

SANTAM

ANNUAL

INSURANCE  
GOOD & PROPER

REPORT

2010





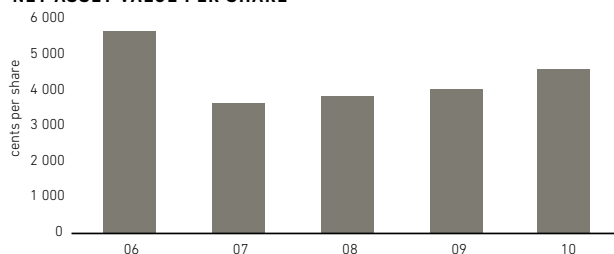
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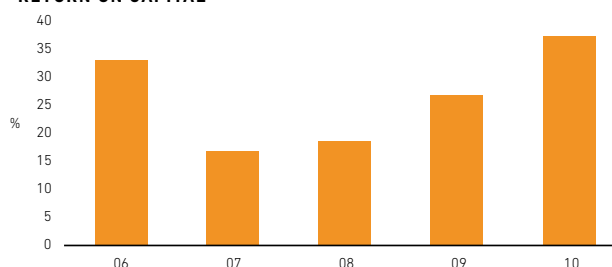
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# HIGHLIGHTS

**NET ASSET VALUE PER SHARE**



**RETURN ON CAPITAL**

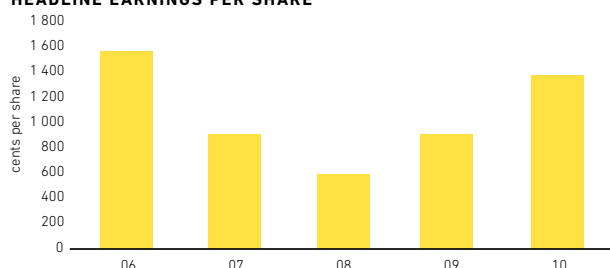


The Santam group achieved excellent underwriting results in 2010 despite market conditions that remained tight in the short-term insurance industry putting pressure on growth targets. Despite volatility in equity markets in early 2010, a strong run towards the end of the year resulted in solid investment returns. As a result, Santam showed a significant improvement in headline earnings and excellent return on capital levels.

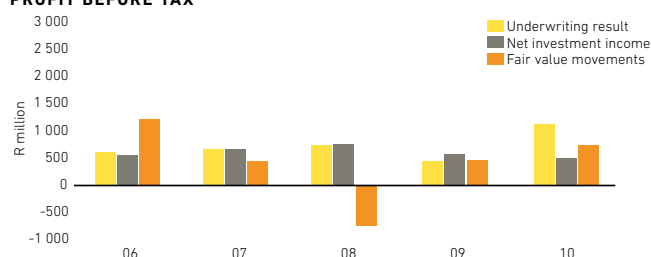
- Significantly improved headline earnings of R1 545 million up 51% on 2009
- Headline earnings per share of 1 367 cents compared to 906 cents in 2009
- Overall net underwriting margin of 8.5% compared to 3.5% in 2009
- Return on weighted average shareholders' funds of 37%
- Strong cash flows generated
- Group solvency ratio at 45%, at the upper end of the target band of 35% to 45%

	Group 2010	Restated Group 2009	Change %
<b>Results (R million)</b>			
Gross written premium	15 855	15 026	6
Underwriting result	1 144	453	153
Underwriting margin	8.5%	3.5%	
Net insurance result	1 540	873	76
Net insurance margin	11.4%	6.8%	
Investment income, realised and fair value gains	1 050	1 072	
Profit for the year	1 789	1 116	60
Headline earnings per share (cents)	1 367	906	51
<b>Statement of financial position</b>			
Net asset value per share (cents)	4 535	4 012	13
Solvency margin	45%	42%	
Return on weighted average shareholders' funds	37.1%	26.6%	
<b>Dividends</b>			
Normal dividends per share (cents)	510	466	
<b>Cash flow</b>			
Cash generated by operations (R million)	2 115	1 839	15

## HEADLINE EARNINGS PER SHARE



## PROFIT BEFORE TAX



Santam's excellent financial performance in tough market conditions was made possible by our extensive diversification, focused risk management through segmentation, our highly skilled people and loyal intermediaries.

The year saw us recognised in a number of areas:

- Named Best Personal, Commercial and Corporate Insurer by the Financial Intermediaries Association of Southern Africa (FIA) for the second consecutive year
- Ranked in the PwC peer review survey in the short-term insurance industry as the company with the most technically competent employees

- Received a Level 3 score in terms of the dti's Codes of Good Practice
- Received recognition for the leadership role we play in the insurance industry, regarding the management of systemic and notably environmental risks
- Our continued drive to improve service levels to clients and intermediaries was reflected in excellent client satisfaction survey results

We also achieved a number of operational highlights during the year:

- Enhancement of operational efficiency through initiatives such as the implementation of workflow management tools

- The significant turnaround in the profitability of portfolio administration business unit and the corporate property business
- The continued and on-track implementation of our Insurance Services Transformation Project (ISTP)
- The continued phased implementation of various segmentation, predictive and risk analytics tools across the company
- A number of acquisitions that see us positioned to diversify our core offering and strengthen our position in the market
- Various initiatives deployed to ensure that we continue to attract, retain and develop skilled and motivated staff

## SEVEN-YEAR REVIEW

			Seven-year compound growth %/average	2010	Restated 2009	Restated 2008	Restated 2007	2006	2005	2004
<b>PERFORMANCE PER ORDINARY SHARE</b>										
Cents per share										
Headline earnings	(2.0)			1 367	906	373	881	1 555	1 540	1 548
Continuing operations				1 367	906	408	1 029			
Discontinued operations				–	–	(35)	(148)			
Dividends				510	466	430	410	380	335	290
Special dividends				500	–	–	2 200	–	650	–
Capital reduction				–	–	–	–	–	–	1 000
Net asset value				4 535	4 012	3 548	3 585	5 633	4 927	4 706
<b>INSURANCE ACTIVITIES*</b>										
Net claims paid and provided (%)	Avg	66.0		64.1	70.6	68.4	68.2	68.6	65.3	57.0
Cost of acquisition (%)	Avg	26.2		27.4	25.9	25.2	25.6	24.9	26.0	28.3
Net commission paid (%)	Avg	14.0		15.3	14.9	14.3	13.9	14.1	13.4	12.4
Management expenses (%)	Avg	12.2		12.1	11.0	10.9	11.7	10.8	12.6	15.9
Combined ratio (%)	Avg	92.2		91.5	96.5	93.6	93.8	93.5	91.3	85.3
Underwriting result (%)	Avg	7.8		8.5	3.5	6.4	6.2	6.5	8.7	14.7
Earned premium (%)				100.0	100.0	100.0	100.0	100.0	100.0	100.0
* Continuing activities expressed as a % of net earned premium										
<b>INVESTMENT ACTIVITIES</b>										
Interest and dividends net of asset management fees				484	568	771	595	455	428	427
Net gain/(loss) on financial assets and liabilities at fair value through income				537	479	(721)	454	1 205	1 005	798
<b>RETURN AND PRODUCTIVITY</b>										
Earnings expressed as % of average shareholders' funds (%)	Avg	28.9		37.1	26.6	18.1	16.6	32.7	34.0	37.0
Pre-tax return on total assets (%)	Avg	12.3		13.7	8.9	5.0	9.1	14.8	15.6	19.0
Effective tax rate (%) <sup>#</sup>	Avg	27.6		26.3	26.5	36.1	31.9	24.7	22.4	25.4
Gross premium per employee (R'000)**				5 116	4 883	4 436	4 012	3 836	3 795	3 317
<sup>#</sup> Continuing activities										
* Alternative Risk Transfer premiums excluded										
<b>SOLVENCY AND LIQUIDITY</b>										
Dividend cover (times)	Avg	3.3		3.1	2.1	1.5	2.3	4.1	4.6	5.3
Solvency margin (%)	Avg	51.9		44.8	41.7	41.7	42.0	62.0	61.3	69.9
<b>OTHER STATISTICS</b>										
Number of permanent employees				2 757	2 742	2 807	2 840	2 789	2 733	2 791
Number of shareholders				4 616	4 303	3 871	4 552	4 556	4 457	4 242
<b>SANTAM SHARE PERFORMANCE AND RELATED INDICATORS</b>										
Market price per share (cents)										
Closing				13 050	10 850	7 930	10 400	8 745	8 050	7 100
Highest				13 547	11 000	9 500	13 720	9 500	8 500	7 100
Lowest				9 710	7 000	6 200	8 202	6 300	5 650	4 500
Market capitalisation (R million)				14 750	12 245	8 934	11 656	10 287	9 358	8 180
Santam share price index**				1 640	1 347	957	1 287	1 066	973	847
FTSE – JSE financial index**				578	506	394	610	615	388	323
Closing price/earnings (times)				9.5	12.0	13.5	11.5	5.6	5.2	4.6
Closing price/equity per share (times)				2.9	2.5	2.1	2.9	1.5	1.6	1.5
Closing dividend yield (%)				3.9	4.3	5.4	3.9	4.3	4.2	4.1
Number of shares issued (million)				113.0	112.9	112.7	112.1	117.6	116.2	115.2
Number of shares traded (million)				18.5	21.9	24.4	39.3	34.9	22.2	22.3
Number of shares traded as a % of total number of shares in issue				16.3	19.4	21.7	35.1	29.7	19.1	19.4
Value of shares traded (R million)				2 039.5	1 915.6	2 019.8	4 270.9	2 728.3	1 541.3	1 172.3
** 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. Restatement for 2009, 2008 and 2007 relates to the income tax adjustment.

	Seven-year compound growth %/average	2010	Restated 2009	Restated 2008	Restated 2007	2006	2005	2004
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>								
Gross premium income	8.5	15 855	15 026	14 179	13 173	12 115	11 355	9 735
Net premium income	9.8	13 519	12 894	11 873	10 919	10 104	9 344	7 723
Underwriting result	0.3	1 146	453	739	664	627	775	1 125
Investment return on insurance funds		396	420	540	319	250	241	203
<b>Net insurance result</b>		<b>1 542</b>	<b>873</b>	<b>1 279</b>	<b>983</b>	<b>877</b>	<b>1 016</b>	<b>1 328</b>
Investment income and associated companies		915	670	(520)	805	1 515	1 309	1 056
Amortisation of intangible asset/Impairment of goodwill		(29)	(25)	(7)	(2)	(2)	(4)	(2)
<b>Income before taxation</b>		<b>2 428</b>	<b>1 518</b>	<b>752</b>	<b>1 786</b>	<b>2 390</b>	<b>2 321</b>	<b>2 382</b>
Taxation		639	402	271	570	593	520	604
Non-controlling interest		27	34	21	26	23	23	24
<b>Net income from continuing operations</b>		<b>1 762</b>	<b>1 082</b>	<b>460</b>	<b>1 190</b>	<b>1 774</b>	<b>1 778</b>	<b>1 754</b>
Results from discontinued operations		–	–	25	(168)	70	–	–
<b>Net income attributable to equity holders</b>	0.1	<b>1 762</b>	<b>1 082</b>	<b>485</b>	<b>1 022</b>	<b>1 844</b>	<b>1 778</b>	<b>1 754</b>
<b>STATEMENTS OF FINANCIAL POSITION</b>								
Property and equipment		88	47	42	38	59	57	55
Intangible assets		988	143	155	135	108	80	87
Deferred tax asset		251	88	81	40	27	22	10
Investments in associates		211	198	175	215	239	209	150
Financial assets	7.4	8 090	6 337	5 955	7 315	7 517	5 907	5 267
Technical assets		1 518	2 070	2 252	2 265	2 291	2 375	1 979
Current assets		6 589	8 199	7 724	5 419	6 575	6 208	4 992
Non-current assets held for sale		–	–	–	2 060	–	–	–
<b>Total assets</b>		<b>17 735</b>	<b>17 082</b>	<b>16 384</b>	<b>17 487</b>	<b>16 816</b>	<b>14 858</b>	<b>12 540</b>
Shareholders' funds	(0.8)	5 219	4 672	4 135	4 079	6 750	5 852	5 482
Equity – non-current assets held for sale		–	–	–	71	–	–	–
Non-current liabilities		1 787	1 517	1 666	1 907	902	774	195
Technical provisions		7 803	8 316	8 238	7 729	7 768	6 716	5 198
Current liabilities, provisions		2 926	2 577	2 345	2 095	1 396	1 516	1 665
Non-current liabilities held for sale		–	–	–	1 606	–	–	–
<b>Total equity and liabilities</b>		<b>17 735</b>	<b>17 082</b>	<b>16 384</b>	<b>17 487</b>	<b>16 816</b>	<b>14 858</b>	<b>12 540</b>
<b>STATEMENTS OF CASH FLOW</b>								
Cash generated from operating activities after finance costs	(0.6)	2 020	1 725	1 375	2 094	2 196	2 365	2 094
Income tax paid		(755)	(115)	(669)	(288)	(606)	(778)	(361)
<b>Net cash from operating activities</b>		<b>1 265</b>	<b>1 610</b>	<b>706</b>	<b>1 806</b>	<b>1 590</b>	<b>1 587</b>	<b>1 733</b>
Cash (utilised)/generated in investment activities		(270)	(1 477)	921	12	(390)	578	(714)
Disposal/(acquisition) of associated companies		(17)	26	(55)	21	24	11	(29)
(Acquisition)/disposal of subsidiaries net of cash		(357)	(11)	(3)	(61)	153	(41)	9
Cash (sold)/acquired through sale/acquisition of subsidiary		262	(23)	(1 139)	52	(188)	281	–
Cash utilised in additions to property and equipment		(27)	(36)	(47)	(29)	(17)	(19)	(12)
Disposal/(acquisition) of book of business		–	54	51	(2)	(2)	–	–
<b>Net cash used in investing activities</b>		<b>(409)</b>	<b>(1 467)</b>	<b>(272)</b>	<b>(7)</b>	<b>(420)</b>	<b>810</b>	<b>(746)</b>
Proceeds from issuance of ordinary shares		–	–	2	34	29	27	41
Net purchase of treasury shares		(23)	(33)	(19)	(726)	–	–	–
Return of surplus capital to shareholders		–	–	–	–	–	(1 156)	–
Increase in debt securities		–	–	–	964	–	–	–
Increase in investment contract liabilities		129	(101)	(138)	230	–	–	–
Dividends paid		(1 113)	(513)	(476)	(2 977)	(1 185)	(360)	(296)
Increase in cell owners' interest		42	87	111	8	61	88	25
Purchase of subsidiary from non-controlling interest		(90)	–	–	–	–	–	–
<b>Net cash used in financing activities</b>		<b>(1 055)</b>	<b>(560)</b>	<b>(520)</b>	<b>(2 467)</b>	<b>(1 095)</b>	<b>(1 401)</b>	<b>(230)</b>
Net (decrease)/increase in cash and cash equivalents		(199)	(417)	(86)	(668)	75	996	758
Cash and cash equivalents at beginning of year*		1 379	1 938	1 983	2 659	4 927	3 927	3 203
Translation (losses)/gains on cash and cash equivalents		(37)	(142)	41	(8)	140	4	(33)
<b>Cash and cash equivalents at end of year</b>		<b>1 143</b>	<b>1 379</b>	<b>1 938</b>	<b>1 983</b>	<b>5 142</b>	<b>4 927</b>	<b>3 927</b>
Non-current assets classified as held for sale		–	–	–	(812)	–	–	–
<b>Cash and cash equivalents at end of year – Continuing operations</b>		<b>1 143</b>	<b>1 379</b>	<b>1 938</b>	<b>1 171</b>	<b>5 142</b>	<b>4 927</b>	<b>3 927</b>
* From 2007 cash and cash equivalents were restated to exclude short-term money market instruments								

Results for 2008 and 2007 are shown for continuing operations only. Results for 2006 have been restated to reflect only continuing operations.  
Restatement for 2009, 2008 and 2007 relates to the income tax adjustment.

# A BRAND THAT BELIEVES IN PERFORMANCE AND SUCCESS, BOTH YOURS AND OURS

### THIS IS SANTAM

At Santam, we believe in a simple principle – that insurance should add value, not questions and uncertainty. It should provide peace of mind, not parameters and excuses. Our success comes from understanding what is important to our clients and treating it as seriously as they do.

With assets of more than R17 billion; market share exceeding 22%; a country-wide infrastructure and a thriving intermediary network; we are uniquely positioned to continue leading the short-term insurance industry in South Africa. Our expertise and strength lie in the relationships we have with our clients and our extensive network of intermediaries. We take nothing for granted and remain focused on delivering long-term value to these relationships which is reflected in our market share.

To ensure our continued success, we must ensure that we attract the best employees to service our clients and intermediaries, support our communities and create sustainable long-term value for our shareholders.

In 2010, we were ranked as the short-term insurer with the most technically competent employees voted by senior executives of the South African insurance companies in the PwC 2010 peer review.

The Financial Intermediaries Association (FIA) also extended us a vote of confidence

by naming Santam the Best Personal, Commercial and Corporate Insurer for the second consecutive year.

### OUR STRATEGY

A good strategy is the product of solid enquiry, robust leadership dialogue and a collective effort. Our senior leadership team spends time together on a quarterly basis to discuss progress and refine the strategic direction of the company. Our relentless inquiry process and learning attitude ensure that we remain focused on the challenges confronting our business, ensuring our continued leadership and relevance in the short-term insurance industry. The Chief Executive Officer's report on page 32 highlights our progress against our core focus areas.

### THE SANTAM WAY

Through the years, Santam has shown determination, courage and commitment to becoming South Africa's leading and most influential short-term insurer. But for us, leadership is not only about size or market share. More importantly, it is about leading in attitude and approach.

At Santam:

– *We insure properly:* with careful consideration and due diligence. We're insightful and intelligent, methodical and thorough. Some may find this an old-fashioned way of doing what we do, for us, there is no other way.

– *We insure with integrity:* we behave with absolute honour at all times. We are reliable beyond reproof, dependable beyond doubt and trustworthy to our core. We do whatever we can to settle your claim, rather than expend our energies looking for excuses not to.

– *We insure with certainty:* with us, there are no unpleasant insurance surprises. We work on proven principles to do what needs to be done to get a reassuringly predictable outcome. We don't follow trends, get swayed by emotion, or jump on the latest bandwagon. So you can be sure that what you are getting is not the next big thing, but the thing that is perfectly right for you.

– *We insure with single-minded focus:* short-term asset insurance is all we do and we have been doing it for years. With time has come an expertise and understanding that is almost impossible to match. We are skilled and proficient in every conceivable aspect of short-term insurance. And, we have a breadth and depth of talent and experience that amounts to one simple thing – knowing you have the proven insurance experts behind you.

– *We insure with excellence:* we are a brand that believes in performance and success, both yours and ours. This proud and intense commitment to the extraordinary is supported by dedication to the highest levels of professionalism and



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partnership because we believe that with the best people behind you, there is nothing you cannot do.

- *We insure with stature:* we are big and we are proud of it. With size comes strength, with strength comes courage, with courage comes confidence, and with confidence comes freedom. We know that in a world of micro-managing, small print and nuances of difference, there is greatness to be had in thinking big, in standing tall, in not being afraid to take a stand and lead the way.

This is the Santam Way. And we act this way in a country and a category where these things are rare, where integrity and honesty have been so devalued that the ability of a brand to earn real trust has become most important. More important than channel, product, or price, the ability to believe in something, to hold on to something, to know something with certainty – that is what short-term insurance should be about.

Our people are integral to what our brand stands for and represents. They bring our values to life and in so doing, become critical to both the company's and their own success. We believe in performance and success for our people and the Santam brand.

People can only reach their full potential when their work experience is enriching, they receive appropriate recognition and

rewards and they are treated with respect. We offer employees access to a range of programmes and structures to enhance their performance – not only in the areas of training and skills development, but also lifestyle programmes that encourage healthy work-life balance and community involvement.

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

#### WE ACT TODAY TO LEAD TOMORROW

Our success extends far beyond our results to include the way in which we operate within the broader society. We are proud of what we have achieved thus far – particularly our contribution to corporate social investment and enterprise development as well as leading the industry in response to climate risks.

Santam is committed to sustainable business practices and embraces the integrated sustainability reporting philosophy advocated by the King III Report. As a result, we continue to report progress across the social, economic and environmental pillars of sustainability.

We have adopted suitable sustainable business practices to meet the long-term needs of the group, our stakeholders and society in general. Sustainability is a core

part of our strategic goals, which are implemented through purpose-built policies and management structures. A sustainability charter directs our intentions and approach. The complete sustainability report can be found on our website at [www.santam.co.za](http://www.santam.co.za).

#### THE YELLOW UMBRELLA

Santam's yellow umbrella embodies who we are, what we offer, our past successes and our future aspirations. We are extremely proud of our brand, and respectful of the equity it contains and the power it holds.

It is with great pride that we showcase our newly designed corporate symbol, the yellow umbrella on the cover of our 2010 annual report. It is a visual representation of our leadership, now and into the future, the value we add to people's everyday lives, and our ongoing commitment to delivering **insurance – good and proper.**

## BOARD OF DIRECTORS

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DCM GIHWALA

NM MAGAU

MN DUNN

BTPKM GAMEDZE

J VAN ZYL

IM KIRK

B CAMPBELL

P DE V RADEMEYER



VP KHANYILE

JG LE ROUX

GE RUDMAN

JP MÖLLER

MJ REYNEKE

BP VUNDLA

YG MUTHIEN

## BOARD OF DIRECTORS

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### VP KHANYILE (60)

Chairman (from 2 June 2010), BComm (Honours) in Accounting and Finance (Birmingham), Fellowship in Development Finance (Princeton), Honorary Doctorate (Walter Sisulu University)

**Appointed as a director in April 2010 and independent non-executive Chairman on 2 June 2010**

Director and 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.

### DK SMITH (63)

Chairman (until 2 June 2010), BSc, FASSA

**Appointed 1 April 1994 and resigned on 2 June 2010**

Chairman of Sanlam Limited. Director of RGA Reinsurance Company of South Africa Ltd and InnovUS Tegnologie Oordrag (Edms) Bpk, RGA Southern African Holdings (Pty) Ltd, Medi-Clinic Corporation Ltd, Road Accident Fund, Twee Klippen Estates (Pty) Ltd and Tedo Beleggings (Pty) Ltd. Chairman of the Stellenbosch Institute for Advanced Study.

### B CAMPBELL (60)

Director, BA, MBL, ACII and FCII (UK)  
**Appointed 4 October 2010**

Previous managing director of Mutual and Federal Insurance Holdings Limited and previous group Chief Executive Officer of Alexander Forbes. Other current board commitments include Hilton College and Bellavista School.

### BTPKM GAMEDZE (52)

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 founding president of the Association of the South African Black Actuarial Professionals (ASABA).

### DCM GIHWALA (57)

Director, BProc, HDip Tax Prac  
**Appointed 28 May 2008**

Director of Cliffe Dekker Hofmeyr, Seena Marena Financial Services (Pty) Ltd, Seena Marena Investments (Pty) Ltd, Outward Investments (Pty) Ltd, Redefine Income Fund Ltd, Ngatana Property Investments (Pty) Ltd, Independent Regulatory Board of Auditors (IRBA), Sando Holdings (Pty) Ltd and FirstRand Executive Trust.

### IM KIRK (53)

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, Emerald Risk Transfer (Pty) 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.

### JG LE ROUX (65)

Director, BSc (Agric)

**Appointed 23 May 2000**

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

### MD DUNN (66)

Director, FCA, CA(SA)

**Appointed 16 April 2010**

Director of Munich Reinsurance Company of Africa Ltd.

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**NM MAGAU (58)****Director, DEd****Appointed 28 May 2002**

Executive director of B&D Solutions (Pty) Ltd. Non-executive director of Murray and Roberts Holdings Ltd. Director of CEO Communications (Pty) Ltd, MAN Military Vehicle Systems (Pty) Ltd, Merryll Lynch (Pty) Ltd, The International Women's Forum South Africa (Sec 21) and Tselane Basadi Management (Pty) Ltd. Board member of the National Research Foundation (NRF). Trustee of The Hans Merensky Foundation. Member of the advisory board of the University of Cape Town Business School.

**P DE V RADEMEYER (63)****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.

**GE RUDMAN (67)****Director, BSc, FASSA, FFA****Appointed 23 January 1996**

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

**JP MÖLLER (51)****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.

**MJ REYNEKE (53)****Executive director, BCom (Hons), CA(SA)****Appointed 26 August 2003**

Director of Centriq group of companies, Censeo (Pty) Ltd, Credit Guarantee Insurance Corporation of Africa Ltd, Emerald Risk Transfer (Pty) 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.

**YG MUTHIEN (54)****Director, BA (Hons) UWC, MA (Northwestern), DPhil (Oxford)****Appointed 25 November 2009**

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

**JP ROWSE (56)****Director, BComm, MBA****Appointed 20 November 2006 and resigned on 19 March 2010**

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

**J VAN ZYL (54)****Director, PhD, DSc (Agric)****Appointed 1 August 2001**

Chief Executive Officer and executive director of Sanlam Ltd and Sanlam Life Insurance Ltd. Director of Sanlam Developing Markets Ltd, Sanlam Investment Management Ltd, Sanlam UK 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 and Guardian Ltd, AMB Capital and Fidelity Security Services.



## EXECUTIVE MANAGEMENT

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### IAN KIRK (53)

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

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 and annual objectives. Ensures that the company meets or exceeds its targets, thereby growing profitability sustainably over the medium to long term.

Ian plays off a 10 handicap and over the weekends can be seen walking the course at Steenberg Golf Estate. He believes that golf is a great way to get outdoors and build mental, physical and emotional well-being.



## EDWARD GIBBENS (41)

### Intermediary Distribution

AIISA, BComm, MBA

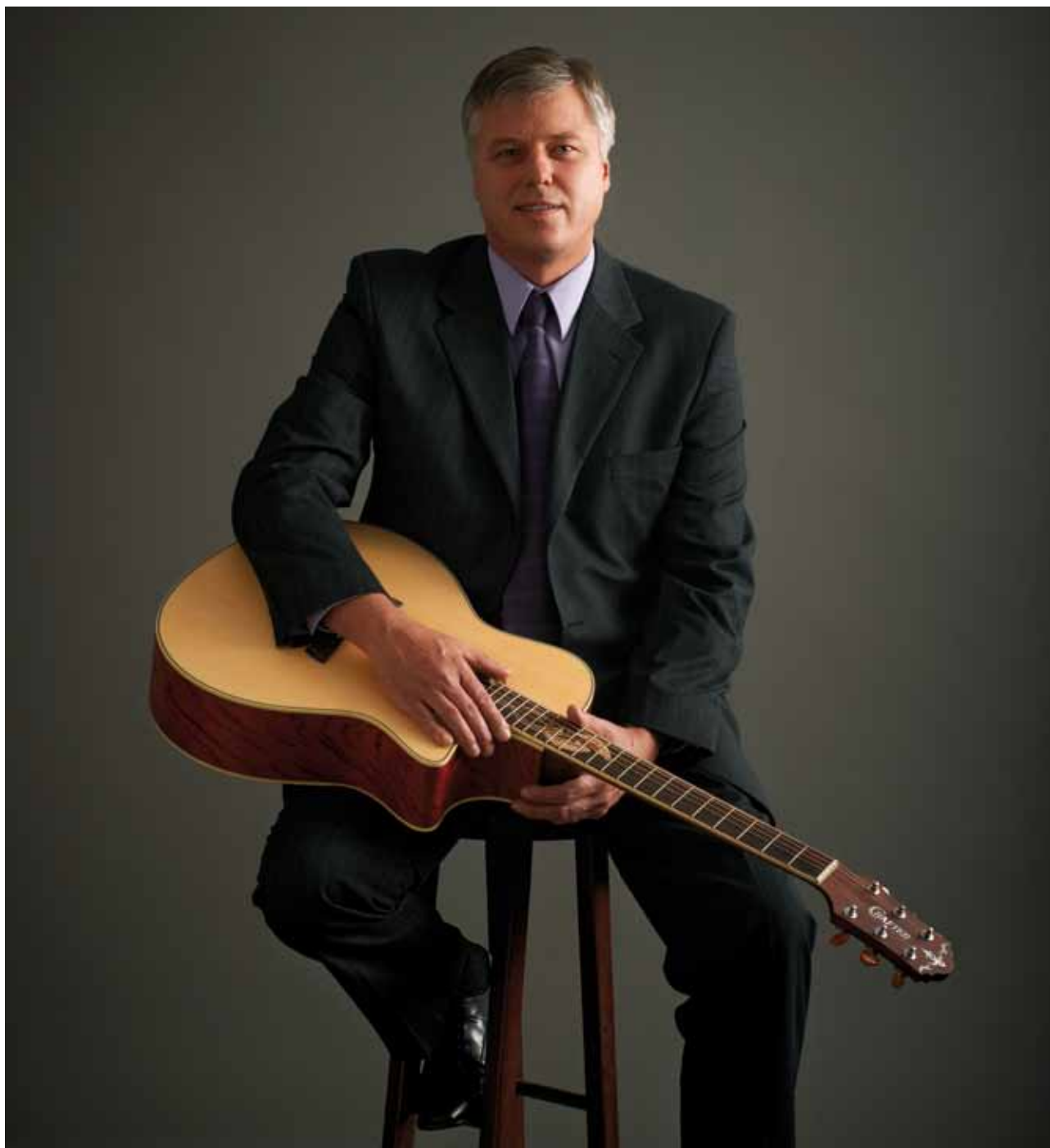
Appointed 1992 (Appointed to Executive Management – 2005)

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 intermediary distribution employees; analyses the competitive environment and develops future strategies to strengthen the company's competitive position.

The 1969 model of the 280SL Pagoda sparked Edward's keen interest in Mercedes Benz vehicles. A Mercedes Benz Club of South Africa member, he enjoys driving his 1992 SL500 with 3 500 km on the clock – a true modern classic.

## EXECUTIVE MANAGEMENT

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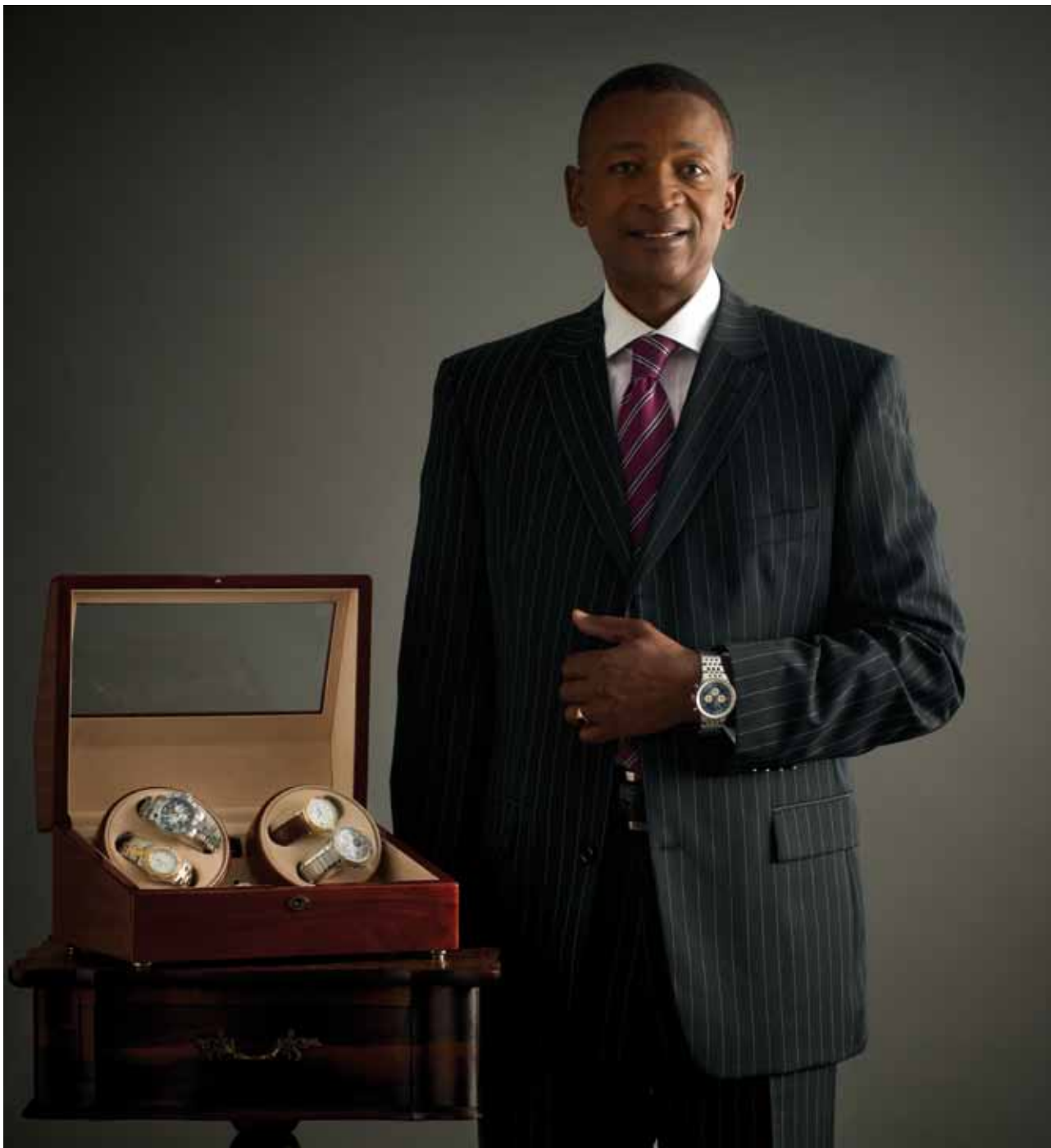
### JAN DE KLERK (49)

Information Management  
MDP (University of Pretoria)  
Appointed 2007

Responsible for Information Technology; 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.

Jan got his first guitar, an Ibanez, in 1984 and loves the acoustic sound of the instrument. He admires guitarists like John Mayer, Eric Clapton and Mark Knopfler. His favourite music genres are blues, country and Afrikaans pop.





## TEMBA MVUSI (55)

### 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 company in new markets and explores new intermediary opportunities in previously unserved markets; drives group-wide transformation to ensure company sustainability, setting targets and ensuring the company meets its broad-based black economic empowerment responsibilities; benchmarks company performance and progress against industry standards.

Temba is attracted to the craftsmanship that goes into watchmaking. The minute pieces each come together to produce a fascinating rhythm that ultimately controls the important phenomenon called time.

## EXECUTIVE MANAGEMENT

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### JOHN MELVILLE (45)

Risk Services  
BBusSc (Hons), FIA, FASSA  
Appointed 1 December 2010

Responsible 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.

John enjoys a wide range of art styles from realistic to abstract. To him, Pierneef has always been special, especially the Johannesburg Station Panels, which encapsulate the essence of the dramatic beauty of our South African landscapes.



## YEGS RAMIAH (43)

### People and Brand

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

Responsible for human resources, marketing and communications. Ensures human resources incorporates employee well-being and development in its broadest form and stays abreast of international best practice in talent management. The marketing and communications team maintains a strong focus on positioning the brand to ensure client attraction, retention and satisfaction.

Yegs enjoys a fine bottle of wine, and to live out this passion her family have their own wine label, Seven Steps. For her, wine is a way of life, to be enjoyed with family and friends.

## EXECUTIVE MANAGEMENT

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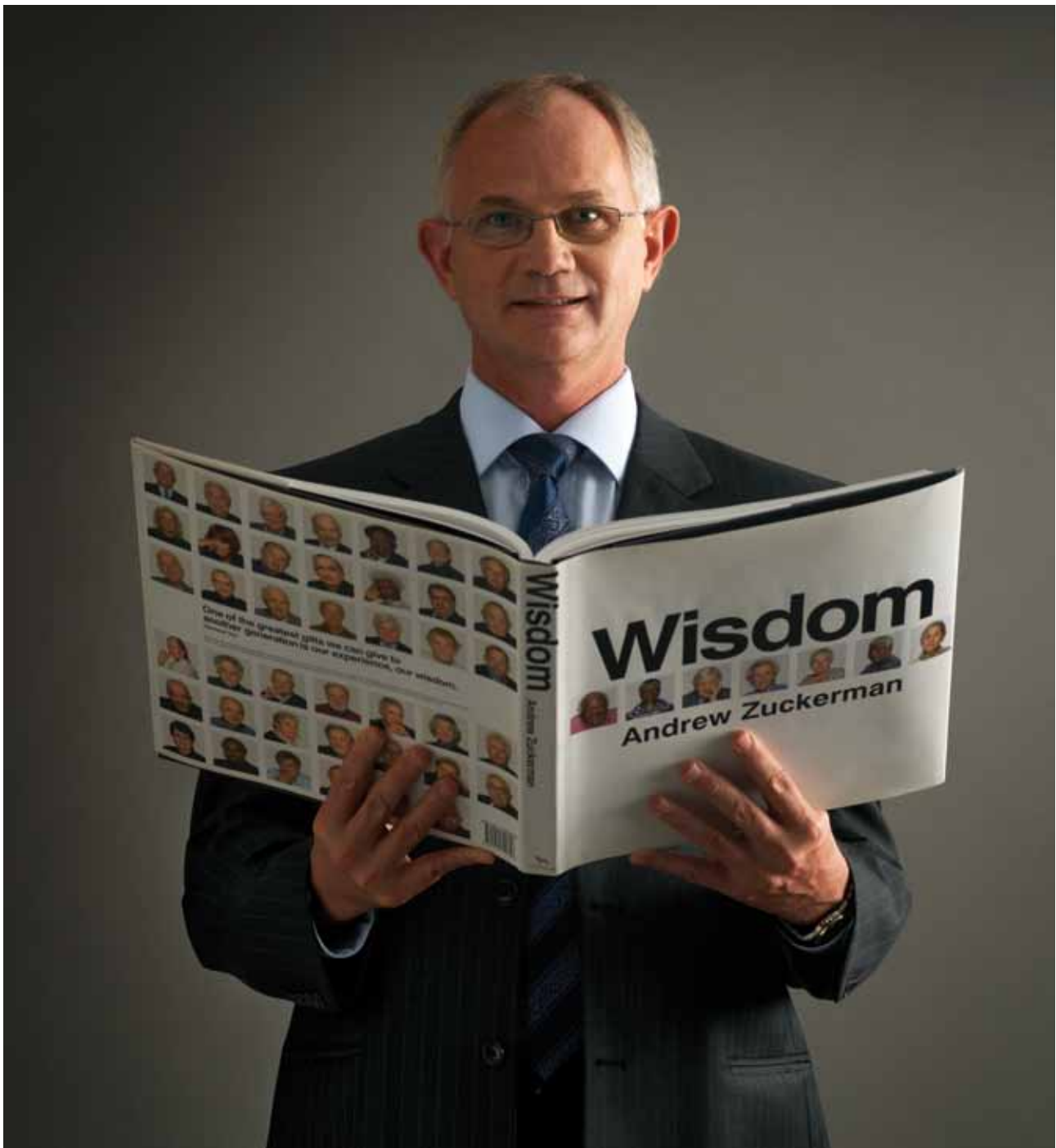


**HENDRI  
NIGRINI**  
(60)

Executive Head: Specialist Projects  
BComm, ACII  
Appointed 1986

Responsible for the underwriting function, including strategy and pricing, reinsurance, product solutions and actuarial services up to 1 December 2010, when Hendri handed this portfolio over to John Melville. Since then Hendri supports the group in its international business and strategic business development initiatives.

Hendri is an official member of the HOG (Harley Owners Group) and has learned many lessons since he bought the “motorcycle of cycles” – most notably that the driver with the most wheels underneath him has right of way on the road.



## MACHIEL REYNEKE (53)

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

Responsible 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.

Machiel is an avid reader across a wide range of interests. As a child he enjoyed reading Westerns and more recently immerses himself into books on modern history, science and politics.



## EXECUTIVE MANAGEMENT

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### QUINTEN MATTHEW (47)

#### 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 promoting growth and profit objectives. Focuses on growing individual businesses by advancing entrepreneurship and specialist skills through partnerships, while building on the synergies and support of Santam.

Being involved in aviation insurance at Santam is where Quinten's passion for flying started. A keen hang-glider and skydiver, he is also fast accumulating air miles in training to fly solo.



## HENNIE NORTJE (47)

Claims Services  
MCompt, CA(SA)  
Appointed 2008

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

An "under-cover" architect, Hennie is passionate about all things involving design, art, form and function. He appreciates how the vision of an architect can be translated from a flat piece of paper into a three-dimensional structure.





**WE DO INSURANCE  
PROPERLY: WITH  
CAREFUL CONSIDERATION  
AND DUE DILIGENCE.  
WE'RE INSIGHTFUL AND  
INTELLIGENT, METHODICAL  
AND THOROUGH.  
SOME MAY FIND THIS  
AN OLD-FASHIONED WAY  
OF DOING WHAT WE DO,  
BUT FOR US, THERE IS  
NO OTHER WAY.**

# OUR PROUD PEDIGREE SPANS ALMOST A CENTURY AND IS DUE TO OUR WILLINGNESS TO EVOLVE

In 2010 the South African economy started showing signs of recovery from the 2008 global economic crisis. This brought relief to the ordinary South African in the form of lower interest rates and a stronger currency. However, all industry sectors within the business environment, including the short-term insurance industry, remained challenging.

I am pleased that in this context, Santam continued to make solid progress towards its strategic objectives and delivered a good financial performance, clearly extending its leadership position in the market.

### JOINING A WINNING TEAM

*"Santam has earned a first-rate reputation and significant brand equity as a highly respected risk management partner in the personal, commercial, agricultural and specialist insurance markets."*

This letter is my first formal opportunity to communicate with stakeholders. Therefore I feel that it is important to convey my motivations and rationale for taking on the role of Santam's independent non-executive Chairman.

It is now generally accepted that independent directors have a positive impact on the overall performance of the companies which they represent and, as such, play a crucial role in those companies' long-term prosperity.

During my career, I have had the opportunity to benefit from the wisdom and experience of other independent directors. By accepting this position in June 2010, I felt that I would have the chance to reciprocate this by working in a similar role at Santam and help build the future of the company.

Our proud pedigree spans almost a century and is at least in part due to our willingness to evolve our company and to ensure that we provide a relevant product offering to our clients.

In line with the rapidly changing environment in South Africa, we have also prioritised transformation and we have made excellent progress on this journey during the past decade. It is along this path of transformation that I had the privilege of first partnering with Santam through Thebe Investment Corporation, some seven years ago.

As a business partner, I was in a position to see Santam's evolution first hand from its traditional South African roots, as it embraced change, to its current leadership position in playing a meaningful role in the economic transformation of South Africa.

It is on this basis that I accepted the challenge of independent Chairman, and I am looking forward to working with the management and employees of Santam for the mutual benefit of all stakeholders.

### A YEAR OF STRATEGIC DELIVERY

*"With its solid leadership team Santam hummed beautifully in 2010, outperforming on a number of criteria across all areas of the company."*

I joined Santam's board of directors in April 2010. From that time I have become privy to the well-defined strategic path that had been mapped out and adopted by the executive. Santam has a high-calibre leadership team comprising strong individuals – each with a specialist understanding of their field. This team has the ability to act in concert to achieve its common goal. This collaboration and teamwork was key to delivery during 2010 and I congratulate them for their excellent work.

While Santam delivered strong financial results in 2010, the non-financial performance of the company is also noteworthy and I would like to dwell on a few achievements:

- All lines of business achieved good operational results and contributed to group profitability, with the exception of crop insurance which reported a loss. However, its performance remains within the risk parameters for this business which recognises that, over the long term, one in three years will be impacted by large weather-related claims. The Corporate Property and the



# AS SOUTH AFRICAN CORPORATE CITIZENS, IT IS **OUR DUTY** TO TRANSFORM AND UPLIFT OUR PEOPLE

portfolio management divisions showed a notable and sustained turnaround as a result of decisive management actions taken during the year.

- Santam achieved an acceptable gross written premium growth of 6% in tough market conditions that should enable us to maintain our market share. These results show that our clients are continuing to entrust Santam with the protection of their assets.
- Honouring claims is critical to the longevity of an insurance company as is the quality of the client experience and especially the integrity and speed with which claims are processed. Santam is on a highly competitive footing in the way it manages claims, having made further progress in transforming the claims environment during the year. See page 58 for further information on Claims Services.
- Santam continued to embrace the challenge of transformation and uplifting the majority of South Africans, reflecting the country's ongoing evolution to become a balanced society. We believe that in so doing we will ensure the long-term economic sustainability of the company.

Over a matter of just three years, the group has improved its broad-based black economic empowerment (BBBEE) score-card from a Level 6 contribution

to a Level 3 contribution. There can be no clearer evidence of our commitment to transformation than this achievement. However, transformation cannot be reduced to a score. While we welcome the improved score, ultimately transformation is about the attitude – and I believe that a transformed mindset will continue to manifest in the Santam way of doing things.

### EXTENDING SANTAM'S AFRICAN PERSPECTIVE

*"As a leading player in the South African short-term insurance industry, Santam is ideally placed to develop an African perspective for the company."*

Africa's potential was laid bare during the 2010 FIFA World Cup™. The lasting impression of the year that will remain with me was the unity of all South Africans and the inkling that a truly integrated South African nation can become a reality. During these four weeks we all felt that it was truly wonderful to be not only a South African but also an African.

When Siphiwe Tshabalala scored the first goal of the tournament on the opening night, he was scoring a goal for the unification of South Africans regardless of colour, age and position in society. In the same way, Ghana's unexpected advancement to the quarter final gave us all an opportunity to be proud of being African. Having successfully staged this world-

class event, South Africans had no choice but to start believing in our potential. This event was a true moment of African unity and pride.

As South African corporate citizens, it is our duty to transform and uplift our people. But I believe that as a company, we also have a role to play in the broader African continent. While our transformation initiatives play a significant internal role, we recognise our duty as a proudly South African company to make our extensive skills available in the area of risk management. We believe that by putting these skills at the disposal of the nation, this resource can be used to move the country forward and to improve the competitiveness of South Africa in the world.

Santam has recognised the potential of the African continent and is poised to extend its leadership position in the South African short-term insurance market by developing an African perspective to the company which will have a positive impact on our bottom line over time.

### OUR PEOPLE – THE FACE OF SANTAM

It is with heartfelt appreciation that I recognise the role of each and every employee. Without your ongoing commitment and loyalty, Santam's strong performance during 2010 would not have been possible. Our intermediaries who refer their clients to Santam for underwriting

services do so because they trust our ability to protect their assets. This ability is confirmed daily when they engage with our employees. Intermediaries participated in an independent survey to rank all the players in the short-term underwriting sector during the year and I am proud to report that Santam emerged as the clear leader.

We were announced as the winners for the Best Personal, Commercial and Corporate Insurer awards at the FIA (Financial Intermediaries Association of Southern Africa) awards in 2010 for the second consecutive year. The industry has clearly recognised the excellent work of our employees who are the face of Santam across the country – from the cities, to towns and even villages.

## ENSURING SUSTAINABILITY THROUGH RISK MANAGEMENT

Throughout our 92-year history, Santam has clearly shown that it is sustainable despite the ever changing environment in which we operate. However, we continually see that sustainability is not a given and cannot be taken for granted. Heavy rains during the current summer season and the subsequent flooding which ravaged many parts of the country during the year have been a stark reminder of the impacts of climate change.

Under any circumstances the ethos and value system of Santam would drive us to actively do what we can to limit our impact

on the environment. But, as a major player in the short-term insurance industry our responsibility is also fiduciary.

Our business is to protect the assets which our clients have entrusted to us. This extends our role into the social aspects of the triple bottom line while it also has the potential to impact the economic sustainability of our company.

Risk management underpins everything that we do and is intrinsically linked to all aspects of sustainability for Santam. I believe that our broad capability in this sphere is a competitive advantage and contributes to our financial longevity. But, as we go about our daily business, it extends into all aspects of the triple bottom line.

As such, I would like to highlight some initiatives that we are involved in:

- The National Institute for Crime Prevention and the Reintegration of Offenders (NICRO)

Santam has partnered with NICRO in Mpumalanga and the Eastern Cape provinces in an effort to reduce crime and to offer young people skills, knowledge, and experience.

- South African Local Government Association (SALGA) and Co-operative Governance and Traditional Affairs (CoGTA)

We engage with SALGA to promote better climate risk management at an operational and policymaking level. And our work with CoGTA helps us understand local government's turn-around strategy and allows us to participate in the Business Adopt-a-Municipality campaign.

- Department of Energy (DoE)

We have engaged extensively on energy efficiency with the DoE, implementing initiatives such as the solar water geyser initiative. Santam delivered a presentation at the National Solar Water Heating conference and gave input to government in shaping public policy on this issue.

- The Insurance Lab

This is a partnership between Santam, the Council for Scientific and Industrial Research (CSIR) and the University of Cape Town Centre of Criminology. We co-fund a research project focusing on risk and resilience for business and society. This project will give Santam a systemic understanding of how environmental, social and governance (ESG) factors are evolving and enhancing our knowledge base and competitive advantage.

In the past year, we have received recognition that is indicative of our constant commitment to the journey of sustainable risk management:

# WE STRIVE TO COMMUNICATE AND SHARE INFORMATION WITH ALL STAKEHOLDER GROUPS

– ACCA South Africa Awards for Sustainability Reporting 2010:

Runner-up – Best Sustainability Report  
– Most Improved

– JSE SRI Index:

Listed as one of the best performers in the low-impact industry category

– Carbon Disclosure Leadership Index:

Ranked 12th out of the top 16 leading companies for carbon footprint disclosure

See the Chief Executive Officer's report on page 32 for an overview on Santam's comprehensive approach to risk and our sustainability report for more information on these and other initiatives. You will find our sustainability report at [www.santam.co.za](http://www.santam.co.za).

### CORPORATE CITIZENSHIP IS INTEGRAL TO OUR COMPANY

*"Our responsibility is to satisfy the hunger for information – ensuring our capacity to report and provide knowledge is key."*

As South Africans, we continuously engage in active debate on a myriad of topics that affect our daily lives. This is the nature of our citizens and our culture. As a South African company the same applies to Santam. We strive to communicate and share information with all stakeholder groups as part of the process of running the company day to day.

The board has approved a stakeholder relations strategy to inform the formulation of our corporate reporting and ensure that we effectively communicate with all stakeholder groupings. Transparency is a cornerstone of our company and we look forward to the introduction of the King III recommendations on corporate governance which we believe will drive a more transparent approach to stakeholder engagement across the business environment.

From a bottom-line perspective, it is a universally accepted fact – but sadly not one which is universally put into practice – that those companies who adopt and communicate strict corporate governance policies are being rewarded by institutional investors, resulting in a higher level of investor confidence.

Research has proved that shareholders believe that better corporate governance will bring them higher rewards. Good governance can also show in things such as higher price/book ratios; increased market valuations and higher institutional interest.

Santam unequivocally supports and practices good corporate governance, because it is the right thing to do *and* because of the impact it has on our bottom line in the long term.

We continuously review our capacity to report to stakeholders. We attempt to

provide as much information as possible about the operations of the company and not only about financial parameters. We believe that this forms the substance of the new standard of integrated reporting. In addition, we will keep abreast of the evolving democratic culture of South Africa, which is also emerging within Santam, by open and transparent disclosure to all stakeholders in a manner which makes sense to them.

### APPRECIATION

I would like to thank Desmond Smith for the groundwork of the past years in his role of chairing the Santam board. His efforts have greatly assisted us in growing a resilient company that will continue achieving sustainable performance for many years to come. I wish him every success as Chairman of Santam's board and in achieving continued growth for the group.

In March 2010, Jeremy Rowse resigned as a non-executive director to pursue other international interests. On behalf of the board I would like to thank Jeremy for his loyal and dedicated contribution to the group and we wish him well in his future career.

The strength of the board of directors of Santam lies in the diversity of skills which have been brought together as well as our unquestioned commitment to living out our responsibilities as a good corporate citizen.

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The longer standing board members have made an excellent contribution to Santam's success. This has been complemented by the additional skills which were brought on board during the year. We welcomed Bruce Campbell, a seasoned expert in the field of short-term insurance to the board. In the same way, we will continue to enhance the skills of our board of directors to ensure that we continue to provide relevant strategic and governance oversight on behalf of all stakeholders.

It has been a happy privilege for me to work with my fellow directors during 2010 and I extend my heartfelt thanks to each of you for your support and for the role that you have played in Santam's performance during the year.

I am looking forward to working with you in the years to come.



**VP Khanyile**  
*Chairman*





**WE DO INSURANCE  
WITH INTEGRITY:** WE BEHAVE  
WITH ABSOLUTE HONOUR AT  
ALL TIMES. WE ARE RELIABLE  
BEYOND REPROOF, DEPEND-  
ABLE BEYOND DOUBT AND  
TRUSTWORTHY TO OUR CORE.  
WE DO WHATEVER WE CAN  
TO SETTLE YOUR CLAIM,  
RATHER THAN EXPEND OUR  
ENERGIES LOOKING FOR  
EXCUSES NOT TO.

# OUR CLIENTS AND INTERMEDIARIES REMAIN LOYAL AND TRUST US WITH THE PROTECTION OF THEIR ASSETS

A highlight of this past year in South Africa was undoubtedly the 2010 FIFA World Cup™. It was a highlight for the football playing and watching world – and particularly for South Africa given the phenomenal achievement of successfully delivering an event of this size. This united South Africans in a manner we have not seen since the 1995 Rugby World Cup final. Focused efforts at all levels made the dream a success.

Unfortunately we also saw a number of tragic events globally during the year. These included the Haitian earthquake that killed and displaced so many and the calamitous Gulf coast oil spill – the consequences of which we are possibly unable to fathom and which the environment will feel for countless years to come.

In South Africa we experienced our own share of good and bad. Floods ravaged a number of areas while at the same time many areas of our country were without water. Crime remained a concern and unsettling social issues regularly made the front pages of newspapers. On a positive note, the economy continued its recovery from the recession, the rand and equity markets strengthened in the second half of the year, interest rates eased and petrol prices were cut.

### POSITIVE RESULTS IN A TOUGH YEAR

The short-term insurance industry faced tough times on the growth front with premium rates remaining under pressure.

The economy continued to show signs of recovery, albeit slowly, following the financial crisis of 2008.

I am pleased to report that against this challenging backdrop, Santam achieved acceptable premium growth of 6% – this shows once again that our clients and our intermediaries remain loyal and trust us with the protection of their assets.

This result is directly related to the support we receive from our intermediaries with whom we have shared a long partnership and who are a vital part of our business model.

### OPERATIONAL IMPROVEMENTS LEVERAGE SOUND FINANCIAL PERFORMANCE

Santam's geographical diversity, unique product range and risk management actions to improve the quality of the risk pool have supported our strong underwriting result of R1 146 million (2009: R453 million).

The performance of Santam's investment portfolio was in line with the strengthening of equity markets and exceeded the internal benchmarks set for its performance. The performance of both the equity and bond portfolios was particularly strong in the second half of the year with equities rising by approximately 20%.

### The growth challenges we face

Pedestrian premium growth has characterised the short-term insurance market since 2008. There is excess underwriting capacity in the market and continued pressure on consumers and corporates. In the commercial sector, this rate pressure persisted in 2010 even though companies are showing earnings recovery. We have experienced limited headroom to increase premiums and business retention has been under pressure from the market. However, we have not compromised on our leading underwriting and risk management practices. We have also maintained a professional approach to ensure that we price the risks adequately on all exposures.

During the year, we were well placed to accommodate demands from our intermediaries to contain premium increases. This was mainly as a result of the improvement in the claims ratio largely due to our re-engineering exercise over the past two years and the lower occurrence of large industrial accident and catastrophe claims. Santam continued with the extensive re-engineering of claim processes which commenced in 2008. We have made further progress in this area during 2010 which has led to:

- sustainable reductions in the cost of claims and claim handling costs;
- quicker turnaround times; and
- improved quality of service throughout the claims value chain.



# WE WILL **ENSURE** THAT THE SANTAM GROUP IS POSITIONED TO MEET NEEDS

This lower average claim cost largely contributed to very limited premium increases and the improved underwriting margins which we experienced during the year in the commercial and personal lines business units.

Our improved claim experience also bears testament to the success of our consistent messaging to entrench loss prevention behaviours – and consequently proactive risk management – among clients from all our business units.

### **Communicating with our clients on risk management**

At Santam we believe in enabling and empowering our clients to “help us help them”. For a number of years we have consistently communicated the message of risk management to all clients in our personal, commercial, agricultural and specialist business units. Our performance in 2010 provides strong evidence that our clients have been responding favourably to these educational initiatives. In the consumer market, the risk management message has been predominantly conveyed through public awareness initiatives by means of editorials, radio and TV interviews. In the specialist and commercial business units, we have focused on one-on-one communication channelled through the intermediary network as well as extensive online information and communication.

Therefore, we want to thank our intermediaries for assisting us in our risk management endeavours and for being instrumental in creating risk management awareness among our clients.

### **FURTHER PROGRESS ON OUR CLEARLY DEFINED STRATEGIC PATH**

#### *1. Achieving operational and capital efficiencies*

Santam continues to use technology effectively, to enhance the quality of service to its intermediaries. The Broker Management Model Project (BMMP), implemented in 2009, delivered good results. Particularly the web-based actuarial and underwriting tool, reported on last year, provided additional functionality for underwriting and issuing policies. This has led to improved turnaround times and service efficiencies. New technology in our contact centre environment enabled us to track the effectiveness of call centre operators including waiting time, average call time and overall agent productivity. This technology is contributing to an improved intermediary and client interaction experience and serves to underscore and support the Santam client loyalty relationship.

As noted above, the claims business unit continued to make progress with the Insurance Services Transformation Project (ISTP) and a number of key

milestones were reached which have delivered significant positive returns.

At the midpoint of 2010, the solvency ratio was 44% – in the upper end of our target range of 35% to 45%. Therefore, to maintain the group's international solvency ratio within the long-term target range, the board approved a special dividend of 500 cents per share in September, in line with the group's continued focus on efficient capital management. Our shareholders have been rewarded with special dividends in four of the last 10 years. The September special dividend is particularly pleasing because of our significant over-achievement during what has arguably been the toughest operating environment in several decades as the global economy suffered the fallout of the credit crisis. This special dividend bears testimony to the decisions and actions taken by the management team on the underwriting and investment fronts to position Santam favourably in order to overcome the challenges of the global economic crisis.

#### *2. Balancing growth and profit – improved operational performance of current business*

Santam's business units all recorded positive underwriting results with the exception of Santam Agriculture.

The core personal lines and commercial business units performed really well, with a number of further actions on segmentation and risk selection models assisting along with reduced claim costs.

Crop insurance results were under pressure due to weather-related claims. However, the unit's performance through the cycles remained above our risk adjusted cost of capital.

The corporate property and the portfolio management business units which had disappointing results in 2009 staged a noteworthy recovery in 2010. The recovery of the corporate property business unit was catalysed by the appointment of a new management team that came on board with the acquisition of Emerald Underwriting Managers (EUM) and adopting a revised approach to underwriting corporate property risks. Adapting to the prevailing market conditions which are characterised by significant premium pressure, the team adopted a more selective approach to the risks being accepted onto its book and a more innovative approach to reinsurance.

In the portfolio management business unit, management changes were also implemented together with new underwriting processes which had effectively been implemented by Santam's "in-house" business units.

Network Solutions is a separate business unit partnering with organisations to sell additional products into their distinct client base. Although the business unit continued to grow in 2010, it has yet to achieve sufficient critical mass to achieve the required financial returns.

### *3. Developing relevant distribution models*

The Santam brand is based on our intermediary partner relationships being one of our core competencies. However, we are cognisant of the fact that client needs in some segments are continually changing. As I mentioned last year, the traditional personal lines market is well serviced by intermediaries; however, the emerging middle and lower-income segments are demanding different and innovative ways to purchase products. We will ensure that the Santam group is positioned to meet these needs by building other channels that support our leadership position in the industry and our long-term growth objectives without compromising our commitment to our intermediaries.

### *4. Geographic diversification*

Santam continues to make good progress in India and Africa despite delays on completing transactions in Africa. Here we are cautiously entering new markets in the technical partner capacity. We do this in association with trusted local partners and in conjunction

with our majority shareholder, Sanlam, who has largely established the footprint.

### *5. Enhancing core risk management capability*

The insurance industry is a risk industry, and managing risk in all its forms is a responsibility that we do not take lightly. In the Santam context, risk is divided into operational risk, enterprise risk management (ERM discussed on pages 79 and 80 of our corporate governance report) and systemic risk.

In each of these areas, we are at varying levels of involvement and at different stages of the journey. However, I assure you that we are committed to investing in addressing and working with our stakeholders and partners to understand what is happening to our world, what this means to Santam and how we can make a difference. Please see our sustainability report for more information or visit our website at [www.santam.co.za](http://www.santam.co.za) for more information on our stakeholder relations management programme.

#### *– Managing operational risk*

The quality of Santam's risk pool improved further during 2010, benefiting from an extensive segmentation process initiated in previous years. As part of this process, Santam reviewed the risks associated with

# SANTAM HAS THE **INHERENT ABILITY** TO MANAGE ITS RISK EFFECTIVELY AND SUCCESSFULLY

policies across the personal, commercial and specialised business units. This segmentation process, among other things, entails rating client risks to identify critical areas. In concert with the segmentation process, we engaged in a structured change management programme to retain our clients. This programme was supported by our intermediary network that was instrumental in the success of this initiative.

Weather conditions in February and March were negative for the industry as a whole. But due to our stringent and diversified risk management focus and approach, we had practically reduced our risk in many vulnerable areas to the minimum. As such, the impact of these natural disasters was not as severe for us as for many others in the industry. Unfortunately though, our crop business suffered due to conditions in the latter months of 2010 and did not perform at the same level as the other business units. This is in line with long-term expectations and the cyclical nature of the agricultural business.

See page 60 of the operational review for the risk services.

- *Systemic risk*  
Santam maintained a proactive approach to managing systemic risk

issues during 2010. We have continued to expand our initiatives during the year, some of which include:

- In 2009, Santam joined the ClimateWise initiative and in 2010 we achieved a satisfactory score for both compliance and disclosure as a new member.
- In June 2010, we joined the CSIR and the University of Cape Town's Centre of Criminology in a project titled "Risk and resilience in a changing world – the insurance collaboration". This partnership will provide an integrated understanding of environmental, social and governance risk in a dynamic socio-ecological landscape.
- During the year, we formalised a responsible investment mandate which will allow the company to make investments that will offset or displace its environmental footprint with regard to energy, waste and water; incorporate ESG (environmental, social and governance) issues in its investment decisions and analysis; and will aim to align with the UN Principles for Responsible Investment (PRI).
- We are working with the South African Insurance Association to constructively engage with local authorities to develop solutions to manage wide-ranging risks affecting the industry.

- Since 2008, we have initiated various campaigns to raise environmental awareness within the company. We have continued to support this and the company's travel policy was subsequently revised which now encourages employees to travel less and make use of tele- or video-conferencing facility to save cost and reduce their ecological footprint.

Most importantly, through the diversity of risks which it insures across all geographical areas, as well as the extensive product lines, Santam has the inherent ability to manage its risk effectively and successfully. Please see our sustainability report for more information on systemic risk. This report is available on our website at [www.santam.co.za](http://www.santam.co.za).

### 6. *Focus on talent management*

Talent management will always be the priority for Santam reflecting our company's core belief that our people have been responsible for the improvements, transformation and positive results that we achieved. During the year, we continued to transform our workforce at senior levels increasing the diversity of our senior management team. We also recruited a number of seasoned industry specialists to strengthen our leadership team. Our second tier management was bolstered

during the year, also becoming more demographically representative of South Africa.

Santam has made enormous strides in terms of transforming our workforce in the past three years while preserving our intellectual capital.

The focus on attracting black talent to the group has paid off with our black workforce increasing to 55% of the total employee complement. We are proud of this 9% increase over the last three years. We regard committed and experienced people, and access to quality skills as the major contributors to the long-term sustainability of Santam and we will continue to work on initiatives to ensure that we can attract, retain and develop the best people to drive the long-term growth of the company.

#### *7. Ensuring appropriate positioning of our brand.*

Santam continues to invest in the brand to ensure long-term relevance and differentiation. During 2010, we followed a stringent process to refine our brand positioning and refresh our corporate identity. Due care was taken to build on our existing brand equity, applying this as the foundation from which to evolve.

It is with great pride that we publicly showcase our newly designed logo for the very first time on the cover of our

2010 annual report. We are passionate about our yellow umbrella and the value it represents to all our stakeholders.

We are always aware of the responsibility that comes with a trusted brand such as Santam. We believe it is our duty to throw the weight of our name behind initiatives that will assist in uplifting our broader society by addressing issues such as crime, education, poverty reduction and health improvement.

To this end, we collaborate with a number of NGOs and we are involved in a number of corporate social initiatives throughout South Africa. Please refer to the sustainability report for more information on this subject.

#### **ACQUISITIONS**

During the 2010 financial year, Santam completed several acquisitions, as follows:

- MiWay Group Holdings became a wholly owned subsidiary on 31 December 2010 when Santam acquired Sanlam Life's 68.75% stake in the company for R240 million. MiWay, through its wholly owned subsidiary MiWay Insurance Limited, is an authorised financial services provider and registered short-term insurer that offers a range of financial products and services to the consumer. These services include short-term insurance, motor warranty, credit life and insurance.

MiWay will continue conducting its business as a separate subsidiary of Santam while Sanlam will retain access to the MiWay structures to distribute other financial services products. The acquisition enables Santam to maintain our overall leadership position in the short-term insurance market. We believe that the acquisition will be value enhancing to shareholders by enabling Santam to grow its market share profitably, and by increasing its presence in the short-term insurance market.

- In January 2010, Santam acquired the remaining 33.3% holding in Centriq Insurance Company from Kagiso Risk Solutions. The Centriq group specialises in risk finance, cell captives, underwriting management agencies and affinity business. Being wholly owned by Santam further entrenches its commitment to deliver customised, innovative products and services. The transaction provided Santam with an opportunity to achieve a more optimal capital structure for Centriq and unlock further synergies between Santam and Centriq through Santam's award-winning support environment. Centriq continues to operate as an independent business, leveraging on Santam's strength.
- In June 2010, Santam announced that it had reached an agreement to purchase the remaining shares in Indwe Broker Holdings for a consideration of



# OUR OUTPERFORMANCE IN 2010 WAS MADE POSSIBLE BY THE COMMITMENT AND LOYALTY OF OUR PEOPLE

R263 million from its controlling shareholders, Pamodzi Investment Holdings and Thebe Investment Corporation. As a result of substantial increase in the shareholder value of Indwe since 2006, Pamodzi and Thebe decided to sell off their interest. Despite expressions of interest from a number of potential buyers, Santam opted to exercise its pre-emptive right as a shareholder and partner to allow Indwe to continue operating as a successful independent intermediary. Indwe is still managed independently and will determine its own future.

Having played a supportive role in these organisations for the past five years, the success of Santam's transformation journey was confirmed when it achieved Level III recognition in terms of the dti Codes of Good Practice. The group has now also paid out significant capital to its partners Kagiso Trust Investments, Pamodzi Holdings and Thebe Investments and we wish them continued success.

### LOOKING FORWARD

The excellent performance delivered by Santam in 2010 is in part attributable to the decisions and actions taken by the management team in previous years to deliver the strategic objectives, to improve capital and operating efficiencies and manage risks effectively.

It was also underpinned by the improved claims experience of the short-term insurance industry. However, the benign industry claims experience of 2010 is unlikely to continue in the year ahead. Therefore, we anticipate that underwriting margins in the industry will revert to a lower range due to ongoing pricing pressure and higher claims ratios.

By way of example, insurers are currently faced with a spate of claims following in the wake of the wide-ranging floods across South Africa. We expect that claims from damage will increase as the country experiences some of the worst rainfalls recorded in years. Climatologists expect the wet weather to continue well into 2011.

The flipside of the challenges which the industry is likely to face in the first half of 2011 is that premium increases will become inevitable. The stable premium pricing environment enabled by the lower claims frequency of the past year is unlikely to persist. This will force the industry to price in the additional risks and pass on these price increases through to clients. However, Santam is positioned to benefit from a more conducive pricing environment, unlocking benefits from the quality of our book and our selective segmentation and risk modelling applications. These benefits will be passed on to clients who practise good risk management.

We also expect the float income to trend down as a result of the lower interest rate environment as well as the cash flow impact of the special dividend paid in October 2010. Although the fundamentals of the market are in place for another year of good investment performance, a repeat of the stellar returns achieved in the second half of the 2010 financial year is unlikely in both the bond and equity markets in 2011.

From a medium- to long-term perspective, we anticipate float income to be between 2% and 3% of overall premium income and we work hard to ensure that Santam will remain within its target underwriting margin of 4% to 6%.

### ACKNOWLEDGING OUR PEOPLE AND OUR PARTNERS

Our achievements in 2010 was only made possible by the commitment and loyalty of our people who went the extra mile to ensure that we continue building on the successes of the past. I extend my gratitude to each and every employee for staying the distance.

We value our relationship with our over 4 000 intermediaries who represent the Santam brand across the country in the major centres and throughout the rural towns. You have been instrumental in ensuring that we retained our valued client

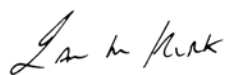


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base through the changes and improvements we introduced to the company. I thank you for your continued loyalty over the years.

I would like to express my appreciation to Desmond Smith for his valued contribution to Santam over the past 16 years. We are pleased that Desmond remains in the group as Chairman of Sanlam and wish him well as he moves on to this new challenge.

And finally, to my team of executives, the board of directors, suppliers and partners; my appreciation for your support and efforts which were key to our continued success during 2010.



**IM Kirk**  
*Chief Executive Officer*





# OUR AIM IS TO MAINTAIN OPTIMUM RETENTION LEVELS WITHIN ACCEPTABLE RISK PROFILES

The Santam group achieved excellent underwriting results in 2010 with a 51% increase in headline earnings compared with 2009. Cash flow from operations was significantly higher than 2009 while the solvency margin increased to 45% (2009: 42%). We were particularly pleased with the earnings on average shareholders' funds of 37%.

### BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The group consolidated financial statements for the year ended 31 December 2010 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 Listings Requirements.

The accounting policies that have been applied during the reporting period are consistent with those applied in 2009. The financial statements provide comprehensive information regarding the assets, liabilities, income and expenditure of the group and the company. Detailed background is also provided regarding the recognition and measurement of insurance contracts and insurance and financial risks.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

– IAS 27 (revised) – *Consolidated and Separate Financial Statements*

This standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

– IAS 39 (amended) – *Financial Instruments: Recognition and Measurement*

The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges.

– IFRS 2 (amended) – *Share-based Payments*

The amendment clarifies the accounting for group cash-settled share-based payment transactions. The entity receiving the goods or services shall measure the share-based payment transaction as equity-settled only when the awards granted are its own equity instruments, or the entity has no obligation to settle the share-based payment transaction. The entity settling a share-based payment transaction when another entity in the group receives the goods or services recognises

the transaction as equity-settled only if it is settled in its own equity instruments. In all other cases, the transaction is accounted for as cash-settled.

– IFRS 3 (revised) – *Business Combinations*

The new standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets. All acquisition-related costs will be expensed.

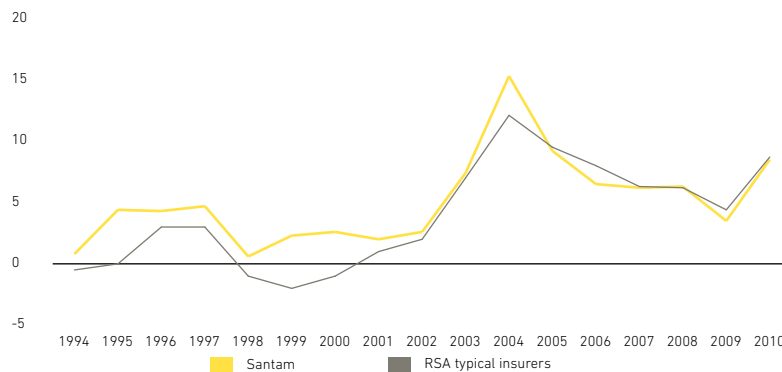
– IFRIC 17 – *Distribution of Non-cash Assets to Owners*

This applies to the accounting for distributions of non-cash assets (commonly referred to as dividends *in specie*) to the owners of the entity. The interpretation clarifies that: a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; and an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.



# FINANCIAL DIRECTOR'S REPORT

UNDERWRITING RESULT AS % OF NET PREMIUMS



## FINANCIAL RESULTS

The salient financial statistics are set out on page 2.

Underwriting margins were significantly higher than in 2009. Investment income delivered similar results to that of 2009. As a result, overall earnings for the group showed a significant improvement with headline earnings of R1 545 million. This is 51% higher than 2009, equating to a headline earnings per share of 1 367 cents (2009: 906 cents).

### Underwriting performance

Santam's underwriting result is inherently cyclical and this is strongly correlated to the performance of the "typical" short-term insurer in South Africa. In general, the group has outperformed or matched the underwriting margin of its peer group for most financial years since 1994, as shown in the graph above.

The 2010 net underwriting result of R1 146 million showed a significant increase of 153% from R453 million in 2009. The overall net underwriting margin increased substantially from 3.5% in 2009 to 8.5% in 2010. This outperformed the industry's "average level through the cycles" of between 4% and 6%.

The crop business suffered an underwriting loss due to weather-related claims. Margins in all other classes were satisfactory. I would like to make particular mention of the excellent turnaround in the personal lines motor and property business from the negative returns experienced in 2009. Ongoing management intervention paid off

for business sourced through the portfolio management business unit. Results from this area showed significant improvement from a loss-making position in 2009 to an acceptable profit margin. The turnaround in the property portfolio was mainly as a result of a lower level of large industrial accident and fire-related claims. The adoption of an improved risk management and underwriting approach to corporate business following the acquisition of Emerald Risk Transfer (Pty) Ltd, should support sustainable underwriting margins in the property class going forward.

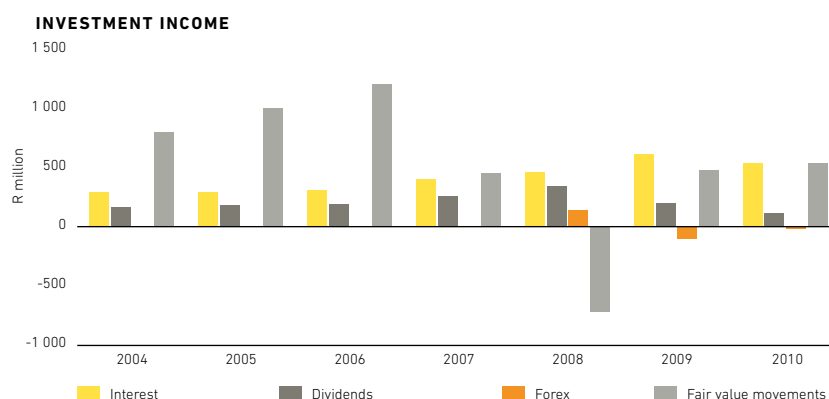
Of the specialist classes, the liability, engineering and transportation businesses performed particularly well. In general, lower average claims cost and our continuous focus on risk management improved the quality and diversity of the risk pool. This impacted underwriting margins positively.

Market conditions in the short-term insurance industry remained tight in 2010 with increased levels of competition. Santam decided to maintain appropriate underwriting discipline in these conditions. This resulted in growth in gross written premium of 6% which is considered acceptable given the exceptional turnaround in results of previously underperforming business classes. Positive growth was achieved across most business classes with the exception of the crop, transportation and portfolio management businesses.

We expect the local economic recovery to continue during 2011 albeit at a slow pace with a low interest and inflation

environment during the first half of the year. The second half of the year could see an increase in interest rates and inflation. The average GDP for 2011 is expected to be somewhat higher than for 2010. However, we expect that premium increases in 2011 will remain subdued and growth will be a challenge especially during the first half of the year. Upward pressure on premiums can be expected if underwriting margins normalise toward lower levels during the course of the year. However, Santam is positioned to manage increases selectively through our market and risk segmentation approach. This is discussed in more detail in the Chief Executive Officer's report on page 32.

The net acquisition cost ratio of 27.4% increased from 26% in 2009. A significant contributor towards this increase is the increase in the performance bonus of 2010 compared with 2009 which resulted from the significantly improved underwriting performance of the group in 2010. Santam also increased spend on strategic re-engineering initiatives by 19% from 2009. The bulk of the spend was directed at technology and process improvements in the claims division to achieve improved service levels and enhanced risk management. A substantial spend was also made on technology solutions to develop a sustainable capability to profitably underwrite the portfolio management business. The spend on strategic initiatives is expected to remain on similar levels in 2011. However, our focus will shift to the core underwriting and product management capabilities of the company.



Our aim is to maintain optimum retention levels within acceptable risk profiles. In line with this, the level of reinsurance earned premium as a percentage of gross earned premium of 14.9% remained on similar levels to that of 2009 at 14.8%.

Claims cost has come under some pressure from the flooding throughout the country early in 2011. However, our diversity of risk and reinsurance protection will ensure that losses are contained. The expected weakening of the rand from current high levels in excess of its purchase price parity is likely to increase the claims cost. This is particularly the case with motor claims where the import cost of parts is impacted by the strength of the currency. Therefore, we expect underwriting margins to be lower than 2010 levels and to revert to the normalised range of 4% to 6%.

Santam's diversified business lines position it well to face these challenges. We will also continue our efforts to optimise profitability across the company with a strong focus on risk management and operating efficiencies.

#### Net insurance result

Investment returns on insurance funds of R396 million decreased from the R420 million earned in 2009. These lower returns resulted from lower interest rates, despite substantially increased float balances.

The combined effect of insurance activities resulted in a net insurance income of R1 542 million. This represents a margin of 11.4% for the year compared with R873 million or a margin of 6.8% in 2009.

#### Investment income

Investment income comprises interest, dividends, realised and unrealised investment gains and foreign exchange differences as depicted in the graph above. The reduction in interest rates adversely affected the yield on cash and money market instruments but assisted bond returns. Dividend income was still somewhat suppressed and 40% less than 2009 levels. Although we expect an economic recovery during 2011, it is likely to be fairly slow. Therefore, dividend earnings for 2011 should not be materially different compared with that of 2010. Equity markets had a strong run towards the end of 2010. This followed on a lack-lustre performance during the earlier part of 2010 and impacted investment results positively. Given the market uncertainty and volatility at the time, Santam hedged a large portion of its listed equity investments during the year in a structure described in more detail later in this report.

The strengthening of the rand during 2010 had a negative impact on the valuations of our foreign currency assets held by our local operations. However, this was countered by good returns from these assets with the net effect an increase in the fair value at year-end of R53 million.

Net earnings from associated companies of R69 million increased from R43 million in 2009. This was as a direct result of improved earnings by key associates. The main contributors were Credit Guarantee Insurance Corporation of Africa Ltd and NICO Holdings Ltd in Malawi.

Gains on the remeasuring of existing interest in associates on acquisition was realised with the increase in shareholding in Indwe and MiWay of R124 million and R91 million respectively.

We expect interest rates to remain on current levels during the first half of 2011 but to increase during the second half of the year. The net effect is likely to be a somewhat lower return on insurance funds than for 2010. The fundamentals of the market are in place for another year of acceptable investment performance. But a repeat of the stellar returns in the second half of the 2010 financial year is unlikely in the bond and equity markets in 2011.

#### Cash flows

The group's operating activities generated R2.1 billion in cash for the year (2009: R1.84 billion) due to increased underwriting profitability.

#### Dividends

The company paid an interim dividend of 185 cents per share which was 11% higher than the 166 cents per share in 2009. A special dividend of 500 cents per share was also paid in September 2010. Santam declared a final dividend of 325 cents per share for 2010 (2009: 300 cents per share) resulting in a total dividend of 510 cents per share for the year (2009: 466 cents per share). This represents an increase of 9.4%.

Dividend payments are made in context of the company's capital management policy. The approach followed with payment of interim and final dividends is conservative

# FITCH RATINGS AFFIRMED SANTAM'S INSURER FINANCIAL STRENGTH RATING OF **AA+**

and supports the company's aim not to skip or reduce ordinary dividend payments. When special dividends are being considered, we take into account capital levels (as informed by the solvency margin targets of 35% to 45%) and potential investment opportunities.

### Prior year adjustment

There has been ongoing interaction between the South African Revenue Service (SARS) and Santam regarding the tax treatment of significant investment disposals during 2007 and 2008. As such, we deemed it prudent to make provision for an additional tax liability of R267 million. As the provision relates to the period up to and including 2008, it was made in the form of a prior year adjustment to the opening consolidated statement of financial position of 2009, as set out in note 25. The restated consolidated statement of financial position of 2008 is disclosed on page 90.

### INVESTMENTS

Santam follows a policy of managing its investment portfolios in a diversified manner. We invest in all 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. Detail on risk management practices can be found in note 3 to the consolidated financial statements.

Santam uses 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. We entered into a fence structure in June 2009 covering R2 billion of equities. This expired in three equal tranches during May, June and July 2010. The R108 million negative mark-to-market fair value on 31 December 2009 was released over the first six months of 2010. With the expiry of the first tranche, the net settlement amounted to R17 million, while the remaining two tranches closed below the capped performance point with no settlement being required.

Santam continued with its tactical hedging strategy and entered into two similar fence structures on 3 September 2010 and 5 October 2010 covering R1 billion and R750 million of equities respectively.

The first fence has an attachment point of 5311 (SWIX40 index) with downside protection of 9% from said attachment point and upside participation of 18% from said point. The second fence has an attachment point of 5589 with downside protection of 9% and upside participation of 16%. At 31 December 2010, the SWIX40 index closed at 6069. This was 14% above the first attachment point and 9% above the second attachment point. On 31 December 2010, the structures had a negative mark-to-market fair value of R74 million which was accounted for. This will effectively be released to income over the remaining duration of the structures if they are maintained to maturity. Both structures expire in three equal tranches over the period from August to November 2011.

For years Santam has followed a consistent approach where the management of the

bulk of its investments is outsourced to independent external fund managers under predetermined mandates. The overall performance of the fund managers against their mandates is monitored and tracked by an independent multi manager, who reports back to the Santam investment committee on a quarterly basis. Their mandates consist of a combination of various benchmarks, inter alia, different JSE indices, SWIX and SteFi.

Refer to page 159 for a detailed analysis of the investments. In short, the composition of Santam's total investments was as follows as at 31 December 2010:

ASSET CLASS COMPOSITION	2010 R'm	2010 %	2009 R'm	2009 %
Equities				
– Quoted	3 460	26.5	2 855	23.1
Equities				
– Unquoted	334	2.6	319	2.6
Preference shares				
– Quoted	2	–	2	–
Preference shares				
– Unquoted	309	2.4	396	3.2
Bonds	3 540	27.1	2 395	19.4
Unitised funds	433	3.3	370	3.0
Derivative	(75)	(0.6)	(117)	(0.9)
Cash and cash equivalents	1 143	8.8	1 379	11.2
Short-term money market instruments	3 685	28.3	4 554	36.9
Associated companies	211	1.6	198	1.6
<b>TOTAL</b>	<b>13 042</b>	<b>100.0</b>	<b>12 351</b>	<b>100.0</b>

### 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 company. This is also linked to the current and future regulatory capital requirements in terms of the existing and to-be-formulated Solvency Assessment and Management (SAM) requirements.
- The allocation of capital between business units.
- 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 details 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 2010, the group bought back 287 515 shares in the open market at a cost of R33.6 million. A total of 457 478 shares were reissued in terms of the employee share incentive programme. The total number of treasury shares held at the end of 2010 was 6 323 126.

#### Credit rating

Fitch Ratings affirmed Santam's Insurer Financial Strength rating of AA+ (double A plus) and revised the outlook from negative to stable in August 2010. The new outlook reflects Santam's resilient operating performance despite tough economic

conditions and the respective outlooks of Santam's immediate and ultimate parent companies, Sanlam Life Insurance Limited and Sanlam Limited. Fitch also affirmed the rating on Santam's subordinated debt of R1 billion issued in 2007 at A+.

Global Credit Ratings Company (GCR) accorded Santam a domestic currency (ZAR) claims-paying ability rating of AAA (triple A) in August 2010. This is the highest rating that can be attained by an insurance company. Furthermore, a domestic currency (ZAR) 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 pure 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
- To allow for any potential investment opportunities

The group solvency ratio of 45% at 31 December 2010 was at the high end of

the long-term target range of 35% to 45%. Net asset value per share increased from 4 012 cents at the end of 2009 to 4 535 cents at the end of 2010. We will closely monitor the environment on an ongoing basis to determine the appropriateness and quantum of further special dividends.

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

The Santam BBBEE scheme is hosted in a special purpose company (BEE SPV) and consists of three components:

- The Emthunzini BEE Staff Trust
- The Emthunzini BEE Business Partners Trust
- The Emthunzini BBBEE Community Trust

The value in the scheme is proportionally allocated to these three trusts. Within the trusts, allocations are made to beneficiaries according to the specific rules in the respective trust deeds. The total value in the scheme at 31 December 2010 was approximately R470 million. During 2010 the dividend income received by the structure housing the scheme was sufficient to fully service the senior debt facility and make a proportional payment towards servicing of the mezzanine debt.

The scheme also made another unit allocation to new black employees that joined the Santam group during 2010 and to black employees who were promoted since the previous allocation. A second round of allocations was also made to qualifying black intermediaries and other strategic business partners.

# MORE THAN 50% OF THE BBBEE SHARE SCHEME HAS BEEN ALLOCATED

In total, 25% of the value in the scheme will be allocated to specific projects within previously disadvantaged communities. Cash distributions of approximately R5.5 million were allocated to identified beneficiaries during 2010. More information on the scheme can be found in our sustainability report on our website at [www.santam.co.za](http://www.santam.co.za).

Of the current value of R375 million in the scheme, 49% (R238 million) is attributable to the Business Partners Trust, 26% (R126 million) to the Staff Trust and 25% (R122 million) to the Community Trust. To date, more than 50% of the value in the scheme has been allocated to participants and we intend to continue with allocations to participants in all three trusts during 2011.

### CORPORATE ACTIONS

The following corporate transactions were completed during the year ended 31 December 2010:

- The group concluded the sale agreement for the acquisition of Kagiso's 33.33% of Centriq Insurance Company Ltd effective 1 January 2010.
- On 1 January 2010 100% of the voting equity interest in Emerald Risk Transfer (Pty) Ltd was acquired to obtain specialist underwriting skills in the corporate property environment.
- On 1 September 2010 the group increased its shareholding in Indwe Broker Holdings (Pty) Ltd from 37.8% to 100%. The investment was made to protect Santam's premium income

following two of the shareholders' expression of intent to sell its shares. The company is being independently managed as an intermediary.

- On 31 December 2010 the group increased its shareholding in MiWay Group Holdings (Pty) Ltd from 31.3% to 100%. Sanlam Limited opted to restructure its shareholdings in the general insurance cluster in South Africa. Therefore they sold their shareholding in MiWay in an arm's length deal to Santam. MiWay will continue to be managed independently servicing the direct segment of the personal lines market.

Full details of the company's holdings in subsidiaries and associated companies are contained in note 45 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.

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

The proposed implementation date for the standardised approach for short-term

insurers is January 2012, given the considerable work that has already been undertaken in this area through the Financial Condition Reporting project. The target date for implementation of the internal model approach for short-term insurers is January 2014.

As previously reported, Santam developed an internal Dynamic Financial Analysis model of the company in line with best practice to assist with risk quantification and decision-making. This was done to assist management with risk quantification and decision-making. The model is used extensively in business operations, and spans capital management, underwriting margin and reinsurance programme management, 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 2012 deadline. We expect that capital requirements for Santam under this approach will be somewhat lower than the current 25% solvency requirement.

### NEW LEGISLATION

There were some legislative developments that will have an impact on the manner in which Santam conducts business. In summary they are:

#### Regulations contemplated in terms of section 48A of the Short-term Insurance Act, 1998 (Act No. 53 of 1998)

The draft Regulations contemplated in terms of section 48A of the Short-term

Insurance Act was released for public comment in August 2010. The purpose of the Regulations is to govern the relationship between the insurer and a third party where the insurer appoints such third party to render services that would bind the insurer to the client. The short-term insurance industry submitted their comments on the proposed Regulations which were due on 31 October 2010. Santam and other industry members have been actively involved in the compilation of the commentary submitted for the short-term insurance industry to the FSB. The FSB is currently in the process of evaluating the comments submitted by various role players in the financial services industry.

**Financial Advisory and Intermediary Services Act General Code of Conduct for authorised financial services providers and representatives relating to Conflict of Interest ("the Code")**

The Code was released in April 2010 and is aimed at reducing and, where this is not possible, mitigating conflicts of interest between a financial services provider and their clients when rendering financial services. In terms of the Code, a financial services provider (such as Santam) is required, among other things, to have a Conflict of Interest Management Policy in place by April 2011 which will regulate conflicts of interest within the organisation. Santam has drafted its Conflict of Interest Management Policy which it will present to the Santam board for approval. The Code limits the kinds of financial interest insurers may pay intermediaries.

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

The Companies Act, promulgated 9 April 2009, is aimed at providing more transparency, disclosure and accountability. Liquidity requirements are also provided for in the Act, and the common law duties of directors are codified therein. Among other things, the Act also regulates the composition of audit committees, fundamental transactions, affords more protection to shareholders, and provides for business rescue in certain circumstances. The Act is set to come into effect in May 2011.

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

The Consumer Protection Act ("the CPA") was passed in April 2009, and will come into full effect on 1 April 2011. The Act is aimed at eliminating the market of unethical trading practices, unsafe products, unfair discriminatory marketing, and to protect the consumer's rights to privacy and information about products or services being offered. The financial services sector has 18 months from 1 April 2011 to align its own sector laws with the principles contained in the CPA failing which the provisions of the CPA will automatically apply to the financial services sector.

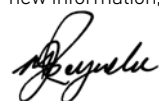
The Department of Trade and Industry ("the dti") has also released the draft Regulations contemplated in the CPA on 29 November 2010 for public comment. SAIA members are currently preparing the commentary on the draft Regulations for submission to the dti. Among other things, the CPA in its current form will have an impact on the manner in which

policy wordings are drafted and how services (such as repairing or replacing of insured assets) are dealt with.

**FORWARD-LOOKING STATEMENTS**

In this report we make certain statements that are not historical facts and relate to analyses and other information based on forecasts of future results not yet determinable, relating, among others, to gross premium growth levels, underwriting margins and investment returns. These are forward-looking statements as defined in the United States Private Securities Litigation Reform Act of 1995. Words such as "believe", "anticipate", "intend", "seek", "will", "plan", "could", "may", "endeavour", "project" and similar expressions are intended to identify such forward-looking statements, but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties and, if one or more of these risks materialise, or should the underlying assumptions prove incorrect, actual results may be very different from those anticipated. The factors that should cause actual results to differ materially from such forward-looking statements are discussed more fully in this annual report. Forward-looking statements apply only as of the date on which they are made, and Santam does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.



**Machiel Reyneke**  
*Financial director*



**WE DO INSURANCE  
WITH SINGLE-MINDED FOCUS:**

SHORT-TERM ASSET INSURANCE IS ALL WE DO, AND WE'VE BEEN DOING IT FOR ALMOST 100 YEARS. WITH TIME HAS COME AN EXPERTISE AND UNDERSTANDING THAT IS ALMOST IMPOSSIBLE TO MATCH. WE ARE SKILLED AND PROFICIENT IN EVERY CONCEIVABLE ASPECT OF SHORT-TERM INSURANCE, AND HAVE A BREADTH AND DEPTH OF TALENT AND EXPERIENCE THAT AMOUNTS TO ONE SIMPLE THING: KNOWING YOU HAVE THE PROVEN INSURANCE EXPERTS BEHIND YOU.

# WE CHALLENGE MARKET PERCEPTION THAT SHORT-TERM INSURANCE PRODUCTS ARE COMMODITISED

### WHAT WE DO

Our Personal Lines business makes up a significant and strategic portion of Santam's overall premium income.

We provide a comprehensive range of products across the majority of market segments catering for all short-term insurance needs. Our product is an advanced version of the original Santam "Multiplex" policy that introduced comprehensive short-term insurance to the South African market. Continuous innovation has seen the product withstand the test of time and the modern version provides (among other things) market leading household, motor, personal accident and liability cover. We also offer value-add products such as car-hire and roadside assistance to our clients.

In partnership with our intermediaries, we offer our products across South Africa and Namibia from the large urban cities to outlying rural towns.

### HOW WE DO IT

Our products and services are managed and distributed through:

- our traditional Personal Lines business; and
- an outsourced Portfolio Administration business.

In our traditional Personal Lines business we have the broadest footprint in South Africa, partnering with an over 4 000-strong nationwide network of inter-

mediaries who promote our range of products and ensure unparalleled reach and access to expertise. We support our intermediaries by means of our two dedicated contact centres which provide quotations, issue new policies and handle the general policy maintenance and renewal functions for existing policies. Once policies have been issued, the process is then supported by our branch infrastructure.

Intermediaries communicate with Santam through a range of internet, online services, contact centre or face-to-face delivery mechanisms. World-class service centre standards and dedicated relationship managers and key account managers differentiate Santam's service offering.

In the outsourced portfolio administration environment, white labelled intermediary branded policies are administered by 25 external partners. Portfolio administration services include sophisticated web-based pricing tools, including ITC and client lifetime value scoring and dedicated second-level underwriting support. The outsourced function leverages Santam's procurement efficiency and bespoke product development and is enabled by dedicated portfolio managers who manage relationships and service levels.

Due to our well-established methodologies and processes, outsourced administration allows Santam and our business partners greater flexibility and opportunity for profitable growth.

### WHAT MAKES OUR OFFERING RELEVANT

We tailor our products to suit the particular needs of our clients and challenge the market perception that short-term insurance products are commoditised in the personal lines segment. We are sensitive to the advantages that economies of scale allow, but we are always aware that each client is an individual with individual needs. Our core MultiBonus, MultiMax and MultiHome policies each offer unique benefits to their target segments and can themselves be tailored through flexible excess structures and voluntary policy benefits to meet each of our client's individual affordability and risk management needs.

Our products are backed by our superior claims handling ability which our clients and intermediaries recognise as a core strength of Santam.

Competitive market conditions necessitated an aggressive focus in 2010 on good business retention and our significant progress made in the use of segmentation and risk modelling to manage differing risk profiles proved essential in achieving our good profit and growth results. Segmentation and risk modelling is applied across all phases of the policy life cycle – from new business to claims – and is driven by our client's individual lifestyle, credit and risk needs with a strong focus on rewarding good risk management and personal safety. Our segmentation philosophy continuous

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to evolve but has already led to a significant improvement in the overall quality of our book and the sustainability of our underwriting margins.

#### OUR ACHIEVEMENTS IN 2010

Personal Lines achieved above expectation underwriting margins and growth in a market that continues to feel the effects of a slow economic recovery and the entrance of new direct offerings. The strong growth and profit performance is attributed to the following:

- Effective use of segmentation and a detailed review of contact centre processes significantly improved retention of clients in preferred segments.
- Conversion rates of preferred clients were improved to in excess of 30% with effective scientific rating and underwriting negating aggressive competitor behaviour.
- Internal cost management came under increased scrutiny. The strong focus on cost and efficiency led to greater alignment of processes and this resulted in a step change in the productivity of our workforce.
- Workforce management tools were implemented to entrench consistent service levels in our contact centres. Recognition by intermediaries as the winner of the FIA – Best Personal Insurer award is greatly valued by Santam and we continue to drive the improvement of

our delivery and service standards to our intermediary partners.

- Portfolio administration achieved a significant turnaround. Significant enhancements of outsourced rating and underwriting tools have ensured the sustainability of outsourced personal lines administration. A focus on dedicated underwriting support and data exchange ensured a closer alignment with our outsourced partners. The business unit is well positioned for growth.

Our people played an important role in the performance of the business unit. During the year, we made significant investments in our employees, including training needs assessments and subsequent training interventions, day-to-day coaching, career and development planning and focused communication programmes to name a few. Their continued dedication, skill and commitment remain at the centre of our success.



# OUR ABILITY TO BE FLEXIBLE IS KEY

### WHAT WE DO

Our Commercial Lines business unit comprises our Business Portfolio which services small to large enterprises and the Commercial portfolio management unit which services business clients on an outsourced system.

We are the biggest crop insurer in South Africa with Hail and Multi Peril Crop Insurance being the most important covers.

We provide flexible and unique commercial insurance solutions that can be tailored to suit the unique needs of entrepreneurs and all businesses. Our flagship products are marketed under the Commercial Multiplex and MultiMark brands which have specific add-ons engineered for different target industries. Our industry segment includes (among others): guest houses, tourism and leisure, transport fleets and transit, medical and dental products, agricultural products (including crops and assets), products for farmers in the wine industry and liability insurance.

Santam Agriculture is our business unit that provides specialist insurance products to farmers and the agricultural industry. We distribute our tailor-made agricultural risk cover through our network of intermediaries. We offer a total agricultural risk management solution to agricultural producers, covering all aspects of the modern farming operation from production and asset cover to transport and tourism. We also underwrite the generic commercial risks facing our clients and agri businesses in farming communities.

We work closely with our Risk Services team to design and price products to

underwrite specific specialist products that are not commoditised.

### HOW WE DO IT

We have points of presence throughout South Africa and Namibia. We are partnered by our network of national intermediaries and our commercial portfolio management partners who effectively distribute our products. We are represented by our sales teams, six commercial contact centres and nine drive-in centres for claims services. Dedicated Key Account Managers and Relationship Managers ensure that we provide the highest quality service to our intermediaries. We are able to do this due to improved efficiencies in our internal core processes that have resulted in constantly improved service levels and costs.

#### Commercial Lines

We follow a client-centric approach by rating commercial risks according to a number of tailored risk profiles. As with our other lines of business, our risk management drive encourages our commercial clients to reduce their risk effectively. We believe that "helping clients help themselves" ensures safety for our clients, contributes to a sustainable business, reduces risk and in the long term enables us to return more favourable premium levels.

Our Key Account Managers and Relationship Managers provide guidance and advice to those partners responsible for the distribution of our commercial products.

The acquisition costs for commercial products are higher than personal lines. To counteract competitor pressure, we continually engage in innovative processes

and we strive to continually improve our service. We believe that this will enable us to maintain our leadership position in the commercial short-term underwriting segment.

We are currently in the midst of an extended profitable underwriting cycle which started in 2001 and reached its peak in 2004 before entering a downward trend. Profitability once again improved in 2010, facilitated by the use of more scientific rating and underwriting models. But we are under increasing pressure from our commercial clients due to the greater choice of products and the slow recovery of the economy which could cause the cycle to turn quickly.

To offset this, we have a well-established client-centric pricing model which we continually refine to mitigate the impact of a negative underwriting cycle on our results. We have also closed the gap between underwriting and distribution. We believe that this will improve the effectiveness of our underwriting processes. This enables us to be more responsive and agile in the market – ultimately defending our underwriting margins in the event that the cycle turns unexpectedly.

The nature of the commercial risks that we insure is quite diverse. Our ability to be flexible in a rapidly changing environment is key and means that we are also more resilient to withstand the impact of substantial losses such as those resulting from the recent floods around the country.

#### Agriculture

Our agriculture business unit focuses on agricultural assets and crop insurance:

The team responsible for agricultural assets provide strategic guidance to those business units responsible for the distribution and underwriting of our agricultural products.

The crop team is responsible for crop distribution, policy administration, claims, finance and IT, risk and insurance services. They operate as an independent business, but collaborate closely with the agricultural assets team to co-ordinate marketing, distribution and product development initiatives.

Adequate pricing of risk is important in running a profitable crop insurance book in the longer term. However, it is the fair and accurate assessment of crop losses incurred which has a greater impact on the reputation of our company and the overall performance of the book. Our policies, underwriting and loss assessment techniques are based on many years of scientific research, which is constantly tested and updated on our farm in Bloemfontein.

These procedures enable us to scientifically assess the impact of weather damage at the various stages of the growth life cycle of a crop. This enables us to calculate our payout ratios more accurately to the satisfaction of our farmer clients.

We work with internal and external assessors who are agricultural specialists to whom we provide additional training. Working as a team, we are able to cover all aspects of the life of a policy – from adequately covering the risk of new business – to assessing liability at the time of a claim payout.

#### **WHAT MAKES OUR OFFERING RELEVANT**

Our people are our brand and we continuously make investments to improve our employees' commercial business acumen as well as their commercial skills and competencies. We provide a broad range of services such as the training and accreditation for our intermediaries and the implementation of Santam systems to ensure that our intermediaries' skills and systems meet our required standards. We are giving support to our intermediaries to participate in regulatory exams and increasing our entrance requirements to improve the professional perception of the industry.

Clients are improving their knowledge of insurance and are increasingly demanding information and active participation in the acquisition process. Our strong relationship with our intermediaries enables us to address these demands.

Our segmentation models allow us to reflect the specific risks associated with each client. We only take on risk with a full understanding of the exposures. The regulatory environment and market conditions often change in the short-term insurance industry. We ensure and embed our relevance and competitive edge in the market place by ensuring that our intermediaries continue to add value to their clients.

#### **OUR ACHIEVEMENTS IN 2010**

All commercial lines, with the exception of crop insurance, were profitable during the year. There was a higher incidence of extreme weather conditions, in particular hail at the end of the expiring season and

the beginning of the new season. This led to increased claims for damage to crops. However, the incidence fell within our risk parameters. The crop team focused on careful loss adjustment and excellent claims service to improve our service perception with clients.

The economy is showing signs of recovery and lower interest rates are providing relief. Still, our commercial clients remain cautious when purchasing new assets such as vehicles, plant and machinery. This is limiting the premium growth in this business segment. The significantly stronger rand has reduced the costs of imported plant and machinery – putting downward pressure on sums insured. We also experienced increased sensitivity to pricing and delays in decision-making among existing clients when renewing policies. As a result, we have been obliged to become more accommodating of their requirements to improve client retention.

Our growth in 2010 was also affected by higher cancellations and business closures due to bankruptcy that is in part still due to fallout from the 2008 economic crisis. Small commercial businesses continued to feel the lag of the economic downturn and recovery has not been as fast as we had originally anticipated. In the fourth quarter of the year, activity levels started improving as reflected by increasing new motor vehicle, plant and engineering equipment sales.

Despite these obstacles, we are pleased to report that the company performed well overall, and our ranking as the winner of the FIA – Best Corporate and Commercial Insurer award.

# WE HAVE A SINGLE-MINDED FOCUS TO PROVIDE BESPOKE PRODUCTS

### WHAT WE DO

Specialist business contributes substantial premium income to the overall company portfolio and provides the capability to ensure a full insurance solution to clients and intermediaries. The book is characterised by a number of high value policies as compared to the traditional short-term insurance lines. The business unit includes the insurance of complex risk which requires skilled resources to access and quantify the risk and exposure.

Our industry segments include among others: travel insurance, aviation, marine, taxi, transport, corporate property, specialist liability, bonds and guarantees, body corporate and sectional title levy guarantee, hospitality, high net worth and personal accident.

Our entry into the specialist business dates to 1964 when Santam offered aviation insurance. However, our activities came of age with the acquisition of the Guardian National Insurance Company in 2000.

A number of the industry segments in which we are active today were historically insured in the international market. To service this market, Santam has created local underwriting and client service skills while sourcing the appropriate reinsurance capacity – whether local or international.

### HOW WE DO IT

Our 13 partners who represent Santam are the outsourced underwriting specialists

between us and the intermediary. These outsource partners distribute our niche products either under their own banner and/or directly as a specialist Santam business. In this bespoke environment, product development, pricing, underwriting and claims services are a key competitive advantage.

We have a close and symbiotic relationship with these specialist partners, where we design and price bespoke products to underwrite the specific risk which is relevant and competitive in the market place. Each opportunity is unique. For example, specialised business has the capability to provide insurance to a client building a bridge, another client requiring cover for a pipeline, or transporting fuel from one city to another and a third needing to protect itself against the risk of product recalls. These products are specialist by nature and require the skills and financial know how to ensure a sustainable solution to the client and Santam.

### WHAT MAKES OUR OFFERING RELEVANT

Our value proposition is distinct and highly tailored to the needs of each client. This is in stark contrast to the traditional insurance company that sells an end-to-end basket of products. Accordingly, we need to be more flexible and agile – and we are.

To achieve this, we have a single-minded focus to provide specialist products which are client driven. This focus allows us to extend and diversify our business model.

Our ability to attract and develop the necessary skills in our management and employees provide us with a distinct differentiator from others in our field.

The scope and magnitude of our segments is unique in the South African context. Our team has the capability to price, underwrite and service the bespoke products that they bring to market. A number of our business partners have been in operation for more than two decades and during that time have built their reputation, experience and brands.

Our financial strength underpins all underwriting activities and all policies are issued under a Santam underwriting agreement. Our security and statement of financial position offers our clients the security they need. Our strength is reinforced by the fact that we have a Fitch AA+ credit rating. And a Global Credit Rating score of AAA for our claims paying ability. For more information, please refer to our financial director's report on page 42.

One of our core competencies is our ability to select and influence risks, reduce these over time and retain our clients. We have stringent underwriting criteria to make sure that each risk is appropriately underwritten. And because of our specialist skills in these segments, we know how to underwrite the risks that our clients bring to us. Combined with our well established reinsurance relationships, we offer wider cover to large organisations who need to manage specialist risks.

This ability is also based on our in-depth understanding of each client – we are able to identify those clients that better manage their risks. It is our duty to select, influence and make the risks insurable for us and affordable for our clients.

#### OUR ACHIEVEMENTS IN 2010

– We delivered a strong financial performance in 2010. Although we were disappointed with the 2% premium growth, we reported an 82% improvement in underwriting margin due to the turnaround of our corporate property business. All of our businesses contributed to the positive results despite the tough operating environment.

Stalker Hutchison & Associates (Pty) Ltd which provides specialist liability cover and has been a leading performer for a number of years and once again delivered excellent results. Emerald Underwriting Managers which was acquired during the year was instrumental in the turnaround of our corporate property business. Among our other niche focus areas, marine, aviation, engineering, transport and heavy haulage businesses had record underwriting results.

The pressure on premium income reflects the lower activity levels which still characterise the South African economy as it recovers from the global economic crisis of 2008. Reductions in imports and exports as well as muted activity in construction, engineering and other infrastructure development

affected the turnover of our clients in sectors including transport, marine, engineering and other related products. As such, the value of risks requiring underwriting and overall volumes reduced markedly.

- The nature of our business is that we will always face large claims in some years. Our reinsurance programme provides stability for this eventuality. Our annual premium revenue exceeded R3.0 billion in 2010 and we have a well-diversified business that ensures sustainability for our clients and our reinsurance partners. The experience and entrepreneurial ability of our partners enables us to select business that gives us better returns and ensures competitive premiums and cover for our clients
- We entered into three new business initiatives during the year:
  - Our acquisition of Emerald Underwriting Managers (EUM) in January 2010 afforded us greater innovation capability and flexibility and the further potential to diversify our insurance book. Emerald has a successful record in the corporate property market and its skills were leveraged to reposition our existing corporate property division.
  - We also acquired a stake in Stilus, a new start-up business providing sectional title levy guarantees.

- Towards the end of the last quarter of 2010 we invested in Hospitality and Leisure, a start-up underwriting business focusing on that sector.

We will continue to expand our underwriting business. This will expand our product offering and attract new skills and distribution partners to specialist business. These businesses have an option to maintain their brands and/or adopt Santam's brand where the business model will dictate the preferred option. In either option the financial strength of Santam underpins the policy to the client. We will continue to provide premium support to ensure the longevity of our business partners while Santam's statement of financial position will provide financial backup.

## OPERATIONAL REVIEW: CLAIMS SERVICES

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# CLIENT SERVICE IS A REFLECTION OF THE **VERY CORE** OF SANTAM'S VISION

### WHAT WE DO

Claims Services is a strategic service unit within Santam which administers the process of managing and ultimately paying out a claim. We are the custodians of Santam's biggest spend.

The client experience during the claims process is the biggest determinant of how our clients feel about being insured with Santam. The situation that has given rise to a claim is more often than not stressful for our clients. Because of these two vital factors, we put enormous energy and focus into ensuring that our clients have a pleasant experience and interaction with us at the time of a claim – as it is at this point that we fulfil our reason for being – indemnifying our clients for their loss.

### HOW WE DO IT

Over the years, we have made significant investments to ensure that our Claim Services operating model is relevant while remaining cost-effective. By relevant, we refer specifically to providing our clients with quick turnaround times and quality client service in their time of need.

Our Claims Services process starts when a claim enters our administrative stream. This happens through a number of channels – via the intermediary or online, with the bulk coming through our Incident Management Contact Centre. We use the data captured during registration of a claim to run a predictive analysis and

automated risk score to determine the most appropriate processing channel for every claim.

The "fast track" channel is used to process low-risk, low-value claims, which, by and large, are settled on a same call basis. The immediate resolution channel handles a large percentage of our non-motor claims and specific categories of motor claims. Claims in this channel are processed within two days. To expedite motor claims we also make use of Digital Assessment Processing for claims on accident damaged vehicles that are still drivable. Any client can also make use of our conveniently located Drive-in-Centres for the speedy processing of accident damaged vehicles. Our mobile assessors process all non-drivable vehicles that require physical assessment.

### WHAT MAKES OUR OFFERING RELEVANT

What makes us different from our competitors is our strategic intent of quality service. This is our driver while we balance and manage costs in terms of administrative expenses and leakage. To do this, we need to effectively manage the variables that are within our control – the claims' handling cost and client service.

Managing the average cost of claims is crucial to the sustainability of Santam's profitability. And client service as it relates to turnaround times and service levels is

a reflection of the very core of Santam's vision of who it is as a company and the reason for our being.

We have implemented a number of measures throughout the year to deliver these goals and we are pleased to report the following progress.

During the year, we adopted Santam's segmentation model to manage the risk on our exposures. This claims data is applied to a predictive analysis tool to score the risk. This process identifies the most appropriate processing channel for each claim. The advantage for us is that we lower the inherent risk and processing cost of the claim while our client enjoys the highest level of service.

We have a dedicated team that manages our pool of suppliers to ensure that our claims costs are reasonable. By consolidating our spending we have obtained more favourable pricing terms which we share with clients who replace lost items at our preferred suppliers. We have also optimised our salvage costs through auctioneers and stolen vehicle recoveries.

Our focused quality management team is responsible for our claims philosophy and for monitoring how we carry out our claims processes. They also manage certain aspects of training which contributes to the quality of service that we provide to our clients.

Our internal legal claims team proactively manages claims that involve *third parties*. Through this specific focus, we have improved our recovery rate from other insurers. This has delivered a significant saving on claims paid out.

#### PREDICTIVE ANALYTICS – TANGIBLE BENEFITS ACROSS CLAIMS SERVICES

- Faster turnaround time of low-risk claims
- Identify high-risk claims
- Capacity planning and forecasting
- Enhancement of existing processes preparing Santam for business change and growth
- Strategic value improvement through extraction of right data
- Real-time data about our clients' behaviour
- Real-time business intelligence
- Adaptability to extrapolate specific management information

#### OUR ACHIEVEMENTS IN 2010

Our achievements in 2010 showed progress on our strategy to be the claims service provider of choice in the industry. We focused substantial efforts on the implementation of the transformation project while maintaining "business as usual".

We made progress with a number of key initiatives which support Santam's goal to enhance operational efficiencies. We also maintained the momentum on our

Insurance Services Transformation Project (ISTP) which is set to reduce the claims handling cost and claim turnaround times.

Milestones on key projects during the year include:

- The first phase of the Claims Segmentation and Predictive Claims Analytics System for vehicle accident claims went live in September 2010. The second phase is scheduled for the second quarter of 2011. The results have been pleasing and in the first month of operation, we repudiated claims due to fraud amounting to several million rand.
- We completed the first phase of the Business Process Management workflow system in July 2010. This system focuses on requirements management and ensures that, among other things, all documentation and data is available before we start assessing a claim. We are currently working on the second phase which includes a digital hub and will enable immediate resolution.
- The first phase of the Electronic Document Processing was successfully commissioned during the year. On completion, our print costs across Claims Services are expected to decline by approximately 51%. We digitise in excess of 26 000 pages per day within a four-hour turnaround time.

- We continue to make progress on the three cost categories that impact our financial performance. These are: the claims amount paid out; the administrative cost of a claim and the external costs relating to certain claims.

Claims Services eats, breathes and sleeps client service because we are acutely aware that the experience that our clients have when making a claim is key to retaining these clients in the long term. We are proud to report that in our call centre, the MultiSOS team continued to achieve a client-satisfaction average rating of 80% per agent for 2010.

We are also looking at opportunities to optimise our business unit by listening to what our clients say, implementing quick wins and focusing on resolving interactions at first contact.

The only alternative to price competition is service differentiation – for us the challenge is to deliver a differentiated service while remaining cost-competitive. This remains a top priority for the Claim Services team going forward.

# OUR **SUCCESS** COMES DOWN TO IDENTIFYING AND MEASURING RISKS CORRECTLY

### WHAT WE DO

Santam's core business is to provide short-term insurance products that meet our clients' needs. Risk Services is at the heart of our business, responsible for the development, pricing, underwriting, and risk and capital management of Santam's short-term insurance solutions. This includes the management of Santam's overall risk pool in terms of maintaining appropriate reinsurance and risk diversification.

Risk Services supports the distribution environment through risk assessment and by developing underwriting rules that ensure that our products are suitable for the segments in which they are sold. We support all lines of business; namely, personal, commercial, agriculture and specialist business.

### HOW WE DO IT

#### Product underwriting

Due to the nature and number of products that we underwrite, we work in collaboration with our intermediary network and external outsource partners, also those partners selling our products under their own name (this is called white labelling). We do so to ensure that the myriad of risks which impact Santam's performance are properly identified and assessed.

Our employees work in the field with our intermediaries to ensure that risk exposures are accurately evaluated. In many instances we also engage with our clients to review the risks first-hand and to assess the clients' risk management practices. We consider various scenarios and either price the risk appropriately or we

stipulate certain measures to be undertaken before the risk becomes insurable.

#### Third-party reinsurance

We also manage and measure the overall financial risk exposure of Santam on a continuous basis. This means that we evaluate Santam's total exposure as a portfolio to risk elements. Where company risks exceed our limits on specific large risk, we effectively reduce these risks through our reinsurance programme. We have strong relationships with third-party reinsurers and we reinsure those risks that exceed our internal risk appetite. For example, to limit our exposure on a large risk, we would reinsure this in the international market with up to 20 parties each taking on a proportion of that risk. This diversification ensures that no one party is fully liable in the instance of a major disaster.

#### Group risk exposure

One of our important internal responsibilities is the ongoing evaluation of Santam's total group risk exposure and capital adequacy requirements. We financially simulate the risks across the entire company through statistical simulations to determine how much capital we need to hold to cover extreme scenarios. Santam has developed a comprehensive internal model to assist its risk and capital management. This proved an extremely valuable tool for managing the company over the last five years.

Our risk management framework covers, inter alia, risk and capital modelling, enterprise risk management, and specifying and managing compliance to our risk

appetite. This allows us to optimise capital levels, reinsurance, and overall risk diversification within an explicit and detailed risk appetite. Also refer to our financial director's report on page 48 for more detail.

### WHAT MAKES OUR OFFERING RELEVANT

As mentioned, underwriting is our game and we have a diverse product line which fits a wide range of risks covered by the short-term insurance industry. These products are supported by specialised underwriting skills in the form of a team comprising some of the best technical experts in the industry. In PricewaterhouseCoopers' 2010 peer review ranking survey, senior executives of South African insurance companies rated Santam as having the most technically competent employees by a wide margin.

Santam's ability to make a profit from underwriting activities is predicated on its ability to price risks which require a detailed understanding of all the associated exposures. We believe that our success partly comes down to identifying and measuring risks correctly in the market. By understanding which risks are over or underpriced in the market, or which we should not be insuring, we are able to balance growth and profitability. Santam has a long track record of demonstrated skill in this area.

In line with the segmentation model that we have implemented across Santam, we also introduced segmentation as part of our risk selection and pricing process. One of the things that this model takes into account is historical claims experience. The new



segmentation model has been implemented fully in the personal lines business and we are gaining momentum rolling it out into commercial lines. Once in place, we believe that we will be the first company with this comprehensive capability.

Over the past five years, Santam has matured its approach to managing the capital that we hold against our portfolio of risks. This has been done holistically, and interacts dynamically with our reinsurance programme, our risk appetite, and our investment strategy, to mention a few factors. Over a seven-year period, we have optimised our reinsurance to cover specific risk aspects and transfer less risk overall.

As a result, we have been able to reduce the excess capital that we traditionally held. This has also helped us to price risk more effectively, which is critical in this highly price-sensitive market.

We formally engage with our colleagues in distribution and claims services, sharing our experiences in the market. This allows us to combine the experience of these three core areas of our business to obtain a consolidated view of the market. In 2010, we took the process to maturity and we are becoming more client-centric in each of these three core areas.

We view these interactions as opportunities to enhance our product development for clients and we take note of ideas and observations and use these to create new products. We believe that by working together as a cohesive unit, we place ourselves in a premium position to present a distinctive value proposition that caters to

the needs of all our clients – regardless of the market segment.

#### OUR ACHIEVEMENTS IN 2010

The environment in 2010 was challenging, with limited growth across the industry. South Africa has slowly emerged from a severe recession and the income of our corporate clients has remained under pressure. As a result, premium growth has been markedly lower than in the economic heyday before the credit crisis.

Against this backdrop, we delivered premium growth in excess of the rate of inflation. As the largest short-term insurer in the market, the fact that we grew profitably was pleasing. It demonstrates that we are balancing our risks and pricing them effectively. This is important in managing the business through the underwriting cycle. Our growth in 2010 was thus not at the expense of profitability.

We fine-tuned our acceptance criteria – this was as a result of implementing the segmentation model during the year. In a nutshell, it allowed us to insure low risks at a reduced price and to ask higher premiums for “high” risks. Our ability to reward those clients who have lower risks has been a definite advantage for us. In the fourth quarter of 2010 we improved our retention levels especially for personal clients, enabling very satisfactory growth in this area. This was accompanied by a good improvement in quote conversion in our preferred segments and appropriately lower conversion levels in our less preferred segments.

We can only price our products accurately if we have access to the required information

about each specific situation. That is why our relationships of trust with our intermediaries have once again been key to obtaining all the pertinent information required to price risk accurately.

We continued to invest in our systems during 2010:

- We made substantial investments in our e-business strategy which is an important channel for our positioning as risk managers with our clients rather than simply being just the carrier of their risk. This means that we encourage our clients to get involved in the process of managing their own risks.
- We acquired a geo-mapping tool in line with ongoing initiatives to evaluate risk on a long time horizon to create a sustainable risk environment. This technology enables us to zoom into the exact locations of some of the risks which we are exposed to. In the longer term, and specifically relating to the impacts of climate change, this will better equip us to evaluate and mitigate the risks that we accept onto our book. It will also allow us to tailor policies to specific assets based on information from this geo-mapping.
- In parts of our operation areas, we also made good progress with technical options to renew some of our older systems.

We have every intention of continuing along our innovative path – never afraid of changing things to continue supporting Santam on its profitable growth journey.



**WE DO INSURANCE  
WITH EXCELLENCE: WE ARE A  
BRAND THAT BELIEVES IN PER-  
FORMANCE AND SUCCESS, BOTH  
YOURS AND OURS. THIS PROUD  
AND INTENSE COMMITMENT TO  
THE EXTRAORDINARY IS  
SUPPORTED BY AN UNERRING  
DEDICATION TO THE HIGHEST  
LEVELS OF PROFESSIONALISM  
AND PARTNERSHIP BECAUSE WE  
BELIEVE THAT WITH THE BEST  
PEOPLE BEHIND YOU, THERE IS  
NOTHING YOU CANNOT DO.**

# WHAT DRIVES US IS THE PURSUIT OF AN UNDERSTANDING OF SYSTEMIC RISK

The last 92 years have been an eloquent testament to Santam's ability to adapt to social, environmental and economic shifts over the long term. Today's reality is that our country is undergoing a significant transformation socially and economically, customers are more informed and empowered, and environmental resources are becoming increasingly constrained.

As part of our overall strategy, we have taken the broader context of our operations into our core business through our sustainability strategy. We see ourselves continuing Santam's tradition of responsiveness and resilience in the future.

In this section of the annual report, we briefly describe our approach to managing sustainability, highlight our 2010 achievements and commit to our 2011 actions. The full annual sustainability report looks at our company through the lens of environment, society and governance (ESG). You can find this report on our website at [www.santam.co.za](http://www.santam.co.za).

We have developed a clear business case for sustainability. In doing so, we have taken into account ESG risks and opportunities, and our influence and impact on society, the environment and the insurance industry. Our approach is guided by various standards and legislation. These include the:

- King III Report on Governance for South Africa (King III);
- Financial Sector Charter (FSC);
- Department of Trade and Industry's (dti) Codes of Good Practice for BBBEE;

- Global Reporting Initiatives' (GRI) Sustainability Reporting Guidelines; and
- JSE's SRI Index.

### WHAT SUSTAINABILITY MEANS TO SANTAM

Our Chairman and Chief Executive Officer have acknowledged that the skills, experience and enthusiasm of our employees is integral to our success. Sustainability is evident through our human resources and transformation functions. Training, career management, employee wellness and the development of an inclusive corporate culture is high on our agenda.

We realise that Santam has influence beyond its offices, intermediaries, suppliers, clients and industry bodies. We also know that sustainability is complex and interdependent – we operate in a social, economic and environmental context. We cannot embed the elements of sustainability into our company without external engagement and collaboration. Therefore, stakeholder engagement is increasingly important in communicating our sustainability strategy – while partnerships are key in delivering it.

As all businesses, we have a role to play in creating a stable and prosperous society – one that ensures a successful country with markets rich in potential. Our corporate social investment (CSI) strategy focuses on providing South Africa's youth with skills, opportunities and security and fulfils a moral imperative. This strategy aligns with our proactive approach to risk management.

Santam is a future-focused company. As such, we know that climate change cannot be ignored. As a short-term insurer, we are already well aware of risks related to extreme weather events. Therefore we are playing our role through various partnerships to mitigate and adapt to the impact of these risks on our company.

### SUSTAINABILITY AND RISK MANAGEMENT

We are becoming clearly associated in the insurance sector with sustainability issues – particularly those relating to the environment. What drives us is the pursuit of an understanding of systemic risk. This is risk that is not intrinsic to an asset, but tied to that asset's interaction with its context. For example, a house built on a riverbank is going to carry more systemic risk than if it were built in an area where there was no flood risk. This understanding of systemic risk is core to our business and the ability to price this risk is what enables us to ensure a long-term profitable underwriting business.

However, from an economic perspective, there are limits to the amount of systemic risk that can be carried by the insurance industry. But insurance still has a part to play in promoting better societal risk management. We have started to raise awareness about the impacts of climate change on the insurance sector by engaging in activities such as our Ecocentric Journey.

Environmental risk elements are increasingly becoming more unstable. This is exacerbated by other systemic risks such



SUSTAINABILITY COMMITTEE

From left: BP Vundla, NM Magau, JG le Roux, YG Muthien

as crime, lack of infrastructure development and local governance issues. All these elements interact in the risk ecosystem – and when several elements become weak it can weaken the entire system. For example, it is currently impossible to buy storm damage insurance in certain parts of the United States.

We believe that by addressing systemic risk and helping clients to adapt to it, we help the natural environment and create a sustainable environment for the insurance industry itself.

#### HOW WE GOVERN AND MANAGE SUSTAINABILITY

Sustainability is represented at board level and the details of this committee are discussed in detail in the Corporate Governance section (see page 70).

Sustainability is driven at a management level, by a dedicated unit. The head of this unit reports to the executive head of Market Development. This ensures direct access to the executive committee. Our structure reaches into operations through senior line managers. These managers have been made accountable for monitoring sustainability issues in their area. They are also responsible for issues dedicated to enterprise development, environmental management and stakeholder relations.

Integrating sustainability into the Santam strategy has been informed by King III. The Sustainability, Enterprise Risk Management and Strategy business units have spent the year to further embed

sustainability concepts across the company. Our broad capabilities in risk management are a competitive advantage for us and during 2010 we worked to align our sustainability risk log with overall company risk monitoring.

At the end of 2009 we embarked on an audit of our sustainability approach to assess whether the company had made sufficient progress in sustainability management. Results found that our sustainability programme was making good progress. It also highlighted projects and metrics to demonstrate the business value of sustainability to further encourage company-wide integration.

#### OUR MATERIAL SUSTAINABILITY ISSUES

We developed a sustainability management framework in consultation with senior managers in 2007. This framework covers 10 sustainability components (see page 66) that have been identified as material to the company. Our sustainability risk log is aligned with these components and they are monitored and reported on regularly.

Please see our sustainability report at [www.santam.co.za](http://www.santam.co.za) for more information on these 10 components and the various elements involved.

#### SUSTAINABILITY HIGHLIGHTS

- Santam has shown considerable progress against the dti's scorecard over the past four years. We have improved our rating from level 5 in 2007 to level 4 in 2008, and level 3 at the end of 2009.

- Skills development was a highlight in 2010. We have almost doubled our dti scorecard scores by encouraging a significantly higher number of individuals to take part in our leadership development programmes.

- We added sustainability-related clauses to all our service agreements. These clauses include compliance with the Occupational Health and Safety Act and the Waste Management Act and SHE specifications developed with our sustainability consultants.

- A Motor Body Repair (MBR) Forum was established in Cape Town and Gauteng to understand how to support MBR suppliers in servicing our policyholders.

- We commissioned a survey on "Exploring attitudes towards fraud tolerance". From this we have started to build a framework identifying the cycle of economic crime, from unethical behaviours to more organised crime.

A key focus has been the integration of economic crime specifically as it relates to opportunistic crime. We have incorporated this into the business strategies of claims, procurement and portfolio management through Enterprise Risk Management, Internal Audit and other relevant business units.

- We developed a Responsible Investment Mandate to integrate elements of ESG-based investment decision-making in our portfolio.

# SUSTAINABILITY AT SANTAM

	Section	Page
<b>A sustained client base</b>		
<i>Incorporating the issues: alignment of products, processes and initiatives to client needs and expectations; client satisfaction, retention and growth; and client privacy and confidentiality</i>		
Our differentiated products are tailored to a variety of clients' needs – increasing the resilience of our company and underpinning our client-centric strategy.	Operational review	53
Client satisfaction and retention is strongly influenced by the client's experience at the claims stage.	Operational review	58
We also discuss the challenges around client retention during the drawn-out economic recovery and how these have been addressed.	Operational review	53, 58
<b>A sustained intermediary base</b>		
<i>Incorporating the issues: maintaining equitable relationships with intermediaries; growth in our black intermediary base; impact of HIV/Aids on our intermediary base; and intermediary compliance with industry standards.</i>		
Almost 98% of our business is sourced through and managed by a network of more than 4 000 intermediaries.	This is Santam, CEO's report, Operational review	6, 39, 52
<b>A sustained supplier base</b>		
<i>Incorporating: preferential procurement; and environment, health and safety in the supply chain.</i>		
We are committed to diversifying our supplier base, while maintaining quality and cost-efficiencies. The way we go about achieving this is outlined in our sustainability report.	Sustainability annual report*	
<b>Maintaining an ethical culture and managing economic crime</b>		
<i>Incorporating: management of economic crime; management of ethical behaviour related to advertising; application of ethical behaviour through the values process aimed at employees.</i>		
The business ethics of any company forms the basis for the manner in which they operate and are perceived in the market.	Corporate governance Sustainability annual report*	70
<b>Solutions aligned to social and environmental needs</b>		
<i>Focusing specifically on growth in the emerging market and products fulfilling a growing consumer environmental consciousness.</i>		
We develop products that respond to social and environmental needs. This enables us to do our duty as a corporate citizen and to open new avenues for doing business.	Sustainability annual report*	
<b>Human capital</b>		
<i>Incorporating: attraction, retention and development of employees with emphasis on equity; the impact of HIV/Aids on our workforce; employee wellness; and occupational health and safety of our employees while at work.</i>		
The value of motivated and skilled employees from all demographic groups contributes to the success of the company.	Sustainability annual report*	
<b>Extending influence for the benefit of society</b>		
<i>Incorporating: aligning CSI initiatives with social, business, economic and environmental needs; and our broader socio-economic influence on society, specifically through stakeholder engagement.</i>		
The Chairman's letter highlights the importance of stakeholder engagement in corporate governance. We discuss specific engagement initiatives and partnerships throughout the annual report.	Chairman's letter	24
<b>Transformation including ownership</b>		
<i>Covering BBEE in line with the dti Codes of Good Practice, while accounting for the FSC Codes currently in development.</i>		
Transformation is an integral part of our organisational strategy. This enables us to remain viable, relevant and successful into the future.	Sustainability annual report*	
<b>Responsible investments</b>		
<i>Covering direct investment to address social, economic and environmental needs.</i>		
We recognise that in the long-term interests of our stakeholders, our fiduciary duties should include consideration of environmental, social and governance impacts. This is in alignment with the United Nations Principles for Responsible Investment (UN PRI), the principles and targets that have informed our new Responsible Investment Mandate are discussed in our sustainability report.	Sustainability annual report*	
<b>Managing the impact on the environment</b>		
<i>Incorporating: environmental risk management, feeding into products and solutions adapted for environmental change; and internal facilities management to support Santam's environmental positioning.</i>		
Santam's approach to environmental issues is driven by the pursuit of an understanding of systemic risk.		
The value of understanding risks such as changing weather patterns is discussed in our operational review and commercial lines.	Operational review	53, 54
Some of the innovative approaches we are using to monitor climate change and reward clients for adaptation are discussed.	Operational review	60
The Chairman and Chief Executive Officer messages highlight our environmental considerations and associated initiatives.	CEO's report Chairman's letter	32 24

\* Refer to Santam's website [www.santam.co.za](http://www.santam.co.za)

## SUSTAINABILITY GOVERNANCE



- In April 2010, industry body South African Insurance Association (SAIA) formed the Sustainable Insurance Forum. This initiative seeks to facilitate a co-ordinated response to sustainability issues and systemic risk in the insurance industry. The head of Santam's Strategy unit was tasked with co-ordinating this initiative.

- We maintained and strengthened stakeholder engagement with bodies such as the Department of Energy (DoE), the South African Local Government Association (SALGA), The South African Insurance Association (SAIA), the Financial Intermediaries Association of Southern Africa (FIA), Afrikaanse Handelsinstituut (AHI), Business Unity South Africa (BUSA), the Black Management Forum (BMF), Business Against Crime, the Department of Safety and Security, The National Institute for Crime Prevention and the Reintegration of Offenders (NICRO), ClimateWise, the Ombudsman, the National Business Initiative (NBI) and various large corporations.

- Santam drove the formation of the Economic Crime Forum in September 2010. This forum comprises local government, the National Prosecuting Authority, the South African Insurance Crime Bureau and the South African Police Services. The aim is to leverage each others' expertise to take a collaborative stance in dealing with economic crime within the insurance sector.

- We are currently sponsoring an academic research project at the CSIR and the University of Cape Town which aims to

understand the barriers to climate risk adaptation at a municipal level.

- We commissioned stakeholder research on the CSI's flagship project, the long-running Child Art programme. This has led to a revised strategy with a substantially stronger focus on development.

### OUR PRIORITIES FOR 2011

- We will be developing our integrated reporting capacity through continuing high-level discussions around the relationship between sustainability considerations and core business operations and strategy.

- We will continue working closely with Risk Management and Risk Services in preparation for extreme weather events. We expect these conditions to continue well into 2011.

- Santam has made very good progress on improving our scores based on dti's Codes of Good Practice. We are now preparing ourselves to align with the FSC Codes. We expect this to be completed by mid-2011.

- We will build on the success of our Santam Black Intermediary Development Initiative (SBIDI). Our 2011 SBIDI planning will include further enhancements to train and engage more black intermediaries in the broader financial industry.

- We plan to further embed sustainability principles with our suppliers, including auditing selected suppliers on compliance with amended service agreements.

- Group Sourcing will concentrate on securing contracts with more black-owned and women-owned businesses to more effectively transform our supply chain.

- We will continue to look for ways to align Santam's strategic business objectives with national priorities. This includes climate change, energy security, job creation, food security, water availability and flood risk. We will also continue to interact and collaborate with communities, local and provincial structures, and national government to assist with these challenges.

### TALKING SUSTAINABILITY

If you require more information on our sustainability programme, if you have any queries, or if you simply wish to comment on the effectiveness of our sustainability reporting, please contact:

Ray-Ann Sedres  
Head: Integrated Sustainability & Corporate Social Investment

ray-ann.sedres@santam.co.za  
021 915 7289





**WE DO INSURANCE**  
**WITH STATURE:** WE'RE BIG AND  
WE'RE PROUD OF IT. BECAUSE  
WITH SIZE COMES STRENGTH,  
WITH STRENGTH COMES  
COURAGE, WITH COURAGE COMES  
CONFIDENCE, AND WITH  
CONFIDENCE COMES FREEDOM.  
WE KNOW THAT IN A WORLD OF  
MICRO-MANAGING, SMALL PRINT  
AND NUANCES OF DIFFERENCE,  
THERE IS GREATNESS TO BE HAD  
IN THINKING BIG, IN STANDING  
TALL, IN NOT BEING AFRAID TO  
TAKE A STAND AND LEAD THE WAY.

# CORPORATE GOVERNANCE REPORT

## STATEMENT OF COMMITMENT

Santam's board of directors is committed to the highest 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 the King III Report on Governance for South Africa (King III) which came into effect on 1 March 2010, 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.

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.

## APPLICATION AND APPROACH TO KING III

The JSE Listings Requirements pertaining to King III are effective for financial years commencing on or after 1 March 2010 (i.e. financial year 2011 in Santam's case). Santam welcomed King III and is currently taking steps to ensure that it would become compliant with the obligations placed on the company as a consequence thereof. The company has established a King III task team to provide guidance on the principles contained in the King III Report. The task team has been mandated to review the company's entire governance framework to ensure that it is being aligned with best practices. To this end, provisions impacting operations have and are being identified, assessed and addressed; gaps, if any, are addressed through action and areas that require improvement are being identified. Progress reports in this regard have been presented to the Santam board as well as its audit, assurance and risk committees. The board is in the process of embedding the principles and recommendations of King III across the group and will be in a position to report more fully on the level of application in the next annual report.

It is intended that the company's commitment to good governance as articulated in King III be formalised in charters, policies and operating procedures.

## 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.

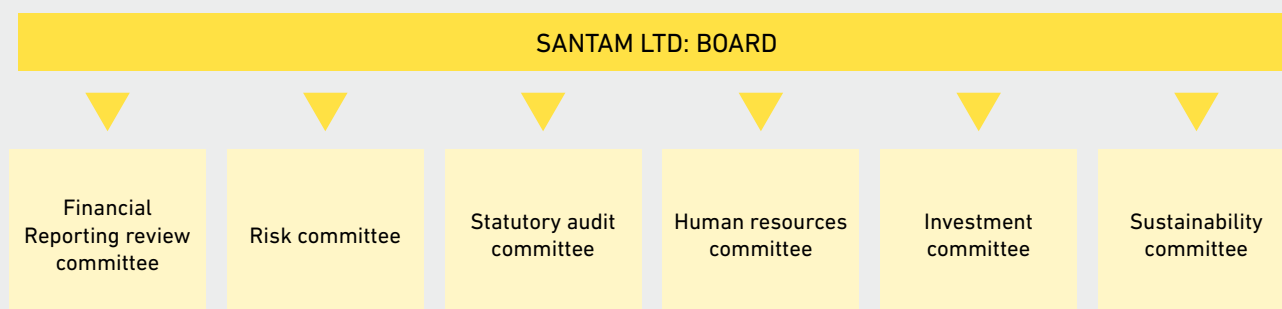
### COMPOSITION

The board currently comprises 15 directors, of which two are executive directors. Of the 13 non-executive directors, nine are independent. There is a formal, transparent board nomination process, in terms of a policy detailing procedures for appointment to the board. Directors are appointed, subject to re-election by the shareholders.

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.

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 other relationship within the current structure that could materially

The company's governance structure is set out below:



BOARD MEMBERS IN 2010					
Name	Executive	Non-executive	Independent non-executive	Race W = White B = Black	Gender M = Male F = Female
B Campbell			*	W	M
MD Dunn			*	W	M
BTPKM Gamedze		*		B	M
DCM Gihwala			*	B	M
VP Khanyile (Chairman from 2 June 2010)			*	B	M
IM Kirk	*			W	M
JG le Roux			*	W	M
NM Magau			*	B	F
JP Möller		*		W	M
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 until 2 June 2010)			*	W	M
J van Zyl		*		W	M
BP Vundla			*	B	M

interfere with the impartial judgement of any of the non-executive directors.

The offices of Chairman and Chief Executive Officer are separate.

#### Changes during the year

Mr Rowse resigned from the board in March 2010.

Mr Dunn and Mr Khanyile were appointed to the board in April 2010.

Mr Smith resigned from the board in June 2010.

Mr Campbell was appointed to the board in October 2010.

#### 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 board charter (and the committee charters) is in the process of being

reviewed, with the aim of aligning them with the King III principles.

The charter sets out, inter alia, its composition, meeting frequency and 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:

- the company's Articles of Association;
- the Companies Act;
- the Short-term Insurance Act; and
- the JSE Listings Requirements.

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

Through its charter the board has reserved matters specifically for its attention to ensure 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 set out the powers of the board of directors, while the Companies Act of 1973, as amended, posits the common law as enforced in the courts of the country. The Delegation of Authority document, which is reviewed annually, governs the exercise of these powers.

The following matters are reserved for the board:

##### 1. 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;

# CORPORATE GOVERNANCE REPORT

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- 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 strategy, policy, appetite, and plan.

2. Composition of the board, board committees and board evaluation
3. Monitoring risk management systems and internal controls
4. Monitoring of 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 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 Officer, 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 Officer***

The Chief Executive Officer is in charge of managing the company. The Chief Executive Officer 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 Officer and/or any other directors due to Sanlam Limited being a controlling 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 III report. 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.

The 2010 assessments were performed by an external service provider, Deloitte. The results were regarded as positive by them. The assessment included an effectiveness assessment of the board itself collectively, an assessment of the key board committees and the Chairman.

## **E. Dealing in securities**

The 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 Listings 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 Listings 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 five times at scheduled meetings in 2010. The board meets at least once every quarter and holds a strategy session in August.

ATTENDANCE SCHEDULE	(Strategy session)				
	March 03/03/2010	June 02/06/2010	August 31/08/2010	September 01/09/2010	December 01/12/2010
B Campbell	–	–	–	–	*
MD Dunn	–	App	*	*	*
BTPKM Gamedze	*	*	*	*	*
DCM Gihwala	*	*	A	A	*
VP Khanyile	–	App	*	*	*
IM Kirk	*	*	*	*	*
JG Le Roux	*	*	*	*	*
NM Magau	*	*	*	*	*
JP Möller	*	*	*	*	*
YG Muthien	*	*	*	*	*
P de V Rademeyer	*	*	*	*	*
MJ Reyneke	*	*	*	*	*
JP Rowse (resigned on 19 March 2010)	*	–	–	–	–
GE Rudman	*	*	*	*	*
DK Smith (resigned on 2 June 2010)	*	Res	–	–	–
J van Zyl	*	*	*	*	*
BP Vundla	*	*	*	*	*

Key: (\*) = Present, (A) = Apology, (–) = Not a member at the time, (App) = Appointed, (Res) = Resigned

### 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 before the annual general meeting (AGM).

At the AGM, shareholders vote by a single resolution to determine whether the director will be appointed. Directors appointed after the AGM are required to retire at the following AGM and stand for re-election by shareholders.

The primary function of the audit and 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 assisting the board in ensuring that:

- the company has implemented an effective policy and plan for risk management that will enhance the company's ability to achieve its strategic objectives;
- the maturity and effectiveness of the risk management processes and activities are continuously monitored, maintained and improved as required;
- the overall risk profile, including significant risks faced by Santam are monitored and reviewed and the response to address these key risks are appropriately defined and resolved by management; and
- the disclosure regarding risk is comprehensive, timely and relevant.

The functions of the financial reporting review committee include:

- overseeing integrated reporting;
- ensuring that a combined assurance model is applied to provide a coordinated approach to all assurance activities;

- overseeing internal audit and evaluating the independence and effectiveness of the internal audit function;
- overseeing financial reporting risks, and internal financial controls; and
- overseeing the external audit, which encompasses certain roles not included in the terms of reference of the statutory audit committee.

The functions of the statutory audit committee include:

- the appointment, remuneration, terms of reference and independence of the external auditors;
- ensuring that the appointment of the auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors;
- determining the nature and extent of any non-audit services which the auditor may provide to the company;
- dealing appropriately with complaints relating either to the accounting practices and internal audit of the company, or to any 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.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES

### Assurance and Risk committees – Risk committee

ATTENDANCE SCHEDULE	15 Feb 2010	17 May 2010	16 Aug 2010	17 Nov 2010
IM Kirk	*	*	*	*
JP Möller	*	*	*	*
DCM Gihwala (appointed to the committee on 2 June 2010)	–	–	*	*
P de V Rademeyer	*	*	*	*
MJ Reyneke	*	*	*	A
GE Rudman (chairman)	*	*	*	*
MD Dunn	–	–	*	*

Key: (\*) = Present, (A) = Apology, (–) = Not a member at the time, (App) = Appointed, (Res) = Resigned

### Financial reporting review committee

ATTENDANCE SCHEDULE	15 Feb 2010	17 May 2010	16 Aug 2010	17 Nov 2010
JP Möller	*	*	*	*
P de V Rademeyer	*	*	*	*
GE Rudman (chairman)	*	*	*	*
DCM Gihwala (appointed to the committee on 2 June 2010)	–	–	*	*
MD Dunn (appointed to the committee on 2 June 2010)	–	–	*	*

Key: (\*) = Present, (A) = Apology, (–) = Not a member at the time, (App) = Appointed, (Res) = Resigned

### Statutory audit committee

ATTENDANCE SCHEDULE	15 Feb 2010	17 May 2010	16 Aug 2010
DCM Gihwala (chairman until 17 May 2010)	*	*	*
DK Smith (resigned from the committee on 2 June 2010)	A	–	–
P de V Rademeyer (appointed to the committee on 2 June 2010)	–	*	*
MD Dunn (appointed to the committee on 2 June 2010 and appointed as chairman from 16 August 2010)	–	*	*

Key: (\*) = Present, (A) = Apology, (–) = Not a member at the time, (App) = Appointed, (Res) = Resigned

### Human resources committee

ATTENDANCE SCHEDULE	15 Feb 2010	17 May 2010	16 Aug 2010	17 Nov 2010
JG le Roux	*	*	*	*
NM Magau	*	*	*	*
DK Smith (resigned on 2 June 2010)	*	*	–	–
VP Khanyile (appointed to the committee on 2 June 2010)	–	–	*	A
J van Zyl (chairman)	*	*	*	*

Key: (\*) = Present, (A) = Apology, (–) = Not a member at the time, (App) = Appointed, (Res) = Resigned

### 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. The committee also considered and determined the fees and terms of engagement of the external auditors.
- As required by JSE Listings Requirements 3.84, the committee has satisfied itself that the financial director's expertise and experience meet the appropriate requirements.
- The external and internal auditors attend committee meetings and have unrestricted access to the committee and its chairman at all times, ensuring that their independence is in no way impaired. Both the external and internal auditors have the opportunity of addressing the audit committee at each of the meetings without management being present.

The committees are satisfied that they fulfilled their responsibilities according to their terms of reference in 2010.

#### 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 Officer attends meetings by invitation but does not participate in discussions regarding his remuneration and benefits.

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

- Succession planning
- Employee issues
- Remuneration policy
- Performance bonuses
- Executive remuneration
- Composition of the board and board committees in terms of size, diversity and experience
- Composition of top management in terms of diversity, skills and experience
- The share incentive trust and the various long-term incentive plans

The committee uses external market surveys and benchmarks to determine the remuneration of and allocation of short- and long-term incentives to executive directors. The company's total reward offering includes remuneration packages and 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. The 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 reward of executives is designed in such a way that a substantial portion is dependent on performance. The attainment of appropriate group targets governs the eligibility of executives for annual performance bonuses as well as the vesting of their long-term incentive awards.

The financial statements on pages 86 to 164 reflect the total earnings and other benefits of executives and non-executive directors in accordance with the requirements of the Companies Act of 1973 and the JSE Listings Requirements.

#### Remuneration policy

Santam's reward 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. These processes include performance contracting, performance measurement and the linking of rewards to performance. 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 awards.

During 2010, particular focus was given to ensuring alignment with the regulatory and governance requirements and specifically pertaining to the King III Report on Governance.

#### The human resources committee and its role

The human resources committee of the board 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 considers executive remuneration packages, relative to industry benchmarks. The committee recommends amendments to Santam's remuneration policy as required by changing circumstances. The committee also makes recommendations to the board regarding the remuneration of Santam directors.

To fulfil the role described above, the human resources committee undertakes the following:

- Develops and recommends the remuneration strategy for executive directors and members of the Exco to the board for approval
- Develops and recommends short-term incentive plans to the board for approval. It sets annual targets, monitors targets and reviews the incentive plans regularly to ensure that a strong link with performance is maintained
- Develops and recommends long-term share incentive schemes to the board for approval. 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
- Recommends individual remuneration packages for executive directors and Exco members to the board for approval, including total cost to company, benefits, short-term incentives, long-term incentives and conditions of employment
- Makes recommendations to the board regarding the remuneration of non-executive directors

# CORPORATE GOVERNANCE REPORT

## Components of executive remuneration

Element	Purpose	Performance period and measures	Operation and delivery
Guaranteed package	Core element that reflects market value of role and individual performance. It includes a range of insured and lifestyle benefits which supports employees in fulfilling their roles.	Reviewed annually based on performance against contracted output and market surveys.	Benchmarked against comparator group and positioned around the median.
Performance bonus (short-term variable reward)	Creates a high-performance culture through a cash bonus linked to performance against contracted deliverables.	Annual	Performance is measured at company, business unit and individual level against predetermined performance hurdles.
Share participation (long-term variable reward)	Alignment with shareholder interests.	Annual grants are made, with vesting taking place over a five-year period.	Awards are calculated based on maintaining a satisfactory level of retention value. Vesting is dependent on satisfaction of a return target.

### 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. In order to meet the strategic objective of a high-performance company, 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 company 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 employees. This value proposition consists of remuneration (which includes cash remuneration and short- and long-term incentives), a choice of flexible benefits (retirement funds, group life cover, two medical aid funds, 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 in order to ensure the continued success of the company.
- *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.



## Sustainability committee

ATTENDANCE SCHEDULE	9 Feb 2010	11 May 2010	12 Aug 2010	11 Nov 2010
JG le Roux	*	*	*	*
NM Magau (chairman)	*	*	*	*
JP Rowse (resigned on 19 March 2010)	A	–	–	–
YG Muthien (appointed to the committee on 2 June 2010)	–	*	A	*
BP Vundla	*	*	*	A

Key: (\*) = Present, (A) = Apology, (–) = Not a member at the time, (App) = Appointed, (Res) = Resigned

## Investment committee

ATTENDANCE SCHEDULE	28 Apr 2010	28 Oct 2010
IM Kirk	*	*
JP Möller	*	*
P de V Rademeyer (chairman)	*	*
MJ Reyneke	*	*

Key: (\*) = Present, (A) = Apology, (–) = Not a member at the time, (App) = Appointed, (Res) = Resigned

- *Share participation:* It is important that individuals identify with the sustainable success of Santam as it is directly linked to both company and individual performance.
- *Best practice:* Reward packages and people practices must reflect local and international best practice. Accurate and current market information and information on trends are crucial in order 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 various components of executive reward are summarised in the table on page 76. 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 company.

The above arrangements will be modified in 2011 should significant changes in operating conditions or governance framework occur.

### Outperformance plan (OPP)

The Sanlam Limited HRC has extended to the Santam Chief Executive Officer an OPP in order to reward superior performance over a three- to five-year measurement period. Such arrangement is available to selected leaders of the Sanlam Group's main operating businesses and is used infrequently. No payment is made under the OPP unless expected growth over the period is exceeded and full payment is only made if the stretched performance targets are met. The maximum payment that can be made under the OPP is 200% of annual basic remuneration over the respective three- to five-year measurement period.

### Succession planning

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

In accordance with King III recommendations, the company's Remuneration Policy is to be tabled for the shareholders to make a non-binding advisory vote at the AGM. This vote enables the shareholder to express their views on the remuneration policies adopted and their implementations.

## Sustainability committee

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.
- Compliance with laws, regulations and requirements such as King III, the JSE Listings Requirements, the targets of the Financial Sector Charter and Codes of Good Practice for broad-based black economic empowerment, and other applicable legislation.

# CORPORATE GOVERNANCE REPORT

## Risk disclosure

Strategic goal : To pursue operational and capital efficiency including new process and technology solutions	
Key risk	Key initiatives
Becoming less competitive in certain lines due to acquisition cost pressure	<ul style="list-style-type: none"> <li>– Focus on strategic projects to reduce costs, take advantage of economies of scale and improve internal efficiency</li> </ul>
Operational inefficiencies	<ul style="list-style-type: none"> <li>– “Golden triangle” of distribution, underwriting and claims targeted to identify inefficiencies</li> <li>– Quarterly review with core executive and senior management to improve communication and identification of inefficiencies</li> <li>– Operational risk management roll-out</li> </ul>
Pressure on IT resources and delivery capability	<ul style="list-style-type: none"> <li>– End-to-end service delivery management</li> <li>– Technology innovation process development</li> <li>– Leveraging off capabilities available in the Sanlam group</li> </ul>
Strategic goal : Extend Santam’s leadership position in the market and achieve the targeted underwriting and service levels	
Key risk	Key initiatives
The challenge of achieving profitable growth and retaining and/or increasing market share	<ul style="list-style-type: none"> <li>– Implementing client segmentation</li> <li>– Refining the distribution strategy for the Santam group</li> </ul>
Strategic goal : Proactively manage risk and improve Santam’s risk management capability (including emerging systemic risk)	
Key risk	Key initiatives
Challenges in terms of pricing – achieving the appropriate rate in the market for the risks accepted	<ul style="list-style-type: none"> <li>– Risk-based pricing aligned with segmentation and differentiated pricing model</li> </ul>
Challenges in identifying and pricing new or increased risk perils	<ul style="list-style-type: none"> <li>– Collaboration with national, provincial and local government to mitigate the risk to Santam’s core business and policyholders</li> <li>– Understand the systemic (ESG) risks posed to the Santam group and policyholders. Operationalise risk management across business given increasing systemic risks</li> </ul>

- 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 company;
- driving transformation issues;
- achieving a reputation as an employer of choice;
- decreasing costs through reduced waste and energy usage;
- improving employee morale; and
- 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

The investment committee meets to evaluate and monitor the investment portfolio and the performance of investment managers. These meetings are made up of quarterly feedback sessions with analysts

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

The Chief Executive Officer, assisted by 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 Officer 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 the levels of delegated authority to the Chief Executive Officer annually.

## 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.

## RISK MANAGEMENT AND INTERNAL CONTROL

Santam's board recognises and acknowledges that it is accountable for the total process of risk management and the system of internal control for the group. It is accountable for the establishment of appropriate risk and control policies and for communicating these policies throughout the group. It also confirms that the process of risk management and the system of internal controls are regularly reviewed for effectiveness.

### Enterprise risk management process (ERM)

#### Objective of ERM

Effective enterprise risk management (ERM) is integral to protecting Santam and

ensuring sustainability in everything Santam chooses to do. Santam's integrated ERM approach is designed to support the pursuit of gains from opportunities while minimising losses and thereby supporting the achievement of Santam's primary objective of retaining and building its leadership position.

#### Responsibilities for ERM

This includes establishing appropriate risk and control policies, and communicating these policies throughout the group. The board is responsible for reviewing and approving the group's risk appetite, policy and plan.

The board also ensures that the risk management process and system of internal control are regularly reviewed for effectiveness.

While the board is responsible for the overall governance of risk, it is assisted by the risk committee in discharging this responsibility. 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 company.

#### The ERM approach, framework and process

Santam has adopted an ERM approach and framework that is credible, relevant and practical. The group's approach is aligned with the principles of King III, ISO 31000, Solvency II and the requirements of our majority shareholder, Sanlam. The Financial Services Board (FSB) is developing a new solvency assessment and management regime (SAM) for the South African long-term and short-term insurance industries. Santam is participating in the SAM project to ensure, among others, the alignment of the ERM processes with these requirements ensuring an integrated approach to risk and solvency management.

The risk management framework and process is designed to assist the board to ensure that management monitors risks continually and reports back to the risk committee on the status of risks. Quarterly reports, outlining progress in terms of the risk management framework, plans and

an overview of Santam's risk profile, are tabled at the risk committee and board meetings. Santam's risk profile covers all categories of risk including strategic, operational, insurance, credit, market, liquidity and reputational risk.

The following board committees monitor specific risks: the human resource committee, sustainability committee and the investment committee. Where appropriate, feedback from these committees is incorporated into the quarterly reporting to the risk committee.

The integrated ERM process is mature and is applied consistently throughout Santam. 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.

#### Improvements to the ERM process in the last year

Operational risk profiles have been drawn up for all key business functions, units and subsidiaries. These profiles provide management with valuable insight into their areas of highest operational risk and inefficiency while providing internal audit with information to enable true risk-based auditing.

A formal process exists to identify potential new and emerging risks to develop adaptation and mitigation strategies. Santam adopted the United Nations Environment Programme Finance Initiative (UNEP FI) Environmental, Social and Governance (ESG) framework for systemic risk. The framework provides direction and guidance for understanding and embedding risk management into the company in order to respond to ESG risks and ensure sustainable insurance into the future.

Progress has been made in adopting a combined assurance model for the Santam group including adopting common risk language and assessing key risks between business, risk and assurance providers. An internal control framework, based on COSO and developed by Santam's Internal Audit business unit, has also been adopted and will also be included into the assurance

# CORPORATE GOVERNANCE REPORT

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model going forward. The model should be finalised by end 2011.

## **Risk disclosure**

The board has implemented a systematic, independent and disciplined approach to evaluate the effectiveness of risk management. Based on previous reviews and maturity assessments presented to the risk committee, the board is confident that the integrated ERM programme is effective in identifying current and emerging risks and ensuring that these risks are managed appropriately.

Based on information available through the risk management processes, no material losses were sustained during 2010. No residually significant current or imminent risks that pose a threat to the sustainability of Santam have been identified.

The most significant risks currently being managed by executive and senior management, together with key initiatives are summarised in the table on page 78.

## **Business continuity**

A key operational risk, which spans Santam's business, is the potential impact of a major disaster and/or disruption. 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. Comprehensive scenario testing, involving senior and executive management, is conducted every three years with more focused testing done annually.

The focus during the year under review was the improvement of access control and security, crisis communication as well as ensuring continuity during the 2010 FIFA World Cup™ and the relocation of the data centre. A number of areas will continue to be addressed to

ensure that Santam remains resilient to major incidents.

## **Internal control**

To enable the directors to meet their responsibilities, management implements systems of internal control, comprising of policies and standards, procedures, systems and information to assist in achieving established objectives and goals. The group's system of internal control is designed and operated to support the identification and management of risks affecting the group and the business environment in which it operates. As such, it is subject to continuous review as circumstances change and new risks emerge.

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

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

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

- The effectiveness and efficiency of operations

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

## **Control opinion**

The board reviewed the effectiveness of controls principally through a process of management self-assessment, including formal confirmation per representation letters by executive management. Consideration was given to other relevant input, including reports from internal and external auditors, compliance and the enterprise risk management process. Where necessary, programmes for corrective action have been initiated.

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

## **Assurance providers**

### *Audit and forensic services*

The main internal assurance provider in Santam is the audit and forensic services business unit (A&FS). The scope of work for A&FS is comprehensive enough to determine whether Santam's network of risk management, control and governance processes, as designed and represented by management, is adequate and effective to address the significant risks facing the group.

A&FS provides assurance to the company's stakeholders that the company operates in a responsible manner by performing the following functions:

- evaluating the company's governance processes including ethics, especially the "tone at the top";

- performing an objective assessment of the effectiveness of risk management and the internal control framework;
- systematically analysing and evaluating business processes and associated controls; and
- providing a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities (economic crime).

The business unit follows a risk-based planning approach. The audit plan is based on an approach where coverage is linked to the significant issues facing the company, including all categories of risk (e.g. strategic, operational, and insurance). The plan is structured to respond and adapt to emerging and changing risk profiles and assists internal audit to focus on issues that matter most to Santam. To expand assurance of the risk universe activities with other governance functions are coordinated via Combined Assurance. The financial reporting review committee (FRRC) approves the plan for each year.

The business unit also assists the company to effectively detect, deter and redress economic crime and other forms of abuse of the corporate system. Further information on these activities can be found in the sustainability report on maintaining an ethical culture and managing economic crime.

Key findings are reported to the FRRC each quarter. The report is based on the results of internal audit as well as forensic work conducted, and it utilises a rating system. Progress in implementing the required controls to address concerns is reported to the committee until the item has been satisfactorily resolved. This enables the committee to ensure that prompt action has been taken to address the key areas of concern.

The responsibilities of the business unit are set out in a charter approved by the FRRC. The head of A&FS reports administratively to the executive head of finance and has

regular meetings with the Chief Executive Officer, quarterly meetings with the FRRC, and access to the chairperson of the FRRC as and when required.

An external quality assessment was conducted on internal audit during the year. The overall conclusion, based on the work performed and information obtained, was that internal audit generally conforms to the IIA Standards. The assessment was presented to the FRRC.

The compliance function is incorporated in the corporate legal services business unit. The FRRC approves their assurance plan and findings from examinations. Reviews are also directly reported to the committee on a quarterly basis.

#### *External audit*

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

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

Santam has a formal pre-approval policy on the use of external auditors for non-audit services. 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 R344 895. This includes R40 458 for assurance-related services, R162 389 for tax-related services and R142 048 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 business units, and the compliance officer. In conjunction with Enterprise Risk Management, Audit and Forensics Services facilitates the implementation of Combined Assurance in the Santam group, which includes the following:

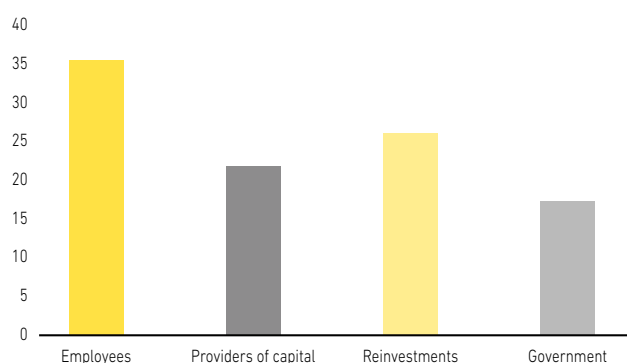
- Maintenance of strong working relationships with other assurance providers and the external audit team
- Considering the scope of work of the other assurance providers and external auditors for the purpose of providing optimal audit coverage to the company at a reasonable overall cost
- Periodic meetings to discuss planned activities
- Common language, frameworks, methodologies and tools
- Forming of joint teams where appropriate
- Reporting to the FRRC the combined view on risks and controls and identifying significant gaps in assurance.

**Please refer to the sustainability report at [www.santam.co.za](http://www.santam.co.za) for more detail regarding Santam's ethical culture.**

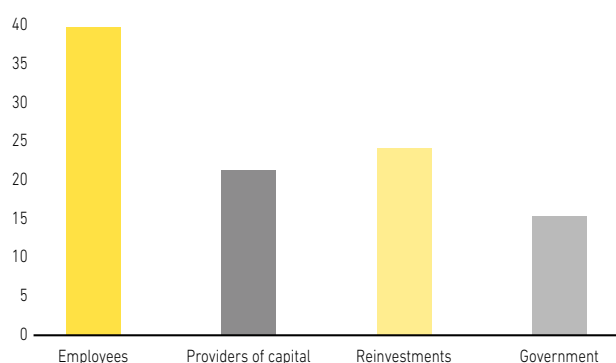
## VALUE-ADDED STATEMENT

	Group 2010 R million	Group 2009 R million
<b>VALUE ADDED</b>		
Gross written premium	15 855	15 026
Claims paid and cost of other services	13 398	13 477
	2 457	1 549
Investment income net of fees	1 311	1 090
	3 768	2 639
<b>VALUE DISTRIBUTED</b>		
Employee benefits	1 332	1 044
Government	639	402
Direct taxation on income	532	361
STC	107	41
Providers of capital	1 205	556
	3 176	2 002
Retained for reinvestment and future support of business	592	637
Depreciation and amortisation of intangible assets	43	47
Retained income before transfer to reserves	510	495
Compulsory reserves for future support of business	38	95
	3 768	2 639

**VALUE DISTRIBUTED – 2010**



**VALUE DISTRIBUTED – 2009**



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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.

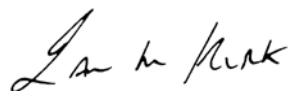
The board has confirmed that adequate internal financial control systems are being maintained. There were no material breakdowns in the functioning of the internal financial control systems during the year. The board is satisfied that the financial statements fairly present the financial position, the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



V P KHANYILE  
*Chairman*



IM KIRK  
*Chief Executive Officer*

1 March 2011

## 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.



M ALLIE  
*Group secretary*

1 March 2011



**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 2010, 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 86 to 163.

**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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Santam Limited as at 31 December 2010, 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

1 March 2011

## DIRECTORS' REPORT

### ACTIVITIES

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

### OPERATING RESULTS

The Santam group achieved excellent underwriting and investment results in 2010. Overall earnings for the group showed a significant improvement with headline earnings of R1 545 million, 51% higher than 2009. This equates to a headline earnings per share of 1 367 cents compared to 906 cents in 2009. The 37% annualised weighted return on shareholders' funds is particularly pleasing.

The overall net underwriting margin increased substantially from 3.5% in 2009 to 8.5% in 2010, culminating in a net underwriting result of R1 146 million, 153% higher than the R453 million in the comparative period. Investment income delivered similar results to those of 2009.

Santam decided to maintain appropriate underwriting discipline in tight market conditions and with increased levels of competition in the industry. This resulted in growth of 6% in gross written premium which is considered acceptable given the exceptional turnaround in results of previously underperforming business classes.

Underwriting performance of the crop business came under pressure due to weather-related claims. Margins in all other classes were satisfactory with excellent turnaround in the personal lines motor and property from the negative returns in 2009. Ongoing management intervention paid off for business sourced through the portfolio management business unit. Results from this area showed significant turnaround from a loss-making position in 2009 to an acceptable profit margin. The turnaround in the property portfolio was mainly as a result of the low level of large industrial accident and fire-related claims and the Emerald transaction in late 2009. Of the specialist classes, the liability, engineering and transportation businesses performed particularly well. In general, lower claims costs and our continuous focus on risk management to improve the quality and diversity of the risk pool impacted underwriting margins positively. The net acquisition cost ratio of 27.4% increased from 26% in 2009, mainly due to an increase in the net commission costs and performance bonuses. Santam also increased its spend on strategic initiatives by 19% from 2009.

Investment returns on insurance funds of R396 million reduced from R420 million earned in 2009. These lower returns resulted from lower interest rates, despite substantially increased float balances. The group's operating activities generated healthy cash flows of R2.1 billion during the year – 17% higher than the R1.8 billion in 2009.

The combined effect of the insurance activities resulted in a net insurance margin 11.4% for the year compared to 6.8% in 2009.

The reduction in interest rates adversely affected the yield on cash and money market instruments, but assisted bond returns. Dividend income was still somewhat suppressed. However, equity markets had a strong run towards the end of the year. This followed on a lacklustre performance during the first half of the year and impacted investment results positively. We continued to employ our strategy of proactively and tactically hedging our equity investments.

As an alternative to rebalancing asset classes following the reduction of capital by means of the R5 per share special dividend in September, Santam entered into two derivative fence structures on 3 September 2010 and 5 October 2010 covering R1 billion and R750 million of equities respectively (refer note 10 to the financial statements).

Net earnings from associated companies of R69 million increased from R43 million in 2009.

The group solvency ratio of 45% at 31 December 2010 was at the higher end of the long-term target range of 35% to 45%, and higher than the 42% reported at the end of 2009. Santam's capital management philosophy is to maximise the return on shareholders' capital within an appropriate risk framework. Special dividends are considered taking account of capital levels as informed by the solvency margin targets of 35% to 45% and investment opportunities. At this point in time it is not considered appropriate to declare a special dividend, but it will remain under constant consideration.

The group concluded the acquisition of the remaining 33.33% holding in Centriq Insurance Company (Pty) Ltd on 1 January 2010 following Kagiso Risk Solution's decision to disinvest from the specialist insurer. On 1 January 2010, 100% of the voting equity interest in Emerald Risk Transfer (Pty) Ltd was acquired to obtain specialist underwriting skills in the corporate property environment. On 1 September the group increased its effective shareholding in Indwe Broker Holdings (Pty) Ltd from 37.8% to 100%. The company is being independently managed as an intermediary. On 31 December 2010 the group increased its shareholding in MiWay Group Holdings (Pty) Ltd from 31.3% to 100% when Sanlam Limited opted to restructure its shareholdings in the general insurance cluster in South Africa. MiWay will continue to be managed independently, servicing the direct segment of the market.

## ORDINARY SHARES ISSUED

The shares in issue remained at 119 346 417 (2009: 119 346 417) shares of no par value (including 6 323 126 (2009: 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, 19 850 (2009: 26 400) share options lapsed as a result of resignations and 315 800 (2009: 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, 572 732 (2009: 625 585) shares were granted to employees on a deferred delivery basis during the year, 93 685 shares were granted in lieu of the special dividend, 111 717 (2009: 60 129) shares lapsed as a result of resignations and 138 797 (2009: 11 567) treasury shares were sold in terms of the DSP to employees that went into early retirement. Full details are set out in note 15 to the annual financial statements.

A subsidiary in the group holds 6 323 126 (2009: 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.

## CAPITAL STRUCTURE

### Debt securities

For details on debt securities, refer to note 18 to the financial statements.

## DIVIDENDS

The following dividends were paid and are proposed.

Interim dividend of 185 cents per share (2009: 166 cents)

A final dividend of 325 cents per share (2009: 300 cents)

	Group	
	2010	2009
	R million	R million
	221	198
	388	358
	<b>609</b>	<b>556</b>

## SPECIAL DIVIDEND

As part of its process to optimise its capital, Santam Limited paid a special dividend of 500 cents per share to shareholders on 22 September 2010.

## SUBSIDIARIES

Details of the holding company's interest in subsidiaries are set out in note 45 to the financial statements. The interest of Santam Limited in the total profits (R342 million) and losses (R10 million) of the subsidiaries after providing for taxation amounted to a net profit of R332 million (2009: R200 million) for the past financial year. The following changes in shareholding took place during the year:

- On 1 January 2010, Santam Ltd acquired a 100% interest in Emerald Risk Transfer (Pty) Ltd.
- On 1 January 2010, Santam Ltd bought out the minority shareholders in Centriq Insurance Holdings (Pty) Ltd, increasing the group's holding in the company from 66.6% to 100%.
- On 1 September 2010, Swanvest 120 (Pty) Ltd bought out the minority shareholders in Indwe Broker Holdings (Pty) Ltd, increasing the group's holding in the company from 37.8% to 100%.
- On 31 December 2010, Swanvest 120 (Pty) Ltd bought out the minority shareholders in MiWay Group Holdings (Pty) Ltd, increasing the group's holding in the company from 31.25% to 100%.

## ASSOCIATED COMPANIES

Details of the holding company's interest in associated companies are set out in note 45 to the financial statements. The following changes in shareholding took place during the year:

- On 1 September 2010, Swanvest 120 (Pty) Ltd increased its 37.85% shareholding in Indwe Broker Holdings (Pty) Ltd to 100%.
- On 31 December 2010, Swanvest 120 (Pty) Ltd increased its 31.25% interest in MiWay Group Holdings (Pty) Ltd to 100%.

## RELATED PARTIES

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

For related-party transactions refer to note 43 to the annual financial statements.

Details of directors' remuneration and their interest in the company's shares appear in the directors' report and note 31 to the financial statements.

## HOLDING COMPANY

Sanlam Limited, the company's holding company, holds 57% (discounting treasury shares) of the ordinary share capital.

## DIRECTORS' REPORT

### SEGMENT INFORMATION

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

### DIRECTORATE AND COMPANY SECRETARY

Committee memberships	Risk committee	Financial reporting review committee	Statutory audit committee	Human resources committee	Sustainability committee	Investment committee
<b>Non-executive directors</b>						
B Campbell	•	•				
MD Dunn	•	•	•			
BTPKM Gamedze						
DCM Gihwala	•	•	•			
VP Khanyile (Chairman from 2 June 2010)				•		
JG le Roux				•	•	
NM Magau				•	•	
JP Möller	•	•				•
YG Muthien						•
P de V Rademeyer	•	•	•			•
JP Rowse					•	
GE Rudman	•	•				
DK Smith (Chairman until 2 June 2010)			•	•		
J van Zyl				•		
BP Vundla					•	
<b>Executive directors</b>						
IM Kirk (Chief Executive Officer)	•					•
MJ Reyneke (Financial director)	•					•

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

JP Rowse	– Resigned on 19 March 2010
MD Dunn	– Appointed on 16 April 2010
VP Khanyile	– Appointed on 16 April 2010 as a director and appointed as Chairman on 2 June 2010
DK Smith	– Resigned on 2 June 2010
B Campbell	– Appointed on 4 October 2010

### Company secretary

M Allie

### Registered office

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

Mr S Bray was in this position until 31 January 2011. Mr M Allie was appointed on 1 February 2011.

### 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 listings requirements introduced by the JSE Limited.

#### Share options granted to executive directors

No additional share options were granted to the directors of the group during the year (2009: Nil). The company commenced with a new employee retention scheme in 2006 and no longer issue options in terms of the Santam Share Incentive Scheme (refer to note 1.20 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 (2009: 14 400).

A revised share incentive scheme, the deferred share plan (DSP), was 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).

## DIRECTORS' REPORT

### SHARE OPTION SCHEME – DIRECTORS' PARTICIPATION

	As at 31 December 2009	Number of share options exercised during year	Gain per share on options exercised R	Option price per share R	Date awarded	As at 31 December 2010
<b>Executive directors</b>						
MJ Reyneke	14 400			37.68	10/11/05	14 400
<b>TOTAL</b>	<b>14 400</b>	<b>–</b>				<b>14 400</b>

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

	As at 31 December 2009	Number of shares granted during year	Number of shares exercised during year	Date awarded	As at 31 December 2010
<b>Executive directors</b>					
IM Kirk	8 302			01/06/08	8 302
	49 521			01/06/09	49 521
		7 528		01/06/10	7 528
	57 823	7 528	–		65 351
MJ Reyneke	5 409		(2 164)	01/06/07	3 245
	2 734			01/06/08	2 734
	26 901			01/06/09	26 901
		1 075		01/06/10	1 075
<b>Subtotal</b>	<b>35 044</b>	<b>1 075</b>	<b>(2 164)</b>		<b>33 955</b>
<b>TOTAL</b>	<b>92 867</b>	<b>8 603</b>	<b>(2 164)</b>		<b>99 306</b>

### DIRECTORS' INTEREST IN THE SHARES OF THE COMPANY

	Beneficial holding at 31 December	
	2010	2009
<b>Executive directors</b>		
IM Kirk	61 118	61 118
MJ Reyneke	84 023	81 859
<b>Non-executive directors</b>		
B Campbell	100	–
MD Dunn	100	–
BTPKM Gamedze	200	200
DCM Gihwala	100	100
VP Khanyile*	–	–
JG le Roux	180	180
NM Magau	110	110
JP Möller	108	108
RK Morathi	112	112
YG Muthien	100	–
P de V Rademeyer	450	450
JP Rowse	225	225
GE Rudman	900	900
DK Smith	190	190
J van Zyl	108	108
BP Vundla	100	100
	<b>148 224</b>	<b>145 760</b>

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

### AUDITORS

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

### POST BALANCE SHEET EVENTS

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

### SPECIAL RESOLUTIONS PASSED

The following special resolution was passed by Santam Ltd:

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

## STATEMENT OF FINANCIAL POSITION

			Group			Company	
		2010	Restated	Restated	2010	Restated	Restated
	Notes	R million	2009	2008	R million	2009	2008
			R million	R million		R million	R million
ASSETS							
Non-current assets							
Property and equipment	5	88	47	42	40	39	36
Intangible assets	6	988	143	155	6	13	22
Deferred income tax	17	251	88	81	93	59	32
Investments in subsidiaries	7				1 843	1 503	1 552
Investments in associates	8	211	198	195	133	133	157
Financial assets – at fair value through income							
Equity securities	9	3 832	3 191	3 111	3 178	2 673	2 511
Debt securities	9	4 246	3 146	2 688	3 815	2 934	2 378
Derivatives	10	–	–	1	–	–	1
Financial assets – at amortised cost							
Cell owners' interest	20	12	–	–	–	–	–
Reinsurance assets	11, 22	315	382	700	302	369	672
Current assets							
Financial assets – at fair value through income							
Derivatives	10	–	–	135	–	–	135
Short-term money market instruments	9	3 685	4 554	3 089	1 689	2 541	1 589
Reinsurance assets	11, 22	952	1 429	1 281	847	1 163	756
Deferred acquisition costs	22.2	251	259	271	273	251	239
Loans and receivables including insurance receivables							
	12	1 735	2 262	2 688	1 366	1 733	1 908
Income tax assets		26	4	9	–	–	–
Cash and cash equivalents	13	1 143	1 379	1 938	641	919	1 170
Total assets		17 735	17 082	16 384	14 226	14 330	13 158
EQUITY							
Capital and reserves attributable to the company's equity holders							
Share capital	14	107	107	107	107	107	107
Treasury shares	14	(651)	(660)	(680)	–	–	–
Other reserves	16	1 265	1 268	1 251	1 270	1 202	1 114
Distributable reserves	16, 25	4 405	3 813	3 319	3 634	3 377	3 077
		5 126	4 528	3 997	5 011	4 686	4 298
Non-controlling interest							
		93	144	138			
Total equity		5 219	4 672	4 135	5 011	4 686	4 298
LIABILITIES							
Non-current liabilities							
Deferred income tax	17	269	129	12	188	120	–
Financial liabilities – at fair value through income							
Debt securities	18	925	839	972	925	839	972
Investment contracts	19	–	–	142	–	–	–
Derivatives	10	1	9	–	1	9	–
Financial liabilities – at amortised cost							
Cell owners' interest	20	589	535	447	–	–	–
Collateral guarantee contracts	21	–	–	93	–	–	93
Insurance liabilities	22	1 323	1 332	2 068	1 294	1 309	2 027
Provisions for other liabilities and charges	23	3	5	–	3	5	–
Current liabilities							
Financial liabilities – at fair value through income							
Debt securities	18	24	24	24	24	24	24
Investment contracts	19	495	333	251	–	–	–
Derivatives	10	74	108	–	74	108	–
Financial liabilities – at amortised cost							
Collateral guarantee contracts	21	108	101	–	108	101	–
Insurance liabilities	22	6 440	6 931	6 088	4 700	5 130	4 030
Deferred reinsurance acquisition revenue	22.2	40	53	82	74	60	59
Provisions for other liabilities and charges	23	33	27	25	33	27	25
Trade and other payables	24	1 890	1 570	1 804	1 509	1 546	1 427
Current income tax liabilities	25	302	414	241	282	366	203
Total liabilities		12 516	12 410	12 249	9 215	9 644	8 860
Total shareholders' equity and liabilities							
		17 735	17 082	16 384	14 226	14 330	13 158

## STATEMENT OF COMPREHENSIVE INCOME

	Notes	Group		Company	
		2010 R million	2009 R million	2010 R million	2009 R million
<b>Gross written premium</b>		15 855	15 026	13 957	13 091
Less: reinsurance written premium		2 336	2 132	1 261	1 085
<b>Net premium</b>		13 519	12 894	12 696	12 006
Change in unearned premium					
Gross amount		(65)	(108)	8	2
Reinsurers' share		34	106	(24)	(2)
<b>Net insurance premium revenue</b>		13 550	12 896	12 712	12 006
Investment income	26	633	707	680	609
Income from reinsurance contracts ceded		236	209	245	178
Net gain on financial assets and liabilities at fair value through income	27	537	479	460	449
Gain on remeasuring existing interest in associates on transfer to subsidiaries	28	215	–	–	–
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost		6	–	–	–
<b>Net income</b>		15 177	14 291	14 097	13 242
Insurance claims and loss adjustment expenses	29	9 531	10 241	8 541	9 216
Insurance claims and loss adjustment expenses recovered from reinsurers	29	(848)	(1 141)	(388)	(748)
<b>Net insurance benefits and claims</b>		8 683	9 100	8 153	8 468
Expenses for the acquisition of insurance contracts	30	2 311	2 127	2 209	1 999
Expenses for marketing and administration	30	1 648	1 425	1 625	1 430
Expenses for asset management services	30	29	25	23	20
Amortisation and impairment of intangible assets	6, 30	27	25	7	13
Impairment of investment in subsidiaries	7	–	–	–	49
<b>Expenses</b>		12 698	12 702	12 017	11 979
<b>Results of operating activities</b>		2 479	1 589	2 080	1 263
Finance costs	32	(120)	(114)	(119)	(110)
Net income from associates	8	63	49	23	20
Impairment reversal/(charge) on net investment in associates		6	(6)	–	–
<b>Profit before tax</b>		2 428	1 518	1 984	1 173
Income tax expense	33	(639)	(402)	(541)	(319)
<b>Profit for the year</b>		1 789	1 116	1 443	854
<b>Other comprehensive income</b>					
Currency translation differences		(72)	(80)	–	–
<b>Total comprehensive income for the year</b>		1 717	1 036	1 443	854
<b>Profit attributable to:</b>					
– equity holders of the company		1 762	1 082	1 443	854
– non-controlling interest		27	34	–	–
		1 789	1 116	1 443	854
<b>Total comprehensive income attributable to:</b>					
– equity holders of the company		1 690	1 002	1 443	854
– non-controlling interest		27	34	–	–
		1 717	1 036	1 443	854
<b>Earnings attributable to the equity holders</b>	34				
Basic earnings per share (cents)		1 560	959		
Diluted earnings per share (cents)		1 532	942		
<b>Weighted average number of shares (millions)</b>		112.96	112.80		
<b>Weighted average number of ordinary shares for diluted earnings per share (millions)</b>		114.99	114.87		

## STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company					Non-controlling interest R million	Total R million
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million			
<b>GROUP</b>							
<b>Restated balance as at 1 January 2009</b>	107	(680)	1 251	3 319	138		4 135
Balance as at 1 January 2009	107	(680)	1 251	3 586	138		4 402
Restatement	–	–	–	(267)	–		(267)
Profit for the year	–	–	–	1 082	34		1 116
Other comprehensive income:							
Currency translation differences	–	–	(80)	–	–		(80)
<b>Total comprehensive income for the year ended 31 December 2009</b>	–	–	(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)
<b>Restated balance as at 31 December 2009</b>	107	(660)	1 268	3 813	144		4 672
Profit for the year	–	–	–	1 762	27		1 789
Other comprehensive income:							
Currency translation differences	–	–	(72)	–	–		(72)
<b>Total comprehensive income for the year ended 31 December 2010</b>	–	–	(72)	1 762	27		1 717
Purchase of treasury shares	–	(34)	–	–	–		(34)
Sale of treasury shares	–	43	–	–	–		43
Loss on sale of treasury shares	–	–	–	(34)	–		(34)
Transfer to reserves	–	–	69	(69)	–		–
Share-based payments	–	–	–	58	–		58
Dividends paid	–	–	–	(1 113)	–		(1 113)
Excess paid on acquisition of non-controlling interest	–	–	–	(12)	–		(12)
Interest acquired from non-controlling interest	–	–	–	–	(78)		(78)
<b>Balance as at 31 December 2010</b>	107	(651)	1 265	4 405	93		5 219
<b>COMPANY</b>							
<b>Restated balance as at 1 January 2009</b>	107		1 114	3 077	–		4 298
Balance as at 1 January 2009	107	–	1 114	3 344	–		4 565
Restatement	–	–	–	(267)	–		(267)
Profit for the year	–	–	–	854	–		854
<b>Total comprehensive income for the year ended 31 December 2009</b>	–	–	–	854	–		854
Transfer to reserves	–	–	88	(88)	–		–
Share-based payments	–	–	–	47	–		47
Dividends paid	–	–	–	(513)	–		(513)
<b>Restated balance as at 31 December 2009</b>	107	–	1 202	3 377	–		4 686
Profit for the year	–	–	–	1 443	–		1 443
<b>Total comprehensive income for the year ended 31 December 2010</b>	–	–	–	1 443	–		1 443
Transfer to reserves	–	–	68	(68)	–		–
Share-based payments	–	–	–	58	–		58
Dividends paid	–	–	–	(1 176)	–		(1 176)
<b>Balance as at 31 December 2010</b>	107	–	1 270	3 634	–		5 011



## STATEMENT OF CASH FLOWS

	Notes	Group		Company	
		2010 R million	2009 R million	2010 R million	2009 R million
Cash generated from operations	36	2 115	1 839	2 045	1 594
Interest paid	32	(95)	(114)	(94)	(110)
Income tax paid	37	(755)	(115)	(616)	(63)
<b>Net cash from operating activities</b>		<b>1 265</b>	<b>1 610</b>	<b>1 335</b>	<b>1 421</b>
<b>Cash flows from investing activities</b>					
Cash utilised in investment activities		(270)	(1 477)	(26)	(1 101)
Acquisition of subsidiary	38	(357)	(11)	(263)	–
Cash acquired/(sold) through acquisition/sale of subsidiary	38	262	(23)	–	–
Purchases of equipment		(26)	(32)	(22)	(26)
Purchases of software		(1)	(5)	–	–
Proceeds from sale of equipment		–	1	–	–
Acquisition of associated companies		(17)	(7)	–	–
Proceeds from sale of associated companies		–	33	–	33
Proceeds from sale of business operations	38	–	56	–	–
Acquisition of book of business		–	(2)	–	–
<b>Net cash used in investing activities</b>		<b>(409)</b>	<b>(1 467)</b>	<b>(311)</b>	<b>(1 094)</b>
<b>Cash flows from financing activities</b>					
Purchase of treasury shares		(34)	(53)	–	–
Proceeds on sale of treasury shares		11	20	–	–
Increase/(decrease) in investment contract liabilities		129	(101)	–	–
Dividends paid to company's shareholders	40	(1 113)	(485)	(1 176)	(513)
Dividends paid to non-controlling interest	40	–	(28)	–	–
Increase in cell owners' interest		42	87	–	–
Purchase of subsidiary from non-controlling interest	39	(90)	–	(90)	–
<b>Net cash used in financing activities</b>		<b>(1 055)</b>	<b>(560)</b>	<b>(1 266)</b>	<b>(513)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(199)</b>	<b>(417)</b>	<b>(242)</b>	<b>(186)</b>
Cash and cash equivalents at beginning of year		1 379	1 938	919	1 170
Exchange losses on cash and cash equivalents		(37)	(142)	(36)	(65)
<b>Cash and cash equivalents at end of year</b>		<b>1 143</b>	<b>1 379</b>	<b>641</b>	<b>919</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

#### 1.1 Statement of compliance

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

#### 1.2 Basis of presentation

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

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

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

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

#### a) Standards, amendments and interpretations effective in 2010

The following amendments to published standards are mandatory for the group's accounting periods beginning on or after 1 January 2010:

– IAS 27 (revised) – *Consolidated and Separate Financial Statements*

This standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

– IAS 39 (amended) – *Financial Instruments: Recognition and Measurement*

The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges.

– IFRS 2 (amended) – *Share-based Payments*

The amendment clarifies the accounting for group cash-settled share-based payment transactions. The entity receiving the goods or services shall measure the share-based payment transaction as equity-settled only when the awards granted are its own equity instruments, or the entity has no obligation to settle the share-based payment transaction. The entity settling a share-based payment transaction when another entity in the group receives the goods or services recognises the transaction as equity-settled only if it is settled in its own equity instruments. In all other cases, the transaction is accounted for as cash-settled.

– IFRS 3 (revised) – *Business Combinations*

The new standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs will be expensed.

The revised standard was applied in the acquisition of the controlling interest in Emerald Risk Transfer (Pty) Ltd, Indwe Broker Holdings (Pty) Ltd and MiWay Group Holdings (Pty) Ltd (refer note 38).

– IFRIC 17 – *Distribution of Non-cash Assets to Owners*

This applies to the accounting for distributions of non-cash assets (commonly referred to as dividends in specie) to the owners of the entity. The interpretation clarifies that: a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; and an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The following new interpretations to existing standards have been published. Although they are mandatory for accounting periods beginning on or after 1 January 2011 or later periods, the group has not early adopted:

- IFRS 9 – *Financial Instruments* (effective 1 January 2013)
- IAS 24 (revised) – *Related Party Disclosures* (1 January 2011)
- IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments* (effective 1 July 2010)

### 1.3 Consolidation

#### a) Subsidiaries and business combinations

Subsidiaries are entities (including special-purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect 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 group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the stated assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

#### b) Transactions and non-controlling interests

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced, but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

#### c) Associates

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

### 1.4 Segment reporting

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).

### 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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position.
- (ii) Income and expenses for each statement of comprehensive income presented are translated at average exchange rates during each period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- (iii) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the 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 statement of financial position date and adjusted accordingly.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 statement of comprehensive income 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 statement of financial position date and adjusted if appropriate. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assets and are included in profit or loss before tax.

Repairs and maintenance costs are charged to the statement of comprehensive income 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. Cost 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### c) Brands, trademarks and trade names

Separately acquired brands, trademarks and trade names are shown at historical cost. Brands, trademarks and trade names acquired in a business combination are recognised at fair value at the acquisition date. Brands, trademarks and trade names have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of brands, trademarks and trade names over their estimated useful lives of 3 to 5 years.

### d) Key business relationships

Key business relationships acquired in a business combination are recognised at fair value at the acquisition date. The key business relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful life of 3 to 6 years of the key business relationship.

## 1.9 Financial assets

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

### a) Financial assets at fair value through income

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

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

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

Purchases and sales of investments are recognised on trade date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value. Transaction costs are recognised in the statement of comprehensive income. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has 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 income 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 statement of financial position 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 statement of financial position 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 statement of comprehensive income. 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 statement of comprehensive income.

#### 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).

### 1.11 Derivative financial instruments

Derivatives are initially recognised in the statement of financial position 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 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

### 1.14 Share capital

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

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

### 1.15 Debt securities

Debt securities comprise 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 statement of comprehensive income. Interest accruals are recognised as finance costs in the statement of comprehensive income. Financial liabilities are derecognised when all obligations have been met.

### 1.16 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.

### 1.17 Insurance contracts

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

#### a) Short-term insurance

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

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

#### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 1.16 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 statement of comprehensive income. 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, intermediaries 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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:

- 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 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 held 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.

## 1.18 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. 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.

### 1.19 Taxation

The tax expense for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised directly in equity.

**a) Current tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position 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 recognised, 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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it 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. 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.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income 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 to settle the balances on a net basis.

**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.

### 1.20 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 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 statement of financial position.

### e) Deferred share plan (DSP)

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

The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date, the fact that employees will not be entitled to dividends until the shares vest, as well as an assumption on the actual percentage of shares that will be delivered. The fair value on grant date is recognised in the 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1.21 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.

### 1.22 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 statement of financial position date.

### 1.23 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.

### 1.24 Other revenue recognition

#### Interest income

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

### 1.25 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.

### 1.26 Solvency margin

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

## 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 statement of financial position 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 individuals 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.

#### *Stochastic chain-ladder methodology*

Santam uses a stochastic chain-ladder methodology to estimate the ultimate cost of claims. This process is performed separately for each line of business.

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.

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 so as to be at least sufficient at the 75th percentile of the ultimate cost distribution or the statutory minimum (7% of net written premium), whichever is the highest. Based on the above there were no surplus reserves to be released to profit and loss in the 2010 financial year (2009: R11.9 million).

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 R23 million while a downward adjustment in the level of sufficiency would result in a release of reserves on the statement of comprehensive income of approximately R22 million (before taxation).

As this method uses historical claims development information, it assumes 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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 statement of financial position 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 statement of financial position 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 cash-generating units to which the goodwill has been allocated. The calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate to calculate the present value.

### **c) 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 is 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 15).

### **e) Business combinations**

With a business combination all identifiable assets are recognised at their respective fair values in the consolidated financial statements. The fair values of intangible assets acquired through business combinations are determined by using a discounted cash flow valuation method. The discount rate is based on the long-term risk-free rate with risk premiums added for market and other company and asset specific risks. Intangible assets acquired through business combinations were valued using a discount rate of between 17% and 22%. Asset specific assumptions used in the valuation of these intangible assets are listed below.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *i) Brand and trade names*

The main assumptions used in the valuation of brand and trade names are the useful lives of these assets and the future revenue growth of the underlying business.

The useful life of a brand and trade name is estimated based on how strong and recognised the brand currently is in the market as well as the annual spend on brand marketing. For the brands and trade names recognised at 31 December 2010 a useful life range of three to five years was assumed.

If a useful life range of two to four years were applied the asset value would have been R11.5 million lower and if a range of four to six years were applied, the asset would have been R11.5 million higher.

Future revenue growth margins used in determining a brand and trade name value were consistent with the margins applied in determining the fair value of the related investment.

### *ii) Key business relationships*

The main assumptions used in the valuation of key business relationships are the useful lives of these assets and the future profitability and cancellation rate of the underlying revenue streams.

The useful life of a key business relationship is estimated based on the cancellation experience of the existing business and the useful life of client relationships of other players in the market. For the key business relationships recognised at 31 December 2010 a useful life range of three to six years and an average cancellation rate of between 14% and 33% were assumed.

If a useful life range of two to five years were applied the asset value would have been R13.8 million lower and if a range of four to seven years were applied, the asset would have been R10.2 million higher.

Future profit margins used in determining a client contracts and relationships value were consistent with the margins applied in determining the fair value of the related investment.

### **f) 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 is 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 board's responsibility for risk management and its 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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>Financial and insurance assets</b>				
Quoted equity securities	3 498	2 872	3 166	2 659
Unquoted equity securities	334	319	12	14
<b>Total equity securities</b>	<b>3 832</b>	<b>3 191</b>	<b>3 178</b>	<b>2 673</b>
Quoted debt securities	3 388	2 395	2 971	2 187
Unquoted debt securities	858	751	844	747
<b>Total debt securities</b>	<b>4 246</b>	<b>3 146</b>	<b>3 815</b>	<b>2 934</b>
<b>Short-term money market instruments</b>	<b>3 685</b>	<b>4 554</b>	<b>1 689</b>	<b>2 541</b>
Receivables due from contract holders	1 025	1 385	764	1 109
Reinsurance receivables	300	446	177	155
Other loans and receivables	410	431	425	469
<b>Total loans and receivables including insurance receivables</b>	<b>1 735</b>	<b>2 262</b>	<b>1 366</b>	<b>1 733</b>
Reinsurance assets	1 267	1 811	1 149	1 532
Deferred acquisition costs	251	259	273	251
Cash and cash equivalents	1 143	1 379	641	919
<b>Total financial and insurance assets</b>	<b>16 159</b>	<b>16 602</b>	<b>12 111</b>	<b>12 583</b>
	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>Financial and insurance liabilities</b>				
Debt securities	949	863	949	863
Investment contracts	495	333	–	–
Derivatives	75	117	75	117
Cell owners' interest	577	535	–	–
Collateral guarantee contracts	108	101	108	101
Insurance liabilities	7 763	8 263	5 994	6 439
Deferred reinsurance acquisition revenue	40	53	74	60
Trade and other payables	1 890	1 570	1 509	1 546
<b>Total financial and insurance liabilities</b>	<b>11 897</b>	<b>11 834</b>	<b>8 709</b>	<b>9 126</b>

### 3.2 Regulatory impact on risk and risk assessments

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

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

### 3.3 Fair value estimation

IFRS 7 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)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following tables present the assets and liabilities that are measured at fair value

31 December 2010

GROUP	Level 1	Level 2	Level 3	Total
Financial assets	R million	R million	R million	R million
Equity securities				
Quoted				
Listed	3 460	–	–	3 460
Unitised funds	–	36	–	36
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	334	334
<b>Total equity securities</b>	<b>3 462</b>	<b>36</b>	<b>334</b>	<b>3 832</b>
Debt securities				
Quoted				
Government and public bonds	1 816	–	–	1 816
Unitised funds	–	398	–	398
Money market instruments > 1 year	–	1 174	–	1 174
Unquoted				
Government and public bonds	–	195	–	195
Unitised funds	–	–	–	–
Money market instruments > 1 year	–	354	–	354
Redeemable preference shares	–	–	309	309
<b>Total debt securities</b>	<b>1 816</b>	<b>2 122</b>	<b>309</b>	<b>4 246</b>
<b>Short-term money market instruments</b>	<b>–</b>	<b>3 685</b>	<b>–</b>	<b>3 685</b>
	<b>5 278</b>	<b>5 843</b>	<b>643</b>	<b>11 764</b>

GROUP	Level 1	Level 2	Level 3	Total
Financial liabilities	R million	R million	R million	R million
Debt securities	949	–	–	949
Investment contracts	–	495	–	495
Derivatives				
Interest rate swaps	–	–	1	1
Fence	–	–	74	74
<b>Total derivatives</b>	<b>–</b>	<b>–</b>	<b>75</b>	<b>75</b>
	<b>949</b>	<b>495</b>	<b>75</b>	<b>1 519</b>

COMPANY	Level 1	Level 2	Level 3	Total
Financial assets	R million	R million	R million	R million
Equity securities				
Quoted				
Listed	3 155	–	–	3 155
Unitised funds	–	9	–	9
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	12	12
<b>Total equity securities</b>	<b>3 157</b>	<b>9</b>	<b>12</b>	<b>3 178</b>
Debt securities				
Quoted				
Government and public bonds	1 558	–	–	1 558
Unitised funds	–	375	–	375
Money market instruments > 1 year	–	1 038	–	1 038
Unquoted				
Government and public bonds	–	195	–	195
Unitised funds	–	–	–	–
Money market instruments > 1 year	–	354	–	354
Redeemable preference shares	–	–	295	295
<b>Total debt securities</b>	<b>1 558</b>	<b>1 962</b>	<b>295</b>	<b>3 815</b>
<b>Short-term money market instruments</b>	<b>–</b>	<b>1 689</b>	<b>–</b>	<b>1 689</b>
	<b>4 715</b>	<b>3 660</b>	<b>307</b>	<b>8 682</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY	Level 1	Level 2	Level 3	Total
Financial liabilities	R million	R million	R million	R million
COMPANY				
Financial liabilities				
Debt securities	949	–	–	949
Derivatives				
Interest rate swaps	–	–	1	1
Fence	–	–	74	74
Total derivatives	–	–	75	75
	949	–	75	1 024

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	Level 1	Level 2	Level 3	Total
Financial liabilities	R million	R million	R million	R million
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	Level 1	Level 2	Level 3	Total
Financial assets	R million	R million	R million	R million
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY	Level 1	Level 2	Level 3	Total
Financial liabilities	R million	R million	R million	R million
<b>Debt securities</b>	863	–	–	863
Derivatives				
Interest rate swaps	–	–	9	9
Fence	–	–	108	108
<b>Total derivatives</b>	–	–	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 statement of financial position 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
  - 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% and 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 R1.5 million (2009: R3.2 million). A 1% increase in the discount rate would result in a R4.6 million (2009: R8.9 million) decrease in the fair value of these instruments, but a 1% decrease in the discount rate would result in a R4.8 million (2009: R9.3 million) increase in the fair value, resulting in similar decreases and increases in investment income.
- Unquoted redeemable preference shares
  - Instruments with limited duration and low credit risk are valued at nominal values
  - 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 R1.1 million (2009: R1.9 million) decrease in the fair value of these instruments, but a 1% decrease in the discount rate would result in a R1.1 million (2009: R2 million) increase in the fair value, resulting in similar decreases and increases in investment income.
- Derivatives
  - 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 R4.5 million (2009: R9.8 million) decrease in the fair value of these instruments, but a 1% decrease in the discount rate would result in a R4.8 million (2009: R10.5 million) increase in the fair value, resulting in similar decreases and increases in investment income.
  - 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:
    - o Risk-free rate
    - o Volatilities
    - o Dividend yields
    - o Spot prices (the Top 40 index)
    - o 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.

Two fence structures were entered into in September 2010 and October 2010 for the purpose of protecting R1 billion and R750 million of Santam's equity portfolio respectively. The first fence structure has an attachment point of 5311 (SWIX40 index) with downside protection of 9% from said point as well as upside participation of 18% from said point. The second fence has an attachment point of 5589 with downside protection of 9% and upside participation of 16%. At 31 December 2010, the SWIX40 index closed at 6069 points, 14% above the first attachment point and 9% above the second attachment point. A 10% decline in the SWIX40 will result in an increase of R91 million in the fair value of the fence and an increase of 10% in the SWIX40 will result in a decrease of R127 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

	Equity securities Unquoted R million	Debt securities Unquoted Redeemable preference shares R million	Derivatives R million	Total R million
<b>31 December 2010</b>				
<b>GROUP</b>				
Opening balance	319	396	(117)	598
Acquisitions	1	–	–	1
Interest and dividends capitalised	–	68	–	68
Disposals	(2)	(154)	–	(156)
Exchange rate differences	(42)	–	–	(42)
Gains/(losses) recognised in profit or loss	58	(1)	42	99
Closing balance	334	309	(75)	568

<b>COMPANY</b>				
Opening balance	14	392	(117)	288
Acquisitions	–	–	–	–
Interest and dividends capitalised	–	58	–	58
Disposals	(2)	(154)	–	(156)
Exchange rate differences	–	–	–	–
Gains/(losses) recognised in profit or loss	–	(1)	42	41
Closing balance	12	295	(75)	231

### 31 December 2009

<b>GROUP</b>				
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

<b>COMPANY</b>				
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 and insurance assets are disclosed in the following classes based on their similar characteristics:

- Equity securities
- Debt securities
- Receivables due from contract holders
- Reinsurance receivables
- Reinsurance assets
- Deferred acquisition costs
- Other loans and receivables
- Cash and cash equivalents
- Short-term interest-bearing instruments
- Cell owners' interest

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 7.4% of the total listed equities and 1.5% of the total assets. The company's largest investment in any one company comprises 7.5% of the total listed equities and 1.7% of the total assets.

The company continued with actions during the year to reduce the group's price risk exposure. Following the expiry of the fence structure in July 2010, two similar fence structures were entered into on 3 September 2010 and 5 October 2010 aiming to protect the first 9% loss from market levels at the time of entering into the structures on R1 billion and R750 million of the company's equity portfolio respectively.

At 31 December 2010, the group's listed equities were recorded at their fair value of R3 498 million (2009: R2 872 million). These figures include linked policy investments to the value of R252 million (2009: R152 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 R350 million (2009: R287 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 R350 million (2009: R287 million), before taking into account the effect of the derivative. The company's listed equities were recorded at their fair value of R3 167 million (2008: R2 659 million). A hypothetical 10% decline in each individual share price would have the net effect of decreasing profit before taxation by R317 million (2009: R266 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 R317 million (2009: R266 million), before taking into account the effect of the derivative (refer note 3.3 for effect of 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 2010, 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	2010		2009	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
<b>Financial assets</b>				
Quoted debt securities	(85.5)	85.5	(101.7)	101.7
Unquoted debt securities	(7.7)	7.7	(1.3)	1.3
Short-term money market instruments	(3.7)	3.7	(22.2)	22.2
<b>Total interest-bearing securities</b>	<b>(96.8)</b>	<b>96.9</b>	<b>(125.1)</b>	<b>125.2</b>

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 R43.4 million (2009: R89.0 million) or an increase in income before taxation of R43.4 million (2009: R89.0 million) respectively.

GROUP	2010		2009	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
<b>Financial liabilities</b>				
Debt securities – quoted	44.8	(44.8)	(44.9)	44.9
Derivative instruments	(4.5)	4.8	9.8	(10.5)
<b>Total interest-bearing securities</b>	<b>40.3</b>	<b>(40.1)</b>	<b>(35.1)</b>	<b>34.4</b>

An increase or decrease of 1% in the interest rates relating to debt securities and derivative instruments would result in an increase in income before taxation of R40.3 million (2009: R35.2 million) or a decrease in income before taxation of R40.1 million (2009: R34.4 million) respectively.

COMPANY	2010		2009	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
<b>Financial assets</b>				
Quoted debt securities	(75.7)	75.8	(94.1)	94.2
Unquoted debt securities	(7.5)	7.5	–	–
Short-term money market instruments	(1.2)	1.2	(7.6)	7.6
<b>Total interest-bearing securities</b>	<b>(84.5)</b>	<b>84.6</b>	<b>(101.7)</b>	<b>101.8</b>

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 R49.8 million (2009: R77.6 million) or an increase in income before taxation of R49.9 million (2009: R77.7 million) respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY	2010		2009	
	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
<b>Financial liabilities</b>				
Debt securities – quoted	44.8	(44.8)	(44.9)	44.9
Derivative instruments	(4.5)	4.8	9.8	(10.5)
<b>Total interest-bearing securities</b>	<b>40.3</b>	<b>(40.1)</b>	<b>(35.1)</b>	<b>34.4</b>

An increase or decrease of 1% in the interest rates relating to debt securities and derivative instruments would result in an increase in income before taxation of R40.3 million (2009: R35.2 million) or a decrease in income before taxation of R40.1 million (2009: R34.4 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 dollar and the British pound.

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

#### Assets and liabilities denominated in foreign currencies included in the statement of financial position

31 December 2010 GROUP	Euro € million	United States dollar \$ million	British pound £ million	Total exposure R million
Cash, deposits and similar securities	0.35	56.91	5.18	437
Reinsurance assets	–	1.93	–	13
Deferred acquisition costs	–	0.58	–	5
Trade and other receivables	–	0.87	–	5
Insurance liabilities	(0.02)	(5.99)	–	(43)
Deferred reinsurance acquisition revenue	–	(0.37)	–	(2)
Trade and other payables	–	(0.56)	(12.82)	(135)
<b>Foreign currency exposure</b>	<b>0.33</b>	<b>53.37</b>	<b>(7.64)</b>	<b>279</b>

COMPANY	Euro € million	United States dollar \$ million	British pound £ million	Total exposure R million
Cash, deposits and similar securities	0.35	42.91	5.18	340
Reinsurance assets	–	1.93	–	13
Deferred acquisition costs	–	0.58	–	5
Trade and other receivables	–	0.87	–	5
Insurance liabilities	(0.02)	(4.99)	–	(36)
Deferred reinsurance acquisition revenue	–	(0.37)	–	(2)
Trade and other payables	–	(0.56)	(12.82)	(135)
<b>Foreign currency exposure</b>	<b>0.33</b>	<b>40.37</b>	<b>(7.64)</b>	<b>189</b>

#### Exchange rates:

Closing rate	8.8810	6.6162	10.3627
Average rate	9.6753	7.3035	11.2858

#### 31 December 2009

GROUP	Euro € million	United States dollar \$ million	British pound £ million	Total exposure R million
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)
<b>Foreign currency exposure</b>	<b>(0.55)</b>	<b>50.31</b>	<b>(6.07)</b>	<b>282</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY	Euro € million	United States dollar \$ million	British pound £ million	Total exposure R million
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)
<b>Foreign currency exposure</b>	<b>(0.55)</b>	<b>35.09</b>	<b>(6.07)</b>	<b>180</b>
<b>Exchange rates:</b>				
Closing rate	10.5597	7.3622	11.8906	
Average rate	11.6193	8.3117	13.0420	

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% increase in Rand/USD R million	10% decrease in rand/USD R million
<b>GROUP</b>				
Impact on net assets at 31 December 2010	(7.92)	7.92	35.32	(35.32)
Impact on net assets at 31 December 2009	(7.22)	7.22	38.06	(38.06)
<b>COMPANY</b>				
Impact on net assets at 31 December 2010	(7.92)	7.22	26.71	(26.71)
Impact on net assets at 31 December 2009	(7.22)	7.22	26.85	(26.85)

The foreign exchange profits or losses arising from the translation of international business unit statements of financial position 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.

### 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.

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 746 million (2009: R1 485 million) in the group and for assets amounting to R1 549 million (2009: 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 its 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 its quarterly feedback sessions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

### 31 December 2010

GROUP	Credit rating								Not Carrying	
	AAA	AA+	AA	AA-	A+	A	A-	BBB	rated	value
	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Debt securities – quoted	1 372	106	463	942	246	193	–	62	2	3 388
Debt securities – unquoted	70	–	313	288	–	–	30	–	14	858
<b>Total</b>	<b>1 442</b>	<b>106</b>	<b>776</b>	<b>1 230</b>	<b>391</b>	<b>193</b>	<b>30</b>	<b>62</b>	<b>16</b>	<b>4 247</b>
<b>Short-term money market instruments</b>	<b>991</b>	<b>87</b>	<b>1 261</b>	<b>464</b>	<b>677</b>	<b>4</b>	<b>10</b>	<b>91</b>	<b>100</b>	<b>3 685</b>
Receivables due from contract holders/intermediaries	21	–	18	–	16	–	–	–	970	1 025
Reinsurance receivables	11	70	1	26	22	14	23	79	53	300
Other loans and receivables	23	1	14	17	29	4	–	1	321	410
<b>Total</b>	<b>55</b>	<b>71</b>	<b>33</b>	<b>43</b>	<b>67</b>	<b>18</b>	<b>23</b>	<b>80</b>	<b>1 344</b>	<b>1 735</b>
<b>Cash and cash equivalents</b>	<b>691</b>	<b>66</b>	<b>2</b>	<b>161</b>	<b>152</b>	<b>40</b>	<b>24</b>	<b>8</b>	<b>–</b>	<b>1 143</b>
<b>COMPANY</b>										
Debt securities – quoted	1 087	98	417	917	228	186	–	38	–	2 971
Debt securities – unquoted	70	–	313	287	144	–	30	–	–	844
<b>Total</b>	<b>1 157</b>	<b>98</b>	<b>730</b>	<b>1 204</b>	<b>372</b>	<b>186</b>	<b>30</b>	<b>38</b>	<b>–</b>	<b>3 815</b>
<b>Short-term money market instruments</b>	<b>477</b>	<b>16</b>	<b>747</b>	<b>140</b>	<b>309</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 689</b>
Receivables due from contract holders/intermediaries	21	–	18	–	16	–	–	–	709	764
Reinsurance receivables	11	16	1	20	18	14	19	54	24	177
Other loans and receivables	21	1	14	11	8	4	–	1	365	425
<b>Total</b>	<b>53</b>	<b>17</b>	<b>33</b>	<b>31</b>	<b>42</b>	<b>18</b>	<b>19</b>	<b>55</b>	<b>1 098</b>	<b>1 366</b>
<b>Cash and cash equivalents</b>	<b>500</b>	<b>–</b>	<b>–</b>	<b>94</b>	<b>7</b>	<b>40</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>841</b>

### 31 December 2009

<b>GROUP</b>										
Debt securities – quoted	933	29	448	359	215	372	–	25	15	2 395
Debt securities – unquoted	–	–	–	587	78	–	–	–	86	751
<b>Total</b>	<b>933</b>	<b>29</b>	<b>448</b>	<b>946</b>	<b>293</b>	<b>372</b>	<b>–</b>	<b>25</b>	<b>101</b>	<b>3 146</b>
<b>Short-term money market instruments</b>	<b>1 650</b>	<b>77</b>	<b>1 578</b>	<b>947</b>	<b>178</b>	<b>38</b>	<b>–</b>	<b>2</b>	<b>84</b>	<b>4 554</b>
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
<b>Total</b>	<b>42</b>	<b>63</b>	<b>42</b>	<b>44</b>	<b>45</b>	<b>16</b>	<b>33</b>	<b>141</b>	<b>1 836</b>	<b>2 262</b>
<b>Cash and cash equivalents</b>	<b>701</b>	<b>14</b>	<b>299</b>	<b>223</b>	<b>128</b>	<b>–</b>	<b>–</b>	<b>12</b>	<b>2</b>	<b>1 379</b>
<b>COMPANY</b>										
Debt securities – quoted	852	27	435	353	215	304	–	–	–	2 187
Debt securities – unquoted	–	–	–	587	78	–	–	–	82	747
<b>Total</b>	<b>852</b>	<b>27</b>	<b>435</b>	<b>940</b>	<b>293</b>	<b>304</b>	<b>–</b>	<b>–</b>	<b>82</b>	<b>2 933</b>
<b>Short-term money market instruments</b>	<b>1 143</b>	<b>–</b>	<b>867</b>	<b>344</b>	<b>164.65</b>	<b>22</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2 541</b>
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
<b>Total</b>	<b>41</b>	<b>3</b>	<b>41</b>	<b>23</b>	<b>42</b>	<b>16</b>	<b>1</b>	<b>72</b>	<b>1 494</b>	<b>1 733</b>
<b>Cash and cash equivalents</b>	<b>533</b>	<b>–</b>	<b>139</b>	<b>185</b>	<b>62</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>919</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The carrying amount of assets included on the statement of financial position represents the maximum credit exposure.

Unrated receivables that are due from contract holders and intermediaries emanating from the Southern African business amounted to R970 million (2009: R1 326 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. The receivables balances relating to intermediaries amounted to R571 million (2009: R737 million). For the company, this amounts to R517 million (2009: R715 million). Debtors falling into the "Not rated" category are managed by the internal credit control business units 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, clients 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 Lloyds. 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 R79 million (2009: R93 million) relate to reinsurance intermediaries for the group. In the company BBB-rated reinsurance receivables of R54 million (2009: R63 million) relate to reinsurance intermediaries. The reinsurance receivable balances, disclosed as not rated on a group level, relate to cell owners (R31 million) and reinsurance intermediaries.

### 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.

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 2010

GROUP	Financial assets that are past due but not impaired					Financial assets that have been impaired			Carrying value R million
	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	Impairment R million			
Debt securities – quoted	3 388	–	–	–	–	–	–	–	3 388
Debt securities – unquoted	856	–	–	–	–	–	–	–	858
<b>Total</b>	<b>4 246</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4 246</b>
<b>Short-term money market instruments</b>	<b>3 685</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3 685</b>
Receivables due from contract holders/intermediaries	977	37	10	–	–	–	–	–	1 025
Reinsurance receivables	186	56	40	19	1	4	(4)	–	300
Other loans and receivables	405	5	–	–	2	54	(56)	–	410
<b>Total</b>	<b>1 568</b>	<b>97</b>	<b>50</b>	<b>19</b>	<b>2</b>	<b>58</b>	<b>(60)</b>	<b>–</b>	<b>1 735</b>
<b>Cash and cash equivalents</b>	<b>1 143</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 143</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	Impairment R million		
Debt securities – quoted	2 971	–	–	–	–	–	–	2 971
Debt securities – unquoted	844	–	–	–	–	–	–	844
<b>Total</b>	<b>3 815</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3 815</b>
<b>Short-term money market instruments</b>	<b>1 689</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 689</b>
Receivables due from contract holders/intermediaries	764	–	–	–	–	–	–	764
Reinsurance receivables	140	–	18	18	1	4	(4)	177
Other loans and receivables	425	–	–	–	–	92	(92)	425
<b>Total</b>	<b>1 329</b>	<b>–</b>	<b>18</b>	<b>18</b>	<b>1</b>	<b>96</b>	<b>(96)</b>	<b>1 366</b>
<b>Cash and cash equivalents</b>	<b>641</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>641</b>
<b>At 31 December 2009</b>								
<b>GROUP</b>								
Debt securities – quoted	2 396	–	–	–	–	–	–	2 396
Debt securities – unquoted	751	–	–	–	–	–	–	751
<b>Total</b>	<b>3 147</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3 147</b>
<b>Short-term money market instruments</b>	<b>4 554</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4 554</b>
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
<b>Total</b>	<b>2 031</b>	<b>166</b>	<b>38</b>	<b>18</b>	<b>9</b>	<b>65</b>	<b>(66)</b>	<b>2 260</b>
<b>Cash and cash equivalents</b>	<b>1 379</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 379</b>
<b>COMPANY</b>								
Debt securities – quoted	2 187	–	–	–	–	–	–	2 187
Debt securities – unquoted	747	–	–	–	–	–	–	747
<b>Total</b>	<b>2 934</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2 934</b>
<b>Short-term money market instruments</b>	<b>2 541</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2 541</b>
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
<b>Total</b>	<b>1 682</b>	<b>–</b>	<b>35</b>	<b>14</b>	<b>2</b>	<b>96</b>	<b>(96)</b>	<b>1 733</b>
<b>Cash and cash equivalents</b>	<b>919</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>919</b>

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Terms and conditions of insurance contracts

*Engineering* – Provides cover for risks relating to:

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

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

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

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

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

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

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

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

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

Insurance risk in the group arises from:

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

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

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

### Pricing

The group bases its pricing policy on the theory of probability. Underwriting limits are set for underwriting managers and intermediaries 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	2010	2009	2008	2007	2006	2005	2004
Net claims paid and provided %*	64.1	70.6	68.4	68.2	68.6	65.3	57.0

\* 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.

### 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 is used to determine the expected cost of these unreported claims (refer note 2).

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

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

### Accumulation risk

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

### Reinsurance

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

- 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 R6.5 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 and insurance liabilities. 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 expected cash flow basis.

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

#### 31 December 2010

GROUP	< 1 year	1 – 5 years	> 5 years	Open ended	Carrying value
Financial and insurance assets	R million	R million	R million	R million	R million
Debt securities – quoted	476	1 709	1 203	–	3 388
Debt securities – unquoted	74	758	27	–	858
<b>Total</b>	<b>550</b>	<b>2 467</b>	<b>1 230</b>	<b>–</b>	<b>4 246</b>
<b>Short-term money market instruments</b>	<b>3 685</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3 685</b>
Receivables due from contract holders/intermediaries	1 025	–	–	–	1 025
Reinsurance receivables	300	–	–	–	300
Other loans and receivables	394	17	–	–	410
<b>Total</b>	<b>1 718</b>	<b>17</b>	<b>–</b>	<b>–</b>	<b>1 735</b>
<b>Cash and cash equivalents</b>	<b>1 143</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 143</b>

GROUP	Within 1 year	1 to 5 years	More than 5 years	Total
Financial and insurance liabilities	R million	R million	R million	R million
Debt securities	83	330	1 141	1 554
Investment contracts	453	42	–	495
Derivatives	74	–	1	75
Cell owners' interest	51	526	–	577
Collateral guarantee contracts	108	–	–	108
Insurance liabilities (incl DAC)	8 447	1 370	28	7 845
Trade and other payables	1 890	–	–	1 890
<b>Total</b>	<b>9 105</b>	<b>2 269</b>	<b>1 170</b>	<b>12 544</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY	< 1 year R million	1 – 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
<b>Financial and insurance assets</b>					
Debt securities – quoted	450	1 507	1 015	–	2 971
Debt securities – unquoted	59	758	27	–	844
<b>Total</b>	<b>509</b>	<b>2 265</b>	<b>1 041</b>	<b>–</b>	<b>3 815</b>
<b>Short-term money market instruments</b>	<b>1 689</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 689</b>
Receivables due from contract holders/intermediaries	784	–	–	–	764
Reinsurance receivables	177	–	–	–	177
Other loans and receivables	425	–	–	–	425
<b>Total</b>	<b>1 366</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 366</b>
<b>Cash and cash equivalents</b>	<b>641</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>641</b>

COMPANY	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
<b>Financial and insurance liabilities</b>				
Debt securities	83	330	1 141	1 554
Derivatives	74	–	1	75
Collateral guarantee contracts	108	–	–	108
Insurance liabilities (incl DAC)	4 837	1 204	27	6 068
Trade and other payables	1 509	–	–	1 509
<b>Total</b>	<b>6 611</b>	<b>1 534</b>	<b>1 169</b>	<b>9 314</b>

31 December 2009

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

GROUP	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
<b>Financial and insurance liabilities</b>				
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
<b>Total</b>	<b>8 684</b>	<b>2 446</b>	<b>1 478</b>	<b>12 608</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

COMPANY	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
<b>Financial and insurance liabilities</b>				
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
<b>Total</b>	<b>6 609</b>	<b>1 813</b>	<b>1 477</b>	<b>9 899</b>

### 3.8 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.

### 3.9 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.

### 3.10 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 company;
- the allocation of capital between business units; and
- the level and type of risk within the company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3.10.1 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 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 statement of financial position 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.

#### **3.10.2 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 44).

#### **3.10.3 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).

#### **3.10.4 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.

#### **3.10.5 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 company.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. SEGMENT INFORMATION

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. No geographical segmentation is disclosed as southern Africa is regarded as one reportable segment for management purposes.

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

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
<b>2010</b>			
<b>Revenue</b>	15 855	937	16 792
Gross written premium	15 855		15 855
Net written premium	13 519		13 519
Net earned premium	13 550		13 550
Claims incurred	8 683		8 683
Net commission	2 075		2 075
Management expenses	1 631	15	1 646
<b>Underwriting result</b>	1 161	(15)	1 146
Investment return on insurance funds	396		396
<b>Net insurance result</b>	1 557	(15)	1 542
Investment income net of management fee*		840	840
Income from associates net of impairment		69	69
Amortisation and impairment of intangible assets	(23)		(23)
<b>Income before taxation</b>	1 534	894	2 428
<b>Total assets</b>	9 446	8 289	17 735
<b>Total liabilities</b>	11 492	1 024	12 516

\* Interest income of R139 million and finance costs of R120 million are included.

### 2009 (restated)

<b>Revenue</b>	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
<b>Underwriting result</b>	466	(13)	453
Investment return on insurance funds	420		420
<b>Net insurance result</b>	886	(13)	873
Investment income net of management fee*		627	627
Income from associates		43	43
Amortisation of intangible asset	(25)		(25)
<b>Income before taxation</b>	861	657	1 518
<b>Total assets</b>	10 547	6 535	17 082
<b>Total liabilities</b>	11 538	872	12 410

\* Interest income of R78 million and finance costs of R114 million are included.

## 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
<b>2010</b>				
Accident and health	264	7	14	131
Alternative risk	1 751	13	266	1 769
Crop	429	(85)	204	379
Engineering	595	156	95	256
Guarantee	21	6	6	29
Liability	1 103	315	422	1 900
Miscellaneous	22	6	1	12
Motor	6 684	371	2	1 538
Property	4 615	269	498	1 608
Transportation	371	103	53	225
Unallocated	–	(15)	16 174	4 669
<b>Total</b>	<b>15 855</b>	<b>1 146</b>	<b>17 735</b>	<b>12 516</b>
<b>Comprising:</b>				
Commercial insurance	8 054	886	1 158	4 817
Personal insurance	6 050	262	137	1 261
Alternative risk	1 751	13	266	1 769
Unallocated	–	(15)	16 174	4 669
<b>Total</b>	<b>15 855</b>	<b>1 146</b>	<b>17 735</b>	<b>12 516</b>
<b>2009 (restated)</b>				
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	4 094
<b>Total</b>	<b>15 026</b>	<b>453</b>	<b>17 082</b>	<b>12 410</b>
<b>Comprising:</b>				
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	4 094
<b>Total</b>	<b>15 026</b>	<b>453</b>	<b>17 082</b>	<b>12 410</b>

\* Only reinsurance assets and insurance liabilities, including deferred acquisition costs, have been allocated to insurance classes. The balance of assets and liabilities are disclosed for segment purposes under unallocated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. PROPERTY AND EQUIPMENT GROUP

#### At 1 January 2009

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	–	(3)	(2)	(5)
Additions	–	22	10	32
Depreciation charge	–	(15)	(7)	(22)
Reclassified to intangible assets	–	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

#### Year ended 31 December 2010

Opening net book amount	1	24	22	47
Acquisition of subsidiaries	1	22	18	41
Additions	–	20	6	26
Depreciation charge	–	(18)	(8)	(26)
Closing net book amount	2	48	38	88

#### At 31 December 2010

Cost or valuation	2	111	126	239
Accumulated depreciation	–	(63)	(88)	(151)
Net book amount	2	48	38	88

### COMPANY

#### At 1 January 2009

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

#### Year ended 31 December 2010

Opening net book amount	1	21	17	39
Additions	–	17	5	22
Depreciation charge	–	(15)	(6)	(21)
Closing net book amount	1	23	16	40

#### At 31 December 2010

Cost or valuation	1	56	62	119
Accumulated depreciation	–	(33)	(46)	(79)
Net book amount	1	23	16	40

Depreciation expense has been included in Expenses for marketing and administration in the statement of comprehensive income (refer note 30).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Goodwill R million	Computer software R million	Value of business acquired R million	Brand and trade names R million	Key business relationships R million	Total R million
<b>6. INTANGIBLE ASSETS</b>						
<b>GROUP</b>						
<b>At 1 January 2009</b>						
Cost	120	43	15	–	–	178
Translation difference	7	–	–	–	–	7
Impairment/Accumulated amortisation	(6)	(18)	(6)	–	–	(30)
<b>Net book amount</b>	<b>121</b>	<b>25</b>	<b>9</b>	<b>–</b>	<b>–</b>	<b>155</b>
<b>Year ended 31 December 2009</b>						
Opening net book amount	121	25	9	–	–	155
Acquisitions	–	5	2	–	–	7
Disposals	–	–	(2)	–	–	(2)
Acquisition of subsidiaries (refer note 38)	5	3	–	–	–	8
Amortisation	–	(16)	(9)	–	–	(25)
<b>Closing net book amount</b>	<b>126</b>	<b>17</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>143</b>
<b>At 31 December 2009</b>						
Cost	125	51	7	–	–	183
Translation difference	7	–	–	–	–	7
Impairment/Accumulated amortisation	(6)	(34)	(7)	–	–	(47)
<b>Net book amount</b>	<b>126</b>	<b>17</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>143</b>
<b>Year ended 31 December 2010</b>						
Opening net book amount	126	17	–	–	–	143
Acquisition of subsidiaries (refer note 38)	675	30	–	39	127	871
Acquisitions	–	1	–	–	–	1
Impairment	(10)	–	–	–	–	(10)
Amortisation	–	(10)	–	(1)	(6)	(17)
<b>Closing net book amount</b>	<b>791</b>	<b>38</b>	<b>–</b>	<b>38</b>	<b>121</b>	<b>988</b>
<b>At 31 December 2010</b>						
Cost	801	82	7	39	127	1 056
Impairment/Accumulated amortisation	(10)	(44)	(7)	(1)	(6)	(68)
<b>Net book amount</b>	<b>791</b>	<b>38</b>	<b>–</b>	<b>38</b>	<b>121</b>	<b>988</b>
<b>COMPANY</b>						
<b>At 1 January 2009</b>						
Cost	–	35	2	–	–	37
Impairment	–	(13)	(2)	–	–	(15)
<b>Net book amount</b>	<b>–</b>	<b>22</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>22</b>
<b>Year ended 31 December 2009</b>						
Opening net book amount	–	22	–	–	–	22
Reclassified from property and equipment	–	4	–	–	–	4
Amortisation	–	(13)	–	–	–	(13)
<b>Closing net book amount</b>	<b>–</b>	<b>13</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>13</b>
<b>At 31 December 2009</b>						
Cost	–	39	2	–	–	41
Accumulated amortisation	–	(26)	(2)	–	–	(28)
<b>Net book amount</b>	<b>–</b>	<b>13</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>13</b>
<b>Year ended 31 December 2010</b>						
Opening net book amount	–	13	–	–	–	13
Amortisation	–	(7)	–	–	–	(7)
<b>Closing net book amount</b>	<b>–</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6</b>
<b>At 31 December 2010</b>						
Cost	–	39	–	–	–	39
Accumulated amortisation	–	(33)	–	–	–	(33)
<b>Net book amount</b>	<b>–</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. INTANGIBLE ASSETS (continued)

#### 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	
	2010	2009
	R million	R million
Agri Risk Specialists	19	19
Centriq Insurance Holdings (Pty) Ltd	1	1
Indwe Broker Holdings (Pty) Ltd	356	–
Isure Services (Pty) Ltd	5	5
MiWay Group Holdings (Pty) Ltd	319	–
Stalker Hutchison Admiral (Pty) Ltd	91	101
	<b>791</b>	<b>126</b>

When testing for impairment, the recoverable amount of a CGU is determined based on 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 were impaired where it was deemed necessary. The nature of goodwill mainly relates to employee skill and industry knowledge.

### 7. INVESTMENT IN SUBSIDIARIES

At the beginning of the year  
Additional investment  
Provision for impairment  
Unlisted shares at cost price less amounts written off

Directors' valuation

	Company	
	2010	2009
	R million	R million
	1 503	1 552
	340	–
	–	(49)
	<b>1 843</b>	<b>1 503</b>
	<b>3 175</b>	<b>2 024</b>

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

*Details of investments are set out in note 45.*

### 8. INVESTMENT IN ASSOCIATES GROUP

At the beginning of the year  
Acquisitions  
Share of results after tax\*  
  
Share of results before tax  
Share of tax  
  
Dividends received from associated companies  
Disposals  
Transfer to investment in subsidiaries  
Impairment  
At the end of the year

Fair value/Directors' valuation

	Group	
	2010	2009
	R million	R million
	198	195
	17	7
	79	49
	<b>111</b>	<b>69</b>
	<b>(32)</b>	<b>(20)</b>
	(23)	(35)
	–	(11)
	(66)	(1)
	6	(6)
	<b>211</b>	<b>198</b>
	<b>315</b>	<b>288</b>

*Details of investments are set out in note 45.*

\* The share of results after tax includes equity losses of R16 million recognised against loans to associates.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Company 2010 R million	2009 R million
<b>COMPANY</b>		
At the beginning of the year	133	157
Disposals	–	(24)
	<b>133</b>	<b>133</b>
Fair value/Directors' valuation	<b>297</b>	<b>176</b>
Dividend income received from associates	<b>23</b>	<b>20</b>
Total income from associates	<b>23</b>	<b>20</b>

Investments in associates at 31 December 2010 include goodwill of RNil (2009: R4.5 million).

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
<b>2010</b>				
NICO Holdings Ltd	3 105	1 715	595	71
Credit Guarantee Insurance Corporation of Africa Ltd	1 013	652	779	128
Paladin Underwriting Managers (Pty) Ltd	150	137	158	2
Beyonda Group (Pty) Ltd	15	10	27	2
Other	37	38	4	–
<b>Total</b>	<b>4 320</b>	<b>2 552</b>	<b>1 563</b>	<b>203</b>
<b>2009</b>				
NICO Holdings Ltd	2 792	1 500	837	62
Credit Guarantee Insurance Corporation of Africa Ltd	839	557	622	17
Indwe Broker Holdings Group (Pty) Ltd	239	160	48	6
MiWay Group Holdings (Pty) Ltd	119	103	58	(90)
Thebe Risk Services Holdings (Pty) Ltd	20	–	3	3
Other	1	2	3	–
<b>Total</b>	<b>4 010</b>	<b>2 322</b>	<b>1 571</b>	<b>(2)</b>

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

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

	Group 2010 R million	2009 R million	Company 2010 R million	2009 R million
Equity securities				
– quoted	3 498	2 872	3 166	2 659
– unquoted	334	319	12	14
	<b>3 832</b>	<b>3 191</b>	<b>3 178</b>	<b>2 673</b>
Debt securities				
– quoted				
government and other bonds	1 839	1 639	1 558	1 441
money market instruments (long-term instruments)	1 174	756	1 038	746
redeemable preference shares	375	–	375	–
– unquoted				
government and other bonds	195	–	195	–
money market instruments (long-term instruments)	354	–	354	–
redeemable preference shares	309	751	295	747
	<b>4 246</b>	<b>3 146</b>	<b>3 815</b>	<b>2 934</b>
Short-term money market instruments	3 685	4 554	1 689	2 541
<b>Financial assets at fair value through income</b>	<b>11 763</b>	<b>10 891</b>	<b>8 682</b>	<b>8 148</b>

Financial assets amounting to R44 million (2009: R81 million) were pledged as collateral for the zero cost fence as at 31 December 2010.

*The details of investments are set out on page 159.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group		Company	
	2010	2009	2010	2009
	R million	R million	R million	R million
<b>10. DERIVATIVES</b>				
Financial liability – at fair value through income				
Over the counter				
Interest rate swaps	1	9	1	9
Zero cost fence	74	108	74	108
	<b>75</b>	<b>117</b>	<b>75</b>	<b>117</b>

The interest rate derivative represents the fair value of an interest rate swap effected on a portion (R100 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 derivative matures on 10 June 2017.

The zero cost fence on the SWIX40 represents two equity derivatives that were entered into in September 2010 and October 2010 for the purpose of protecting R1 billion and R750 million of Santam's equity portfolio respectively. The first fence structure has an attachment point of 5311 (SWIX40 index) with downside protection of 9% from said point as well as upside participation of 18% from said point. The second fence has an attachment point of 5589 with downside protection of 9% and upside participation of 16%. At 31 December 2010, the SWIX40 index closed at 6069 points, 14% above the first attachment point and 9% above the second 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. Both derivatives expire in three equal tranches over the period from August 2011 to November 2011.

<b>11. REINSURANCE ASSETS</b>				
Reinsurers' share of insurance liabilities	1 267	1 811	1 149	1 532
Total assets arising from reinsurance contracts	<b>1 267</b>	<b>1 811</b>	<b>1 149</b>	<b>1 532</b>

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).

<b>12. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES</b>				
Receivables arising from insurance and reinsurance contracts				
– due from contract holders/intermediaries	1 025	1 385	764	1 109
– due from reinsurers	304	462	181	165
– less provision for impairment of receivables from reinsurers	(4)	(16)	(4)	(10)
Other loans and receivables:				
– other receivables	446	463	234	246
– less provision for impairment	(56)	(50)	(54)	(48)
– loans to executive management	–	2	–	2
– loans to associated companies	20	27	–	–
– less provision for impairment of loans to associates	–	(11)	–	–
– loans to subsidiaries	–	–	283	307
– less provision for impairment of loans to subsidiaries	–	–	(38)	(38)
<b>Total</b>	<b>1 735</b>	<b>2 262</b>	<b>1 366</b>	<b>1 733</b>

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 approximates fair value, except for loans to wholly owned subsidiaries. Provisions for impairment are based on the recoverability of individual loans and receivables.

<b>13. CASH AND CASH EQUIVALENTS</b>				
Cash at bank and in hand	1 143	1 379	641	919
	<b>1 143</b>	<b>1 379</b>	<b>641</b>	<b>919</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group and Company Ordinary shares		Group Treasury shares	
	Number of shares (thousands)	Stated capital R million	Number of shares (thousands)	Stated capital R million
<b>14. SHARE CAPITAL</b>				
<b>At 1 January 2009</b>	119 346	107	6 681	680
Purchase of treasury shares			607	53
Re-issue of treasury shares			(795)	(73)
<b>At 31 December 2009</b>	119 346	107	6 493	660
Purchase of treasury shares			288	34
Re-issue of treasury shares			(457)	(43)
<b>At 31 December 2010</b>	<b>119 346</b>	<b>107</b>	<b>6 324</b>	<b>651</b>

The total authorised number of ordinary shares is 150 million shares of no par value and 12 million non-redeemable, non-participating, non-cumulative no par value preference shares. All issued shares are fully paid. Subject to the restrictions imposed by the Companies Act, the authorised and unissued shares are under the control of the directors until the forthcoming annual general meeting. Until the next annual general meeting the directors are authorised to issue ten million of the unissued shares for any purpose and in accordance with such rules and conditions as they see fit.

In 2007 a subsidiary in the group acquired 6 972 940 Santam shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. In 2010, 315 800 shares were reissued in terms of the share option plan and 138 797 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 re-issue 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 employees, but the options issued will be allowed to be exercised by option holders at the respective vesting periods.

The deferred share plan (DSP) was 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. SHARE OPTIONS (continued)

(i) Deferred share plan (DSP) 2009	Date awarded	Latest irreversible date	Grant price	Number of shares
The following shares were awarded and the delivery thereof deferred to a predetermined future date.	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
				<u>1 598 147</u>
	Movements during the period		Average price	
	As at 1 January 2009		R81.37	1 044 258
	Shares awarded		R66.81	625 585
	Awards shares lapsed due to resignations		R77.54	(60 129)
	Shares issued		R92.04	(11 567)
	As at 31 December 2009		R75.74	<u>1 598 147</u>
2010	Date awarded	Latest irreversible date	Grant price	
	1 June 2007	31 May 2012	R94.53	166 688
	17 September 2010	31 May 2012	R111.42	7 558
	1 June 2008	31 May 2013	R74.91	611 140
	17 September 2010	31 May 2013	R107.44	28 641
	1 June 2009	31 May 2014	R66.81	586 198
	17 September 2010	31 May 2014	R102.87	28 892
	1 June 2010	31 May 2015	R92.99	556 339
	17 September 2010	31 May 2015	R98.46	28 594
				<u>2 014 050</u>
	Movements during the period		Average price	
	As at 1 January 2010		R75.74	1 598 147
	Shares awarded		R92.99	572 732
	Shares awarded in lieu of special dividend		R103.61	93 685
	Awards shares lapsed due to resignations		R81.13	(111 717)
	Shares issued		R92.23	(138 797)
	As at 31 December 2010		R75.69	<u>2 014 050</u>
(ii) Share option scheme 2009	Date awarded	Latest irreversible date	Exercise price*	
	31 March 2004	31 March 2010	R6.65	18 200
	10 November 2005	10 November 2011	R42.80	461 250
				<u>479 450</u>
	Movements during the period		Average price	
	As at 1 January 2009		R34.22	1 145 230
	Awards options lapsed due to resignations		R42.80	(26 400)
	Options exercised		R28.46	(639 380)
	As at 31 December 2009		R41.43	<u>479 450</u>
2010	Date awarded	Latest irreversible date	Exercise price*	
	10 November 2005	10 November 2011	R37.68	149 500
				<u>149 500</u>
	Movements during the period		Average price	
	As at 1 January 2010		R41.43	479 450
	Awards options lapsed due to resignations		R37.68	(19 850)
	Options exercised		R35.53	(310 100)
	As at 31 December 2010		R37.68	<u>149 500</u>

\* On 22 September 2010 a special dividend of 500 cents per share was paid to shareholders. The exercise price of all options granted before that date was reduced with R5.00, but limited to R1.00. For those options where the new exercise price, after the R5.00 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(iii) Deferred payout/delivery scheme	Date awarded	Latest irreversible date	Exercise price	Number of shares
<b>2009</b>				
In terms of the scheme, share options were exercised on condition that the relevant scheme shares may only be released on the fifth anniversary of the option date. It has since been amended to provide for the release of the scheme shares in tranches on the third, fourth and fifth anniversary of the option date.	31 March 2004	31 March 2010	R6.65	5 700
				<u>5 700</u>
	<b>Movements during the period</b>		<b>Average price</b>	
	As at 1 January 2009		R6.58	135 350
	Scheme shares released		R6.57	(129 650)
	<b>As at 31 December 2009</b>		R6.65	<u>5 700</u>
<b>2010</b>				
	<b>Movements during the period</b>		<b>Average price</b>	
	As at 1 January 2010		R6.65	5 700
	Scheme shares released		R6.65	(5 700)
	<b>As at 31 December 2010</b>		R6.65	<u>–</u>

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 charge to the statement of comprehensive income

The fair value of options granted since 7 November 2002 was calculated using a model based on a hybrid of the European and American binomial methods, was R54 million (2009: 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 employee 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 statement of comprehensive income over the five year vesting period. Total share option costs for the above options amounting to R57 million (2009: R47 million) have been included in the statement of comprehensive income.

## 16. RESERVES

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>A) Other reserves</b>				
Translation reserve	(87)	(15)	–	–
Contingency reserve	1 352	1 283	1 270	1 202
	<u>1 265</u>	<u>1 268</u>	<u>1 270</u>	<u>1 202</u>

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.

### (a) Movements in the translation reserve were as follows:

At the beginning of the year	(15)	65
Currency translation differences – group	(72)	(80)
<b>At the end of the year</b>	<u>(87)</u>	<u>(15)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16. RESERVES (continued)

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<i>(b) Movements in the contingency reserve were as follows:</i>				
At the beginning of the year	1 283	1 186	1 202	1 114
Transfer from retained earnings	69	97	68	88
<b>At the end of the year</b>	<b>1 352</b>	<b>1 283</b>	<b>1 270</b>	<b>1 202</b>
<b>B) Distributable reserves</b>				
Retained earnings	4 214	3 679	3 443	3 243
Share-based payment reserve	191	134	191	134
	<b>4 405</b>	<b>3 813</b>	<b>3 634</b>	<b>3 377</b>

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	134	87	134	87
Transfer from retained earnings	57	47	57	47
<b>At the end of the year</b>	<b>191</b>	<b>134</b>	<b>191</b>	<b>134</b>

### 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% (2009: 28%) in South Africa and the official tax rates in the foreign subsidiaries where applicable.

The amounts are as follows:

Deferred tax assets	(251)	(88)	(93)	(59)
Deferred tax liabilities	269	129	188	120
<b>Total net deferred income tax account</b>	<b>18</b>	<b>41</b>	<b>95</b>	<b>61</b>

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

At the beginning of the year	41	(69)	61	(32)
Acquisition of subsidiaries	(61)	–	–	–
Charged to the statement of comprehensive income	38	110	34	93
<b>At the end of the year</b>	<b>18</b>	<b>41</b>	<b>95</b>	<b>61</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

<i>a) Deferred tax assets</i>	Unrealised appreciation of investments R million	Provisions and accruals R million	Tax losses carried forward R million	STC credits R million	Total R million
<b>GROUP</b>					
At 1 January 2009	51	(67)	(48)	(17)	(81)
Transfer (to)/from deferred tax liabilities	(51)	6	–	–	(45)
Charged to the statement of comprehensive income	–	14	10	14	38
<b>At 31 December 2009</b>	–	(47)	(38)	(3)	(88)
Transfer to deferred tax liabilities	–	(10)	–	–	(10)
Acquisition of subsidiaries (Credited)/charged to the statement of comprehensive income	–	–	(103)	–	(103)
	–	(53)	3	–	(50)
<b>At 31 December 2010</b>	–	(110)	(138)	(3)	(251)
<b>COMPANY</b>					
At 1 January 2009	51	(65)	–	(18)	(32)
Transfer to deferred tax liabilities	(51)	–	–	–	(51)
Charged to the statement of comprehensive income	–	10	–	14	24
<b>At 31 December 2009</b>	–	(55)	–	(4)	(59)
Credited to the statement of comprehensive income	–	(33)	–	(1)	(34)
<b>At 31 December 2010</b>	–	(88)	–	(5)	(93)

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 (2009: RNil).

<i>b) Deferred tax liabilities</i>	Unrealised appreciation of investments R million	Provisions and accruals R million	Other differences R million	Total R million
<b>GROUP</b>				
At 1 January 2009	6	6	–	12
Transfer from/(to) deferred tax assets	51	(6)	–	45
Charged to the statement of comprehensive income	72	–	–	72
<b>At 31 December 2009</b>	129	–	–	129
Transfer from deferred tax assets	–	10	–	10
Acquisition of subsidiaries	–	(6)	48	42
Charged to the statement of comprehensive income	80	4	4	88
<b>At 31 December 2010</b>	209	8	52	269
<b>COMPANY</b>				
At 1 January 2009	–	–	–	–
Transfer from deferred tax assets	51	–	–	51
Charged to the statement of comprehensive income	69	–	–	69
<b>At 31 December 2009</b>	120	–	–	120
Charged to the statement of comprehensive income	62	–	6	68
<b>At 31 December 2010</b>	182	–	6	188

No deferred tax has been provided on temporary differences relating to investments in associates amounting to R104 million (2009: R91 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>18. DEBT SECURITIES</b>				
At the beginning of the year	839	972	839	972
Fair value adjustment	86	(133)	86	(133)
	<u>925</u>	<u>839</u>	<u>925</u>	<u>839</u>
Accrued interest	24	24	24	24
	<u>949</u>	<u>863</u>	<u>949</u>	<u>863</u>
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.

<b>19. INVESTMENT CONTRACTS</b>		
At the beginning of the year	333	393
Investment contracts issued	498	104
Investment contracts sold/matured	(369)	(205)
Net fair value gains on investment contracts	33	41
Investment contracts (unit-linked)	<u>495</u>	<u>333</u>

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.

<b>20. CELL OWNERS' INTEREST</b>		
At the beginning of the year	535	447
Acquired through business combinations	(39)	–
Net increase in cell owners' interest	109	133
Preference shares issued by subsidiary	35	14
Redemption of preference shares	(17)	(1)
Dividends paid to preference shareholders	<u>(46)</u>	<u>(58)</u>
	577	535
Insolvent cells	12	–
	<u>589</u>	<u>535</u>

<b>21. COLLATERAL GUARANTEE CONTRACTS</b>				
At the beginning of the year	101	93	101	93
Interest	7	8	7	8
	<u>108</u>	<u>101</u>	<u>108</u>	<u>101</u>

Santam issued a guarantee on behalf of one of its corporate clients regarding mining rehabilitation. The guarantee was issued on the back of a full collateral guarantee in the form of moneys deposited with Santam. These assets are included in financial assets, debt securities, at fair value through income and amounted to R108 million (2009: R101 million). As a result, the transaction is not recorded as an insurance transaction in terms of IFRS 4, but as a financial instrument in terms of IAS 39.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group		Company	
	2010	2009	2010	2009
	R million	R million	R million	R million
<b>22. INSURANCE LIABILITIES AND REINSURANCE ASSETS</b>				
<b>Gross</b>				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	–	5	–	–
– claims incurred but not reported	9	7	–	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	3 777	4 283	3 360	3 842
– claims incurred but not reported	1 189	1 139	979	950
– unearned premiums	2 788	2 830	1 655	1 647
<b>Total insurance liabilities – gross</b>	<b>7 763</b>	<b>8 264</b>	<b>5 994</b>	<b>6 439</b>
<b>Recoverable from reinsurers</b>				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	–	5	–	–
– claims incurred but not reported	1	1	–	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	880	1 331	749	1 161
– claims incurred but not reported	146	132	79	74
– unearned premiums	240	342	321	297
<b>Total reinsurers' share of insurance liabilities</b>	<b>1 267</b>	<b>1 811</b>	<b>1 149</b>	<b>1 532</b>
<b>Net</b>				
Long-term insurance contracts				
– claims reported and loss adjustment expenses	–	–	–	–
– claims incurred but not reported	8	6	–	–
Short-term insurance contracts				
– claims reported and loss adjustment expenses	2 897	2 952	2 611	2 681
– claims incurred but not reported	1 043	1 007	900	876
– unearned premiums	2 548	2 488	1 334	1 350
<b>Total insurance liabilities – net</b>	<b>6 496</b>	<b>6 453</b>	<b>4 845</b>	<b>4 907</b>

### 22.1 Movements in insurance liabilities and reinsurance assets

#### a) Claims and loss adjustment expenses

	2010			2009		
Year ended 31 December	Gross R million	Reinsurance R million	Net R million	Gross R million	Reinsurance R million	Net R million
<b>GROUP</b>						
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 1 January	5 434	(1 469)	3 965	5 218	(1 549)	3 669
Cash paid for claims settled in the year	(9 999)	1 289	(8 710)	(10 016)	1 211	(8 805)
Increase in liabilities						
– arising from current year claims	9 531	(848)	8 683	10 241	(1 141)	9 100
– arising from portfolio transfer	–	–	–	(9)	10	1
Acquisition of subsidiaries	9	(3)	6	–	–	–
Cell accounting	–	4	4	–	–	–
<b>Total at end of year</b>	<b>4 975</b>	<b>(1 027)</b>	<b>3 948</b>	<b>5 434</b>	<b>(1 469)</b>	<b>3 965</b>
Notified claims	3 777	(880)	2 897	4 288	(1 336)	2 952
Incurred but not reported	1 198	(147)	1 051	1 146	(133)	1 013
<b>Total at end of the year</b>	<b>4 975</b>	<b>(1 027)</b>	<b>3 948</b>	<b>5 434</b>	<b>(1 469)</b>	<b>3 965</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

#### 22.1 Movements in insurance liabilities and reinsurance assets (continued)

Year ended 31 December	Gross R million	2010 Reinsurance R million	Net R million	Gross R million	2009 Reinsurance R million	Net R million
<b>COMPANY</b>						
Notified claims	3 842	(1 160)	2 682	3 492	(1 046)	2 446
Incurred but not reported	950	(74)	876	919	(87)	832
Total at beginning of year	4 792	(1 234)	3 558	4 411	(1 133)	3 278
Cash paid for claims settled in the year	(8 996)	797	(8 199)	(8 833)	645	(8 188)
Increase in liabilities						
– arising from current year claims	8 541	(388)	8 153	9 216	(748)	8 468
– arising from portfolio transfer	2	(3)	(1)	(2)	2	–
Total at end of year	4 339	(828)	3 511	4 792	(1 234)	3 558
Notified claims	3 360	(749)	2 611	3 842	(1 160)	2 682
Incurred but not reported	979	(79)	900	950	(74)	876
Total at end of the year	4 339	(828)	3 511	4 792	(1 234)	3 558

#### b) Provision for unearned premiums

#### Year ended 31 December

##### GROUP

At beginning of year	2 830	(342)	2 488	2 938	(432)	2 506
Charged to the statement of comprehensive income	(65)	34	(31)	(108)	106	(2)
Acquisition of subsidiaries	23	(16)	7	–	–	–
Cell accounting	–	84	84	–	(16)	(16)
Total at end of year	2 788	(240)	2 548	2 830	(342)	2 488

##### COMPANY

At beginning of year	1 647	(297)	1 350	1 645	(295)	1 350
Movement for the period	8	(24)	(16)	2	(2)	–
Total at end of year	1 655	(321)	1 334	1 647	(297)	1 350

#### 22.2 Movements in deferred acquisition costs and deferred reinsurance acquisition revenue

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>a) Deferred acquisition costs</b>				
At beginning of year	259	271	251	239
Movement for the period	(8)	(21)	22	12
Cell accounting	–	9	–	–
Total at end of year	251	259	273	251

#### b) Deferred reinsurance acquisition revenue

At beginning of year	53	82	60	59
Movement for the period (included in Income from reinsurance contracts ceded)	(13)	(29)	14	1
Total at end of year	40	53	74	60

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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).

#### PAYMENT DEVELOPMENT

GROUP – Short-term insurance claims – gross	Claims paid in respect of								2003 and prior
	Total R million	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million	2005 R million	2004 R million	
<b>Reporting year</b>									
Actual claims costs:									
– 2010	9 999	7 144	2 236	411	116	41	23	14	14
– 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	64 630	7 144	9 938	9 551	8 079	7 195	6 003	5 291	11 429
<b>– Short-term insurance claims – net</b>									
<b>Reporting year</b>									
Actual claims costs:									
– 2010	8 710	6 401	1 816	323	103	35	17	8	7
– 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	55 131	6 401	8 744	8 146	6 907	6 290	5 298	4 336	9 009

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

#### 22.3 Claims development tables (continued)

COMPANY	Claims paid in respect of								2003 and prior
	Total	2010	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	R million
<b>Reporting year</b>									
Actual claims costs:									
– 2010	8 996	6 333	2 065	395	113	40	22	14	14
– 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	56 200	6 333	8 842	8 079	6 813	6 418	5 287	4 551	9 877
<b>– Short-term insurance claims – net</b>									
<b>Reporting year</b>									
Actual claims costs:									
– 2010	8 199	6 010	1 719	308	99	33	16	7	7
– 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	50 884	6 010	8 153	7 469	6 348	5 941	4 821	3 834	8 308

#### 22.4 Reporting development

GROUP	Financial year in which claim occurred								2003 and prior
	Total	2010	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	R million
<b>Reporting year</b>									
Provision raised:									
– 2010	3 777	2 325	556	312	171	146	137	48	82
– 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	29 509	2 325	3 173	3 603	4 006	4 117	3 488	2 724	6 073

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GROUP – Short-term insurance claims provision – net	Financial year in which claim occurred								2003 and prior
	Total R million	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million	2005 R million	2004 R million	
Reporting year									
Provision raised:									
– 2010	2 896	1 813	402	228	132	117	105	40	59
– 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	18 312	1 813	2 263	2 468	2 622	2 696	2 154	1 320	2 976

COMPANY	Financial year in which claim occurred								2003 and prior	
– Short-term insurance claims provision – gross	Total R million	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million	2005 R million	2004 R million		
Reporting year										
Provision raised:										
– 2010	3 360	2 023	487	291	161	140	132	46	80	
– 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	23 429	2 023	2 799	2 984	3 569	3 152	2 634	2 121	4 147	

– Short-term insurance claims provision – net									
<b>Reporting year</b>									
Provision raised:									
– 2010		2 611	1 607	356	214	125	113	101	57
– 2009		2 682	–	1 666	404	255	191	93	23
– 2008		2 446	–	–	1 569	396	191	142	70
– 2007		2 261	–	–	–	1 631	265	132	149
– 2006		1 766	–	–	–	–	1 202	212	222
– 2005		1 318	–	–	–	–	–	870	298
– 2004		863	–	–	–	–	–	–	271
– 2003		396	–	–	–	–	–	–	396
– 2002		265	–	–	–	–	–	–	265
Cumulative provisions to date		14 608	1 607	2 022	2 187	2 407	1 962	1 550	1 751

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Pension fund holiday exposure* R million	Litigation exposures R million	Onerous contracts R million	Other R million	Total R million
<b>23. PROVISION FOR OTHER LIABILITIES AND CHARGES GROUP</b>					
At 1 January 2009	16	9	–	–	25
Charged to statement of comprehensive income:					
– additional provisions/releases	2	–	5	–	7
<b>Year ended 31 December 2009</b>	<b>18</b>	<b>9</b>	<b>5</b>	<b>–</b>	<b>32</b>
Charged to statement of comprehensive income:					
– additional provisions/releases	1	–	–	5	6
Used during the year	–	–	(2)	–	(2)
<b>Year ended 31 December 2010</b>	<b>19</b>	<b>9</b>	<b>3</b>	<b>5</b>	<b>36</b>
<b>COMPANY</b>					
At 1 January 2009	16	9	–	–	25
Charged to statement of comprehensive income:					
– additional provisions/releases	2	–	5	–	7
<b>Year ended 31 December 2009</b>	<b>18</b>	<b>9</b>	<b>5</b>	<b>–</b>	<b>32</b>
Charged to statement of comprehensive income:					
– additional provisions/releases	1	–	–	5	6
Used during the year	–	–	(2)	–	(2)
<b>Year ended 31 December 2010</b>	<b>19</b>	<b>9</b>	<b>3</b>	<b>5</b>	<b>36</b>

\* This potential exposure emanated in the past when deferred benefit plans were converted to defined-contribution plans.

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>24. TRADE AND OTHER PAYABLES</b>				
Amounts due to subsidiaries	–	–	644	590
Trade payables and accrued expenses	799	535	387	332
Deferred purchase consideration (refer note 38)	347	–	–	–
Amounts due to intermediaries	177	165	166	152
Amounts due to reinsurers	417	777	250	403
Amounts due to policyholders	65	39	21	20
Employee benefits	85	54	41	49
<b>Total</b>	<b>1 890</b>	<b>1 570</b>	<b>1 509</b>	<b>1 546</b>

### 25. PRIOR YEAR RESTATEMENT

Following queries from SARS and pursuant to the complete restructuring of the investment portfolio in 2007 and 2008, an additional provision of R267 million has been raised for income tax relating to the underprovisioning for taxation on the net realised gains on traded investments during said period.

Consequently, the net current income tax liability of R143 million and net current income tax asset of R35 million that were previously recognised in the statement of financial position of 2009 and 2008 for the group respectively were adjusted with the additional provision. The distributable reserves of R4 080 million and R3 386 million recognised in the statement of financial position of 2009 and 2008 for the group respectively were also adjusted with the additional provision.

The net current income tax liability of R99 million and net current income tax asset of R64 million that were previously recognised in the statement of financial position of 2009 and 2008 for the company respectively were adjusted with the additional provision. The distributable reserves of R3 644 million and R3 344 million recognised in the statement of financial position of 2009 and 2008 for the company respectively were also adjusted with the additional provision.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>26. INVESTMENT INCOME</b>				
Dividend income	118	198	237	183
Quoted	87	83	87	76
Unquoted	31	115	150	107
Interest income	535	612	461	491
Quoted	258	133	269	114
Unquoted	277	479	192	377
Foreign exchange differences	(20)	(103)	(18)	(65)
	<b>633</b>	<b>707</b>	<b>680</b>	<b>609</b>
<b>27. NET GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME</b>				
Net realised gains on financial assets	49	240	42	172
Net fair value gains on financial assets designated as at fair value through income	517	252	462	281
Net fair value gains on financial assets held for trading	47	32	–	–
Net fair value gains/(losses) on derivatives	42	(137)	42	(137)
Net fair value (losses)/gains on financial liabilities designated as at fair value through income	(118)	92	(86)	133
Net fair value (losses)/gains on debt securities	(85)	133	(86)	133
Net fair value losses on investment contracts	(33)	(41)	–	–
	<b>537</b>	<b>479</b>	<b>460</b>	<b>449</b>
<b>28. GAIN ON REMEASURING EXISTING INTEREST IN ASSOCIATES ON ACQUISITION</b>				
Indwe Broker Holdings (Pty) Ltd	124	–	–	–
MiWay Group Holdings (Pty) Ltd	91	–	–	–
	<b>215</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>29. INSURANCE BENEFITS AND CLAIMS</b>				
<b>2010</b>				
<b>GROUP</b>				
Claims paid	9 999	(1 289)	8 710	
Movement in the expected cost of outstanding claims	(468)	441	(27)	
<b>Total claims and loss adjustment expense</b>	<b>9 531</b>	<b>(848)</b>	<b>8 683</b>	
<b>COMPANY</b>				
Claims paid	8 996	(797)	8 199	
Movement in the expected cost of outstanding claims	(455)	409	(46)	
<b>Total claims and loss adjustment expense</b>	<b>8 541</b>	<b>(388)</b>	<b>8 153</b>	
<b>2009</b>				
<b>GROUP</b>				
Claims paid	10 016	(1 211)	8 805	
Movement in the expected cost of outstanding claims	225	70	295	
<b>Total claims and loss adjustment expense</b>	<b>10 241</b>	<b>(1 141)</b>	<b>9 100</b>	
<b>COMPANY</b>				
Claims paid	8 833	(645)	8 188	
Movement in the expected cost of outstanding claims	383	(103)	280	
<b>Total claims and loss adjustment expense</b>	<b>9 216</b>	<b>(748)</b>	<b>8 468</b>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>30. EXPENSES BY NATURE</b>				
Auditor's remuneration	11	10	6	6
Audit fees				
– Current year	11	10	6	6
Depreciation	26	22	21	19
Amortisation of intangible assets	17	25	7	13
Impairment of intangible assets	10	–	–	–
Impairment of investment in subsidiaries	–	–	–	49
Employee benefit expense (note 31)	1 318	1 044	1 045	899
Directors' remuneration (note 31)	14	11	14	11
Operating lease rentals	276	246	248	229
– Offices	103	87	80	74
– Computer equipment	157	143	155	141
– Furniture and mechanical equipment	2	1	–	–
– Motor vehicles	14	15	13	14
Costs incurred for the acquisition of insurance contracts	2 311	2 127	2 209	1 999
Asset management services	29	25	23	20
Other expenses	3	92	291	266
<b>Total expenses</b>	<b>4 015</b>	<b>3 602</b>	<b>3 864</b>	<b>3 511</b>
	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>31. EMPLOYEE BENEFIT EXPENSE</b>				
Wages, salaries and bonus	1 074	837	844	704
Social security costs	95	90	93	88
Long-term incentive scheme costs	90	51	53	42
Pension costs – defined-contribution plans	58	53	54	52
BBBEE cost	15	13	15	13
	<b>1 332</b>	<b>1 044</b>	<b>1 059</b>	<b>899</b>
	Salary R'000	Performance bonus* R'000	Other benefits R'000	Total R'000
<b>Directors' emoluments</b>				
<b>2010</b>				
<b>Executive directors</b>				
<i><b>Paid by the company</b></i>				
IM Kirk	2 741	5 100	670	8 511
MJ Reyneke	2 008	3 000	318	5 326
	<b>4 749</b>	<b>8 100</b>	<b>988</b>	<b>13 837</b>
<b>Non-executive directors</b>				
<i><b>Paid by the company</b></i>				
MD Dunn				224
B Campbell				70
BTPKM Gamedze**				243
DCM Gihwala				258
VP Khanyile				451
JG le Roux				363
NM Magau				363
JP Möller**				348
YG Muthien**				288
P de V Rademeyer				333
JP Rowse				51
GE Rudman				363
DK Smith				291
J van Zyl**				303
BP Vundla				288
				<b>4 237</b>
<b>Total</b>				<b>18 074</b>

\* Bonus in respect of 2010 paid in 2011

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Salary R'000	Performance bonus*** R'000	Other benefits R'000	Total R'000
<b>31. EMPLOYEE BENEFIT EXPENSE (continued)</b>				
Directors' emoluments				
2009				
Executive directors				
<i>Paid by the company</i>				
IM Kirk	2 537	4 000	640	7 177
MJ Reyneke	1 680	2 000	272	3 952
	<b>4 217</b>	<b>6 000</b>	<b>912</b>	<b>11 129</b>
Non-executive directors				
<i>Paid by the company</i>				
BTPKM Gamedze**				244
DCM Gihwala				272
JG le Roux				371
NM Magau				314
JP Möller**				272
RK Morathi**				136
P de V Rademeyer				328
JP Rowse				300
GE Rudman				343
DK Smith				668
J van Zyl**				300
BP Vundla				286
				<b>3 834</b>
<b>Total</b>				<b>14 963</b>

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

\*\*\* Bonus in respect of 2009 paid in 2010

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>32. FINANCE COSTS</b>				
Interest expense				
– interest on collateral guarantee	7	8	7	8
– interest on interest rate swap	–	17	–	17
– banks and other	5	6	4	2
– subordinated callable note	83	83	83	83
– revenue authorities*	25	–	25	–
	<b>120</b>	<b>114</b>	<b>119</b>	<b>110</b>

\* R25 million of interest to revenue authorities was only paid after 31 December 2010 and was therefore treated as non cash in nature in the statement of cash flows.

<b>33. INCOME TAX EXPENSE</b>				
South African normal taxation				
Current year	580	240	516	198
– Charge for the year	472	213	411	174
– STC	108	27	105	24
Prior year	(11)	25	(9)	28
Foreign taxation – current year	32	27	–	–
Income taxation for the year	601	292	507	226
Deferred taxation	38	110	34	93
Current year	39	96	35	79
STC	(1)	14	(1)	14
<b>Total taxation</b>	<b>639</b>	<b>402</b>	<b>541</b>	<b>319</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>Reconciliation of taxation rate (%)</b>				
Normal South African taxation rate	28.0	28.0	28.0	28.0
Adjusted for				
– Disallowable expenses	0.9	1.0	1.1	1.2
– Foreign tax differential	0.3	0.4	–	–
– Exempt income	(1.4)	(4.1)	(3.3)	(4.8)
– Investment results	(4.9)	(3.0)	(3.0)	(2.8)
– Income from associates	(1.0)	(0.8)	(0.3)	(0.5)
– Previous years' (over)/underprovision	(0.2)	1.7	(0.5)	2.5
– Other permanent differences	0.2	0.6	0.1	0.4
– STC	4.4	2.7	5.2	3.2
Net reduction	(1.7)	(1.5)	(0.7)	(0.8)
<b>Effective rate (%)</b>	<b>26.3</b>	<b>26.5</b>	<b>27.3</b>	<b>27.2</b>

### 34. EARNINGS PER SHARE

#### 34.1 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	Group	
	2010	2009
<b>Basic earnings per share</b>		
Profit attributable to the company's equity holders (R million)	1 762	1 082
Weighted average number of ordinary shares in issue (millions)	112.96	112.80
Earnings per share (cents)	1 560	959

#### 34.2 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)	1 762	1 082
Weighted average number of ordinary shares in issue (millions)	112.96	112.80
Adjusted for share options	2.03	2.07
Weighted average number of ordinary shares for diluted earnings per share	114.99	114.87
Diluted basic earnings per share (cents)	1 532	942

#### 34.3 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)	1 762	1 082
Impairment charge on net investment in associates	–	6
Impairment of goodwill	10	–
Reversal of impairment charge on net investment in associates	(6)	–
Gain on remeasuring existing interest in associates on transfer to subsidiaries	(215)	(76)
Excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost	(6)	–
Tax charge	–	10
Headline earnings (R million)	1 545	1 022
Weighted average number of ordinary shares in issue (millions)	112.96	112.80
Headline earnings per share (cents)	1 367	906

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

		Group	
		2010	2009
<b>34.4 Diluted headline earnings per share</b>			
Headline earnings (R million)		1 545	1 022
Weighted average number of ordinary shares for diluted earnings per share (millions)		114.99	114.87
Diluted headline earnings per share (cents)		1 343	889
<b>35. DIVIDENDS PER SHARE</b>			
<b>Ordinary dividend per share</b>			
Interim dividend of 185 cents per share (2009: 166 cps)		221	198
Proposed final dividend of 325 cents per share (2009: 300 cps)		388	358
		<b>609</b>	<b>556</b>
<b>Special dividend per share</b>			
Special dividend of 500 cents per share (2009: Nil cps)		597	–
		<b>597</b>	<b>–</b>
		Group	
		2010	2009
		R million	R million
<b>36. CASH GENERATED FROM OPERATIONS</b>			
<b>Profit before tax</b>		2 428	1 518
Adjustments for:			
Non-cash items		(179)	(24)
– Loss on disposal of associated companies		–	(21)
– Gain on remeasuring existing interest in associates on transfer to subsidiaries		(215)	(54)
– Share option costs		58	47
– Amortisation of intangible asset		17	25
– Impairment of investment in subsidiary		–	–
– Impairment of goodwill		10	–
– Depreciation		26	22
– Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost		(6)	–
– Impairment (reversal)/charge on net investment in associated company		(6)	6
– Income from associated companies		(63)	(49)
Investment income, realised and fair value gains		(1 168)	(1 111)
Finance costs		120	114
<b>Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)</b>		246	443
Reinsurance assets		631	169
Deferred acquisition costs		8	13
Loans and receivables including insurance receivables		705	347
Insurance liabilities		(615)	107
Deferred reinsurance acquisition revenue		(13)	(29)
Provisions for other liabilities and charges		(14)	8
Trade and other payables		(456)	(172)
<b>Investment income received in cash</b>		668	899
Dividends received		138	223
Interest received		535	613
Foreign exchange differences		(11)	20
Movement in provision for investment income		6	43
<b>Cash generated from operations</b>		<b>2 115</b>	<b>1 839</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>37. INCOME TAX PAID</b>				
Amounts charged to the statement of comprehensive income	(639)	(402)	(541)	(319)
Movement in deferred taxation	40	110	34	93
Movement in taxation liability	(156)	177	(109)	163
	<b>(755)</b>	<b>(115)</b>	<b>(616)</b>	<b>(63)</b>

## 38. BUSINESS COMBINATIONS

### 2010

#### Additions

##### a) Emerald Risk Transfer (Pty) Ltd

On 1 January 2010, Swanvest 120 (Pty) Ltd acquired 100% of the voting equity interest in Emerald Risk Transfer (Pty) Ltd to obtain specialist underwriting skills in the corporate property environment. The company was sold by its main shareholder, Supergroup, as part of their strategy to dispose of non-core businesses.

##### b) Indwe Broker Holdings (Pty) Ltd

Effective 1 September 2010, the Santam Group increased its shareholding in Indwe Broker Holdings (Pty) Ltd from 37.8% to 100% by exercising its right to purchase shares on offer from other shareholders. While Santam is not actively pursuing the opportunity to buy brokerages, we responded to a business opportunity to protect our interest. Pamodzi Investment Holdings (Pty) Ltd and Thebe Investment Corporation (Pty) Ltd decided to dispose of their shares in order to pursue other investment opportunities. The company is being independently managed as an intermediary.

##### c) MiWay Group Holdings (Pty) Ltd

On 31 December 2010, Swanvest 120 (Pty) Ltd increased its shareholding in MiWay Group Holdings (Pty) Ltd from 31.25% to 100%. Santam acquired Sanlam's controlling interest in the company, while, at the same time, Sanlam consolidated its short-term insurance interests into one single investment in Santam Ltd. It is strategically important that Santam makes proper inroads into the emerging direct short-term insurance market to retain its leadership position in the industry. MiWay will continue to be managed independently, servicing the direct segment of the market.

Details of the assets and liabilities acquired at fair value are as follows:	a) Emerald Risk Transfer (Pty) Ltd	b) Indwe Broker Holdings (Pty) Ltd	c) MiWay Group Holdings (Pty) Ltd	Total
Deferred taxation	3	(27)	85	61
Property and equipment	4	25	12	41
Intangible assets	5	119	72	196
Financial assets at fair value through income	–	–	9	9
Reinsurance assets	3	–	–	3
Loans and receivables	68	15	128	211
Short-term money market instruments	–	–	18	18
Cash and cash equivalents	95	141	26	262
Insurance liabilities	(7)	–	(2)	(9)
Trade and other payables	(69)	(180)	(229)	(478)
Taxation	(2)	4	–	2
<b>Net asset value acquired</b>	<b>100</b>	<b>97</b>	<b>119</b>	<b>316</b>
Goodwill	–	356	319	675
Excess of acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost	(6)	–	–	(6)
Less: Investment in associated share previously acquired	–	(190)	(91)	(281)
Less: Deferred purchase consideration*	–	–	(347)	(347)
<b>Purchase consideration paid</b>	<b>94</b>	<b>263</b>	<b>–</b>	<b>357</b>

\* Amount is variable and will be impacted by returns achieved over the next three years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
<b>2009</b>				
<b>Additions</b>				
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		11		
Net asset value acquired		(7)		
Less: Investment in associated share previously acquired		1		
Goodwill	–	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		6		
Intangible assets		2		
Loans and receivables		4		
Cash and cash equivalents		25		
Trade and other payables		(39)		
Provisions		(1)		
Net asset value sold	–	(3)	–	–
Onerous contract as result of disposal		(5)		
Purchase consideration		56		
Profit on sale of subsidiary	–	54	–	–

### 39. TRANSACTIONS WITH NON-CONTROLLING PARTNERS

On 1 January 2010, Santam Ltd acquired the non-controlling interest of 33.3% in Centriq Holdings (Pty) Ltd.

Non-controlling interest acquired	78	–	78	–
Excess paid on acquisition of non-controlling interest	12	–	12	–
<b>Purchase consideration paid</b>	<b>90</b>	<b>–</b>	<b>90</b>	<b>–</b>

### 40. DIVIDENDS PAID

Amounts paid for the year to company's shareholders  
Amounts paid for the year to non-controlling interests

Amounts paid for the year to company's shareholders	1 113	485	1 176	513
Amounts paid for the year to non-controlling interests	–	28	–	–
	<b>1 113</b>	<b>513</b>	<b>1 176</b>	<b>513</b>

### 41. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 42. 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 statement of comprehensive income during the year is disclosed in note 30.

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

	Up to 1 year R million	Between 1 to 5 years R million	More than 5 years R million	Total R million
<b>2010</b>				
Motor vehicles	13	13	–	26
Offices	61	103	49	213
	<u>74</u>	<u>116</u>	<u>49</u>	<u>239</u>
<b>2009</b>				
Motor vehicles	11	14	–	25
Offices	62	120	70	252
	<u>73</u>	<u>134</u>	<u>70</u>	<u>277</u>
<b>2010</b>				
IT Service agreements	162	296	–	458
<b>2009</b>				
IT Service agreements	127	275	–	402

### 43. RELATED-PARTY TRANSACTIONS

#### Major shareholders

Sanlam Limited (incorporated in South Africa) is the ultimate holding company with a 57% shareholding (discounting Treasury shares) in Santam Limited. The balance of the shareholders (43%, discounting Treasury shares) 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 163 for detail).

#### Transactions with directors

Remuneration is paid to directors in the form of fees to non-executive directors and remuneration to executive directors of the company. All directors of Santam Limited have notified that they did not have material interest in any contract of significance with the company or any of its subsidiaries, which could have given rise to a conflict of interest during the year. Details relating to directors' emoluments are included in note 31 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 a market-related basis and are not material.

#### Transactions with the Sanlam group

The company transacts with the Sanlam group on various levels, predominantly insurance-related cover, provided to Sanlam group companies of which MiWay is the largest. Sanlam Investment Management act as the largest investment fund manager for the group with its fees negotiated on a market-related basis.

The chief executive officer of the Santam group partakes in the Sanlam group executive share purchase scheme whereby interest-bearing loans are granted to participants, repayable in four years' time.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 on a market-related basis 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 are repayable on demand. These inter-Santam group balances have been eliminated on consolidation (for detail on balances, refer note 45).

The company also has a shareholder's loan owing by an associated company in the group (refer note 45). The loan is a shareholder's 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 employee long-term incentive and retention scheme (refer note 1.20 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 a market-related basis and premiums amounted to approximately R1 million in total.

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

	2010 R million	2009 R million
<b>a) Sale of insurance contracts and other services</b>		
Sale of insurance contracts to:		
– Sanlam Ltd and related parties	16	22
– MiWay Group Holdings (Pty) Ltd	412	258
Rendering of services to:		
– subsidiaries	11	3
– Sanlam Ltd and related parties	–	5
<b>b) Purchase of services from:</b>		
– associates (for administration services)	(138)	(105)
– subsidiaries (for administration services)	(237)	(208)
– Sanlam Ltd and related parties (for investment management services)	(28)	(21)
– Sanlam Ltd and related parties (for joint project costs)	3	(15)
– Sanlam Ltd and related parties (for IT infrastructure costs)	(134)	(38)
– Sanlam Ltd and related parties (for directors' & officers' insurance cover)	(5)	(4)
– Sanlam Ltd and related parties (for insurance claims paid)	(13)	(13)
– Sanlam Ltd and related parties (for commission paid)	(2)	–
<b>c) Investment income received from:</b>		
– Sanlam Ltd and related parties	(90)	(71)
– Santam Pension Fund	–	3
– Executive management	–	1
<b>d) Key management compensation</b>		
Salaries and other short-term employee benefits	24	30
Share-based payments	6	8
<b>e) Dividends paid</b>		
– to Sanlam Group	(631)	(275)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010 R million	2009 R million
<b>43. RELATED PARTY TRANSACTIONS (continued)</b>		
<i>f) Year-end balances with related parties</i>		
Sanlam Group: URD Beleggings (Edms) Bpk		
– preference shares	23	52
Sanlam Group: Sanpref (Pty) Ltd		
– preference shares	235	180
Sanlam Alternative Income Fund		
– investment	375	357
Sanlam Property Fund		
– investment	9	7
Sanlam Namibia Money Market Fund		
– investment	–	11
Sanlam Capital Markets		
– Sanlam Bond	201	75
– derivative financial instruments	(74)	(108)
– money market instruments	61	70
Sanlam Home Loans		
– money market instruments	–	6
Sanlam Life Insurance Ltd		
– bond	25	24
– trade payable	(1)	5
– trade receivable	–	1
– shares	1	1
Vulindlela Underwriting Managers (Pty) Ltd		
– loan	1	1
MiWay Group Holdings (Pty) Ltd		
– inward reinsurance	(68)	(29)
– loan	–	15
Executive management		
– loans in terms of share purchase scheme	–	2
Executive management		
– loan from Sanlam for Executive Share Purchase Plan	5	18

#### 44. 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. The result is, however, not materially different between the two different solvency margins.

	Group	
	2010	2009
Group capital and reserves attributable to equity holders (R million)	5 126	4 528
Debt securities	925	839
	<b>6 051</b>	<b>5 367</b>
Net written premium (R million)	13 519	12 894
Group solvency margin (%)	44.8%	41.6%



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 45. 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 2010	Proportion held by the company 2009	Book value R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
<b>Direct</b>								
Aegis Insurance Company Ltd	Insurance	RSA	179 195 142	100.0%	100.0%	262	267	–
Centriq Insurance Holdings Ltd	Holding co.	RSA	102 330 882	100.0%	66.6%	150	–	22
Gilts Broker Solutions Ltd	Retail	RSA	2	100.0%	100.0%	–	–	–
Guardian National Insurance Company Ltd	Insurance	RSA	178 603 357	100.0%	100.0%	624	229	210
Indwe Broker Holdings Group (Pty) Ltd	Intermediary	RSA	28 552 225	100.0%	37.8%	263	–	–
Main Street 409 (Pty) Ltd	Holding co.	RSA	850	100.0%	0.0%	–	–	–
Santam International Ltd	Holding co.	Guernsey	692 505 672	100.0%	100.0%	538	131	–
Santam Namibia Ltd	Insurance	Namibia	8 307 147	60.0%	60.0%	5	1	–
Sentinel Insurance Corporation Ltd	Investments	RSA	1 000 000	100.0%	100.0%	–	1	–
Swanvest 120 (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	1	10	–
Thebe Risk Services Holdings (Pty) Ltd	Holding co.	RSA	1 000	100.0%	49.9%	–	–	–
						<b>1 843</b>	<b>639</b>	<b>232</b>
<b>Indirect</b>								
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%	–	–	–
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%	–	–	–
Capricorn Insurance Company (Pty) Ltd	Insurance	Namibia	4 000 000	60.0%	60.0%	4	–	–
Centriq Insurance Company Ltd	Insurance	RSA	55 000 084	100.0%	66.6%	102	–	–
Centriq Life Insurance Company Ltd	Insurance	RSA	21 000 000	100.0%	66.6%	23	–	–
C-Sure Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	100.0%	100.0%	3	–	–
Construction and Engineering Underwriters (Pty) Ltd	Underwriting	RSA	25 000	100.0%	100.0%	1	–	–
Echelon Private Client Solutions (Pty) Ltd	Underwriting	RSA	1 000	60.0%	60.0%	–	–	8
Emerald Risk Transfer (Pty) Ltd	Insurance	RSA	2 000 200	100.0%	0.0%	94	–	–
Guardian South Africa Ltd	Investments	RSA	6 471 517	100.0%	100.0%	114	–	–
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%	100.0%	–	–	–
Isure Systems (Pty) Ltd	IT Services	RSA	100	100.0%	100.0%	–	–	–
Just I-Insure Consultants (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	–	–	–
Legal Exchange Corporation (Pty) Ltd	Underwriting	RSA	1 166 830	70.0%	70.0%	1	–	–
MiWay Group Holdings (Pty) Ltd	Holding co.	RSA	211 101 111	100.0%	31.3%	257	–	–
Namibian National Insurance Company (Pty) Ltd	Insurance	Namibia	3 100 000	100.0%	100.0%	3	5	–
Nova Risk Partners Ltd	Insurance	RSA	22 702 703	100.0%	66.6%	3	–	3
Novation RSA (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	–	–	–
SA Aviation Insurance Managers (Pty) Ltd	Underwriting	RSA	100	51.0%	51.0%	–	–	–
Santam UK Ltd	Holding co.	UK	100 006 574	100.0%	100.0%	75	–	–
Schools for Africa Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	100.0%	100.0%	–	–	–
Stalker Hutchison Admiral (Pty) Ltd	Underwriting	RSA	7 914 393	100.0%	100.0%	53	–	–
Stilus Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	60.0%	0.0%	–	–	2
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%	–	–	–
						<b>754</b>	<b>5</b>	<b>13</b>
<b>TOTAL INVESTMENTS IN SUBSIDIARIES</b>						<b>2 597</b>	<b>644</b>	<b>245</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 45. 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 2010	Proportion held by the company 2009	Carrying value including equity accounted earnings R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Credit Guarantee Insurance Corporation of Africa Ltd	Insurance	RSA	2 649 333	33.6%	33.6%	97	–	–
NICO Holdings Ltd	Fin. Services	Malawi	31 284 955	25.1%	25.1%	96	–	–
South African Nuclear Pool Administrators (Pty Ltd)	Insurance	RSA	120	25.0%	0.0%	–	–	–
						<b>193</b>	<b>–</b>	<b>–</b>
<b>Indirect</b>								
Beyonda Group (Pty) Ltd	Insurance Claim assessment	RSA	200	49.0%	0.0%	6	–	–
Censeo (Pty) Ltd		RSA	–	37.5%	0.0%	–	–	2
Indwe Broker Holdings Group (Pty) Ltd	Intermediary	RSA	28 552 000	0.0%	37.8%	–	–	–
MiWay Group Holdings (Pty) Ltd	Insurance	RSA	211 101 111	0.0%	31.3%	–	–	–
Paladin Underwriting Managers (Pty) Ltd	Insurance	RSA	3 008 000	40.0%	0.0%	12	–	–
Thebe Risk Services Holdings (Pty) Ltd	Intermediary	RSA	1 000	0.0%	49.9%	–	–	–
Fame and Fortune Trading 152 (Pty) Ltd	Motor body repairs	RSA	–	49.0%	0.0%	–	–	16
Vulindlela Underwriting Management (Pty) Ltd	Underwriting	RSA	448 000	31.4%	31.4%	–	–	2
						<b>18</b>	<b>–</b>	<b>20</b>
<b>TOTAL INVESTMENTS IN ASSOCIATED COMPANIES</b>						<b>211</b>	<b>–</b>	<b>20</b>

## (I) INVESTMENTS – COMPOSITION

2010	Number of shares	Group market value/ Directors' valuation R million
<b>A) Analysis based on IFRS classification:</b>		
<b>Financial assets at fair value through income</b>		
<i>i) Debt securities – at fair value through income</i>		
<b>Quoted</b>		
Government and other bonds		1 816
Money market investments (long-term instruments)		1 174
Unitised funds		398
		<hr/> 3 388
<b>Unquoted</b>		
Government and public bonds		195
Money market instruments (long-term instruments)		354
<b>Unquoted redeemable preference shares</b>		
Redeemable preference shares:		
Sanlam Group – URD Beleggings (Edms) Bpk	22 749 793	23
Sanpref Cum Red Pref	234 000	235
Misty Sea Trading 267 (Pty) Ltd	1 120	14
Investec – AELPREF	37 000	37
		<hr/> 309
<b>Total debt securities at fair value through income</b>		<hr/> <hr/> 4 246
<i>ii) Equity securities – at fair value through income</i>		
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.		
<b>Quoted</b>		
MTN Group Ltd	1 929 741	259
BHP Billiton Plc	916 984	243
Sasol Ltd	674 347	233
Anglo American Plc	625 718	215
Standard Bank Group Ltd	1 579 910	170
SAB Miller Ltd	689 950	163
Naspers Ltd	340 748	132
Absa Bank Ltd	815 719	114
Impala Platinum Holdings Ltd	408 106	95
The Bidvest Group Ltd	602 924	95
African Bank Investments Ltd	2 333 418	90
Compagnie Financière Richemont SA	2 179 900	85
Old Mutual Plc	6 484 328	84
British American Tobacco Plc	317 000	81
Remgro Ltd	697 497	79
Vodacom Group Ltd	970 597	74
Anglo Platinum Ltd	105 924	74
Imperial Holdings Ltd	472 082	60
Tiger Brands Ltd	302 260	59
RMB Holdings Ltd	1 439 216	55
Capital Shopping Centres Group Plc	1 233 114	52
Other		948
		<hr/> 3 460
<b>Unquoted</b>		334
<b>Quoted</b>		
Unitised funds		36
Irredeemable preference shares		2
<b>Total equity securities at fair value through income</b>		<hr/> <hr/> 3 832

## (I) INVESTMENTS – COMPOSITION

	Group market value/ Directors' valuation R million
<i>iii) Derivatives – at fair value through income</i>	(75)
<i>iv) Cash and short-term money market instruments</i>	
Short-term money market instruments	3 685
Cash and cash equivalents	1 143
<i>v) Associated companies</i>	211
<b>Total financial assets net of derivative</b>	<b>13 042</b>
<b>B) Analysis based on investment classification:</b>	
Equities	
– Quoted	3 460
– Unquoted	334
Preference shares	
– Quoted	2
– Unquoted	309
Bonds	3 540
Unitised funds	433
Derivatives	(75)
Short-term money market instruments	3 685
Cash and cash equivalents	1 143
Associated companies	211
	<b>13 042</b>

## (I) INVESTMENTS – COMPOSITION

2009	Number of shares	Group market value/ Directors' valuation R million
<b>A) Analysis based on IFRS classification:</b>		
<b>Financial assets at fair value through income</b>		
<i>i) Debt securities – at fair value through income</i>		
<b>Quoted</b>		
Government and other bonds		1 624
Other		756
Unitised funds		15
		2 395
<b>Unquoted</b>		
Unitised funds		355
<b>Unquoted redeemable preference shares</b>		
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 1 Investments (Pty) Ltd	100 000	20
Main Street 409 (Pty) Ltd	15 926 915	11
Pamodzi Ukuvikela	44 300 000	51
		396
<b>Total debt securities at fair value through income</b>		3 146
<i>ii) Equity securities – at fair value through income</i>		
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		
<b>Quoted</b>		
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
Compagnie Financière 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
<b>Unquoted</b>		319
<b>Quoted</b>		
Unitised funds		15
Irredeemable preference shares		2
<b>Total equity securities at fair value through income</b>		3 191

## (I) INVESTMENTS – COMPOSITION

	Group market value/ Directors' valuation R million
<i>iii) Derivatives – at fair value through income</i>	(117)
<i>iv) Cash and short-term money market instruments</i>	
Short-term money market instruments	4 554
Cash and cash equivalents	1 379
<i>v) Associated companies</i>	198
<b>Total financial assets net of derivative</b>	<b>12 351</b>
<b>B) Analysis based on investment classification:</b>	
Equities	
– Quoted	2 855
– Unquoted	319
Preference shares	
– Quoted	2
– Unquoted	396
Bonds	2 395
Unitised funds	370
Derivatives	(117)
Short-term money market instruments	4 554
Cash and cash equivalents	1 379
Associated companies	198
	<b>12 351</b>

## (II) ANALYSIS OF SHAREHOLDERS

Analysis of shareholders	Number of shareholders	% of total shareholders	Number of shares	% Interest
1 – 100 shares	801	17.34%	60 733	0.04%
101 – 1 000 shares	2 194	47.54%	974 223	0.82%
1 001 – 50 000 shares	1 524	33.02%	9 452 166	7.92%
50 001 – 100 000 shares	46	1.00%	3 264 399	2.74%
100 001 – 10 000 000 shares	49	1.06%	29 951 057	25.10%
More than 10 000 000 shares	2	0.04%	75 643 839	63.38%
<b>Total</b>	<b>4 616</b>	<b>100.00%</b>	<b>119 346 417</b>	<b>100.00%</b>

### Type of shareholder

Individuals	3 188	69.06%	3 959 722	3.32%
Companies	342	7.41%	90 492 852	75.82%
Growth funds/unit trusts	112	2.43%	8 335 141	6.98%
Nominee companies or trusts	839	18.18%	3 801 709	3.19%
Pension and retirement funds	135	2.92%	12 756 993	10.69%
<b>Total</b>	<b>4 616</b>	<b>100.00%</b>	<b>119 346 417</b>	<b>100.00%</b>

Shareholder spread	Shareholders in SA		Shareholders other than in SA		Total shareholders	
	Nominal number	% Interest	Nominal number	% Interest	Nominal number	% Interest
Public shareholders	4 431	21.85%	163	100.00%	4 594	24.70%
Directors	17	0.00%	–	–	17	0.00%
Trustees of employees' share scheme	1	0.00%	–	–	1	0.00%
Holdings of 5% or more	4	78.15%	–	–	4	75.30%
Sanlam Limited	1	56.07%	–	0.00%	1	54.03%
Central Plaza Investments 112 (Pty) Ltd*	1	9.71%	–	0.00%	1	9.35%
Government Employees Pension Fund	1	6.87%	–	0.00%	1	6.62%
Guardian National Insurance Limited**	1	5.50%	–	0.00%	1	5.30%
<b>Total</b>	<b>4 453</b>	<b>100.00%</b>	<b>163</b>	<b>100.00%</b>	<b>4 616</b>	<b>100.00%</b>

The analysis includes the shares held as treasury shares.

\* BEE special purpose company

\*\* Owner of treasury shares

## NOTICE OF ANNUAL GENERAL MEETING

### SANTAM LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1918/001680/06)

JSE Code: SNT NSX Code: SNM ISIN: ZAE000093779

("Santam" or "the company")

Notice is hereby given that the annual general meeting ("AGM") of Santam Limited shareholders will be held on Wednesday, 1 June 2011, at 09:30 in the auditorium on the ground floor of the Santam Head Office, 1 Sportica Crescent, Tyger Valley, Bellville, Cape Town to deal with the following matters:

1. To consider the financial statements for the year ended 31 December 2010, together with the reports of the directors and auditors.
2. To reappoint PricewaterhouseCoopers Inc (PwC), as nominated by the company's audit committee, as independent auditors of the company to hold office until the conclusion of the next AGM of the company. It is to be noted that Ms C van den Heever is the individual and designated auditor who will undertake the company's audit for the financial year ending 31 December 2011.
3. To elect a director in place of Mr BTPKM Gamedze who will retire by rotation in accordance with article 63 of the company's Articles of Association. Mr Gamedze is available for re-election, and the board recommends his re-election as a director.
4. To elect a director in place of Mr DCM Gihwala who will retire by rotation in accordance with article 63 of the company's Articles of Association. Mr Gihwala is available for re-election, and the board recommends his re-election as a director.
5. To elect a director in place of Mr IM Kirk who will retire by rotation in accordance with article 63 of the company's Articles of Association. Mr Kirk is available for re-election, and the board recommends his re-election as a director.
6. To elect a director in place of Mr JP Möller who will retire by rotation in terms of article 63 of the company's Articles of Association. Mr Möller is available for re-election, and the board recommends his re-election as a director.
7. To elect a director in place of Mr J van Zyl who will retire by rotation in terms of article 63 of the company's Articles of Association. Mr van Zyl is available for re-election, and the board recommends his re-election as a director.
8. To elect a director in place of Mr B Campbell who will retire in terms of article 65 of the company's Articles of Association. Mr B Campbell is available for re-election, and the board recommends his re-election as a director.
9. To elect the following independent directors of the company as the members of the audit committee of the company until the conclusion of the next AGM of the company:  
MD Dunn  
DCM Gihwala  
P de V Rademeyer

Refer to pages 10 and 11 for a biography of each director. As evident from the biographies of these directors, all of them have academic qualifications, or experience in one or more of the following areas, i.e. economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resources.

The board recommends the election of these directors as members of the audit committee of the company.

10. To cast an advisory vote on the company's 2011 remuneration policy.<sup>1</sup>
11. To authorise any director of the company or the company secretary to sign all documentation and do all such things as may be necessary for or incidental to the implementation of ordinary resolutions numbers 1 to 10 and special resolutions numbers 1, 2 and 3 which are passed by the shareholders.
12. To consider and, if approved, to pass the following Special Resolution.

### Special resolution number 1

Resolved that:

"The following remuneration of directors of the company for their services as directors of company for the period from 1 July 2011 to 30 June 2012 be and is hereby approved, in terms of the provisions of section 66(9) of the Companies Act, No 71 of 2008:

<sup>1</sup> Refer to pages 75 to 77 of the annual report for the remuneration policy.



## NOTICE OF ANNUAL GENERAL MEETING

Non-executive directors' fees	Present rand	Proposed rand
Chairman of the board (no attendance fees for meetings unless agreed to by the human resources committee)	693 240	727 902
Non-executive director annual retainer	168 455	176 878
Non-executive director attendance fee per meeting	14 973	16 021
Chairman of the risk and financial reporting review committees (assurance committee* meeting chaired)	29 947	32 043
Chairman of the statutory audit, human resources, investment and sustainability committees receive a fee per meeting only	14 973	16 021
Non-executive director members of assurance, human resources, investment, and sustainability committees receive only attendance fees per meeting	14 973	16 021

*\* 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.
- The directors will continue to receive the board fees as approved at the previous annual general meeting until 30 June 2011.

### Reason and effect

The reason for and effect of special resolution number 1 is to approve the remuneration of the directors of the company for their services as directors for the following year.

13. To consider and, if approved, to pass the following Special Resolution.

### Special resolution number 2

Resolved that:

"In terms of the Articles of Association of the company ("Articles"), the company hereby authorizes the directors of the company, by way of a renewable general authority, in accordance with sections 85 and 89 of the Companies Act, No 61 of 1973 ("the Companies Act") or, if the Companies Act, No 71 of 2008 ("the New Companies Act") has come into effect prior to the date of the annual general meeting (AGM) at which this resolution is proposed, in accordance with the JSE Limited ("the JSE") Listings Requirements ("the JSE Listings Requirements"), whether by way of a single transaction or a series of transactions to approve:

- a) the purchase of any of its securities by the company or any subsidiary of the company; and
- b) the purchase by and/or transfer to the company of any of its securities purchased by any of its subsidiaries pursuant to (a) above,

upon such terms and conditions and in such amounts as the directors of the company or its subsidiaries may from time to time decide, but subject to the provisions of the Companies Act or the New Companies Act, the JSE Listings Requirements and any other stock exchange upon which the securities of the company may be quoted or listed from time to time, and subject to such other conditions as may be imposed by any other relevant authority, provided that:

- authority shall only be valid up to and including the date of the company's next AGM, on condition that it does not extend beyond 15 months from the date of this resolution;
- ordinary shares to be purchased pursuant to (a) above may only be purchased through the order book of the JSE trading system and done without any prior understanding or arrangement between the company and/or the relevant subsidiary and the counterparty;
- the general authority to purchase securities in the company pursuant to (a) above be limited in any one financial year to a maximum of 20% of the company's issued share capital of that class at the time the authority is granted;
- purchases pursuant to (a) above must not be made at a price more than 10% above the weighted average of the market value of the securities for the 5 (five) business days immediately preceding the date of the repurchases;
- at any point in time, the company may only appoint one agent to effect any repurchase on the company's behalf or on behalf of any of its subsidiaries;
- in respect of any purchase following the coming into effect of the New Companies Act, the board of the company has resolved (i) to authorise a purchase of securities in the company, (ii) that the company has passed the solvency and liquidity test as contemplated in the New Companies Act, and (iii) that, since the solvency and liquidity test was applied, no material change has occurred in the financial position of the company and its subsidiaries ("the group");

## NOTICE OF ANNUAL GENERAL MEETING

- the company or its subsidiaries may not repurchase securities during a prohibited period unless a repurchase programme is in place where the dates and quantities of securities to be traded during the relevant period are fixed and where full details of the programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period;
- an announcement complying with paragraph 11.27 of the JSE Listings Requirements be published by the company (i) when the company and/or its subsidiaries have cumulatively repurchased 3% of the number of ordinary shares in issue as at the time the general authority was given and (ii) thereafter, for each 3% in aggregate of the initial number of ordinary shares in issue as at the time the general authority was given, acquired by the company and/or its subsidiaries."

### Reason and effect

The reason for and effect of special resolution number 2, is to grant a general authority to enable the company, or any subsidiary of the company, to acquire securities which have been issued by the company including the subsequent purchase and transfer to the company of any securities so acquired by its subsidiaries.

### Statement of intent

The board shall authorise and implement a purchase of the company's securities only if prevailing circumstances (including the tax dispensation and market conditions) warrant same, and should the board, having considered all reasonably foreseeable financial circumstances of the company at that time, reasonably conclude that the following requirements have been and will be met:

- immediately following such purchase, the consolidated assets of the company and the group, fairly valued in accordance with International Financial Reporting Standards and in accordance with the accounting policies used in the company and the group annual financial statements for the year ending 31 December 2011, will be in excess of the consolidated liabilities of the company and the group;
- the company and the group will be able to pay their debts as they become due in the ordinary course of business for a period of 12 (twelve) months after the date on which the board considers that the purchase will satisfy the immediately preceding requirement and this requirement;
- the issued share capital and reserves of the company and the group will be adequate for the purposes of the business of the company and the group for a period of 12 (twelve) months after the date of the notice of the AGM of the company; and
- the company and the group will have adequate working capital for ordinary business purposes for a period of 12 (twelve) months after the date of this notice.

14. To consider and, if approved, to pass the following Special Resolution.

### Special resolution number 3

"Resolved that the board of directors be and is hereby authorised in terms of the provisions of section 45(3)(a)(ii) of the Companies Act 71 of 2008, ("the New Companies Act") as a general approval, to authorise the company to provide any direct or indirect financial assistance ('financial assistance' will herein have the meaning attributed to it in section 45(1) of the Act) that the board of directors may deem fit to any related or inter-related company or corporation of the company ("related" and "inter-related" will herein have the meaning attributed to it in section 2 of the Act), on the terms and conditions and for amounts that the board of the directors may determine."

### Reason and effect

The reason for and effect of this special resolution is to grant the directors of the company the general authority to provide direct or indirect financial assistance to any company or corporation forming part of its group of companies, including in the form of loans or the guaranteeing of their debts. This authority will be in place for a period of two years from the date of adoption of this special resolution number 3.

### Disclosures in the annual report in terms of paragraph 11.26(b) of the JSE Listings Requirements

The following disclosures are required in terms of paragraph 11.26(b) of the JSE Listings Requirements, which appear in the annual report of which this notice forms part, and is provided for purposes of the Special Resolution or Ordinary Resolution, as the case may be:

- the company's directors and management (pages 10 to 21);
- major shareholders (page 156);
- directors' interests in securities (page 89);
- share capital of the company (page 135); and
- material litigation (page 155).

## NOTICE OF ANNUAL GENERAL MEETING

### Litigation statement

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names appear on pages 10 and 11 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 10 and 11) of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution number 2, and certify that:

- to the best of their knowledge and belief there are no other facts, the omission of which would make any statement false or misleading;
- they have made all reasonable enquiries in this regard; and
- the above Resolution contains all information required.

### Material changes

Other than the facts and developments reported on in the annual report, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the date of signature of the audit report and approval thereof by the board of directors.

The directors have no specific intention, at present, for the company to repurchase any of its shares but consider that such a general authority should be put in place should an opportunity present itself to do so during the year which is in the best interests of the company and its shareholders.

The resolutions referred to in 2 to 11 above require the approval by more than 50% of the voting rights exercised on the resolution. The resolutions referred to in 12 to 14 above requires the approval by at least 75% of the voting rights exercised on the resolutions.

Members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies (for which purpose a form of proxy is attached hereto) to attend, speak and vote in their stead. The person so appointed as proxy need not be a member of the Company. Proxy forms must be lodged with the transfer secretaries of the Company, Computershare Limited, PO Box 61051, Marshalltown, 2107, or the registered office of the company, Santam Head Office, 1 Sportica Crescent, Tyger Valley, Bellville addressed to the group secretary, to be received by them not later than 9:30 on Monday, 30 May 2011.

Proxy forms must only be completed by members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

On a show of hands, every member of the Company present in person or represented by proxy shall have one vote only. On a poll, every member shall have one vote in respect of each share held by such member.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with own-name registration, should contact their Central Securities Depository Participant ("CSDP") or broker in the manner and time stipulated in their agreement -

- to furnish them with their voting instructions; or
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Equity securities held by a share trust or scheme will not have their votes taken into account for the purposes of resolutions passed in terms of the Listings Requirements.

On behalf of the board



M Allie  
Group secretary  
1 March 2011

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

### **BTPKM GAMEDZE (52)**

Director, BA (Hons), MSc, FASSA, FIA

Appointed 16 October 2006

#### *Directorships*

Director of Credit Guarantee Insurance Company (Pty) Ltd; president elect of the Actuarial Society of South Africa (ASSA) and founding president of the Association of the South African Black Actuarial Professionals (ASABA).

### **DCM GIHWALA (57)**

BProc, HDip Tax Prac

Appointed 28 May 2008

#### *Directorships*

Director of Cliffe Dekker Hofmeyr, Seena Marena Financial Services (Pty) Ltd, Seena Marena Investments (Pty) Ltd, Outward Investments (Pty) Ltd, Redefine Income Fund Ltd, Ngatana Property Investments (Pty) Ltd, Independent Regulatory Board of Auditors (IRBA), Sando Holdings (Pty) Ltd, FirstRand Executive Trust.

### **IM KIRK (53)**

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

Appointed 14 June 2007

#### *Directorships*

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, Emerald Risk Transfer (Pty) 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.

### **JP MÖLLER (51)**

Director, CA(SA)

Appointed 16 October 2006

#### *Directorships*

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.

### **J VAN ZYL (54)**

Director, PhD, DSc (Agric)

Appointed 1 August 2001

#### *Directorships*

Chief Executive Officer and executive director of Sanlam Ltd and Sanlam Life Insurance Ltd. Director of Sanlam Developing Markets Ltd, Sanlam Investment Management Ltd, Sanlam UK Ltd, and Sanlam Netherland Holdings BV. Council member of the University of Pretoria and trustee of the Hans Merensky Foundation.

### **B CAMPBELL (60)**

Director, BA, MBL, ACII, FCII (UK)

Appointed 4 October 2010

#### *Directorships*

Previous managing director of Mutual and Federal Insurance Holdings Limited and previous Group Chief Executive Officer of the Alexander Forbes. Other current board commitments include Hilton College and Bellavista School.

# 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 annual 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, Tyger Valley, Bellville at 9:30, on Wednesday, 1 June 2011.

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 annual 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 annual general meeting,

as my/our proxy to act for me/us at the annual general meeting, which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special 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 2010)			
Ordinary resolution number 2 (To reappoint PwC as auditors represented by C van den Heever )			
Ordinary resolution number 3 (To reappoint BTPKM Gamedze as director)			
Ordinary resolution number 4 (To reappoint DCM Gihwala as director)			
Ordinary resolution number 5 (To reappoint IM Kirk as director)			
Ordinary resolution number 6 (To reappoint JP Möller as director)			
Ordinary resolution number 7 (To reappoint J van Zyl as director)			
Ordinary resolution number 8 (To reappoint B Campbell as director)			
Ordinary resolution number 9 (Appointment of audit committee)			
Ordinary resolution number 10 (Approval of remuneration policy)			
Ordinary resolution number 11 (Signature of documentation)			
Special resolution number 1 (To approve directors' remuneration)			
Special resolution number 2 (General authority to buy back shares)			
Special resolution number 3 (General authority to provide financial assistance to related or inter-related companies or corporations)			

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 \_\_\_\_\_ 2011

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 annual general meeting.

Please read the notes on the reverse side hereof.

## FORM OF PROXY

### SANTAM LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1918/001680/06)

JSE: Code SNT NSX Code: SNM ISIN: 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 annual general meeting"; but any such deletion must be initialed by the member. The person whose name stands first on the form of proxy and who is present at the annual 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 annual 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, I Sportica Crescent, Tyger Valley, Bellville addressed to the group secretary, by not later than 9:30 on Monday, 30 May 2011.
4. The completion and lodging of this form of proxy will not preclude the relevant member from attending the annual 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 annual general meeting.
6. Any alteration or correction made to this form of proxy must be initialed by the signatory/ies.
7. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries of the company.
8. The chairman of the annual 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

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### NON-EXECUTIVE DIRECTORS

B Campbell, MD Dunn, BTPKM Gamedze, DCM Gihwala,  
VP Khanyile (Chairman), JG le Roux, NM Magau,  
JP Möller, YG Muthien, P de V Rademeyer, GE Rudman,  
J van Zyl, BP Vundla

IM Kirk (Chief Executive Officer)  
MJ Reyneke (Financial director)

### COMPANY SECRETARY

Masood Allie

### SANTAM HEAD OFFICE AND REGISTERED ADDRESS

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

### REGISTRATION NUMBER 1918/001680/06

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

### TRANSFER SECRETARIES

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

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