*** R'000 | Other benefits R'000 | Total R'000 |
|------------|-----------------|----------------------------------|----------------------------|----------------|
| IM Kirk | 2 367 | 3 200 | 460 | 6 027 |
| MJ Reyneke | 1 584 | 2 100 | 228 | 3 912 |
| | 3 951 | 5 300 | 688 | 9 939 |

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

** Fees were paid to the holding company Sanlam Ltd

*** Bonus in respect of 2008 paid in 2009

30. FINANCE COSTS

Interest expense

- interest on collateral guarantee
- interest on interest rate swap
- banks and other
- subordinated callable note
- revenue authorities

| Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|----------------------------|----------------------------|------------------------------|------------------------------|
| 8 | 10 | 8 | 10 |
| 17 | 33 | 17 | 33 |
| 6 | 2 | 2 | 2 |
| 83 | 83 | 83 | 83 |
| – | 24 | – | 24 |
| 114 | 152 | 110 | 152 |

31. INCOME TAX EXPENSE

South African normal taxation

Current year

- Charge for the year
- STC

Prior year

Foreign taxation – current year

Income taxation for the year

Deferred taxation

Current year

STC

Prior year

Total taxation as per the income statement

| | | | |
|-----|-------|-----|-------|
| 240 | 153 | 198 | 79 |
| 213 | 127 | 174 | 56 |
| 27 | 26 | 24 | 23 |
| 25 | 3 | 28 | 4 |
| 27 | 16 | – | – |
| 292 | 172 | 226 | 83 |
| 110 | (118) | 93 | (105) |
| 96 | (114) | 79 | (86) |
| 14 | (1) | 14 | (17) |
| – | (3) | – | (2) |
| 402 | 54 | 319 | (22) |

Reconciliation of taxation rate (%)

Normal South African taxation rate

Adjusted for

- Disallowable expenses
- Foreign tax differential
- Exempt income
- Investment results
- Income from associates
- Previous years' underprovision
- Other permanent differences
- Change in tax rate
- STC

Net reduction

Effective rate (%)

| | | | |
|-------|--------|-------|--------|
| 28.0 | 28.0 | 28.0 | 28.0 |
| 1.0 | 2.7 | 1.2 | 1.9 |
| 0.4 | (0.6) | – | – |
| (4.1) | (9.7) | (4.8) | (16.3) |
| (3.0) | (15.1) | (2.8) | (17.5) |
| (0.8) | (0.3) | (0.5) | (0.5) |
| 1.7 | – | 2.5 | 0.5 |
| 0.6 | (1.0) | 0.4 | (0.1) |
| – | (0.3) | – | (0.3) |
| 2.7 | 3.3 | 3.2 | 0.8 |
| (1.5) | (21.0) | (0.8) | (31.5) |
| 26.5 | 7.0 | 27.2 | (3.5) |

32. DISCONTINUED OPERATIONS

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

(a) Analysis of the result of discontinued operations

Gross written premium

Net premium

Net insurance premium revenue

Net investment and reinsurance income

Release of translation reserve

Net profit on sale of business operations

Net insurance benefits and claims

Expenses

Profit before tax

Income tax expense

Profit for the year from discontinued operations

| | |
|---|------|
| – | 250 |
| – | 26 |
| – | 447 |
| – | 56 |
| – | 71 |
| – | 13 |
| – | 425 |
| – | 113 |
| – | 49 |
| – | (24) |
| – | 25 |

(b) Segment reporting

Insurance activities – Commercial insurance

| Gross written premium R million | Underwriting result R million | Total assets R million | Total liabilities R million |
|--|-------------------------------------|------------------------------|-----------------------------------|
| 250 | (91) | – | – |
| – | – | – | – |
| 250 | (91) | – | – |

2008

Discontinued operations

Unallocated

| | Group 2009 | Group 2008 |
|---|---------------|---------------|
| 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. | | |
| Basic earnings per share | | |
| Profit attributable to the company's equity holders (R million) | 1 082 | 724 |
| Weighted average number of ordinary shares in issue (millions) | 112.80 | 112.50 |
| Earnings per share (cents) | 959 | 644 |
| Basic earnings per share – Continuing operations | | |
| Profit attributable to the company's equity holders (R million) | 1 082 | 699 |
| Weighted average number of ordinary shares in issue (millions) | 112.80 | 112.50 |
| Earnings per share (cents) | 959 | 621 |
| Basic earnings per share – Discontinued operations | | |
| Profit attributable to the company's equity holders (R million) | – | 25 |
| Weighted average number of ordinary shares in issue (millions) | – | 112.50 |
| Earnings per share (cents) | – | 23 |
| 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. | | |
| Diluted earnings per share | | |
| Profit attributable to the company's equity holders (R million) | 1 082 | 724 |
| Weighted average number of ordinary shares in issue (millions) | 112.80 | 112.50 |
| Adjusted for share options | 2.07 | 0.60 |
| Weighted average number of ordinary shares for diluted earnings per share | 114.87 | 113.10 |
| Diluted basic earnings per share (cents) | 942 | 640 |
| Diluted earnings per share – Continuing operations | | |
| Profit attributable to the company's equity holders (R million) | 1 082 | 699 |
| Weighted average number of ordinary shares for diluted earnings per share | 114.87 | 113.10 |
| Diluted basic earnings per share (cents) | 942 | 618 |
| Diluted earnings per share – Discontinued operations | | |
| Profit attributable to the company's equity holders (R million) | – | 25 |
| Weighted average number of ordinary shares for diluted earnings per share | – | 113.10 |
| Diluted basic earnings per share (cents) | – | 22 |

| | Group 2009 | Group 2008 |
|---|---------------|---------------|
| 33. EARNINGS PER SHARE (continued) | | |
| 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. | | |
| Headline earnings per share | | |
| Profit attributable to the company's equity holders (R million) | 1 082 | 724 |
| Impairment charge on net investment of associates | 6 | – |
| (Profit)/Loss on sale of subsidiaries and associates | (76) | 8 |
| Profit on sale of business operations | – | (2) |
| Tax charge | 10 | – |
| Translation reserve released on sale of European operations | – | (71) |
| Headline earnings (R million) | 1 022 | 659 |
| Weighted average number of ordinary shares in issue (millions) | 112.80 | 112.50 |
| Headline earnings per share (cents) | 906 | 586 |
| Headline earnings per share – Continuing operations | | |
| Headline earnings (R million) | 1 022 | 699 |
| Weighted average number of ordinary shares in issue (millions) | 112.80 | 112.50 |
| Headline earnings per share (cents) | 906 | 621 |
| Headline earnings per share – Discontinued operations | | |
| Headline earnings (R million) | – | (40) |
| Weighted average number of ordinary shares in issue (millions) | – | 112.50 |
| Headline earnings per share (cents) | – | (35) |
| 33.4 Diluted headline earnings per share | | |
| Headline earnings (R million) | 1 022 | 659 |
| Weighted average number of ordinary shares for diluted earnings per share (millions) | 114.87 | 113.10 |
| Diluted headline earnings per share (cents) | 889 | 582 |
| Diluted headline earnings per share – Continuing operations | | |
| Headline earnings (R million) | 1 022 | 699 |
| Weighted average number of ordinary shares for diluted earnings per share (millions) | 114.87 | 113.10 |
| Diluted headline earnings per share (cents) | 889 | 618 |
| Diluted headline earnings per share – Discontinued operations | | |
| Headline earnings (R million) | – | (40) |
| Weighted average number of ordinary shares for diluted earnings per share (millions) | – | 113.10 |
| Diluted headline earnings per share (cents) | – | (36) |
| 34. DIVIDENDS PER SHARE | | |
| Ordinary dividend per share | | |
| Interim of 166 cents per share (2008: 166 cps) | 198 | 198 |
| Proposed final of 300 cents per share (2008: 264 cps) | 358 | 315 |
| | 556 | 513 |

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.

A third allocation of units to black staff members were made on 1 September 2009. These awards were made to new black employees that joined the company during 2009 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 2010 and a fourth allocation will be made to black employees at the end of 2010.

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 2010 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. During 2009 the dividend income of the SPV was sufficient to fully service the senior debt facility.

36. CASH GENERATED FROM OPERATIONS

Profit before tax

- Continuing operations
- Discontinued operations

Adjustments for:

Non-cash items

- Loss on disposal of fixed assets
- Loss on disposal of associated companies
- (Profit)/Loss on disposal of subsidiary
- Profit on sale of business operations
- Share option costs
- Revaluation of property
- Amortisation of intangible asset/Impairment of goodwill
- Impairment of investment in subsidiary
- Depreciation
- Income from associated companies

Investment income, realised and fair value gains

Finance costs

Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)

Reinsurance assets

Deferred acquisition costs

Loans and receivables including insurance receivables

Insurance liabilities

Deferred reinsurance acquisition revenue

Provisions for other liabilities and charges

Trade and other payables

Investment income received in cash

Dividends received

Interest received

Foreign exchange differences

Movement in provision for investment income

Cash generated from operations

| Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|----------------------------|----------------------------|------------------------------|------------------------------|
| 1 518 | 823 | 1 173 | 628 |
| 1 518 | 774 | – | – |
| – | 49 | – | – |
| (24) | 75 | 117 | 218 |
| – | – | – | – |
| (21) | – | (10) | – |
| (54) | 8 | – | – |
| – | (61) | – | – |
| 47 | 39 | 46 | 39 |
| – | 5 | – | – |
| 25 | 47 | 13 | 7 |
| – | – | 49 | 151 |
| 22 | 29 | 19 | 15 |
| (43) | 8 | – | 6 |
| (1 111) | (355) | (1 048) | (319) |
| 114 | 152 | 110 | 152 |
| 443 | (195) | 564 | 174 |
| 169 | (117) | (103) | 77 |
| 13 | 39 | (13) | (36) |
| 347 | (580) | 146 | (136) |
| 107 | 126 | 383 | 421 |
| (29) | (17) | 1 | (5) |
| 8 | (62) | 7 | (61) |
| (172) | 416 | 143 | (86) |
| 899 | 1 027 | 678 | 943 |
| 223 | 356 | 173 | 453 |
| 613 | 546 | 491 | 456 |
| 20 | 146 | (15) | 59 |
| 43 | (21) | 29 | (25) |
| 1 839 | 1 527 | 1 594 | 1 796 |

37. INCOME TAX PAID

Amounts charged in the income statement

- Continuing operations
- Discontinued operations

Movement in deferred taxation

Movement in taxation liability

| | | | |
|-------|-------|-------|-------|
| (402) | (78) | (319) | 22 |
| (402) | (54) | – | – |
| – | (24) | – | – |
| 110 | (118) | 93 | (105) |
| 177 | (473) | 163 | (510) |
| (115) | (669) | (63) | (593) |

38. BUSINESS COMBINATIONS

2009

Additions

On 26 July 2009 the group increased its investment in Isure Services (Pty) Ltd from 25% to 100%, effective 1 January 2009.

Details of the assets and liabilities acquired are as follows:

Purchase consideration paid

Net asset value acquired

Less: Investment in associated share previously acquired

Goodwill

| Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|----------------------------|----------------------------|------------------------------|------------------------------|
| 11 | | | |
| (7) | | | |
| 1 | – | | |
| 5 | – | – | – |

Disposals

The group sold its 100% shareholding in Pinion Insurance Brokers and Pennant Administrators on 1 October 2009.

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

– Property and equipment

– Intangible assets

– Loans and receivables

– Cash and cash equivalents

– Trade and other payables

– Provisions

Net asset value sold

Onerous contract as result of disposal

Purchase consideration

Profit on sale of subsidiary

| | | | |
|------|---|---|---|
| 6 | – | | |
| 2 | – | | |
| 4 | – | | |
| 25 | – | | |
| (39) | – | | |
| (1) | – | | |
| (3) | – | | |
| (5) | | | |
| 56 | – | | |
| 54 | – | – | – |

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

| | | | |
|---|---|---|---|
| | 3 | | |
| – | 3 | – | – |

Disposals

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

Details of the assets and liabilities sold of 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

| | | | |
|---|-------|---|---|
| | 12 | | |
| | 24 | | |
| | 451 | | |
| | (358) | | |
| | (39) | | |
| – | 90 | | |
| | 82 | | |
| – | 8 | – | – |

| | Group 2009 R million | Group 2008 R million | Company 2009 R million | Company 2008 R million |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| 38. BUSINESS COMBINATIONS (continued) | | | | |
| (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 | | 13 | | |
| – Investments | | 229 | | |
| – Reinsurance assets | | 303 | | |
| – Loans and receivables | | 50 | | |
| – Cash and cash equivalents | | 688 | | |
| – Deferred tax | | (1) | | |
| – Insurance liabilities | | (861) | | |
| – Trade and other payables | | (62) | | |
| – Taxation | | (14) | | |
| Net asset value sold | – | 345 | | |
| Value of unlisted investment obtained | | 345 | | |
| Profit on sale of subsidiary | – | – | – | – |
| Total loss on sale of subsidiaries | – | 8 | – | – |
| 39. DIVIDENDS PAID | | | | |
| Amounts paid for the year to company's shareholders | 485 | 460 | 513 | 489 |
| Amounts paid for the year to minority interests | 28 | 16 | – | – |
| | 513 | 476 | 513 | 489 |

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 1 year | Between 1 to 5 years | More than 5 years | R million Total |
|-----------------------|-----------------|-------------------------|----------------------|--------------------|
| 2009 | | | | |
| Motor vehicles | 11 | 14 | – | 25 |
| Offices | 62 | 120 | 70 | 252 |
| | 73 | 134 | 70 | 277 |
| 2008 | | | | |
| Motor vehicles | 12 | 11 | – | 23 |
| Offices | 52 | 133 | 90 | 275 |
| | 64 | 144 | 90 | 298 |
| 2009 | | | | |
| IT Service agreements | 127 | 275 | – | 402 |
| 2008 | | | | |
| IT Service agreements | 86 | 56 | – | 142 |

42. RELATED PARTY TRANSACTIONS

Major shareholders

Sanlam Limited (incorporated in South Africa) is the ultimate holding company with a 53.5% shareholding in Santam Limited. The balance of the shareholders (46.5%) do not have significant influence and thus no other shareholder is treated as a related party. The shares are widely held by public, non-public, individual and corporate shareholders (refer to Analysis of shareholders on page 138 for detail).

42. RELATED PARTY TRANSACTIONS (continued)

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 29 and their shareholdings and share options granted in the company are disclosed in the directors report.

Certain directors have short-term insurance contracts with the company in their private capacity. These contracts are on an arms' length basis and are not material.

Transactions with the Sanlam group

The company transact with the Sanlam group on various levels, predominantly insurance related cover, provided to Sanlam group companies of which MiWay is the largest. Sanlam Investment Management act as the largest investment fund manager for the group with its fees negotiated on an arms length basis.

The chief executive 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 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 shareholder's 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 1.21 for more detail) loans were granted by the company to members of the executive management team. These loans are interest bearing at the official rate and are repayable in four years time.

Key management also have short-term insurance contracts with the company in their private capacity. These contracts are on an arms-length basis and premiums amounted to approximately R1 million in total.

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

| | 2009 R million | 2008 R million |
|---|-------------------|-------------------|
| a) Sale of insurance contracts and other services | | |
| Sale of insurance contracts to: | | |
| – Sanlam Ltd and related parties | 22 | 18 |
| – MiWay | 258 | 75 |
| Rendering of services to: | | |
| – associates | – | – |
| – subsidiaries | 3 | – |
| – Sanlam Ltd and related parties | 5 | 4 |
| b) Purchase of services from: | | |
| – associates (for administration services) | (105) | (85) |
| – subsidiaries (for administration services) | (208) | (202) |
| – Sanlam Ltd and related parties (for investment management services) | (21) | (17) |
| – Sanlam Ltd and related parties (for joint project costs) | (15) | (4) |
| – Sanlam Ltd and related parties (for IT infrastructure costs) | (38) | – |
| – Sanlam Ltd and related parties (for directors' & officers' insurance cover) | (4) | – |
| – Sanlam Ltd and related parties (for insurance claims paid) | (13) | – |
| – Santam Pension Fund (rental) | – | (15) |

| | 2009 R million | 2008 R million |
|--|-------------------|-------------------|
| 42. RELATED PARTY TRANSACTIONS (continued) | | |
| c) Investment income received from: | | |
| – Sanlam Ltd and related parties | (71) | 57 |
| – Santam Pension Fund | 3 | 6 |
| – Executive management | 1 | 1 |
| d) Key management compensation | | |
| Salaries and other short-term employee benefits | 30 | 26 |
| Share-based payments | 8 | 5 |
| e) Year end balances with related parties | | |
| Santam Pension Fund | | |
| – loan | – | 51 |
| – outstanding rental | – | (14) |
| Sanlam Group: URD Beleggings (Edms) Bpk | | |
| – preference shares | 52 | 202 |
| Sanlam Group: Electra Investments (SA) Ltd | | |
| – preference shares | – | 20 |
| Sanlam Group: Sanpref (Pty) Ltd | | |
| – preference shares | 180 | – |
| Sanlam Alternative Income Fund | | |
| – investment | 357 | 331 |
| Sanlam Property Fund | | |
| – investment | 7 | 6 |
| Sanlam Namibia Money Market Fund | | |
| – investment | 11 | 10 |
| Sanlam Capital Markets | | |
| – Sanlam Bond | 75 | 75 |
| – derivative financial instruments | (108) | 138 |
| – money market instruments | 70 | 102 |
| Sanlam Home Loans | | |
| – money market instruments | 6 | 6 |
| Sanlam Life Insurance Ltd | | |
| – bond | 24 | 9 |
| – trade payable | 5 | 5 |
| – trade receivable | 1 | – |
| Lion of Africa Holdings Company (Pty) Ltd | | |
| – loan | – | 31 |
| Vulindlela Underwriting Managers (Pty) Ltd | | |
| – loan | 1 | 1 |
| MiWay | | |
| – inward reinsurance | (29) | (39) |
| – loan | 15 | – |
| Executive management | | |
| – loans in terms of share purchase scheme | 2 | 8 |
| Executive management | | |
| – loan from Sanlam for Executive Share Purchase Plan | 18 | 13 |

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 allow 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 2009 | Group 2008 |
|---|---------------|---------------|
| Group capital and reserves attributable to equity holders (R million) | 4 795 | 4 264 |
| Debt securities | 839 | 972 |
| | 5 634 | 5 236 |
| Net written premium (R million) | 12 894 | 11 899 |
| – Continuing operations | 12 894 | 11 873 |
| – Discontinued operations | – | 26 |
| Group solvency margin (%) | 43.7% | 44.0% |

44. ANALYSIS OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

INVESTMENT IN SUBSIDIARIES UNLISTED COMPANIES

| | Nature of business | Country of incorporation | Issued capital R | Proportion held by the company 2009 | Proportion held by the company 2008 | Book value of shares R million | Owing by Santam Ltd R million | Owing to Santam Ltd R million |
|--|-----------------------|-----------------------------|------------------------|--|--|--------------------------------------|-------------------------------------|-------------------------------------|
| Direct | | | | | | | | |
| Aegis Insurance Company Ltd | Insurance | RSA | 179 195 142 | 100.0% | 100.0% | 262 | 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% | 624 | 85 | 176 |
| Santam International Ltd | Holding co. | Guernsey | 692 505 672 | 100.0% | 100.0% | 538 | 151 | – |
| Santam Namibia Ltd | Insurance | Namibia | 8 307 147 | 60.0% | 60.0% | 5 | – | 59 |
| 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 | 9 | – |
| | | | | | | 1 503 | 517 | 263 |

44. ANALYSIS OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

INVESTMENT IN SUBSIDIARIES
UNLISTED COMPANIES

| | Nature of business | Country of incorporation | Issued capital R | Proportion held by the company 2009 | Proportion held by the company 2008 | Book value of shares R million | Owing by Santam Ltd R million | Owing to Santam Ltd R million |
|---|--------------------|--------------------------|------------------|-------------------------------------|-------------------------------------|--------------------------------|-------------------------------|-------------------------------|
| Indirect | | | | | | | | |
| Admiral Professional Underwriting Agency (Pty) Ltd | Underwriting | RSA | 2 270 403 | 100.0% | 100.0% | 12 | — | — |
| 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% | — | 3 | — |
| Agri Risk Specialists (Pty) Ltd | Underwriting | RSA | 6 875 100 | 100.0% | 100.0% | — | — | — |
| Associated Marine Underwriters (Pty) Ltd | Underwriting | RSA | 873 577 | 100.0% | 100.0% | — | — | 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 | — | — |
| 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 | — | 2 |
| Construction and Engineering Underwriters (Pty) Ltd | Underwriting | RSA | 25 000 | 100.0% | 100.0% | 1 | 2 | — |
| Echelon Private Client Solutions (Pty) Ltd | Underwriting | RSA | 1 000 | 60.0% | 0.0% | — | — | — |
| 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% | — | — | — |
| Isure Services (Pty) Ltd | IT Services | RSA | 100 | 100.0% | 25.0% | — | — | — |
| Isure Systems (Pty) Ltd | IT Services | RSA | 100 | 100.0% | 0.0% | — | — | — |
| Just I-Isure Consultants (Pty) Ltd | Underwriting | RSA | 120 | 100.0% | 0.0% | 0 | — | — |
| Legal Exchange Corporation (Pty) Ltd | Underwriting | RSA | 1 166 830 | 70.0% | 70.0% | 1 | — | 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% | 0 | 0 | — |
| Pennant Administrators (Pty) Ltd | Administration | RSA | 120 | 0.0% | 100.0% | — | — | — |
| Pinion Insurance Brokers (Pty) Ltd | Underwriting | RSA | 120 | 0.0% | 100.0% | — | — | — |
| SA Aviation Insurance Managers (Pty) Ltd | Underwriting | RSA | 100 | 51.0% | 51.0% | 0 | — | — |
| Santam UK Ltd | Holding co. | UK | 100 006 574 | 100.0% | 100.0% | 86 | 0 | — |
| Schools for Africa Underwriting Managers (Pty) Ltd | Underwriting | RSA | 1000 | 100.0% | 100.0% | — | — | — |
| Stalker Hutchinson Admiral (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% | — | — | — |
| Wheatfields Investments no 136 (Pty) Ltd | Underwriting | RSA | 120 | 100.0% | 100.0% | — | — | — |
| | | | | | | 433 | 73 | 6 |
| TOTAL INVESTMENTS IN SUBSIDIARIES | | | | | | 1 936 | 590 | 269 |

44. ANALYSIS OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

INVESTMENTS IN ASSOCIATED COMPANIES
UNLISTED COMPANIES

| | Nature of business | Country of incorporation | Issued capital R | Proportion held by the company 2009 | Proportion held by the company 2008 | Book value of shares R million | Owing by Santam Ltd R million | Owing to Santam Ltd R million |
|--|-----------------------|-----------------------------|------------------------|--|--|--------------------------------------|-------------------------------------|-------------------------------------|
| Direct | | | | | | | | |
| Credit Guarantee Insurance Corporation of Africa Ltd | Insurance | RSA | 2 649 333 | 33.6% | 33.6% | 71 | – | – |
| Isure Services (Pty) Ltd | IT Services | RSA | 100 | 0.0% | 25.0% | – | – | – |
| Lion of Africa Holdings Company (Pty) Ltd | Insurance | RSA | – | 0.0% | 35.0% | – | – | – |
| NICO Holdings Ltd | Fin. Services | Malawi | 31 284 955 | 25.1% | 25.1% | 62 | – | – |
| | | | | | | 133 | – | – |
| Indirect | | | | | | | | |
| Indwe Broker Holdings Group (Pty) Ltd | Broker | RSA | 28 552 000 | 37.8% | 37.8% | 48 | – | – |
| Miway Group Holdings (Pty) Ltd | Insurance | RSA | 211 101 111 | 31.3% | 25.2% | 6 | – | 15 |
| Thebe Risk Services Holdings (Pty) Ltd | Broker | RSA | 1 000 | 49.9% | 49.9% | 11 | – | – |
| Vulindlela Underwriting Management (Pty) Ltd | Underwriting | RSA | 448 000 | 37.0% | 37.0% | – | – | 1 |
| | | | | | | 65 | – | 16 |
| TOTAL INVESTMENTS IN ASSOCIATED COMPANIES | | | | | | 198 | – | 16 |

(1) INVESTMENTS – COMPOSITION

| | Number of shares | Group market value/ Directors' valuation R million |
|--|---------------------|--|
| 2009 | | |
| A) Analysis based on IFRS classification: | | |
| Financial assets at fair value through income | | |
| i) Debt securities – at fair value through income | | |
| Quoted | | |
| Government and other bonds | | 1 624 |
| Other | | 756 |
| Unitised funds | | 15 |
| | | 2 395 |
| Unquoted | | |
| Unitised funds | | 355 |
| Unquoted redeemable preference shares | | |
| Sanlam Group – URD Beleggings (Edms) Ltd | 51 708 654 | 52 |
| Sanpref Cum Red Pref | 180 000 000 | 180 |
| Misty Sea Trading 267 (Pty) Ltd | 280 | 4 |
| Investec – AELPREF | 77 000 | 78 |
| Kagiso Trust – Active I Investments (Pty) Ltd | 100 000 | 20 |
| Main Street 409 (Pty) Ltd | 15 926 915 | 11 |
| Pamodzi Ukuvikela | 44 300 000 | 51 |
| | | 396 |
| Total debt securities at fair value through income | | 3 146 |
| 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 | | |
| MTN Group Ltd | 1 768 421 | 208 |
| BHP Billiton Plc | 777 304 | 184 |
| Sasol Ltd | 571 402 | 170 |
| Anglo American Plc | 517 268 | 165 |
| Standard Bank Group Ltd | 1 519 173 | 155 |
| SAB Miller Ltd | 510 890 | 111 |
| Naspers Ltd | 334 523 | 100 |
| Absa Bank Ltd | 711 299 | 91 |
| Anglo Platinum Ltd | 115 091 | 91 |
| Impala Platinum Holdings Ltd | 396 256 | 80 |
| The Bidvest Group Ltd | 593 514 | 77 |
| British American Tobacco Plc | 304 500 | 74 |
| Imperial Holdings Ltd | 799 582 | 71 |
| Old Mutual Plc | 5 285 106 | 70 |
| African Bank Investments Ltd | 2 318 338 | 69 |
| Remgro Ltd | 687 787 | 61 |
| AngloGold Ashanti Ltd | 179 484 | 55 |
| Vodacom Group Ltd | 961 647 | 54 |
| Richemont SA | 2 096 230 | 52 |
| Tiger Brands Ltd | 299 120 | 51 |
| Liberty International PLC | 772 449 | 46 |
| Shoprite Holdings Ltd | 685 600 | 45 |
| RMB Holdings Ltd | 1 422 406 | 42 |
| Other | | 733 |
| | | 2 855 |
| Unquoted | | 319 |
| Quoted | | |
| Unitised funds | | 15 |
| Irredeemable preference shares | | 2 |
| Total equity securities at fair value through income | | 3 191 |

(I) INVESTMENTS – COMPOSITION

| 2009 | Number of shares | Group market value/ Directors' valuation R million |
|--|---------------------|--|
| iii) Derivatives – at fair value through income | | (117) |
| iv) Cash and short-term money market instruments | | |
| Short-term money market instruments | | 4 554 |
| Cash and cash equivalents | | 1 379 |
| v) Associated companies | | 198 |
| Total financial assets net of derivative | | 12 351 |
| B) Analysis based on investment classification: | | |
| Equities | | |
| – Quoted | | 2 855 |
| – Unquoted | | 319 |
| Preference shares | | |
| – Quoted | | 2 |
| – Unquoted | | 396 |
| Bonds | | 2 395 |
| Unitised funds | | 370 |
| Derivative | | (117) |
| Short-term money market instruments | | 4 554 |
| Cash and cash equivalents | | 1 379 |
| Associated companies | | 198 |
| | | 12 351 |

(1) INVESTMENTS – COMPOSITION

| | Number of shares | Group market value/ Directors' valuation R million |
|--|---------------------|--|
| 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 other bonds | | 1 370 |
| Other | | 775 |
| | | <u>2 395</u> |
| Unquoted | | |
| Unitised funds | | 355 |
| Unquoted redeemable preference shares | | |
| Sanlam Group – URD Beleggings (Edms) Ltd | 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 | | <u>2 688</u> |
| 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 | 772 449 | 749 |
| | | <u>2 855</u> |
| Unquoted | | 347 |
| Quoted | | |
| Unitised funds | | 369 |
| Irredeemable preference shares | | 196 |
| Total equity securities at fair value through income | | <u>3 111</u> |

(I) INVESTMENTS – COMPOSITION

| 2008 | Number of shares | Group market value/ Directors' valuation R million |
|--|---------------------|--|
| iii) Derivatives – at fair value through income | | 136 |
| iv) Cash and short-term money market instruments | | |
| Short-term money market instruments | | 3 089 |
| Cash and cash equivalents | | 1 938 |
| v) Associated companies | | 195 |
| Total financial assets net of derivative | | 11 157 |
| B) ANALYSIS BASED ON INVESTMENT CLASSIFICATION: | | |
| Equities | | |
| – Quoted | | 2 199 |
| – Unquoted | | 347 |
| Preference shares | | |
| – Quoted | | 196 |
| – Unquoted | | 543 |
| Bonds | | 2 145 |
| Unitised funds | | 369 |
| Derivative | | 136 |
| Short-term money market instruments | | 3 089 |
| Cash and cash equivalents | | 1 938 |
| Associated companies | | 195 |
| | | 11 157 |

(II) ANALYSIS OF SHAREHOLDERS

| Analysis of shareholders | Number of shareholders | % of total shareholders | Number of shares | % interest |
|-----------------------------|------------------------|-------------------------|--------------------|----------------|
| 1 – 100 shares | 765 | 17.76% | 58 622 | 0.04% |
| 101 – 1 000 shares | 2 004 | 46.58% | 888 733 | 0.74% |
| 1 001 – 50 000 shares | 1 422 | 33.05% | 9 463 544 | 7.93% |
| 50 001 – 100 000 shares | 55 | 1.28% | 3 945 297 | 3.31% |
| 100 001 – 10 000 000 shares | 55 | 1.28% | 29 962 242 | 25.11% |
| More than 10 000 000 shares | 2 | 0.05% | 75 027 979 | 62.87% |
| Total | 4 303 | 100.00% | 119 346 417 | 100.00% |

Type of shareholder

| | | | | |
|------------------------------|--------------|----------------|--------------------|----------------|
| Individuals | 2 986 | 69.39% | 3 844 595 | 3.22% |
| Companies | 312 | 7.25% | 91 631 812 | 76.78% |
| Growth funds/unit trusts | 128 | 2.97% | 11 702 974 | 9.81% |
| Nominee companies or trusts | 724 | 16.83% | 3 464 806 | 2.90% |
| Pension and retirement funds | 153 | 3.56% | 8 702 230 | 7.29% |
| Total | 4 303 | 100.00% | 119 346 417 | 100.00% |

| | Shareholders in SA | | Shareholders other than in SA | | Total shareholders | |
|--|--------------------|----------------|-------------------------------|----------------|--------------------|----------------|
| | Nominal number | % Interest | Nominal number | % Interest | Nominal number | % Interest |
| Shareholder spread | | | | | | |
| Public shareholders | 4 152 | 29.83% | 133 | 100.00% | 4 285 | 31.58% |
| Directors | 14 | 0.13% | – | – | 14 | 0.12% |
| Trustees of employees' share scheme | 1 | 0.00% | – | – | 1 | 0.00% |
| Holdings of 5% or more | 3 | 70.04% | – | – | 3 | 68.30% |
| Sanlam Limited | 1 | 54.87% | – | 0.00% | 1 | 53.51% |
| Central Plaza Investments 112 (Pty) Ltd* | 1 | 9.59% | – | 0.00% | 1 | 9.35% |
| Guardian National Insurance Limited** | 1 | 5.58% | – | 0.00% | 1 | 5.44% |
| Total | 4 170 | 100.00% | 133 | 100.00% | 4 303 | 100.00% |

The analysis includes the shares held as treasury shares.

* BEE special purpose company

** Owner of treasury shares

NOTICE OF ANNUAL GENERAL MEETING

SANTAM LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1918/001680/06)

JSE Code: SNT NSX Code: SNM ISIN: ZAE000093779

("Santam" or "the company")

Notice is hereby given that the annual general meeting of Santam Limited shareholders will be held on Wednesday, 02 June 2010 at 09h30 in the auditorium on the ground floor of the Santam Head Office, 1 Sportica Crescent, Tygervalley, Bellville, Cape Town to deal with the following matters:

1. To consider the financial statements for the year ended 31 December 2009, together with the reports of the directors and auditors.
2. To re-appoint PricewaterhouseCoopers Inc., represented by Chantel van den Heever, as the auditors for the company.
3. To elect a director in place of Mr IM Kirk who will retire by rotation in accordance with section 63 of the company's Articles of Association. Mr IM Kirk is available for re-election.
4. To elect a director in place of Mr P de V Rademeyer who will retire by rotation in accordance with section 63 of the company's Articles of Association. Mr P de V Rademeyer is available for re-election.
5. To elect a director in place of Mr MJ Reyneke who will retire by rotation in accordance with section 63 of the company's Articles of Association. Mr MJ Reyneke is available for re-election.
6. To elect a director in place of Dr J van Zyl who will retire by rotation in terms of section 63 of the company's Articles of Association. Dr J van Zyl is available for re-election.
7. To elect a director in place of Dr YG Muthien who will retire in terms of section 65 of the company's Articles of Association. Dr YG Muthien is available for re-election.
8. To elect a director in place of Mr VP Khanyile who will retire in terms of section 65 of the company's Articles of Association. Mr VP Khanyile is available for re-election.
9. To elect a director in place of Mr MD Dunn who will retire in terms of section 65 of the company's Articles of Association. Mr MD Dunn is available for re-election.
10. To approve the directors' board fees for the year 2010. The fees payable to the Chairman and non-executive directors for their services to the board and other committees to the board be revised with effect from 01 January 2010 as follows:

| Non-Executive Director's fees | Present (R) | Proposed (R) |
|--|-------------|--------------|
| Chairman of the board (no attendance fees for meetings unless agreed to by the human resources committee) | 654 000 | 693 240 |
| Non-executive director annual retainer | 158 920 | 168 455 |
| Non-executive director attendance fee per meeting | 14 126 | 14 973 |
| Chairman of the risk and financial reporting review committees (assurance committee meetings chaired*) | 28 252 | 29 947 |
| Chairman of the statutory audit, human resources, investment and sustainability committees receive only a per meeting fee. | 14 126 | 14 973 |
| Non-executive director members of assurance, human resources, investment and sustainability committees receive only attendance fees per meeting. | 14 126 | 14 973 |

* The assurance committee is made up of the risk committee, financial reporting review committee and statutory audit committee.

• Executive directors do not receive any board fees.

11. To cast an advisory vote on the company's 2010 remuneration policy.¹
12. To consider and if approved, to pass, with or without modification, the following Ordinary Resolution number 12, in the manner required by the Companies Act, 61 of 1973, as amended and subject to the Listings Requirements of the JSE Limited (JSE):

¹ Refer to pages 53 to 55 of the Annual Report for the Remuneration Policy

SPECIAL BUSINESS

RESOLVED THAT:

"In accordance with the requirements of the JSE Listings Requirements ("Listings Requirements"), that the amendments required to be made to –

- i. the trust deed of the Santam Limited Share Incentive Trust established and approved by shareholders of the Company in 1997 and as amended (the "Initial Incentive Plan"); and
- ii. each of –
 - o the Deferred Share Plan;
 - o the Performance Deferred Share Plan; and
 - o the Restricted Share Plan,

established and approved by shareholders of the Company at a meeting on 28 May 2008 (the "2008 Incentive Plans"), (the Initial Incentive Plan and 2008 Incentive Plans collectively hereafter referred to as "Long-Term Incentive Plans");

pursuant to, inter alia, the amendments to Schedule 14 of the Listings Requirements, which amendments essentially removed limits previously imposed by the JSE on the number of shares which may be issued through a company's share scheme but require companies to fix the number of shares that it utilises for the purpose of its share schemes, in order to give effect to the matters summarised in paragraphs 12.1 to 12.6 on pages 144 to 146 of this notice be and are hereby approved.

12.1 That clause 12.1 of the Initial Incentive Plan be deleted in its entirety and be substituted by the following new clauses 12.1 and 12.2:

"12.1 The directors shall from time to time instruct the trustees to grant options and/or contracts and/or make offers (as defined in clause 28) to employees in respect of such number of shares, which together with shares offered by the company and/or any subsidiary of the company ("group allocation") in terms of employee share incentive plans of the group does not, subject to clauses 12.1.4, 12.1.5 and 19, exceed 12 million ordinary shares in aggregate ("scheme allocation"), provided that:

[JSE Sch 14.1(b)]

12.1.1 in determining the unused number of shares in the scheme allocation, at any given time the following shall be excluded from such number of shares utilised for this purpose:

- (a) shares offered to and accepted by a beneficiary prior to 1 January 2010;*
- (b) shares in respect of which a beneficiary has paid full market price at the time the offer was made to the beneficiary and such offer accepted by the beneficiary, provided that the exclusion made in respect of this clause 12.1.1(b) should not, subject to clauses 12.1.4, 12.1.5 and 19, exceed 3 million shares;*
- (c) in instances where options were granted to and accepted by beneficiaries, a portion of each full share subject to such options, calculated as follows:*

$$A = (B - C) / B$$

where:

A = the portion of the share to be excluded;

B = the market price of the share on the date of grant; and

C = fair value of an option on the date of grant, using an appropriate option valuation model, certified by the company's external auditors

Provided that the exclusion made in respect of this clause (c) should not, subject to clauses 12.1.4, 12.1.5 and 19, in aggregate exceed 2 million shares;

- (d) any share not delivered to a beneficiary as a result of the non-implementation of any offer or of the grant of an option, as the case may be;*

12.1.2 allocations to the group may not, subject to clauses 12.1.4, 12.1.5 and 19, exceed 2 million shares during any financial year, subject to, for the purpose of determining the utilisation of this annual limit, the exclusions referred to in 12.1.1 (b) and (c) in respect of shares allocated in that financial year shall apply mutatis mutandis;

12.1.3 any increase in the scheme allocation would require prior approval from shareholders on the basis prescribed in the listings requirements of the JSE;

[JSE Sch 14.2]

[JSE LR 16.31(b)]

12.1.4 in the event of a major adjustment or reorganisation of the company or its share capital as envisaged in clause 19 and if an adjustment is made to the shares already offered to a beneficiary in terms of clause 19, a similar adjustment may also be made to the unused balance of the scheme allocation as the auditors or an appropriate investment bank, acting as experts and not as arbitrators, certify as being fair and reasonable in the circumstances;

12.1.5 the limit in clause 12.1 shall be adjusted in such manner as the auditors or an appropriate investment bank, acting as experts and not as arbitrators, certify to be in their opinion fair and reasonable as a result of the sub-division or consolidation of ordinary shares, provided that such adjustment should give a participant entitlement to the same proportion of ordinary shares as that to which he was entitled to before such subdivision or consolidation.

[JSE Sch 14.3(a)]

12.2 the company shall provide detail of the movement in the number of shares utilised for purposes of any long-term incentive plans, as well as the unused balance of the scheme allocation in its annual financial statements."

[JSE Sch 14.3(e)]

12.2 That clause 13.3 which regulates the maximum amount of scheme shares which can be allocated to an individual under the Long-Term Incentive Plans, is deleted in its entirety and substituted by the following new clause 13.3:

"13.3 More than one option and/or contract and/or offer (as defined in clause 28) may from time to time be granted to an employee provided that the maximum number of scheme shares together with any fully-paid shares and loan shares (as defined in clause 28) to which any one employee is entitled in terms of this scheme as well as any other share incentive scheme of the company, shall not, exceed 1 200 000 (one million two hundred thousand) ordinary shares in the aggregate, subject thereto that, for the purpose of determining the utilisation of this limit, the application thereto of the adjustments contained in 12.1.1, 12.1.4, 12.1.5 and 19 shall apply."

[JSE Sch 14.1(c)]

12.3 That the following additional sub-clauses be added to clause 19 which regulates the procedure for adjustments to the share capital of the company:

"19.5 ceases to retain a nominal value for its shares;

19.6 is a party to a reorganisation;

19.7 makes a distribution of a capital asset of the company; or

19.8 otherwise changes its capital (but in which case any adjustment contemplated below shall only be effected if it is in compliance with the listing requirements of the JSE,"

12.4 That clause 22.2.1, which regulates the process to be followed when an amendment is made to the Initial Incentive Plan, be deleted in its entirety and be replaced with the following new clause 22.2.1:

"22.2.1 the amount of shares which may be utilised for the scheme;"

12.5 That the following amendments are made to the Initial Incentive Plan:

12.5.1 a new clause 1.4 be inserted in the Initial Incentive Plan:

"1.4 Any provisions in terms of which compliance with JSE Listing Requirements or the approval of the JSE is required shall only apply if the Company is listed on the JSE at the relevant time."

12.5.2 that the definition of JSE is amended as follows in clause 1.1:

"JSE" means JSE Limited, a company duly incorporated under the company laws of the Republic of South Africa, with registration number 2005/022939/06, licensed as an exchange under the Securities Services Act, 2004.

12.5.3 the cross-referencing in clause 14.2.2 be amended by deletion of 14.1.5 and replacement with 14.1.2.

12.5.4 the cross-referencing in clause 17.2.3 be amended by deletion of 17.1 and replacement with 17.2.

- 12.6 That the concepts of a scheme allocation and individual limits referred to in paragraph 1.1 and 1.2 be incorporated into each of the 2008 Incentive Plans.

The Initial Incentive Plan and each of the 2008 Incentive Plans incorporating the aforementioned amendments are available for inspection at the registered office of the Company for a period of 14 (fourteen) days prior to the date of the Annual General Meeting of the Members of the Company called in terms of this notice.

In order for this ordinary resolution to be passed, in terms of the JSE Listings Requirements, a 75% (seventy five per cent) majority of the votes of all members present or represented by proxy at the Annual General Meeting must be cast in favour of this ordinary resolution.

Reason and effect for amendments made in terms of 12.1 and 12.2 above.

- Currently the Long-Term Incentive Plans allows for a participation of up to 10,0% of the issued share capital of Santam. For purposes of calculating the number of shares only unvested securities are taken into account, e.g. the Long-Term Incentive Plans effectively has a rolling limit.
- Local and international companies in the financial services industry follow the Association of British Insurers' guidelines of a rolling 10% capacity over any continuous 10-year period.
- Recent amendments to Schedule 14 of the Listings Requirements, inter alia removed fixed percentages or rolling limits on the number of shares which may be issued through a company's share scheme and now require companies to fix the number of shares that it utilises for the purpose of its share incentive schemes.
- Based on Santam's issued share capital of 1 19,3 million shares, the current capacity of 10,0% amounts to 12 million shares.
- The effect of the amendments proposed authorise the following –
 - A general scheme limit of 12 million shares. This limit will have to be renewed or reinstated by shareholders once exhausted. It is also proposed that no more than 2 million shares of this limit be utilised in any year.
 - In respect of the grant of paid-up shares (restricted and / or deferred share plans) the total number of shares subject to any grant will be deducted from the general and annual limits.
 - In respect of shares acquired by participants at market value (share purchase plan) there is no cost or dilution to shareholders and it is proposed that these share transactions be excluded from the general and annual scheme limits. However, a total limit of 3 million shares is proposed for the share purchase plan. Any excess will have to be deducted from the general scheme limit or will require specific approval from shareholders.
 - In respect of share options, the option price payable by participants limits the shareholder cost / dilution. It is therefore proposed that in respect of share options only a portion of the shares be included for purposes of the utilisation of the general scheme limit. Such portion of any share will be calculated on the date of the grant of the option and will be equal to the fair value of the option as percentage of the market value of the share on such date. However, a total limit of 2 million shares is proposed in respect of that portion of option shares to be excluded from the general scheme limit. Any excess will be deducted from the general scheme limit or will require specific approval from shareholders.
 - Amendments to Schedule 14 of the Listings Requirements also require that a scheme fix a maximum number of shares that any one participant may receive under a share Incentive Scheme. The scheme currently allows for a maximum percentage of 1% of the issued share capital. Converting this percentage amounts to 1 200 000. Accordingly, the percentage of 1% will be removed and replaced with a limit of 1 200 000,

which for the avoidance of doubt fixes the maximum number of shares to be utilised for purpose of its schemes to no more than 17 000 000 (seventeen million) ordinary shares in the aggregate and 1 200 000 for any one participant.

13. To consider and if approved, to pass, with or without modification, the following Ordinary Resolution number 13 in the manner required by the Companies Act, 61 of 1973, as amended and subject to the Listings Requirements of the JSE Limited ("JSE"):

RESOLVED THAT:

"Subject to the adoption of Ordinary Resolution 12 set out in this notice convening the Annual General Meeting in terms of section 221(2) of the Companies Act, No. 61 of 1973, as amended ("the Companies Act"), that the allotment and issue (as a fresh issue or the use of treasury shares), as a specific authority, pursuant to the provisions of any one or all of the –

- i) the trust deed of the Santam Limited Share Incentive Trust established and approved by shareholders of the Company in 1998 and as amended (the "Initial Incentive Plan"); and
- ii) each of –
 - o the Deferred Share Plan;
 - o the Performance Deferred Share Plan; and
 - o the Restricted Share Plan, the Initial Incentive Plan and 2008 Incentive Plans

established and approved by shareholders of the Company in 2008 (the "2008 Incentive Plans"),

to the Trustees for the time being of the Santam Share Incentive Scheme Trust or such other Santam group company in terms of the 2008 Incentive Plans of such allowable maximum number of ordinary shares as provided thereunder and subject to the terms and conditions of the Long-Term Incentive Plans, be and is hereby approved."

Reason and effect

The approval will allow the Board to issue new shares or use treasury shares to meet the obligations under the Long-Term Incentive Plans up to the allowable maximum provided for in Ordinary Resolution 12. Approval is necessary to implement the Long-Term Incentive Plans effectively. Shareholders are protected by the conditions included in the scheme allocation limit as set out in the documents of the Long-Term Incentive Plans.

- 14. To consider and if approved, to pass, with or without modification, the following Ordinary Resolution number 14:

RESOLVED THAT:

"Any director of the Company, and where applicable the secretary of the Company, be and is hereby authorised to do all such things, sign all such documentation and take all such actions as may be necessary to implement the aforesaid Ordinary Resolutions".

- 15. To approve the following special resolution:

Special Resolution Number 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. And for the shares so acquired by a subsidiary, to be acquired by/and or transferred to the company. The acquisition of the shares will be 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. 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;
- b. 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;
- c. An announcement will be published as soon as the company or any of its subsidiaries has acquired ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue prior to the acquisition pursuant to which the aforesaid 3% threshold is reached, and for each 3% in aggregate acquired thereafter, containing full details of such acquisitions;
- d. 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;
- e. In determining the price at which ordinary shares issued by the company are acquired by it or any of its subsidiaries in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% of the weighted average of the price at which such ordinary shares are traded on the JSE 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;
- f. The company has been given authority by its Articles of Association;
- g. At any point in time, the company may only appoint one agent to effect any repurchase on the company's behalf in the market to proceed with the repurchase; and
- h. The company remaining in compliance with the minimum shareholder spread requirements of the JSE Listings Requirements.

NOTICE OF ANNUAL GENERAL MEETING

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 Listings Requirements for purposes of the general authority:

- Directors and management – pages 12 to 21;
- Major beneficial shareholders – page 142;
- Directors' interests in ordinary shares – page 71; and
- Share capital of the company – page 113.

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 Listings Requirements for the repurchase by the company, or a subsidiary of the company, of the company's shares.

Litigation statement

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names appear on pages 14 and 15 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the group's financial position.

Directors' responsibility statement

The directors, whose names appear on pages 14 and 15 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.

On behalf of the board



S BRAY

Group secretary
3 March 2010

ABRIDGE CV'S OF DIRECTORS AVAILABLE FOR RE-ELECTION AND APPOINTMENT

IM KIRK (51)

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

Appointed 14 June 2007

Director

Chairman of Stalker Hutchison Admiral (Pty) Ltd and The Standard General Insurance Company Ltd. Director of Centriq Insurance Company Ltd, Centriq Insurance Holdings Ltd, Centriq Life Insurance Company Ltd, Nova Risk Partners Ltd, SAIA, Infinit Group Risk Solutions (Pty) Ltd, Relyant Life Assurance Company Ltd, Relyant Insurance Company Ltd, Customer Protection Insurance Company Ltd and Beaux Lane (SA) Properties (Pty) Ltd.

P DEV RADEMEYER (62)

Director, CA (SA)

Appointed 20 February 2001

Director

Director of Genbel Securities Ltd, Sanlam Capital Markets Ltd, Sanlam Developing Markets Ltd, Sanlam Investment Management (Pty) Ltd, Sanlam Customised Insurance Ltd and Ubuntu-Botho Investment Holdings (Pty) Ltd.

MJ REYNEKE (52)

Executive Director, BCom (Hons), CA (SA)

Appointed 26 August 2003

Director

Director of Centriq group of companies, Credit Guarantee Insurance Corporation of Africa Ltd, Indwe Broker Holdings Ltd, MiWay group of companies, Santam Namibia Ltd, Stalker Hutchison & Associates (Pty) Ltd, Central Plaza Investments 112 (Pty) Ltd, Guardian National Insurance Company Ltd.

J VAN ZYL (53)

Director, PhD, DSc (Agric)

Appointed 1 August 2001

Director

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 Group Holdings (Pty) Ltd, MiWay Finance (Pty) Ltd and Sanlam Netherland Holdings BV. Council member of the University of Pretoria and trustee of the Hans Merensky Foundation.

YG MUTHIEN (53)

Director, DPhil (Oxford), MA (Northwestern), BA (Hons) UWC

Appointed 25 November 2009

Director

Executive director Sanlam Ltd & Sanlam Life Insurance Ltd, trustee of Sasol Inzalo Foundation.

VP KHANYILE (59)

Director, B.Com (Honours) in Accounting & Finance (Birmingham) Fellowship in Development Finance (Princeton), Honorary Doctorate (Walter Sisulu University)

Appointed April 2010

Director

Director & Executive Chairman of Thebe Investment Corporation (Pty) Ltd and its associated companies, Director of Shell South Africa Marketing, Altech Netstar Group and Lead Independent Director of JD Group as well as the Independent Chairman of Simmer and Jack Mines Ltd.

MD DUNN (65)*

Director, FCA, CA(SA)

Appointed April 2010

Director

Director of Munich Reinsurance Company of Africa Ltd

*South African and British

FORM OF PROXY

SANTAM LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1918/001680/06)

JSE: Code SNT NSX Code: SNM ISIN: ZAE000093779

("Santam" or "the company")

For use only by Santam shareholders holding certificated shares, nominee companies of Central Securities Depository Participants ("CSDP"), brokers' nominee companies and shareholders who have dematerialised their shares and who have elected own-name registration at the general meeting of the shareholders of Santam Limited, to be held in the Auditorium on the ground floor of the Santam Head Office, 1 Sportica Crescent, Tygervalley, Bellville at 09h30, on Wednesday, 02 June 2010.

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 sub-register 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 2009) | | | |
| Ordinary resolution number 2 (To reappoint PWC as auditors represented by C van den Heever) | | | |
| Ordinary resolution number 3 (To reappoint IM Kirk as director) | | | |
| Ordinary resolution number 4 (To reappoint P de V Rademeyer as director) | | | |
| Ordinary resolution number 5 (To reappoint MJ Reyneke as director) | | | |
| Ordinary resolution number 6 (To reappoint J van Zyl as director) | | | |
| Ordinary resolution number 7 (To reappoint YG Muthien as director) | | | |
| Ordinary resolution number 8 (To reappoint VP Khanyile as director) | | | |
| Ordinary resolution number 9 (To reappoint MD Dunn as director) | | | |
| Ordinary resolution number 10 (To approve directors' remuneration scale for 2010) | | | |
| Ordinary resolution number 11 (Approval of remuneration policy) | | | |
| Ordinary resolution number 12 (Amendments to Share Incentive Trust Scheme and 2008 Incentive Plans) | | | |
| Ordinary resolution number 13 (Allotment and issue of fresh shares or use of Treasury shares) | | | |
| Ordinary resolution number 14 (Authorisation by any director or company secretary to implement resolution 12 and 13) | | | |
| 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 _____ 2010

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.

FORM OF PROXY

Please read the notes on the reverse side hereof.

SANTAM LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1918/001680/06)

JSE: Code SNT NSX Code: SNM ISIN: ZAE000093779

("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 Limited, PO Box 61051, Marshalltown 2107, or the registered office of the company, Santam Head Office, 1 Sportica Crescent, Tygervalley, Bellville addressed to the Group Secretary, by not later than 09h30 on Monday, 31 May 2010.
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, YG Muthien, 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 Officer)

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

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

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