INSURANCE GOOD AND PROPER

INTEGRATED REPORT 2011

Santam

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SCOPE AND BOUNDARY

This is Santam's first integrated report, encompassing the company's economic, social and environmental performance for the 12 months that ended 31 December 2011. It covers the scope and operations of Santam's own business units regarding material issues. The report does not cover Santam's intermediary partners as they operate their business activities independently of Santam.

This Integrated Report includes data and information deemed to be useful and relevant to our stakeholders, and is informed by the following legislation and standards:

- King III report on Governance for South Africa (King III)
- Financial Sector Charter (FSC)
- Department of Trade and Industry's (dti) Code of Good Practice for BBBEE
- Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines
- JSE's SRI Index and Listings Requirements
- Companies Act 71 of 2008
- The International Integrated Reporting Council (IIRC) discussion paper (published for comment in September 2011)

These guidelines and standards require a change from how Santam reported to its stakeholders in previous years. These changes will be implemented over time to eventually adhere not only to all the required aspects of integrated reporting, but also serve as a benchmark for reporting in the industry.

The most important change from the 2010 Santam annual report relates to the annual financial statements which are no longer included in full in this report. This Integrated Report only includes an abridged financial statement that has been prepared in accordance with the International Accounting Standards Board requirements as set out in IAS 34. The full annual financial results are published on the Santam website (www.santam.co.za), or can be requested from the company secretary. Cross-references to notes in this report are made with reference to the full set of financial accounts.

The report covers an overview of our strategy and specifically our focus areas for our current planning period ending in 2014, our performance for the year ended 31 December 2011 and our objectives for 2012. The scope of the report relates to the Santam group of companies. Detail of the group structure has been provided in the Strategic review section of this report.

To see our online Integrated Report and Sustainability Report, or for more information about Santam and the services we offer, please visit our website at www.santam.co.za

ASSURANCE STATEMENT

Santam's Integrated Report is the result of combined input from all the different business units reporting on their activities and achievements for the 2011 year. Our external auditors, PricewaterhouseCoopers, provide assurance over the abridged financial statements included in this report. Santam has not obtained full independent third-party assurance on the non-financial data included in the Integrated Report for 2011. However, internal audit provided assurance on all sections of this report; excluding the value-added statement and the abridged financial statements. They conducted their review in accordance with the professional standards of the Institute of Internal Auditors. Sufficient and appropriate audit procedures were conducted and evidence gathered to support the conclusions reached and contained in this report.

Their role was to focus on the overall picture presented in the report and not to verify every detail. This has been done through an evaluation of certain statements, ad hoc material data, and claims or assertions by the company about its performance. These evaluations have been signed and verified by management. Their conclusion is that, with regard to the selected statements and data, there is sufficient evidence to support Santam's claims regarding its performance. Therefore, they believe that this report offers stakeholders the necessary basis to make considered decisions about the company. The assurance process will be expanded to incorporate independent third-party assurance in future.

PERFORMANCE HIGHLIGHTS

The Santam group achieved excellent underwriting results in 2011 despite the subdued economic environment putting pressure on premium increases. We also delivered solid growth of 12% on gross written premium. Investment returns were negatively impacted by the volatility of the equity markets and closed on lower levels than in 2010. Despite headline earnings per share being down by 11% compared to 2010 due to the investment return impact, a good return on shareholders' funds of 25% was achieved. Our strong capital position as at the end of February allowed us to declare our fifth special dividend in the past eight years.

- Weighted average return on shareholders' funds of 25%
- Net underwriting margin of 7.7% and net insurance margin of 10.4%
- Growth of 12% in gross written premiums
- Group solvency ratio at 48%, compared to the target band of 35% to 45%, before payment of the special dividend
- Headline earnings per share of 1 216 cents compared to 1 367 cents in the prior year
- Dividend growth of 8.8% and special dividend of R8.50 per share declared

Over and above the excellent financial results reported, Santam also managed to maintain its level 3 BBBEE rating for the past three years.

FINANCIAL PERFORMANCE

	Group 2011	Group 2010	Change %
Results			
Gross written premium (R million)	17 707	15 855	12
Underwriting result (R million)	1 131	1 146	(1)
Underwriting margin	7.7%	8.5%	
Net insurance result (R million)	1 519	1 542	(1)
Net insurance margin	10.4%	11.4%	
Investment income, realised and fair value gains (R million)	771	1 050	
Profit before tax for the year (R million)	1 405	1 789	(21)
Headline earnings per share (cents)	1 216	1 367	(11)
Statement of financial position			
Net asset value per share (cents)	5 329	4 535	18
Solvency margin	48%	45%	
Return on weighted average shareholders' fund	25.0%	37.1%	
Dividends			
Normal dividends per share (cents)	555	510	9
Special dividend per share (cents)	850	500	70
Cash flows			
Cash generated by operations (R million)	2 522	2 115	19

COMPANY PROFILE

Santam is the leading short-term insurer in South Africa with a market share of close to 23%, annualised gross written premium of more than R17.7 billion and assets of more than R18.8 billion.

Along with its subsidiaries, the business transacts all classes of short-term insurance. The company operates in two segments:

- Insurance activities
- Investment activities

The insurance activities segment engages in commercial insurance, personal insurance and alternative risks. The investment activities segment is engaged in all investment-related activities undertaken by the company. Over the past two years the company has made several acquisitions aligned to its strategy of extending its leadership position in the general insurance segment in South Africa and selected emerging markets.

Santam's competitive advantage has been entrenched over 93 years in business. It derives from a national infrastructure and strong intermediary network which offers clients multiple points of entry – clients can conduct their business with Santam personally, telephonically or electronically.

Our competitive offering is based on financial discipline, our claims management system, intellectual capital and capacity and the reputation of the Santam brand.

More than a brand

In 2011 Santam launched a revised brand positioning and corporate identity with a simplified and rational message: "Insurance, good and proper".

We have worked purposefully to change the perception of short-term insurance as a grudge purchase to one which is associated with peace of mind and comfort. To this end, we asked clients and the insurance industry: "How confident are you that you are getting what you pay for?"

We believe that insurance should add value to people's lives, not questions and uncertainty. We recognise that our success comes from understanding what is important to our clients and approaching their concerns with the expertise and integrity which has become the cornerstone of our company.

The redefined brand positioning created in 2011 differentiates Santam's offering and value to shareholders, clients, partners and the broader South African economy. "Insurance, good and proper" is true and authentic to the Santam brand. It is rooted in our behaviour and in our culture, which is premised on excellence.

One of the characteristics of a great company is having the right people who can deliver on the company's strategy and who are passionate about the company's vision and values. At Santam we want to ensure that we continue delivering "insurance, good and proper" by driving a culture of performance and excellence within our company.

Recent market research shows Santam's intrinsic message resonates successfully with South African consumers, which has further enabled our intermediaries to sell to their respective markets. We have maintained healthy levels of engagement with our intermediaries, who in turn have assisted our clients with proper advice to make sure that they have the cover they need.

We have demonstrated our leadership in a number of spheres as we entrench the value embedded in Santam's heritage further through our pursuit in understanding systemic risk and excellent delivery across our business. Examples include our sophisticated scientific underwriting models and expertise that enable us to underwrite the risk correctly upfront; improved claims services delivery through various initiatives; the successful harnessing of technology in various spheres of our business; and our efforts in understanding and managing the impact of climate and other systemic risks. These initiatives are discussed in detail in the relevant operational overview and our Sustainability Report.

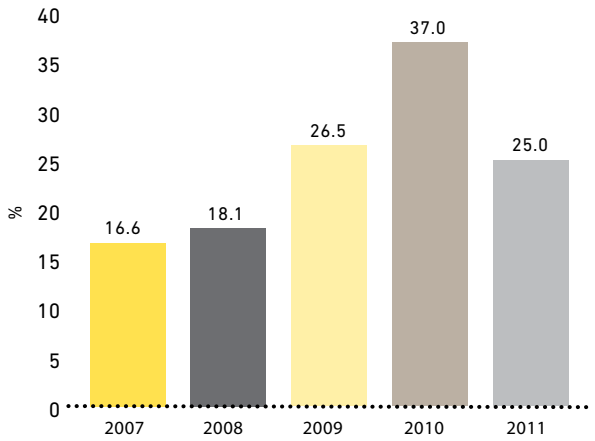
Santam's achievements over the past year are testament to our commitment to excel in our industry. Our accolades include Best Performer in our category in the Johannesburg Stock Exchange's (JSE) 2011 Socially Responsible Investment (SRI) Index in the low environmental impact category; Insurer of the Year, South African Motor Body Repairers Association (SAMBRA); FIA Awards 2011: Commercial lines and Corporate winner; Climate Change Leadership Award; Sunday Times Top Brands (Business Category) Award; Financial Mail/Empowerdex Top Empowerment Companies 2011; best Sustainability Report (Financial Sector) in the ACCA South Africa Awards for Sustainability Reporting 2010; and a Silver Loerie Award in the TV and Cinema Short Format Category for Best TV Advertisement.

The Santam yellow umbrella embodies who we are, where we come from and where we are going. We are proud of what we have achieved thus far but remain intent on exceeding expectations by delivering insurance, good and proper.

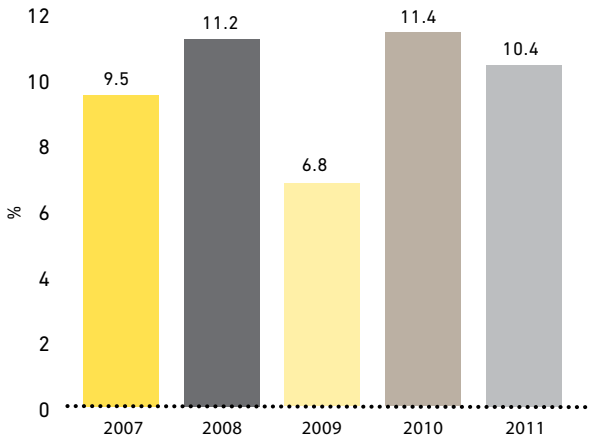
Some key facts about Santam

- We have a local footprint of more than 700 000 policyholders.

RETURN ON CAPITAL



NET INSURANCE RESULT
AS A % OF NET EARNED PREMIUM



- The company holds business interests in Zimbabwe, Malawi, Uganda, Tanzania, Namibia and Zambia.
- We have 4 375 employees in the group and we operate world-class call centres in Cape Town and Johannesburg.
- Santam is rated a level 3 BBBEE contributor with a black ownership structure comprising 26% of the company (unverified for 2011).
- AA+ Insurer Financial Strength rating from Fitch Ratings and AAA claims-paying ability from Global Credit Ratings Company.
- Santam is a subsidiary of Sanlam Ltd and has been listed on the JSE Ltd since 1964.

BUSINESS OFFERING

Santam provides short-term insurance products and services focusing on corporate, commercial, and personal markets. It offers benefits under short-term policies, which include engineering, guarantee, liability, miscellaneous, motor, accident and health, property, transportation, and crop policies, and contracts that could comprise a combination of various insurance covers.

The company also provides alternative risk transfer; long-term insurance consisting of funeral policies; and cell captive facilities through Centriq Insurance.

Our renewed focus on the agriculture industry includes specialist product and service solutions to support all the personal and agricultural needs of today's farmer, including cover for labour practice liability, livestock and crops.

Our products were traditionally distributed through intermediary distribution channels. Although intermediaries remain a very important channel, we have added a direct channel in the form of MiWay to our stable at the end of 2010 and are also building alternative distribution channels through our affinity business unit.

Strategic intent

Our strategic intent is to retain and extend our current leadership position in the short-term industry in South Africa while building our reputation as an international leading general insurance group in Africa and beyond.

Investment case

Santam's focus is on creating shareholder value and the delivery of superior returns; we approach this within a sustainability framework that aims to grow the company through diversification, achieve sustainable insurance margins and increase capital efficiency.

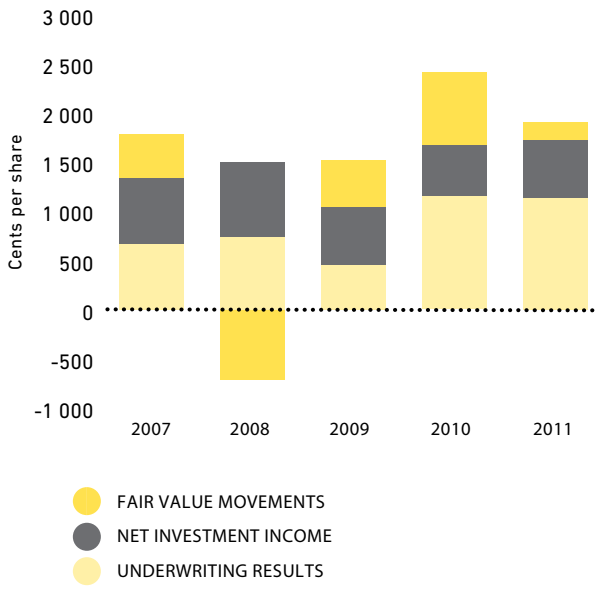
Santam has a stable dividend policy. We have reduced capital and paid special dividends totalling R43.50 over four of the past seven years. A further special dividend of R8.50 per share was declared by the board of directors on 28 February 2012.

The company has a well-defined and established risk appetite and an optimised reinsurance programme by means of which it retains more risk for its own account.

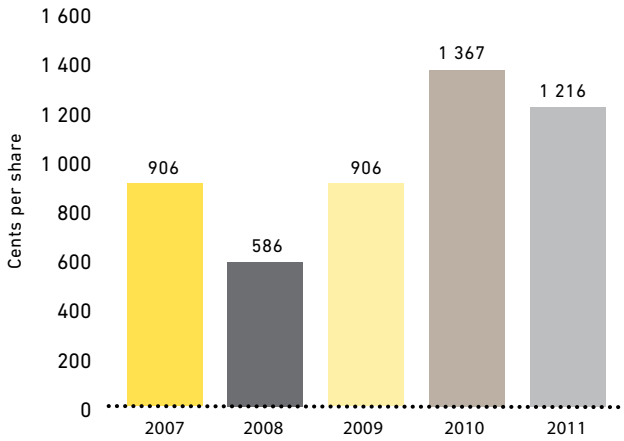
Our key financial measurements:

- Earnings as a percentage of shareholders' funds (return on capital)
- Net insurance result as % of net earned premium
- Profit before tax

PROFIT BEFORE TAX



HEADLINE EARNINGS PER SHARE



- Headline earnings per share
- Net asset value per share

Our sources of growth:

- Traditional intermediated business – retaining our leadership position
- Specialist business – extending the current footprint
- Affinity business – creating access to new markets
- Direct – strategic growth phase through MiWay, our direct insurance subsidiary
- Santam Re – pursuing external opportunities in South Africa and developing markets
- International – partnering with Sanlam and other financial services groups in developing markets

Sustainable margins for the business are supported by our improvements in efficiency and our investment in technology. Santam is continuously optimising processes and shared services. More information about our various initiatives in this regard can be found in the various operational reports later in this document.

Key statistics

	2011	2010
Gross written premium growth	12%	6%
Claims ratio	64.2%	64.1%
Acquisition cost ratio	28.1%	27.4%
Net underwriting margin	7.7%	8.5%
Solvency ratio	48%	45%
Return on shareholders' funds	25%	37%
Headline earnings per share	1 216 cents	1 367 cents

Group structure

Santam is a subsidiary of Sanlam Ltd. The Santam group has made investments in several subsidiaries and associates as disclosed in note 44 of the full set of annual financial statements available on our website at www.santam.co.za. The key subsidiaries in the group are:

- Centriq Holdings (Pty) Ltd providing alternative risk transfer and cell captive insurance through its subsidiaries
- MiWay Group Holdings (Pty) Ltd providing direct insurance through its subsidiaries
- Several investments in underwriting managers providing specialist insurance, including Stalker Hutchison Admiral (Pty) Ltd; Emerald Risk Transfer (Pty) Ltd; and Mirabilis Engineering Underwriting Manager (Pty) Ltd
- Santam Namibia Ltd, a Namibian insurance operation
- Indwe Broker Holdings (Pty) Ltd, an insurance intermediary

Group risks

The group faces several risks inherent to the business. The key risks are discussed in detail, along with actions taken to manage these risks, in the various operational overviews and the corporate governance report.

SEVEN-YEAR REVIEW

		Seven-year compound growth %/average	2011	2010	Restated 2009	Restated 2008	Restated 2007	2006	2005
PERFORMANCE PER ORDINARY SHARE									
Cents per share									
Headline earnings		(3.9)	1 216	1 367	906	373	881	1 555	1 540
Continuing operations			1 216	1 367	906	408	1 029	1 555	1 540
Discontinued operations			–	–	–	(35)	(148)	–	–
Dividends			555	510	466	430	410	380	335
Special dividends			850	500	–	–	2 200	–	650
Net asset value			5 329	4 535	4 012	3 548	3 585	5 633	4 927
INSURANCE ACTIVITIES*									
Net claims paid and provided (%)	Avg	67.0	64.2	64.1	70.6	68.4	68.2	68.6	65.3
Cost of acquisition (%)	Avg	26.2	28.1	27.4	25.9	25.2	25.6	24.9	26.0
Net commission paid (%)	Avg	14.2	13.7	15.3	14.9	14.3	13.9	14.1	13.4
Management expenses (%)	Avg	11.9	14.4	12.1	11.0	10.9	11.7	10.8	12.6
Combined ratio (%)	Avg	93.2	92.3	91.5	96.5	93.6	93.8	93.5	91.3
Underwriting result (%)	Avg	6.8	7.7	8.5	3.5	6.4	6.2	6.5	8.7
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*									
INVESTMENT ACTIVITIES									
Interest and dividends net of asset management fees			554	484	568	771	595	455	428
Net gain/(loss) on financial assets and liabilities at fair value through income			189	537	479	(721)	454	1 205	1 005
RETURN AND PRODUCTIVITY									
Earnings expressed as a % of average shareholders' funds (%)	Avg	27.2	25.0	37.1	26.6	18.1	16.6	32.7	34.0
Pre-tax return on total assets (%)	Avg	11.0	10.1	13.7	8.9	5.0	9.1	14.8	15.6
Effective tax rate (%)#	Avg	27.7	25.7	26.3	26.5	36.1	31.9	24.7	22.4
Gross premium per employee (R'000)*#			3 608	5 116	4 883	4 436	4 012	3 836	3 795
# Continuing activities									
** Alternative Risk Transfer premiums excluded*									
SOLVENCY AND LIQUIDITY									
Dividend cover (times)	Avg	2.8	2.2	3.1	2.1	1.5	2.3	4.1	4.6
Solvency margin (%)	Avg	48.7	47.7	44.8	41.7	41.7	42.0	62.0	61.3
OTHER STATISTICS									
Number of permanent employees			4 375	2 757	2 742	2 807	2 840	2 789	2 733
Staff composition (% of black staff members)			56.8	54.4	50.8	49.7	46.1	44.1	38.8
Number of shareholders			5 169	4 616	4 303	3 871	4 552	4 556	4 457
BBBEE rating (2011 unverified)*			3	3	3	A	A	A	–
Corporate social investment spend (% of NPAT)			0.8	0.7	0.8	1.0	0.3	0.2	0.2
** Financial Services Charter 2006 to 2008; Dti codes from 2009*									
SANTAM SHARE PERFORMANCE AND RELATED INDICATORS									
Market price per share (cents)									
Closing			14 231	13 050	10 850	7 930	10 400	8 745	8 050
Highest			15 500	13 547	11 000	9 500	13 720	9 500	8 500
Lowest			11 707	9 710	7 000	6 200	8 202	6 300	5 650
Market capitalisation (R million)			17 555	14 750	12 245	8 934	11 656	10 287	9 358
Santam share price index**			1 967	1 640	1 347	957	1 287	1 066	973
FTSE – JSE financial index**			597	578	506	394	610	615	388
Closing price/earnings (times)			12.7	9.5	12.0	13.5	11.5	5.6	5.2
Closing price/equity per share (times)			2.9	2.9	2.5	2.1	2.9	1.5	1.6
Closing dividend yield (%)			3.6	3.9	4.3	5.4	3.9	4.3	4.2
Number of shares issued (million)			113.3	113.0	112.9	112.7	112.1	117.6	116.2
Number of shares traded (million)			12.6	18.5	21.9	24.4	39.3	34.9	22.2
Number of shares traded as a % of total number of shares in issue			11.1	16.3	19.4	21.7	35.1	29.7	19.1
Value of shares traded (R million)			1 674.4	2 039.5	1 915.6	2 019.8	4 270.9	2 728.3	1 541.3
*** 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 an income tax adjustment.

	Seven-year compound growth %/average	2011	2010	Restated 2009	Restated 2008	Restated 2007	2006	2005
STATEMENTS OF COMPREHENSIVE INCOME								
Gross premium income	7.7	17 707	15 855	15 026	14 179	13 173	12 115	11 355
Net premium income	7.8	14 674	13 519	12 894	11 873	10 919	10 104	9 344
Underwriting result	6.5	1 131	1 146	453	739	664	627	775
Investment return on insurance funds		388	396	420	540	319	250	241
Net insurance result		1 519	1 542	873	1 279	983	877	1 016
Investment income and associated companies		440	915	670	(520)	805	1 515	1 309
Amortisation of intangible asset/Impairment of goodwill		(68)	(29)	(25)	(7)	(2)	(2)	(4)
Income before taxation		1 891	2 428	1 518	752	1 786	2 390	2 321
Taxation		486	639	402	271	570	593	520
Non-controlling interest		29	27	34	21	26	23	23
Net income from continuing operations		1 376	1 762	1 082	460	1 190	1 774	1 778
Results from discontinued operations		–	–	–	25	(168)	70	–
Net income attributable to equity holders	(4.2)	1 376	1 762	1 082	485	1 022	1 844	1 778
STATEMENTS OF FINANCIAL POSITION								
Property and equipment		80	88	47	42	38	59	57
Intangible assets		994	988	143	155	135	108	80
Deferred tax asset		207	251	88	81	40	27	22
Investments in associates		274	211	198	175	215	239	209
Financial assets	9.3	10 057	8 090	6 337	5 955	7 315	7 517	5 907
Technical assets		1 832	1 518	2 070	2 252	2 265	2 291	2 375
Current assets		5 245	6 589	8 199	7 724	5 419	6 575	6 208
Non-current assets held for sale		–	–	–	–	2 060	–	–
Total assets		18 689	17 735	17 082	16 384	17 487	16 816	14 858
Shareholders' funds	0.8	6 141	5 219	4 672	4 135	4 079	6 750	5 852
Equity – non-current assets held for sale		–	–	–	–	71	–	–
Non-current liabilities		1 723	1 787	1 517	1 666	1 907	902	774
Technical provisions		8 577	7 803	8 316	8 238	7 729	7 768	6 716
Current liabilities, provisions		2 248	2 926	2 577	2 345	2 095	1 396	1 516
Non-current liabilities held for sale		–	–	–	–	1 606	–	–
Total equity and liabilities		18 689	17 735	17 082	16 384	17 487	16 816	14 858
STATEMENTS OF CASH FLOWS								
Cash generated from operating activities after finance costs	0.3	2 403	2 020	1 725	1 375	2 094	2 196	2 365
Income tax paid		(813)	(755)	(115)	(669)	(288)	(606)	(778)
Net cash from operating activities		1 590	1 265	1 610	706	1 806	1 590	1 587
Cash (utilised)/generated in investment activities		201	(270)	(1 477)	921	12	(390)	578
Disposal/(acquisition) of associated companies		–	(17)	26	(55)	21	24	11
(Acquisition)/disposal of subsidiaries net of cash		(343)	(357)	(11)	(3)	(61)	153	(41)
Cash (sold)/acquired through sale/acquisition of subsidiary		3	262	(23)	(1 139)	52	(188)	281
Cash utilised in additions to property and equipment		(66)	(27)	(36)	(47)	(29)	(17)	(19)
Disposal/(acquisition) of book of business		–	–	54	51	(2)	(2)	–
Net cash used in investing activities		(205)	(409)	(1 467)	(272)	(7)	(420)	810
Proceeds from issuance of ordinary shares		–	–	–	2	34	29	27
Net purchase of treasury shares		(33)	(23)	(33)	(19)	(726)	–	–
Return of surplus capital to shareholders		–	–	–	–	–	–	(1 156)
Increase in debt securities		–	–	–	–	964	–	–
Increase in investment contract liabilities		(413)	129	(101)	(138)	230	–	–
Dividends paid		(618)	(1 113)	(513)	(476)	(2 977)	(1 185)	(360)
Increase in cell owners' interest		26	42	87	111	8	61	88
Purchase of subsidiary from non-controlling interest		–	(90)	–	–	–	–	–
Net cash used in financing activities		(1 038)	(1 055)	(560)	(520)	(2 467)	(1 095)	(1 401)
Net (decrease)/increase in cash and cash equivalents		347	(199)	(417)	(86)	(668)	75	996
Cash and cash equivalents at beginning of year*		1 143	1 379	1 938	1 983	2 659	4 927	3 927
Translation (losses)/gains on cash and cash equivalents		108	(37)	(142)	41	(8)	140	4
Cash and cash equivalents at end of year		1 598	1 143	1 379	1 938	1 983	5 142	4 927
Non-current assets classified as held for sale		–	–	–	–	(812)	–	–
Cash and cash equivalents at end of year – Continuing operations		1 598	1 143	1 379	1 938	1 171	5 142	4 927

** 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 an income tax adjustment.

BOARD OF DIRECTORS

MP FANDESO

B CAMPBELL

MJ REYNEKE

J VAN ZYL

VP KHANYILE

Y RAMIAH

YG MUTHIEN

JP MÖLLER

MD DUNN

BTPKM GAMEDZE

IM KIRK

MLD MAROLE

BOARD OF DIRECTORS

VP KHANYILE (61)

Chairman
BComm (Hons) in Accounting and Finance (Birmingham), Fellowship in Development Finance (Princeton), Honorary Doctorate (Walter Sisulu University)
Appointed as a director in April 2010 and as 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 and the independent chairman of Simmer & Jack Mines Ltd.

B CAMPBELL (61)

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

Previous managing director of Mutual & Federal Insurance Holdings Ltd, and previous group CEO of Alexander Forbes. Other current board commitments include Hilton College and Bellavista School.

MD DUNN (67)

Director, FCA, CA(SA)
Appointed 16 April 2010

Director of Munich Reinsurance Company of Africa Ltd and the Vumelana Advisory Fund NPC.

MP FANDESO (53)

Director, BSc (Hons), MBA
Appointed on 10 October 2011

Director of SA Breweries Ltd.

BTPKM GAMEDZE (53)

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

Director of Credit Guarantee Insurance Company (Pty) Ltd, Sanlam Emerging Markets Ltd, Sanlam Investment Management 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 (58)

Director, BProc, HDip Tax Prac
Appointed 28 May 2008 and resigned on 1 September 2011

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 Director of Centriq group of companies, MiWay Group Holdings (Pty) Ltd, MiWay Insurance Ltd, Emerald Risk Transfer (Pty) Ltd, SAIA, Infinit Group Risk Solutions (Pty) Ltd, Nova Risk Partners Ltd and Beaux Lane (SA) Properties (Pty) Ltd.

JG LE ROUX (66)

Director, BSc (Agric)
Appointed 23 May 2000 and resigned on 10 June 2011

NM MAGAU (59)

Director, DEd
Appointed on 28 May 2002 and resigned on 7 November 2011

MLD MAROLE (49)

Director, BComm, Dip Tertiary Education, MBA
Appointed 13 December 2011

Director of Richards Bay Titanium (Pty) Ltd, Tisand (Pty) Ltd, Richards Bay Mining (Pty) Ltd, Richards Bay Mining Holdings (Pty) Ltd, MTN Group, Govhani Resources (Pty) Ltd, JP Morgan Chase Bank, Development Bank of Southern Africa. Appointed as commissioner of the presidential review committee from May 2010 to March 2012.

JP MÖLLER (52)

Director, CA(SA)
Appointed 16 October 2006

Executive director of Sanlam Ltd and Sanlam Life Insurance Ltd. Director of Sanlam Emerging Markets Ltd, Sanlam Capital Markets Ltd, Sanlam Investment Holdings (Pty) Ltd, Sanlam UK Ltd, MiWay Group Holdings (Pty) Ltd, Genbel Securities Ltd and Ubuntu-Botho Investment Holdings (Pty) Ltd.

YG MUTHIEN (55)

Director, DPhil (Oxford), MA (NWU), BA (Hons) UWC
Appointed 25 November 2009

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

P DE V RADEMEYER (64)

Director, CA(SA)
Appointed 20 February 2001 and resigned on 30 June 2011

Y RAMIAH (44)

Executive Director, BA LLB, MBA, HDip Tax (Admitted Attorney)
Appointed to the board on 13 December 2011

Director of Grindrod SA (Pty) Ltd and Adopt a School Foundation.

MJ REYNEKE (54)

Executive Director, BComm (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.

GE RUDMAN (68)

Director, BSc, FASSA, FFA
Appointed 23 January 1996 and resigned on 30 June 2011

J VAN ZYL (55)

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 Emerging Markets Ltd, Sanlam Investment Holdings Ltd, Sanlam UK Ltd, and Sanlam Netherland Holdings BV. Chairman of Vumelana Advisory Fund NPC. Council member of the University of Pretoria and trustee of the Hans Merensky Foundation.

BP VUNDLA (63)

Director, BA (Unisa)
Appointed 28 May 2002 and resigned on 17 January 2012

FROM LEFT

MACHIEL REYNEKE (54)

Financial Services

BComm (Hons), CA(SA)

Appointed 2002

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

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

TEMBA MVUSI (56)

Market Development

BA, ELP (Wharton School of Business), MAP (Wits), PDP (UCT)

Appointed 2008

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

EXECUTIVE MANAGEMENT

FROM LEFT

JAN DE KLERK (50)

Information Management

MDP (University of Pretoria)

Appointed 2007

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

EDWARD GIBBENS (42)

Broker 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; manages the efforts of business partners and intermediary distribution employees, analyses the competitive environment and develops future strategies to strengthen the company's competitive position.

JOHN MELVILLE (46)

Risk Services

BBusSc (Hons), FIA, FASSA, MCR (IMD)

Appointed 2010

Responsible for the underwriting function (including strategy, pricing and sustainability); product solutions; actuarial services (including rating, capital modelling and solvency management); developing and implementing reinsurance strategy; and developing Santam Re into a growth and profit contributor for the Group. Oversees the development and maintenance of systems and processes to support the operation of these functions.

FROM LEFT

HENNIE NORTJÉ (48)

Operations

MCompt, CA(SA)

Appointed 2008

Responsible for the management of the claims value chain, including client services, processing and procurement for superior delivery of client service and optimal insurance results. Further responsible for the attainment of the financial sector charter procurement dimensions; and ensures efficient policy administration and operation of sales and administration contact centres.

YEGS RAMIAH (44)

People and Brand Services

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

Appointed 2009

Responsible for marketing and communications, and for human resources. Marketing and communications maintains a strong focus on client attraction, retention and satisfaction. Human resources incorporates employee well-being and development in their broadest form and stays abreast of international best practice in talent management.

QUINTEN MATTHEW (48)

Specialist Business

FIISA

Appointed 2003 (Appointed to Executive Management 2010)

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

René Otto, Chief Executive Officer of MiWay Insurance, and Ebrahim Asmal, Executive Head: Group Sourcing, have joined the executive management of Santam with effect 1 January 2012.

WE
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R10

WE DO INSURANCE PROPERLY

HAVE PAID CLAIMS TO VALUE OF .8 BILLION

"SOUTH AFRICA'S POLITICAL AGENDA SUPPORTS THE CREATION OF AN AFRICAN BUSINESS IDENTITY – PERFECTLY ALIGNED WITH SANTAM'S STRATEGIC POSITIONING."

Reflecting on my first full year as chairman of the Santam board, I believe we can be grateful and proud of the excellent results in a time of continued global upheavals. Although Santam is set on a solid strategic path, the business environment continually requires that we deal with uncertainty and confusion on many levels.

Like many other South African businesses, Santam finds itself facing two worlds: the developed world with marginal or stagnant growth – with no apparent sign of an upswing in the market, and the developing world with pockets of significant growth. We have to determine which world will have the overriding impact for South Africa – which remains Santam's most significant market.

FACING A COMPLEX ENVIRONMENT

At the end of my first year, I am delighted by the degree of complexity that I had to face in this business. I expected a new environment filled with surprises, challenges and opportunities for personal growth. This was made bearable by the fact that I had the privilege to work with a management team that is technical in their expertise, but also practical in their approach to business and life.

Ultimately, 2010 was an exceptional year for Santam. We predicted that it would be unlikely for the company to maintain this level of performance in 2011. We are pleased therefore to report to our stakeholders that, despite the fact that the United Nations claimed that 2011 was the costliest year in history for catastrophes, Santam again managed to deliver very satisfactory results for the year.

The momentum that began in 2010 was evident in the interim results released in August, and at year-end Santam achieved an underwriting margin of 7.7% compared to 8.5% in 2010. However, a number of external factors had a dampening effect on returns.

The issue of white-collar crime in the country has been part of the national discourse in the past year. This has a negative effect on the insurance industry as well as the country. While within Santam we can pride ourselves on the soundness of our risk management processes, it is essential that the national context in which South Africans live and work show positive development in the fight against this scourge.

We have a number of strong and capable operators in the short-term insurance industry, and it is becoming evident that we have to approach the issue of increasing white-collar crime collectively. We believe that it is our responsibility to partner with stakeholders such as government and religious institutions to tackle this issue. It is a time to be honest and ask ourselves to what extent the capacity to fight crime has improved in our country. For more information on how Santam manages economic crime, please see "Maintaining an ethical and managing economic crime" in our Sustainability Report.

Our business at Santam is to manage risk for our policyholders. The business has been forced to be even more vigilant in managing its claims processes – administering and settling claims faster while also being more stringent in the claims management processes. For more information

on Santam's approach to managing economic crime, refer to material issue number four in the Sustainability Report, available on our website at www.santam.co.za.

STRATEGIC DIRECTION

Santam's leadership team not only fully comprehends the technical complexity of the business and the systemic risks it faces, but also has the ability to communicate this with great clarity and skill. It is an old company with a strong legacy, but we are able to renew and change, which is critical for success in the world we operate in.

Santam intends to consolidate its leadership position in the general insurance segment in South Africa and selected emerging markets. The business continues to implement and refine this vision through its strategic priorities, and a number of supporting strategic projects as discussed in more detail in the Chief Executive Officer's Report. During 2011 this included diversifying the business outside the borders of South Africa.

South Africa remains Santam's most significant market and we plan to continue outperforming our competitors. In our aim to diversify our markets and channels, the company's main challenge now is to apply our competitive strengths in new markets. In 2011 we made progress with our expansion initiatives. We are in the fortunate position to be able to take advantage of the regional economic blocks that are emerging, particularly in Africa. South Africa's political agenda supports the creation of an African business identity – perfectly aligned with Santam's strategic positioning as a player on the continent.

Our footprint and resources offer special insights and opportunities that we believe can be put to good use and are relevant to developing markets. As Santam's controlling shareholder, Sanlam also has Africa aspirations. Therefore, it makes sense for the two operators to enter new developing markets in tandem – an approach we are now entrenching also in India.

Although Santam has set itself challenging objectives in terms of expanding its footprint, we are cautious in our approach and remain sensitive to the dynamics of our environment. It remains critical for us to first understand how our strengths relate to the particular risks and challenges of each new market.

TRANSFORMING PEOPLE AND BRAND

Transformation might well start with race but it is more than that – it encompasses diversity of thought, creativity, ability and all the other differences our nation has to offer. At Santam we are also transforming the way in which we present ourselves and the way in which we do business, creating the capacity to commit and operate according to the Santam Way and brand.

Santam continues to make progress along the path of transforming the people context of our business as well as the Santam brand. The company maintained the status as a level 3 contributor in terms of the BBBEE scorecard (still to be formally verified for 2011). The refreshment of the Santam brand was a huge success. Our opportunity remains to engage our staff to higher levels of success, to keep attracting the best skills and resources to our brand, while at the same time harnessing and increasing our diversity. I firmly believe that diversity is a strength that will benefit Santam in the business challenges it has to address.

Santam has its own, distinct personality. Although many of the people working for Santam are extremely capable individuals and often the best in their fields, they are also ordinary men and women. They are the kind of people who make a tremendous impact without standing "on top of a mountain". Our people are one of our primary strengths and one of the reasons why I believe that we are a unique company in the South African business environment.

The overall Santam identity, culture and relationships have been sculpted over 93 years. This was reviewed in 2011 and refocused towards service, delivery and a continued investment of energy in and commitment to Santam's core business in short-term insurance.

The new brand positioning – "Insurance, good and proper" – is being implemented not only internally, but also throughout our intermediary network, a core asset for the company. We are also proud of the Santam black intermediary development initiative (SBIDI) launched in 2008 that has as its main objective the active development of black intermediaries. The initiative takes promising black graduates (we have trained 112 graduates since) and gives them the training they need to become successful short-term insurance professionals. The programme is endorsed by the Insurance Sector Education and Training Authority (INSETA).

GOVERNANCE AND SUSTAINABILITY

The company has quickly come to terms with the increased requirements for transparency in its stakeholder reporting; a painless process – attesting to the values already entrenched in the Santam culture.

The call for more accountability, transparency and information relevant to all stakeholders by King III and the new Companies Act has been fully embraced by Santam's board and management team.

Integrated reporting has improved our awareness of the opportunities for stakeholder engagement that could benefit the business and contribute to sustainability. For example, we took a keen interest in the developments and outcomes of COP17 from both a sustainability and systemic risk point of view. I believe that COP17 raised the awareness of risks that we are facing as a nation. For the insurance industry in particular, it highlighted the need to develop tools to improve our capacity to predict and manage natural disasters. The fact that a diverse group of countries could commit to a common vision is a valuable inspiration for business to collectively approach environmental and social issues in our communities.

Santam's current initiatives in this regard are covered in detail in our Sustainability Report.

RECOGNITION

Over the years Santam has received widespread acknowledgement from various sectors and on many platforms. We do not chase awards, but we appreciate the way in which the recognition of our employees and our work contributes to the reputation and positioning of the Santam brand in the mind of the consumer.

Following on the accolades that Santam received in 2010, the company has once again excelled and demonstrated leadership in a number of areas as reported on in detail in our Strategic Review.

Although Santam also has a number of programmes through which it recognises its own people, especially in terms of living the company's values, I want to personally congratulate our employees, intermediaries and business partners for their achievements in the past year.

LEADERSHIP AND THANKS

I wish the world was still as simple as when we could predict with some degree of certainty what was going to happen in the next 12 months...

The board recognises that the insurance industry offers one of the clearest demonstrations that non-financial sustainability issues do not stand apart from business issues – and that the world is faced with great uncertainty in both these areas. As a board, we need to ensure that we have the expertise and diversity to oversee the entire spectrum of risks, challenges and opportunities facing the company.

During the year, the board saw a number of changes in its composition. Messrs J le Roux, G Rudman and P Rademeyer retired from the board during June 2011, whilst Mr D Gihwala and Dr N Magau resigned during September and November respectively. Mr M Fandeso, Ms M Marole and Ms Y Ramiah were appointed to the board during 2011.

To the outgoing directors, I wish to express my deep appreciation for their valuable contribution during their tenure and wish them well for the future. I also bid the new board members a warm welcome and look forward to their contribution to the Santam board.

It has been a privilege to work with a strong board that has an effective committee structure to support the board's role. I appreciate the support of my fellow directors during the year and the commitment of management and staff.

PROSPECTS

The new board has a challenging year ahead. Over the past five years we have consistently aimed for shareholder returns to outperform the cost of capital by some margin and thereby continuously enhance shareholder value.

However, we are also realistic about the fact that the global economic turbulence will continue, that increased inflation in our own market is a risk and that a European solution is critical to ensure a revival in our operating environment. We are facing 2012 with both caution and confidence.

The South African political landscape will be one of the important influencing factors for business in the new financial year. We believe and we trust that healthy debate and the maturity of our democracy will enable us to address potential changes while remaining steadfastly on the path of sound economic policy.

Santam is certain of where it is going, but as a nation we need a similar collective vision. Let us hope that 2012 will bring us this common purpose and commitment.

VP Khanyile
Chairman

A PROUD
MEMB
ECONO

WE DO INSURANCE WITH INTEGRITY

FOUNDING
BER OF THE
MIC CRIME
FORUM

"IN GENERAL, OUR PERFORMANCE FOR 2011 DEMONSTRATES SANTAM'S SUPERIOR MANAGEMENT OF THE FACTORS UNDER OUR CONTROL."

A CHALLENGING ENVIRONMENT FOR INSURANCE AND INVESTMENT

The 2011 financial year was a challenging one for all players in the short-term insurance industry. South Africa remained exposed to the wide-ranging impact of the ongoing global economic uncertainty. While the country experienced localised natural disasters, including floods early in 2011, these were minor compared to the devastation of earthquakes and floods in Japan, New Zealand, the USA, China, Burma, Pakistan and Turkey.

These tragic events acted as a stark reminder that climate change is causing an increase in the intensity and frequency of natural disasters around the globe.

Santam's continued and sustainable success has been, and will continue to be, determined by our ability to further adjust to change and address a dynamic systemic risk landscape. Santam has been able to continually reposition itself in the changing business environment, to provide a relevant offering to its clients and to optimise our internal systems to drive efficiencies. This is at the core of our business proposition. Our business partners have recognised our leadership position with Santam being ranked as the best commercial and corporate insurer for three consecutive years by the Financial Intermediary Association (FIA). Santam was also named Insurer of the Year by the South African Motor Body Repairers Association (SAMBRA), reflecting our commitment to the supply chain.

We believe that insurance can play an active role in promoting pragmatic and collaborative systemic risk management in society and the economy. As a business, we know that we do not operate in a vacuum, and we acknowledge as the industry leader that systemic events can have a significant impact on our operations. Therefore, during 2011 we continued to work with a wide variety of stakeholders on this, including our peers in the short-term industry, numerous government partners and academic leaders, to ensure the sustainability of our industry.

An example of this is our continued collaboration (with the CSIR and University of Cape Town) in the ground-breaking Eden project in the southern Cape. On a macro level, this project will allow us to better understand the system dynamics between risk and resilience in a socio-ecological landscape and the role of the insurance industry in shaping societal behaviour. On a microlevel, it will eventually impact certain decisions that we make in terms of underwriting and risk exposure.

Santam's investment decisions are equally crucial to the company's performance. The multiple challenges posed by the economic and political demands for a European solution – which on a daily basis seems to highlight a new country in crisis – and the tight financial linkages of globalised financial markets (which exposes the US in particular) will continue to impact and direct Santam's investment decisions next year and in the medium term, or at least until such time as the global economy begins to stabilise again.

Santam is a future-focused company – the business is financially and operationally in better shape than ever before and is well positioned to expand its offering, its footprint and its brand.

ANOTHER SOLID PERFORMANCE IN A CHALLENGING YEAR

As mentioned in last year's report, we did not believe that the stellar performance we achieved in 2010 on both the insurance and investment activities was sustainable. This was in line with our expectations for the tougher trading environment experienced in 2011. The market proved to be as challenging as anticipated; therefore, it is a privilege to present yet another year of solid growth for Santam in 2011.

Underwriting margins exceeded expectations with a result of R1 131 million (2010: R1 146 million) and premium growth recovered with an increase of 12% compared to 6% in 2010 reflecting further market share gains. However, volatility in South Africa impacted our investment performance, reflecting the global turmoil in the investment markets, including persistent growth concerns in the USA and austerity measures in Europe. Santam's headline earnings declined by 11%, essentially because of lower investment income in 2011 when compared to 2010.

In general, our performance for 2011 demonstrates Santam's superior management of the factors under our control, despite our investment performance being impacted by the vagaries of the market.

Santam's acquisition cost ratio on net earned premium was above the 27% target that we set for ourselves. This was due to investments in strategic initiatives such as MiWay and other transformation and optimisation projects. We are confident that we can reduce our acquisition cost ratio over time to meet our medium-term target of 26% while continuing to invest in growth for the longer term. Our net claims margin of 64.2% compared well with the 64.1% reported in 2010.

On an absolute basis, Santam's return on insurance funds generally remained stable, although the lower interest rate environment had a negative impact. As a percentage of the net earned premium, the float income has decreased by approximately 0.2% on the previous year and was marginally lower than planned for.

OUR STRATEGIC INTENT FOR ENDURING LEADERSHIP IN THE SHORT-TERM INSURANCE SECTOR

We have made solid progress on our strategy to continually extend our leadership position in the general insurance segment in South Africa and selected emerging markets. This will remain our focus for the foreseeable future.

In South Africa our objective is to maintain our market share as the largest player in the commercial, specialist, agriculture and personal lines and to sustainably deliver superior financial returns to shareholders. We believe that our brand positioning, strong intermediated offering and our multiple distribution channel capability as reported on last year ensure our relevance in the market.

We aim to build our reputation as Africa's leading general insurance group through our expansion into Africa, India and Southeast Asia. This will provide geographic diversification benefits, including the distribution of risk, while deploying our intellectual capital beyond our borders to deliver growth.

We also continued to make solid progress with our strategic initiatives to deliver enhanced returns as we deliver premium growth, operational efficiencies and sustain our medium-term underwriting margin within our target range of 5% to 7%.

Santam's business is managed around two disciplines – insurance and investment. The different insurance business units reported on constitute personal lines, incorporating MiWay as well, commercial lines, agriculture, and specialist businesses. Together with the risk management, incorporating Santam Re as well, and claims services business units who support the business, they form the insurance segment. Insurance contributed 20% of the return on shareholders' funds while investments contributed 5%. Santam's gross premium income in 2011 of R17.7 billion showed an improvement of 12% on last year. Among the different insurance classes, motor and property again contributed the highest gross written premium, contributing to 43% and 28% each of total premium.

ONGOING FOCUS ON IMPROVING EFFICIENCY

In line with our policy to invest 1% of net earned premium income in strategic projects, we have been involved in a number of exciting initiatives as part of our forward-looking programme to position Santam for future longevity:

- The collaborative Eden Project, as mentioned earlier in my report
- Optimisation of our commercial and personal lines contact centres
- The focused upskilling of our relationship managers to ensure improved service levels to our intermediaries
- Various initiatives in the claims services business unit aimed to improve client service while reducing costs

- The Coastal project which began in 2010, with the aim to identify and manage flooding risks in coastal areas
- A project initiated during the year which will be looking at transforming our product management and rating capability from an IT perspective
- The implementation of the first phases of the e-Biz project

"WE AIM TO BUILD OUR REPUTATION AS AFRICA'S LEADING GENERAL INSURANCE GROUP"

EMBEDDING A NEW BUSINESSES GROWTH CULTURE THROUGHOUT THE GROUP

Despite the challenging domestic market, we made good progress with our local strategic objectives during 2011. The key strategic acquisitions that were concluded in 2010 – Emerald Underwriting Managers, MiWay Group Holdings and Indwe Broker Holdings – were bedded down and performed well.

MiWay grew significantly in support of Santam's multiple distribution channel strategy. Furthermore, it was ranked as the top short-term insurance company of the Ask Afrika Orange Index Service Excellence Benchmark and achieved first place in the Deloitte 2011 Best Company To Work for Awards. MiWay continues to make significant investments to meet its growth potential and its claims ratio is under control benefiting from segmentation and risk models especially designed for the direct channel. From a group perspective, I am pleased to be able to report that only marginally more than 2% of MiWay clients previously had Santam policies. This demonstrates the validity, and the ability to co-exist, of both the intermediated and direct business models.

Our proprietary segmentation and risk management models provided the group with the ability to further improve the quality of our book during the year. In addition, a number of initiatives which came to fruition during 2011 enabled us to minimise premium increases while also offering premium reductions to lower-risk clients. This enabled us to both defend and take market share despite significant competitive pressures, particularly in commercial and personal motor insurance. Completion of efficiency projects in the claims environment and various procurement initiatives, together with the positive impact of the strength of the rand for most part of the year, contributed to a reduction in average claims cost. Efficiency and effectiveness initiatives in the commercial and personal lines contact centres contributed to profitable growth through increased conversion rates and reduced churn rates.

GROWTH OPPORTUNITIES: BRAND AND NEW MARKETS

Santam's brand position of "Insurance, good and proper" launched during 2011, entrenches the concept that Santam's value proposition extends beyond simply price. We do insurance properly, with integrity, excellence, single-minded focus, certainty and stature – a core characteristic of our intermediary partners.

Early results of the brand repositioning are being tracked through social media channels. These have indicated improved penetration of previously untapped market segments outside Santam's traditional client base. In addition, traffic to the call centre and internet channels has increased. The proposition to clients is being entrenched with the introduction of mobile applications, comprising vouchers and benefits, a first in the insurance industry. We hope that this will increase the loyalty of policyholders and work toward tying them to our brand.

Our developing market presence

Santam has a well-articulated strategy to increase its presence in Africa and India over time – both attractive growth regions for short-term insurance. We have a three-way approach to these territories, through:

- Santam Re, a division of Santam focused on writing inwards reinsurance;
- our specialist underwriters who underwrite individual risks especially in Africa; or
- investing in partners either directly or indirectly via participation arrangements where Sanlam invests in a corporate financial services group with Santam acting as the short-term insurance technical partner.

A COMMITMENT TO RISK MANAGEMENT

Underpinning our ability to manage the risks of our clients is our disciplined approach to managing our own specific internal business risks. Therefore, we have extensive risk management systems entrenched in every aspect of the business, with processes to identify the risks facing the business. Some of the top risks facing Santam can be defined as our ability to:

- retain or increase market share profitably while achieving an appropriate rate for risk;
- manage the impact of change initiatives on operational capabilities and business continuity;
- effectively manage transition to multichannel distribution;
- protect Santam's brand and reputation, both externally and internally; and
- ensure investment performance.

Why these risks impact Santam and how we are dealing with them, and other information on the risks that we deal with, are detailed in our Risk report on page 90.

Santam is taking proactive steps to ensure the long-term sustainability of its underwriting margins. As such, our Risk Services business unit has continued to enhance its rating approach, especially in commercial and personal lines. Our particular focus during 2011 was on understanding the drivers of the propensity to claim and to cancel policies. Additional initiatives included modifying certain aspects of the cover which is provided, and the possible withdrawal of certain aspects of cover in high-risk areas. Underpinning all underwriting decisions is the appropriate pricing of all risks that are taken onto our book.

In line with our proactive approach to mitigating the possible impacts of climate change, Santam continued its collaboration on the Eden project which began in 2010. Please see our Sustainability Report for more detail on this project. To implement the recommendations of the Eden review, it is our intention to work more closely with local authorities to encourage improved planning to prepare for the possible impacts of climate change.

Examples include avoiding new developments in areas of higher risk as a result of climate change. In future, we intend to expand the project into other areas as we expand our specific knowledge in this field. Santam's long-term benefits from this project are expected to far outweigh the project costs, as a result of lower cost ratios, reduced cost of insurance and improved accessibility to products.

During the year we also adopted a more proactive approach to minimising fraudulent claims, both independently and in conjunction with industry bodies such as the South African Insurance Association (SAIA). We implemented a new process and system during the year which has enabled sophisticated analyses of fraudulent claims. This has resulted in Santam being better equipped to repudiating such claims, ensuring our ability to sustainably pay out legitimate claims from our clients.

ACKNOWLEDGING OUR PEOPLE

As we have mentioned before, at the heart of our business are our people. To support the delivery on our strategic objectives, the group recruited a number of talented individuals into the company, at management and specialist levels of the company.

Santam continues growing its status as an employer of choice in the industry and is accordingly finding it easier to attract and retain key skills. We continue to focus on training, developing and retaining talent. We are maintaining the highly successful development programmes such as the senior leadership development programme that is conducted in conjunction with Gordon Institute of Business Science (GIBS). The format entails interventions during the quarterly operational and strategic feedback meeting of senior managers of the group. This enhances the learning experience through application to specific business issues. A number of the management and executive team members were also exposed to international training at INSEAD, The Business School for the World. Various leadership programmes for middle and junior management level are also conducted in conjunction with Stellenbosch Business School.

The group is growing its pool of talent for the next generation through a number of programmes, including the highly successful graduate programme. This initiative exposes recent graduates to all aspects of the business during a 12-month term. It prioritises the imperative of attracting future black leaders – the majority of whom have been permanently employed by the group after completion of the programme in the past.

Santam continues to make solid progress with its transformation agenda and we have retained our status as a level 3 contributor in the face of increasingly stringent BBBEE criteria.

PRIORITIES AND OUTLOOK

Our focus for 2012 will remain to steadfastly focus on:

- achieving operational and capital efficiencies;
- balancing growth and profit;
- developing our distribution models;
- diversifying the business outside the borders of South Africa;
- continually and consistently enhancing our risk management capabilities;
- focusing on our people; and
- strengthening the brand to extend market share.

The executive team will drive their efforts to maintain the momentum of these initiatives throughout the business to ensure that they deliver the anticipated benefits.

These strategic objectives are integrally linked to our financial targets. Our targets have been set for our current strategic planning cycle up to 2014, but several initiatives have been launched to ensure sustainability of performance in the longer term beyond 2014:

- Achieving an underwriting margin of 5% to 7%
- Limiting the acquisition cost ratio to 26% over the medium to long term
- Growing our market share in the South African short-term insurance market
- Continuously enhancing the intrinsic value of the Santam share

Our success will ultimately be measured on our ability to continually increase the size, quality and diversification of our risk pool.

The regulatory environment

The regulatory environment remains very challenging. Santam continues to monitor developments and dynamically position the business, not only to comply with changes, but to turn them to our advantage to service our clients' needs while delivering value for all stakeholders. In particular, the group is reviewing its capital requirements under the new solvency regulations which are planned to come into effect in 2014, leveraging our extensive capital resources to participate in new opportunities.

Outlook

The uncertain European outlook and continued pressure on domestic consumers suggest that challenging market conditions will persist. However, with our diversified business, strong leadership position and the continued success of our strategic initiatives to improve our ability to price optimally, manage risks and ensure claims efficiency, we believe that Santam is well positioned to ensure sustainability and outperform our peers.

At the low end of the market, emerging consumers who may have considered taking up short-term insurance in phases of high economic growth are now more likely to postpone such decisions. Santam's traditional focus has been outside of the emerging market. However, with our Affinity partners and our direct sales model, we are equipped to create new opportunities in this segment.

Santam's intermediated offering is also positioned to capture new entrants to short-term insurance. This is enhanced and supported by the new brand positioning – "Insurance, good and proper" – which is, as always, underpinned by the solid advice provided by our intermediaries to clients.

Across all of its products and services, Santam will continue to focus on providing innovative products, supported by its leading distribution model.

There is an expectation that motor ratings could turn as a result of the weaker rand impacting car parts pricing in the year ahead. In addition, the reinsurance industry, which was severely impacted by catastrophic events in 2011, will impose higher reinsurance premiums.

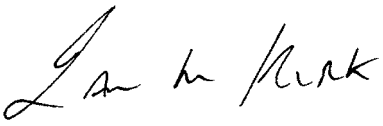
The market is set to remain challenging due to these systemic challenges and pressure from new competitors. Notwithstanding these factors, Santam's business is well positioned and will continue to adapt quickly to changes to further entrench its leadership position.

THANK YOU

As always, I thank our people and our intermediaries who helped to make 2011 a successful year despite challenging times – without your commitment, dedication, loyalty and hard work, none of it would be possible.

I also thank Vusi Khanyile for his contribution in his first year as chairman of the board of Santam – it has been a pleasure for us getting to know and to work with Vusi. We look forward to building an even greater company with Vusi during his tenure as chairman of the board.

Finally, thank you to my team of executives, suppliers and business partners – your support has shown that no insurance company works in a vacuum. We are all working together to create a business that we can all continue to be proud to be associated with.



IM Kirk
Chief Executive Officer

GL
RATING CO.
AN AAA RAT
CLAIMS-PA

WE DO INSURANCE WITH CERTAINTY

LOBAL CREDIT
AWARDED US
ING FOR OUR
YING ABILITY

"SANTAM'S DIVERSIFIED BUSINESS LINES POSITION IT WELL TO FACE THE CHALLENGES OF THE INSURANCE MARKET."

The Santam group achieved excellent underwriting results in 2011, while also achieving double-digit growth in gross written premium of 12%. Underwriting results were almost on par with the outstanding results achieved in 2010. However, compared to 2010, investment results were negatively impacted by the low fair value movements on listed equities. This resulted in headline earnings decreasing by 11% compared to 2010. Cash flow from operations was significantly higher than 2010 while the solvency margin increased to 48% (2010: 45%). A solid 25% return on average shareholders' funds was achieved.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The group consolidated financial statements for the year ended 31 December 2011 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 Listings Requirements.

The accounting policies that have been applied during the reporting period are consistent with those applied in 2010. 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 amendments to published standards are mandatory for the accounting periods beginning on or after 1 January 2011:

- IAS 24 (amended) – Related party disclosures
  This amendment provides partial relief from the requirement for government related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party.
- Improvements to IFRSs:
  This is a collection of amendments to various IFRSs and is the result of conclusions reached by the IASB on proposals made in its annual improvements projects. These amendments were considered but did not have a significant impact on the preparation of the financial statements.

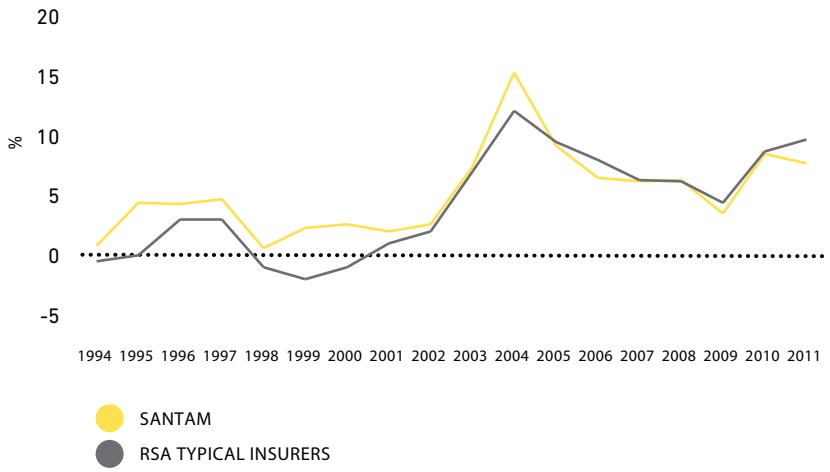
An abridged set of financial statements have been printed with the Integrated Report for 2011 in accordance with IAS 34. The full annual financial results are available on our website, www.santam.co.za, or in printed format on request from the company secretary. Cross references to notes in this report are made with reference to the full set of financial accounts.

FINANCIAL RESULTS

The salient financial statistics are set out on page 2.

The local economy showed signs of a slow recovery in 2011 but was impacted by the economic uncertainty in the developed economies of Europe and the United States of America.

UNDERWRITING RESULT AS A % OF NET PREMIUMS



Santam's net underwriting result was marginally below the 2010 result. However, income from investment activities was 26% down on 2011 performance as a result of fair value movements in listed equities, bond and money market instruments. As a result, headline earnings for the group of R1 372 million declined by 11% and headline earnings per share of 1 216 cents (2010: 1 376) showed a similar reduction when compared to 2010.

Underwriting performance

The South African insurance industry's underwriting results are inherently cyclical. The "typical" short-term insurers in South Africa traditionally generated an average underwriting margin of between 4% and 6% through the cycles. With direct insurers and bank insurers becoming more prominent over the last decade, margins have progressively shown an increase.

Santam's underwriting result compared to the "typical" insurers is shown in the following graph. Santam's results have been closely correlated with the industry and in general the group has outperformed or matched the underwriting margin of its peer group.

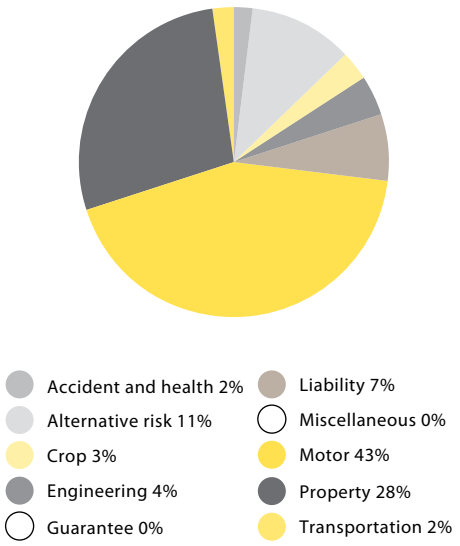
In light of industry developments, and our own concerted efforts to improve our underwriting performance, we have revised our targeted underwriting margin upwards from the current 4% to 6% to between 5% and 7% over our current strategic planning cycle up to 2014. We are confident that this target is achievable over the next few years given our expectations of market conditions. Furthermore, we have initiated several strategic initiatives with the aim to make the higher target sustainable through the cycles over the long term.

The 2011 net underwriting result of R1 131 million was 1% less than the excellent result achieved in 2010. The overall net underwriting margin of 7.7% compared to 8.5% in 2010 and outperformed our newly defined 5% to 7% target.

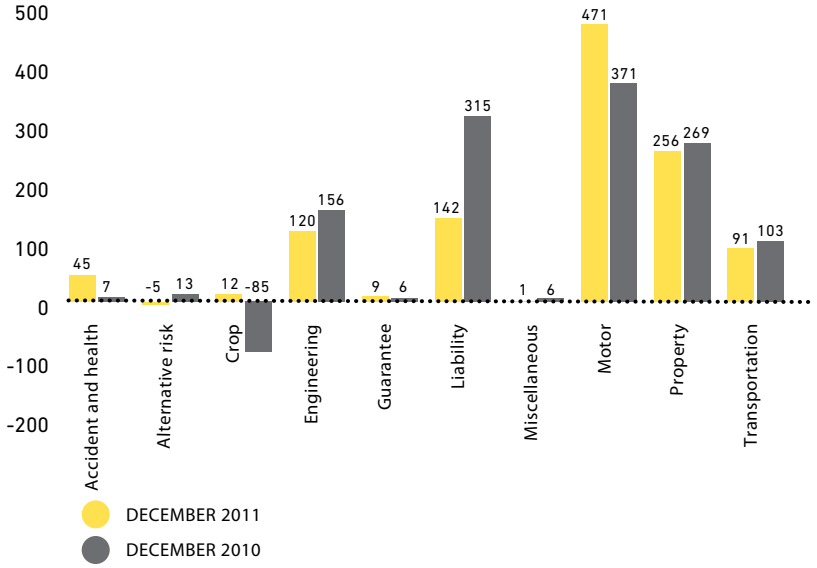
Margins in most of the significant business classes were satisfactory.

- The crop business was turned around from a loss-making situation in 2010 to generate a positive underwriting result in 2011.
- The motor book performed exceptionally well and made the largest contribution to the net underwriting profit. The improvement was due to several factors, most notably the focused reduction in the cost of claims through improved processes and sourcing practices, the continued use of our client segmentation model, and external factors such as the improvement of roads during 2010 in anticipation of the FIFA World Cup.
- The property book performed well due to a limited impact from large industrial and fire-related claims for our net underwriting account.

GROSS WRITTEN PREMIUM PER INSURANCE CLASS



UNDERWRITING SURPLUS PER INSURANCE CLASS



- The alternative risk transfer class suffered a loss due to a single large claim estimate increase on medical cover insurance business that was subsequently cancelled.
- Underwriting profit of the liability class was on lower levels in 2011 than in 2010 due to a few large claim estimate increases during the year, but performance was still well above the required risk-adjusted return target for the class.
- The portfolio management business continued to perform well under the improved management practices introduced in 2010.

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. On a segmented basis, commercial business continued to generate the bulk of the underwriting profits with a contribution of over 80%. When considering the business class perspective, property follows the 41% contribution from motor with a contribution of 22%, while 12% of underwriting profits arise from the liability class of the company.

A concerted effort to drive profitable growth and the successful implementation of strategic growth initiatives such as the diversification of distribution channels and continued improvements to support existing channels, resulted in the achievement of excellent growth of 12% in gross written premium. Gross written premium in the South African insurance industry is historically linked to GDP growth plus inflation with a margin of up to 2%. We are pleased with the growth that we achieved given that it outperformed this historical benchmark of GDP growth plus CPI by close to 3%.

Given our strategic objective of retaining our leadership position, one of the components that we measure is our market share of gross written premium. We aim to increase our market share by growing in excess of the market. The formal measurement of our performance against this target is only available in the second half of the year, once the Financial Services Board (FSB) publishes the relevant industry data for the previous financial year. The interim measures available only provide for net written premium comparisons which are distorted by reinsurance arrangements. Based on the 2010 FSB data the gross written premium of the industry grew by 5% (vs. net written premium growth of 9%) compared to Santam's growth in gross written premium of 6% in 2010. The Santam group's market share was 22.8%, based on the 2010 data. Santam's net written premium growth of 8.5% for 2011 compared to an industry growth of 8.2%.

Positive growth was achieved across all significant insurance classes. The top performing insurance class from a growth percentage perspective was the crop business that benefited from the increase in commodity prices. The engineering book of business grew by

"A SOLID 25% RETURN ON AVERAGE SHAREHOLDERS' FUNDS WAS ACHIEVED."

over 24% following the acquisition of 55% of the voting equity in Mirabilis Engineering Underwriting Managers on 1 March 2011. The growth in the motor book of business of 14% was supported by the growth in our direct insurance business, MiWay.

The net acquisition cost ratio of 28.1% increased from 27.4% in 2010. The increase can be ascribed to the increase in spend on strategic initiatives, including the continued investment in MiWay and re-engineering activities as described in more detail in the operational review. The aim is to manage the acquisition cost ratio down to around 27% in 2012 while continuing to spend on key strategic initiatives required for long-term sustainability. In the medium to long term our aim is to further reduce our acquisition cost to 26%. However, we continue to consider the appropriate level for acquisition cost taking cognisance of our business composition and structural changes in the industry.

Our aim is to maintain optimum retention levels within acceptable risk profiles. The level of reinsurance earned premium as a percentage of gross earned premium increased from 14.9% in 2010 to 16.1% in 2011. The bulk of this increase, 0.8%, is attributable to the effect of cell business which is inherently bulky and volatile in respect of premium volumes.

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

Net insurance result

Investment returns on insurance funds of R388 million decreased from the R395 million earned in 2010. These lower returns resulted mainly from lower interest rates.

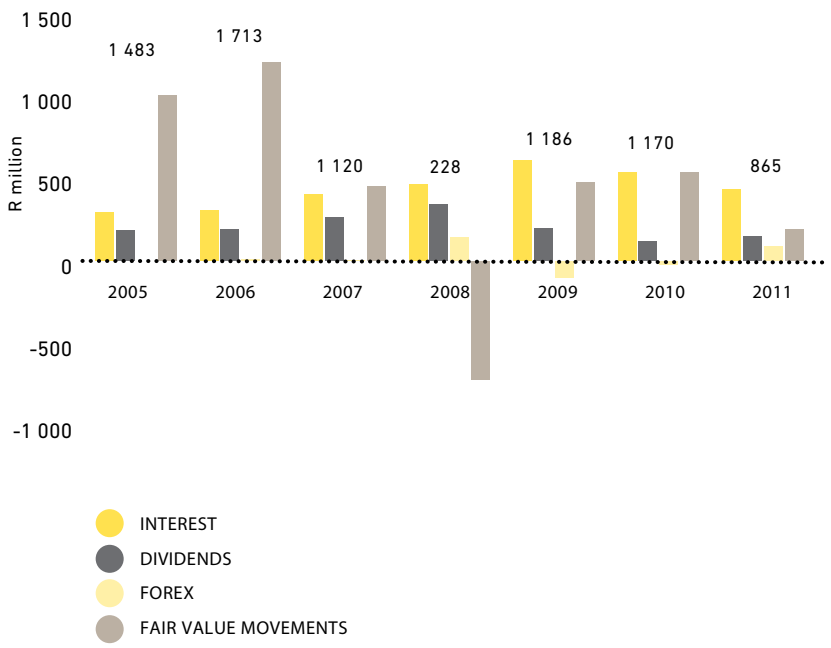
The combined effect of insurance activities resulted in a net insurance income of R1 519 million or a 10.4% margin, compared to R1 542 million and a margin of 11.4% in 2010.

Investment income

Investment income comprises interest, dividends, realised and unrealised investment gains and foreign exchange differences. The reduction in interest rates affected interest income received adversely. Dividend income was 27% higher than 2010 levels.

Equity markets were very volatile during 2011 resulting in significantly lower income from fair value movements in 2011 of R77 million compared to the R510 million generated in 2010. The fair value movements in bonds and money

INVESTMENT INCOME



market instruments of R53 million in 2011 compared unfavourably to the R96 million reported in 2010. The derivative fence structures entered into during September and October 2010 were unwound during July and August at no cost to the company. Reported investment results benefited from the fence structures which generated a credit of R80 million for the year. The fair value movement on debt securities was R40 million compared to the R85 million of 2010. Santam's investment portfolio performance compared favourably to the benchmarks set in the investment mandates.

The weakening of the rand during 2011 had a positive impact on the valuations of our foreign currency assets held by our local operations of R90 million.

Net earnings from associated companies of R85 million increased from R69 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.

Cash flow

The group's operations generated R2.5 billion in cash for the year compared to R2.1 billion in 2010 due to improvements in working capital.

Dividends

The company paid an interim dividend of 200 cents per share which was 8% higher than the 185 cents per share in 2010. Santam declared a final dividend of 355 cents per share for 2011 (2010: 325 cents per share), resulting in a total dividend of 555 cents per share for the year (2010: 510 cents per share). This represents an increase of 8.8%.

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 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.

Given our strong solvency margin of 48% at the end of December 2011 and the stabilisation of the investment markets, the board decided to declare a special dividend of R8.50 per share. This will be the fifth special dividend paid by Santam since 2004 and will bring the total special dividend per share declared over this period to R52.

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 listed 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 full annual financial results published on our website at www.santam.co.za or available on request from the company secretary.

The asset allocation is also managed and monitored from an asset/liability perspective. This ensures that there are sufficient liquid funds available to meet Santam's insurance liabilities, to ensure that the subordinated debt obligations are adequately covered by matching interest-bearing instruments and that the shareholders' funds are not unduly exposed to investment risk.

The investment strategy, including return objectives, asset allocation, portfolio construction and asset manager selection, has been formulated and approved by the board of directors and any variations have to be approved by the board. The board has delegated some of its responsibility to the investment committee which operates as a subcommittee of the board as described in more detail in the corporate governance report.

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, derived from Santam's investment strategy, is monitored and tracked by an independent multimanager, who reports back to the Santam investment committee on a quarterly basis. The mandate guidelines include performance objectives, market risk limitations such as tracking error and duration, asset allocation, credit and exposure limitations, the use of derivative structures and compliance with relevant FSB regulations. At the end of 2011 approximately R11.7 billion of the total group investments were managed by external investment managers. Their mandates consist of a combination of various benchmarks; inter alia, different JSE indices, SWIX and SteFi.

Refer to page 110 for a detailed analysis of the investments. In short, the composition of Santam's total investments was as follows as at 31 December 2011:

ASSET CLASS COMPOSITION	2011 Rm	2011 %	2010 Rm	2010 %
Equities – quoted	3 360	24.6	3 460	26.5
Equities – unquoted	414	3.0	334	2.6
Preference shares – quoted	2	0	2	0
Preference shares – unquoted	276	2.0	309	2.4
Bonds	5 492	40.2	3 539	27.1
Unitised funds	472	3.5	434	3.3
Derivative	1	0	(75)	(0.6)
Cash and cash equivalents	1 598	11.7	1 143	8.8
Short-term money market	1 775	13.0	3 685	28.3
Associated companies	274	2.0	211	1.6
TOTAL	13 664	100	13 042	100

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 following:

- The amount and sources of capital in the business
  This is also linked to the current and future regulatory capital requirements in terms of the existing and the newly 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. The total number of shares in issue was 119 346 at a capital of R107 million. 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 10 million of the unissued shares for any purpose and in accordance with such rules and conditions as they see fit.

Treasury shares

Following on the large voluntary share buyback in 2007, the group held a total of 7 087 168 of Santam shares, classified as treasury shares. During 2011, the group bought back 288 892 shares in the open market at a cost of R37 million. A total of 528 663 shares were reissued in terms of the employee share incentive

"WE REMAIN COMMITTED TO EFFICIENT CAPITAL MANAGEMENT AND CONSIDER IT TO BE INGRAINED IN OUR DNA."

programme. The total number of treasury shares held at the end of 2011 was 6 086 185. The company has the right to reissue these shares at a later date subject to approval by the JSE and the Regulator.

Credit rating

Fitch Ratings affirmed Santam's Insurer Financial Strength rating of AA+ (double A plus) and rating on Santam's subordinated debt of R1 billion issued in 2007 at A+ (A plus). The outlook remains stable. The affirmation reflects Santam core status within the Sanlam group, its strong position as the largest non-life insurer in South Africa, its good and robust capital position and its improved and resilient financial performance, despite the prevailing tough economic conditions.

Global Credit Ratings Company ("GCR") affirmed Santam's domestic rand currency claims paying ability rating of AAA (triple A) and domestic rand currency long-term subordinated debt rating of AA- (double A minus) during July 2011. This is the highest rating that can be attained by an insurance company. 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 between 20% and 25%. The excess is maintained for the following reasons:

- As a buffer over regulatory capital requirements which was at 25% up to the end of 2011 and approximately 33% under the interim SAM arrangements if our internal model is not used or approved as calculated as input into the QIS1 process. This is discussed in more detail under regulatory capital and solvency requirements later in the report.
- 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 48% at 31 December 2011 was higher than the maximum of 45% of the targeted solvency range. Net asset value per share increased from 4 535 cents at the end of 2010 to 5 336 cents at the end of 2011. Given the high solvency level it was decided to declare a special dividend as reported. We will continue to monitor our solvency levels and required solvency range in light of industry changes and regulatory requirements. We remain committed to efficient capital management and consider it to be ingrained in our DNA.

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 2011 was approximately R555 million. During 2011 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 2011 and to black employees that were promoted since the previous allocation. A second round of allocations was also made to qualifying non-executive directors.

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 the scheme for distribution to identified beneficiaries during 2011. More information on the scheme can be found in our Sustainability Report on our website at www.santam.co.za.

Of the current value of R555 million in the scheme, 49% (R274 million) is attributable to the Business Partners Trust, 26% (R145 million) to the Staff Trust and 25% (R136 million) to the Community Trust. To date, more than 80% 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 2012.

CORPORATE ACTIONS

The following significant corporate transaction was completed during the year ended 31 December 2011:

- On 1 March 2011 Santam acquired 55% of the voting equity in Mirabilis Engineering Underwriting Managers (Pty) Ltd (Mirabilis) by merging its construction and engineering business into Mirabilis. The new merged entity is the leading engineering underwriter in the South African market

The corporate actions reported on in 2010 are starting to bear fruit. The acquisition of Emerald Risk Transfer (Pty) Ltd enhanced our specialist underwriting skill in the corporate property environment as demonstrated by the turnaround from a loss-making situation in 2009 to double-digit underwriting margins in 2010 and 2011. The acquisition of MiWay Group Holdings (Pty) Ltd contributed significantly to the growth target set for diversifying our distribution channels while the acquisition of Indwe Broker Holding (Pty) Ltd served its purpose of protecting Santam's premium income from this source.

Full details of the company's holdings in subsidiaries and associated companies are contained in note 44 to the full annual financial results published on our website at www.santam.co.za or available on request from the company secretary

REGULATORY SOLVENCY AND CAPITAL REQUIREMENTS

The 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 Solvency Assessment 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 implementation date of interim measures relating mainly to changes to the calculation of incurred but not reported claims (IBNR) and the calculation of capital adequacy was 1 January 2012. The overall financial impact on Santam will not be material. Amendments to legislation to provide the regulator with a mechanism to manage insurance groups and also to introduce new requirements for risk management, governance and outsourcing are expected to come into effect during 2012. We have assessed our readiness to comply with these requirements and are confident that they will have a minimal impact on the group. The target date for implementation of the final requirements under the new regime, including the internal model approach for short-term insurers, is January 2015.

As previously reported, Santam developed an internal dynamic financial analysis model of the business in line with best practice to assist management with risk quantification and decision-making. More detail on the model can be found in the Operational Review: Risk Services. Santam intends to use this internal model for determining its capital requirements once SAM has been enacted by the FSB. We expect that capital requirements for

Santam under this approach will not be higher than the current 25% solvency requirement.

More information about our participation in the FSB's quantitative impact study (QIS1) and a readiness assessment carried out during 2011 can be found in the Operational Review: Risk Services.

NEW LEGISLATION

A hive of activity in the regulatory environment is and will continue to impact the company. Impact assessments and the implementation of requirements are impacting resources and results in additional cost of running the company. However, Santam is determined to ensure that, where possible, we derive benefits from the implementation of requirements as opposed to an approach of merely performing cosmetic exercises without business or governance value. Our approach to legal compliance and the philosophy that we adopted in this regard are discussed in detail in the Corporate Governance report. There were several regulatory developments in 2011 which are summarised below:

Companies Act 71 of 2008

The new Companies Act came into effect during the 2011 financial reporting year. Santam's response to the Act is set out in the Corporate Governance report.

Insurance regulation and legislation changes
FSB directive 156.A.i (ST)

Pursuant to the FSB's attempt to ensure consistency in the application of the STIA, and in particular, section 45 which deals with the handling and receipt of policy premiums by intermediaries, it released directive 156.A.i (ST) on 16 August 2011. This directive provides guidelines on how insurers and independent intermediaries are to apply section 45. Santam's response to the directive is set out in detail in the Corporate Governance Report.

Financial Advisory and Intermediary Services Act, Act No 37 of 2002 ("the FAIS Act")

In terms of the General Code of Conduct for authorised financial services providers and representatives, authorised financial services providers, such as Santam, were required to put in place a conflict of interest management policy which was aimed at avoid conflict of interests and, where this is not possible, to mitigate conflict of interest between itself and policyholders when rendering financial services to policyholders. The Santam board approved Santam's conflict of interest management policy in April 2011 and the policy has been implemented. Further relevant actions taken are described in the Corporate Governance report.

Upcoming regulatory changes

A number of regulatory changes will impact Santam in future, most notably:

Amendments to section 48, introduction of 48A of the Short-term Insurance Act, Act No 53 of 1998 ("the STIA") and the introduction of regulation 6 issued in terms of the STIA from 1 January 2012

Section 48 regulates remuneration paid by insurers to intermediaries, section 48A lays down requirements under which insurers may conclude binder agreements with third parties and regulation 6 introduces new definitions and prescribes requirements, limitations and prohibitions relating to binder agreements, consideration that may be offered or provided to binder holders, and any participation by binder holders in profits attributable to the policies referred to in binder agreements and for certain exemptions. Insurance Laws Amendment Bill 2011 ("the Bill").

In August 2011, the FSB released the Bill as part of the SAM II Project. The Bill is aimed at introducing interim measures relating to the governance of insurers, risk management, internal controls, group supervision, and outsourcing of functions. A further aim is to address the existing regulatory gaps and introduce technical amendments to insurance legislation.

Micro-insurance legislation

The Micro-insurance White Paper provides that insurers will, in future, have an option of either selling micro-insurance products using their current licences, albeit with limitations, or ringfencing their micro-insurance business under a micro-insurance licence. The capital and some governance requirements for micro-insurers will be relaxed.

Treating clients fairly ("TCF")

TCF is aimed at introducing a framework to ensure that clients in the financial services industry receive fair treatment when engaging with regulated entities.

Developments in taxation

The new dividends taxation will come into effect on 1 April 2012 and will replace the current secondary tax on companies. It is an indirect tax in terms of which taxation on dividends of 10% will be withheld from specified shareholders as determined by the Income Tax Act.

The South African Revenue Service (SARS) is currently reviewing value-added tax (VAT) for insurance contracts. SAIA has formed a tax

"SANTAM IS POSITIONED TO MANAGE INCREASES SELECTIVELY THROUGH OUR MARKET AND RISK SEGMENTATION APPROACH."

task group to engage with SARS and communication from SARS on any changes to the VAT treatment for insurance contracts is expected by March 2012. Santam is represented on this task group and has provided input into the process.

The Minister of Finance in his budget speech of 22 February 2012 announced that the capital gains tax (CGT) inclusion rate for companies will be increased from 50% to 66.6% (effective CGT rate from 14% to 18.6%). The change in the CGT rate will apply in respect of capital gains during years of assessment commencing on or after 1 March 2012. The increase will have an impact on the taxation of Santam's gains and losses on financial assets, effectively increasing the tax rate.

RISK MANAGEMENT

Santam is exposed to several financial and other risks namely market risk, credit risk, insurance risk, liquidity risk, operational risk, legal risks and risks associated with the management of capital. The potential impact and management of these risks are discussed in detail in note 3 of the full annual financial results published on our website at www.santam.co.za or available on request from the company secretary.

LOOKING AHEAD

It is expected that the South African economy would grow by somewhat less than the forecasted 3% worldwide growth in gross domestic product in 2012. Headline inflation will be impacted by the changes in food prices while core inflation is expected to continue to rise in the first half of the year following the increases in commodity prices and the weakening of the rand in the second half of 2011. It is expected that headline inflation will average around 6% for 2011 and some increase in insurance inflation is likely. This should improve average premium levels somewhat. However, competition in the market will continue to put pressure on premium rates and prevent across-the-board premium increases. Santam is positioned to manage increases selectively through our market and risk segmentation approach.

The weakening of the rand during the course of 2011 is expected to put some upwards pressure on claims cost, most notably on the cost of motor vehicle repairs due to the increased cost of imported vehicle parts. However, we are optimistic that our continued efforts to reduce claims cost as described in more detail in our operational review: claims would offset some of the impact of the upwards cost pressure. It is expected though that the underwriting margin in 2012 will be lower than the levels achieved in 2011.

Nominal interest rates are expected to remain on current levels during 2012 if the rand remains around its current

level. Therefore, interest received is not expected to be higher in 2012 implying a flat return on insurance funds for 2012 compared to 2011. Uncertainty remains in the investment markets due to the impact of the instability in Europe. On the back of the assumption that the European economy will not disintegrate but faces a very slow and long-term recovery, it is expected that investment markets should be more stable in 2012 compared to 2011. This should support an improvement in fair value gains in 2012.

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" and "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. 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.

MJ Reyneke
Financial Director

PERSONA
AGRICULTURE
INSURANCE
UNDER

WE DO INSURANCE
WITH SINGLE-MINDED FOCUS

L, COMMERCIAL,
AND SPECIALIST
SOLUTIONS, ALL
ONE UMBRELLA

"OUR PRODUCTS ARE BACKED BY OUR SUPERIOR CLAIMS HANDLING AND PAYMENT ABILITY, WHICH OUR CLIENTS AND INTERMEDIARIES RECOGNISE AS A CORE STRENGTH."

WHAT WE DO AND HOW WE DO IT

The Personal Lines business constitutes a significant and strategic portion of Santam's overall premium income. Our core product has evolved from the original Santam "MultiPlex" policy that introduced comprehensive short-term insurance to the South African market to a broad and sophisticated multiproduct and multichannel distribution offering that provides household, motor, personal accident and liability cover and that includes a wide range of value-add products to our clients.

In partnership with our intermediaries, we service our clients across South Africa and Namibia. Our products and services are managed and distributed through:

- our traditional intermediated Personal Lines business in our Broker Services business unit;
- an outsourced Portfolio Administration business; and
- through a direct business, MiWay.

In the traditional Personal Lines business we have a very broad footprint in South Africa, partnering with an over 4 000-strong nationwide network of intermediaries 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. Our intermediaries comply with the Financial Advisory and Intermediary Services Act (FAIS) as required by law. For more information on how we interact with intermediaries, please refer to material issue "A sustained intermediary base" in the Sustainability Report available on our website at www.santam.co.za.

Portfolio Administration is a differentiated solution offered through identified intermediaries that allows the white labelling of partner brands and the provision of differentiated product and service offerings. With strong support from national intermediaries and banking partners, Portfolio Administration remains the largest single personal lines channel within Santam. The tailored offerings to in excess of 300 000 clients remain supported by Santam's sophisticated web-based pricing tools, and dedicated second-level underwriting support, as well as leveraging from Santam's procurement efficiency.

MiWay is a direct insurer underwriting predominantly personal lines short-term insurance business. It was launched in 2008 and has reached critical mass in a relatively short time given the subdued environment following the global financial crisis. The company deploys state-of-the-art call centre and information technology. Current services include short-term insurance, motor warranty and credit life.

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 MultiPlex, MultiBonus, MultiMotor, MultiMax and MultiHome policies each offers unique benefits to their target segments and can themselves be tailored through flexible excess structures and voluntary policy benefits to suit each individual client's needs. The core Santam product suite is further enhanced by in excess of 20 product and service solutions offered through Portfolio Administration partners that ensure unique flexibility and distribution reach for Santam. Our products are backed by our superior claims handling and payment ability, which our clients and intermediaries recognise as a core strength of Santam's.

WHAT WE ACHIEVED IN 2011

The Personal Lines segment delivered improved growth in 2011 compared to 2010, as the benefits of the segmentation model came through and the fundamentals of the market started to recover, combined with the positive impact of growth achieved in MiWay.

Gross written premium income in the Broker Services environment increased by 7%. Within Portfolio Administration, gross premiums remained flat, although this was in line with expectations given our ongoing focus on the profitability of this business. MiWay growth continued to excel, achieving a net growth of 67% for the year. Overall, Personal Lines showed net growth of 15% in net premiums for the year.

The claims ratios achieved in the business unit were very good.

During the year, the segmentation model that had been implemented in the previous year was further enhanced. The aim is to give the best premium the first time. Accordingly, low-risk clients enjoy lower premiums than their counterparts with higher inherent risks.

The conversion rate for Broker Services showed an improvement of 15% in 2011 over 2010.

At the same time, the lapse rate improved by almost 4% from the previous year, which provides evidence that the focused initiatives having been put in place to improve client retention

RISKS THAT WE MANAGE

Risk	Our response	Where to find more information in the Sustainability Report
Growth and market relevance	– Focus on product development – Delivering and leverage of claims efficiency and procurement strength – Diversification of distribution channels – Review and modernisation of the Santam brand and leveraging of partner brands – Continuously evaluating risk management models and rating factors	– Sustaining our client base – Sustaining our client base – A sustained intermediary base – Solutions aligned to social and environmental needs – Sustaining our client base
Increase in regulation and compliance requirements	– Proactive engagement with regulatory role players	– Extending influence for the benefit of society
	– Assigning appropriate accountability to management	– Human capital
	– Training and awareness campaigns	– A sustained intermediary base and Human capital
	– Monitoring and audits	– Maintaining an ethical culture and managing economic crime
Attracting and retaining skilled employees	– Training and development – Remuneration practices – Employee engagement initiatives – Job rotation	– Human capital – Human capital – Human capital – Human capital

within the contact centres are paying off. The segmentation model was extended during the year to align adjustments with renewal premiums according to each client's underlying risk and claims experience as opposed to applying the same premium increases across all client segments. The average premium increase on renewals for the year was less than 3% for Personal Lines.

In line with continued investments to improve the quality of the contact centre experience for intermediaries, the Broker Services business unit has experienced an increase in the number of quotes being generated. The work-force management system is well entrenched and has led to improved intermediary satisfaction as measured by surveys conducted during the year. These improvements also reflect the continued efforts by Santam to support its intermediaries.

The issues being addressed by the Client Complaints business unit are analysed to address efficiency and identify recurring issues. Once implemented, these service improvements – with improved awareness and recognition following the Santam brand repositioning – are making it easier for intermediaries to sell and maintain client loyalty.

As mentioned in the Chief Executive Officer's report, the 2010 acquisition of MiWay has been well embedded in the business during 2011 as a way of strategically transitioning the Santam group as a multichannel distributor. MiWay's unique client experience offering resulted in continued aggressive growth, adding significantly to Santam's overall personal lines growth despite tough trading conditions as a result of new entrants and competitive pricing from established competition. Just over 2% of new policies originated from previous Santam clients. Key to its success is a transparent online compliments and complaints forum – the first of its kind in South Africa – where it actively encourages clients to speak out about their service experiences.

A number of exciting growth opportunities have been identified during the course of the year. Significant expansion of both physical infrastructure and employee numbers took place in 2011 to support the growth strategy.

The fact that MiWay offers a different business model, segmentation, risk profile, lapse percentages and churn rates, offers lucrative support to Santam's strategy of growth through diversification. We are confident that the business will continue to co-exist well with, and complement, the intermediary businesses model within the group.

WHAT WE WANT TO ACHIEVE IN 2012

We will continue to focus on the implementation of enhanced processes and efficiencies to enable improved intermediary and client interaction with the aim to further improve conversion and lapse rates.

The Portfolio Administration business unit is well positioned for 2012 as it maintained the benefits of its turnaround in 2010 and 2011 and is now able through technology developments to better manage and drive data sharing, validation and pricing with outsourced partners.

Santam is implementing a full e-business strategy that will improve service levels to both intermediaries and clients.

We also aim to expand into the emerging market in South Africa over the next few years through the identification and development of appropriate affinity partnerships.

"WE CONTINUALLY ENGAGE IN INNOVATIVE PROCESSES AND WE STRIVE TO CONTINUALLY IMPROVE OUR SERVICE."

WHAT WE DO AND HOW WE DO IT

Our Commercial Lines business unit comprises our business portfolio which services small to large enterprises and the Commercial Portfolio Management unit. This unit services business clients on Santam's systems and on an outsourced basis. We provide flexible and unique commercial insurance solutions that are tailored to suit the needs of entrepreneurs and businesses.

Our flagship products are marketed under the Commercial MultiPlex and MultiMark brands which have add-ons engineered for specific industries. Within our agricultural offering Hail and MultiPeril Crop Insurance are the most important covers. Santam Agriculture provides specialist insurance products to farmers and the agricultural industry through our network of intermediaries. We offer a total agricultural risk management solution to agricultural producers and underwrite the specific commercial risks facing our clients and agriculture businesses in farming communities.

We collaborate closely with our Risk Services team to design and price products to underwrite specific specialist products.

We are represented throughout South Africa and Namibia by our network of intermediaries and our commercial portfolio management partners who effectively distribute our products. Dedicated key account managers and relationship managers ensure that we provide the highest quality service to our intermediaries.

Commercial Lines

We follow a client-centric approach by rating commercial risks according to a number of tailored risk profiles. Our key account managers and relationship managers provide guidance and advice to our distribution partners.

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 insurance segment.

We have a well-established pricing model which we continually refine to ensure that our results are more resilient in negative underwriting cycles. Our underwriting and distribution teams work closely together to enhance the effectiveness of our underwriting processes.

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 provides strategic guidance to those business units responsible for the distribution and underwriting of our agricultural products.

The crop team provides crop distribution, policy administration,

claims, finance and IT, risk and insurance services as a stand-alone business unit. But they 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, our ability to accurately and fairly assess crop losses incurred has a greater impact on the reputation of our company and the overall performance of the book. Our team is 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 pay-out.

WHAT MAKES OUR OFFERING RELEVANT

We continuously make investments to improve our employees' commercial business acumen and their commercial skills and competencies. We provide a broad range of services such as training of and accreditation for our intermediaries.

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. In the short-term insurance industry the regulatory environment and market conditions often change. We ensure and embed our relevance and competitive edge in the marketplace by assisting our intermediaries to continue adding value to their clients.

RISKS THAT WE MANAGE

Risk	Our response	Where to find more information in the Sustainability Report
Changing market conditions	– Continuously evaluating risk management models and rating factors – Claims cost management – Optimisation of contact centres and processes	– Managing impacts on the environment – Sustaining our client base and A sustained supplier base – Sustaining our client base
Attracting and retaining skilled employees	– Training and development – Remuneration practices – Employee engagement initiatives – Job rotation	– Human capital – Human capital – Human capital – Human capital
Increase in regulation and compliance requirements	– Proactive engagement with regulatory role players – Assigning appropriate accountability to management – Training and awareness campaigns – Monitoring and audits	– Extending influence for the benefit of society – Extending influence for the benefit of society – Human capital – Maintaining an ethical culture and managing economic crime

WHAT WE ACHIEVED IN 2011

Even though commercial insurance continued to come under pressure off the back of the slow economic recovery, the Commercial business unit showed premium growth of close to inflation (CPI) and the Crop businesses showed positive premium growth of 34%. The performance was underpinned by the strong fundamentals in our business model:

- Our aggregate number of policies in the commercial and agriculture asset segment increased in 2011. This is pleasing against the context of the market which was characterised by cautious decision-making among corporates to purchase new assets such as vehicles, plant and machinery.
- Increasing commodity prices, including maize prices at the beginning of the season, led to an increase in the sums insured and an increase in the number of hectares covered, both of which drive crop premium growth. However, this has led to heightened levels of competition in the segment.

The business unit delivered a pleasing increase in profitability which was underpinned by another year of improving overall claims ratios. The low frequency of large flood and fire claims in the commercial portfolio during the year contributed to the strong performance. This reflected our conservative stance and our careful selection, assessment and pricing of the risks that we take onto our book. The business unit was relatively unaffected by the severe floods in a number of regions, including the northern Cape at the beginning of 2011, and the drought conditions that occurred in other parts of the country.

While clients became increasingly sensitive to pricing when renewing commercial products, we achieved a 3% reduction in lapse rates during the year. We believe that this demonstrates that our intermediated business model and the specialist attention that we provide to our commercial clients had a material impact, including the key account management structures that we implemented in the previous year. To continue delivering on our growth objective in the current market that is characterised by pedestrian premium growth, Santam needs to secure new units of business to grow the business. As a result of churn rates that tend to be higher among new clients, we have a continual focus on maximising our conversion rates. To this end, we have an ongoing focus on understanding and measuring our conversion rates for new policies across each of the risk segments. We prioritise the conversion of quotes into policies in the lower-risk segments although we price appropriately in the risk segments.

We have had pleasing successes in our Commercial Lines as a result of refining our strategy to secure business from large commercial clients by refining our approach to closing opportunities in this segment. This initiative has already delivered significant benefits as the success rate for clients in this band increased substantially during the year. Santam was voted as South Africa's leading short-term insurer by independent intermediaries in both the Commercial and the Corporate Insurance categories of the Financial Intermediaries Association (FIA) of Southern Africa insurer of the year awards in June 2011 for the third consecutive year. This is particularly pleasing as it shows that our intermediaries, who are a vital component of our business, have once again shown their confidence in Santam. We will continue to make investments to support this crucial aspect of our business proposition.

WHAT WE WANT TO ACHIEVE IN 2012

The Commercial and Agriculture business units are on a solid footing for the year ahead, underpinned by the close collaboration with the Claims Services and Risk Services business units. The Claims and Risk Services business units are enablers of the products and services that we sell through our intermediaries. Facilitated by our extensive investments in systems, we are able to track the performance virtually real time, and as a result we have the ability to manage the businesses very tightly.

The key account managers are better equipped than ever before to secure new business, following specific initiatives to enhance their skills. This, together with the segmentation model which is now well entrenched, positions the business unit well for 2012, regardless of the tough market conditions.

Service levels in the contact centre were improved resulting in better turnaround times, and we are confident that we will make further progress in this regard in 2012.

"WE HAVE STRINGENT UNDERWRITING CRITERIA TO MAKE SURE THAT EACH RISK IS APPROPRIATELY UNDERWRITTEN."

WHAT WE DO AND HOW WE DO IT

Specialist business provides a full insurance solution to clients and intermediaries that includes the insurance of complex and niche risks which require skilled resources to assess and quantify the risk and exposure.

Our industry segments include, among others, construction and engineering, travel insurance, motor, 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.

To service the industry segments in which we are active today, Santam created local underwriting capacity to insure risks of a complex nature, some of which were insured in the London and overseas markets. Today we have 14 unique businesses that represent Santam either as out-sourced underwriting specialists or in-house purpose-built business units which source their businesses via the intermediary. These businesses operate with the appropriate reinsurance capacity which is sourced from local or international markets and which contributes to our unique capability to ensure a sustainable solution.

These unique businesses distribute our niche products either under their own banner or directly as a specialist Santam business. In both cases the policy of reference is always underwritten on the Santam licence.

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 marketplace. Our products are specialist by nature and require the skills and financial know-how to ensure a sustainable solution to the client and Santam. Having the right people to drive these ventures is paramount.

Our business unit operates in two segments: namely: those businesses that require specialised underwriting skills such as engineering, liability, aviation and marine; and niche markets where we can provide specific products outside of the commoditised products in sectors such as hospitality and leisure, high net worth and sectional title.

We have a two-tiered approach of delivering a combination of organic and acquisitive growth. We continually evaluate the market to identify opportunities to grow our market share, deliver increased profitability and continue enhancing the specialist nature of our business. Achieving the right balance between these factors is a function of ensuring that we select the right risks to underwrite and then develop targeted and niche products to insure these risks.

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 solution that sells an end-to-end basket of products. 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 provides 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 know-how and experience to price, underwrite and service the bespoke products that they bring to market.

Our financial strength underpins all underwriting activities, and all policies are issued under a Santam underwriting agreement. Our security and statement of financial position offer our clients the peace of mind they require from an insurance policy. We have stringent underwriting criteria to make sure that each risk is appropriately underwritten. We have the specialist skills in our target segments to underwrite the risks that our clients bring to us. Combined with our well-established reinsurance relationships, we offer wider cover to large companies 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. This is possible with the assistance and intermediation of our intermediaries who are partners in the relationship with our clients.

RISKS THAT WE MANAGE

Risk	Our response	Where to find more information in the Sustainability Report
Attracting and retaining skilled employees	– Improving the innovative culture	– Human capital
Reinsurance capacity and cost	– Continued sound underwriting and risk management	
Reputation and brand	– Placing the client at the centre of our thinking	– Sustaining our client base
Increased regulation and compliance requirements	– Ensuring that our business models and employees comply and thus ensuring sustainability	– Managing an ethical culture and managing economic crime, Human capital and Extending influence for the benefit of society

WHAT WE ACHIEVED IN 2011

Our premium growth of 13% was within our targeted range, with total premiums amounting to R3.5 billion. Although the market was tight, particularly in terms of organic client growth, we benefited from our highly diversified revenue streams coupled with our growth strategy, which addressed both organic and acquisitive growth.

The acquisition of Mirabilis Engineering Underwriting Managers which took effect in March 2011, delivered on our acquisitive growth objective. Other areas of the business, including Emerald, our corporate property underwriter (acquired in 2010), started to gain traction. However, we were not completely immune to the market, and our niche segments serving the construction and hospitality and leisure were under pressure during the year. The logistics sector, which targets import and export clients, was also impacted by constrained global trade in line with the state of the economy.

Reflecting the tough global economy, competition has become more aggressive, resulting in pricing pressures across all lines of business. The marine and liability insurance segments were particularly affected.

A highlight of the year was the acquisition of a majority stake in Mirabilis Engineering Underwriting Managers (Mirabilis) that strengthened our existing capability and service offering to the engineering sector and engineering insurance industry nationally. The transaction was structured as a merger between our Construction and Engineering Underwriters (CEU) underwriting management business and Mirabilis. We own 55% of the merged entity (Mirabilis Engineering Underwriting Managers) which is the largest engineering underwriting business in the country.

Leveraging off our new status as a leader in the construction and engineering sector, we launched a new performance guarantee offering, focusing on the construction guarantee market. We brought on board external skills for this start-up business.

The financial turnaround of the corporate property business following the acquisition of Emerald in 2010 turned in another sound set of results. This demonstrates its sustainable business model and the value brought to this business since its acquisition.

We continue to benefit from our two-pronged value proposition: the loyalty of our intermediaries to the individual specialist brands remains strong and is leveraged by the strength of Santam's paper that is underpinned by our excellent credit rating which has remained unchanged despite tough economic conditions. This has provided us with a competitive advantage in the tough current market. Our individual specialist units have gained a leading reputation for their specialist industry and underwriting skills, which is backed by reliable service.

Although the claims ratio experience increased from 2010, we continue to deliver attractive and above average returns to Santam. In particular, improved returns in the corporate property, travel and marine sectors during the year were dampened by lower margins in the Liability and Engineering businesses. Despite these impacts, our performance for 2011 was more than satisfactory, having built a solid platform with the excellent results in 2010.

Also housed in the Specialist business are Santam's affinity business activities and Centriq Insurance Company. Centriq specialises in risk finance, cell captives, underwriting management agencies and affinity business. It continues to operate as a stand-alone business.

During the year, we refocused our affinity business. Our relationships with our major shareholder, Sanlam, and wholly owned Centriq provide us with a tangible differentiator in this segment as we have the capability to develop and distribute lifestyle and white-labelled products that encompass the partner brand requirements. We also have the structures to design these products and services based either on Centriq's cell captive model or by assuming the underwriting for the associated risks and paying a fee to our partners. We have started to roll out initiatives for selected retailers in South Africa, providing them with an additional revenue stream and a mechanism to build affinity with their clients.

WHAT WE WANT TO ACHIEVE IN 2012

We are confident that we are well positioned to maintain our growth trajectory, underpinned by the acquisition of Mirabilis which will be in effect for the full year in 2012. We have analysed our offering and identified several opportunities to enter new market segments which we will pursue selectively, either by acquiring existing businesses or by recruiting the specialist people to start up these new businesses.

We have also identified opportunities to supplement our growth by taking greater underwriting exposures in Africa, which should deliver further diversification benefits. Our African initiatives will be aligned with the

group's strategy to grow its exposure in these markets while we will also provide specialist underwriting to meet our existing clients' requirements for specialist insurance in Africa. Our stance in relation to these new initiatives will remain cautious, ensuring that we have a solid understanding of the inherent risks and applying our South African technical skills to ensure our success with these initiatives.

In 2012, we will also focus on ensuring that our internal structures and capability are optimised. We are reviewing our operating structures to provide our specialist focus areas with solid support structures that enable them to focus on their core businesses.

"WE ARE CONTINUALLY MAKING INVESTMENTS TO ENSURE THAT OUR OPERATING MODEL IS RELEVANT AND COST-EFFECTIVE."

WHAT WE DO AND HOW WE DO IT

Claims Services administers the process of assessing and paying out claims to policyholders. The experience during the claims process is the biggest determinant of how our clients feel about being insured with Santam.

Our priority is to ensure that our clients have a pleasant experience when interacting with us at the time of a claim. Our main objectives are to provide our clients with quick turnaround times, quality client service and a fair settlement in their time of need.

WHAT MAKES OUR OFFERING RELEVANT

We are continually making investments to ensure that our operating model is relevant and cost-effective. Our strategic intent of delivering quality service to our clients is at the core of our business and our claims service is currently a competitive advantage for Santam.

A key element of client service is the turnaround time on claims. We continuously introduce new mechanisms to offer our clients a quick and efficient interaction with Santam. We also have a constant focus on improving efficiencies by closely overseeing the claims management and direct claims costs.

RISKS THAT WE MANAGE

Risk	Our response	Where to find more information in the Sustainability Report
Lack of buy-in from industry associations (due to vested interests)	– Ongoing influence of industry leaders and relevant associations, sharing of benefits realisation indicators and results, ongoing information sharing, roadshows with intermediaries and Santam internal employees.	– A sustained intermediary base, Human capital and Extending influence for the benefit of society
Lack of buy-in from intermediaries into claims services transformation	– The transformation programme's three-year roll-out plan is nearing completion. With proper communication through intermediary forums' several publications, we have managed to mitigate this risk successfully.	– A sustained intermediary base
Business process management implementation risks	– The business process management system implementation was by far the most complex system implementation in the history of Santam Claims. We are completing phase 3 of the implementation and have mitigated all risk through a stringent and rigorous governance process.	
Fraudulent claims	– Claims are identified as high risk via predictive analytics, and a specialist merit validation is done on these claims.	– Maintaining an ethical culture and managing economic crime

WHAT WE ACHIEVED IN 2011

Claims Services delivered against its target and objectives for 2011.

- We maintained agreed service levels.
- We contained our claims handling cost within agreed targets.
- The investment in the last three years in the Insurance Services Transformation Project (ISTP) which will conclude in early 2012, has been effective in helping to reduce the average claims cost.

It is particularly pleasing that the systems that we have implemented are world-class and create a tangible differentiator for Santam. These achievements were underpinned by solid progress on existing initiatives and on new projects that were started during the year to transform our procurement environment:

- We introduced a claims card for settlement of claims as an alternative to cash settlements. This is a first for the insurance industry in South Africa. The Visa debit card allows our clients to procure goods at any Visa-approved vendor. When clients use preferred suppliers a discount is available which has been negotiated for them by Santam, while Santam benefits from volume rebates.
- We launched Santam's Car Labs in Cape Town and Pretoria. These motor body repair facilities have the dual benefit of enabling us to research mechanisms to become more efficient while curtailing our repair costs – both of which should limit premium increases in the future. These facilities are conveniently co-located with two of our drive-in assessment centres and provide our clients with a drive-in service for damaged vehicles.
- We expanded our drive-in assessment centre network from 6 to 15 and have revamped the look and feel to fit in with our new corporate identity.
- We implemented the Santam Glass Lab; through this initiative we researched alternative sources for quality motor vehicle glass. We initiated a pilot project whereby alternative glass is offered to clients at one of our two Glass Lab fitment centres. We incentivise clients to fit alternative glass by discounting the excess payable
- Predictive Analytics, a tool used to classify claims based on inherent risk, has now been entrenched throughout Claims Services While this has led to lower costs, it has also enabled more consistent and accurate claims assessments.

We continued to develop new mechanisms to handle our salvaged motor vehicles which also had a positive impact on motor claim costs during the year. The introduction of a new assessment channel for claims with a high-merit risk to prevent significant payouts on fraudulent claims has already started to show benefit through savings in repudiation of fraudulent claims. This effort supports an industry-wide drive to reduce the impact of fraudulent claims, which are estimated by South African Insurance Association (SAIA) to amount to approximately 15% of the total premiums paid in South Africa. SAIA has established a database where all such claims are recorded – the objective being to reduce the prevalence of fraud in short-term insurance. Santam is participating, not only in support of its commitment to good corporate citizenship but also as a result of the longer-term economic benefits that will result as these risks are filtered out of its insurance book. This will result in deserving policyholders being rewarded with lower premiums. Our ongoing efforts to continue improving our core competencies and positioning have been recognised by our business partners. During the year we won a number of awards for a variety of achievements reflecting the quality of our service, our ability to innovate and the strength of our reputation:

- The South African Motor Body Repairers Association (SAMBRA) voted Santam the Insurer of the Year.
- Santam claims card has won the category for Best Corporate Prepaid Programme at the 2011 Global Prepaid Awards in London for the innovative way in which we utilise prepaid card technology to pay its claims.
- Predictive Analytics has received worldwide recognition by being selected to participate in the IBM Smarter Planet initiative. It was showcased in the IBM Analytics conference in Las Vegas 2011 and recognised as a reference site for the software vendor worldwide.

WHAT WE WANT TO ACHIEVE IN 2012

We have completed our cycle of major investments to create an efficient and high performance business platform. Therefore our focus for the year ahead is on further cost savings relating to claims management and direct claims costs. We also plan to continue to fine-tune our operations to continually improve service quality.

In our pursuit of these objectives, we started engaging more actively with a number of suppliers in 2011, building closer partnerships with our supplier network. With our centralised procurement initiatives, we have substantially improved our ability to direct our procurement spend. In 2012, we will bring this to bear to further reduce costs.

We will maintain the pace of investment in our people and we are also planning to bolster our contact centre capability so that we can deliver further benefits to our clients in the form of quick and effective claims processing.

"SANTAM'S PRODUCTS ARE SUITABLE FOR THE SEGMENTS IN WHICH THEY ARE SOLD."

WHAT WE DO AND HOW WE DO IT

Santam's core business is to provide short-term insurance products that meet our clients' needs. Risk Services is core to the business and is responsible for:

- the design, development and pricing of existing and new products for all lines of business;
- ensuring optimal underwriting processes and margins;
- the risk and capital management of Santam's short-term insurance solutions;
- oversight of the group's reinsurance activities;
- the management of the group's overall risk pool by maintaining appropriate reinsurance and risk diversification; and
- developing and ensuring the adequacy and relevance of measurement tools to assist the group in analysing and understanding the risk pool in which it operates.

Risk Services also supports the distribution environment through risk assessment and by developing underwriting rules that ensure that Santam's products are suitable for the segments in which they are sold.

WHAT MAKES OUR OFFERING RELEVANT

We have an excellent track record of underwriting which underpins our diverse product lines that fit 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.

Santam's ability to make a profit from underwriting activities depends on its ability to correctly price risks, and this requires a detailed understanding of all the associated exposures. Our success partly derives from identifying, segmenting, measuring and ultimately pricing these risks correctly in the market. It is vital that we understand which risks are over- or underpriced in the market, or those that we should not be insuring at all. In this way, we are able to balance growth and profitability.

The integration of our reinsurance programme, our risk appetite and our investment strategy enables us to effectively manage the capital that we hold against our portfolio of risks. As a result, we are in a position to optimise the capital that we hold. 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 at all times, allowing us to combine the experience of these three core areas of our business to obtain a consolidated view of the market.

RISKS THAT WE MANAGE

Risk	Our response	Where to find more information in the Sustainability Report
Ability to accurately price products and implement changes to the rating and underwriting basis	– Managing our risk pool is a cornerstone of Santam strategy, with many initiatives to ensure that our risk segmentation and pricing leads the market. – Investment in technology to enable implementation of pricing and underwriting rules – Managing sustainability	– Sustaining our client base – Managing sustainability
Attracting and retaining skilled employees	– Ongoing focused training initiatives, leveraging Santam's leading technical expertise	– Human capital
Inadequate management information	– Investment in centres of excellence for the production and interpretation of management information	– Managing sustainability

WHAT WE ACHIEVED IN 2011

In support of our mandate of managing the risk exposures of the group, Risk Services continued to strengthen its underwriting processes with initiatives to evolve and improve its approach to rating. While we prioritised initiatives that will sustain our leadership position in the market, we maintained focus on the group's strategic objective to pursue sustainable and profitable growth. We also remained cognisant of our goal to continually diversify our pool of risks to achieve consistent underwriting profits over time.

Underwriting

We embarked on projects to expand on the risk segmentation model that was implemented for pricing in 2010. This is now well entrenched in all our lines of business. To continue delivering on our growth objective in the current market characterised by flat premium rates, Santam needs to secure new units of business on a net basis to grow. As a result, we work towards maximising conversion rates and minimising cancellation rates, while still achieving the premium that we need to cover the risk and expenses. Therefore, we have an ongoing focus on understanding and measuring the drivers of conversion and cancellation rates for policies across each of the risk segments, and then responding appropriately.

I am pleased to report that conversion rates improved in all our targeted risk segments in 2011, while cancellation rates were reduced to the lowest levels in years. The result was record increases in the net number of policies added to our total book in both personal and commercial lines business.

Product development

Considerable progress was also made in the area of product development. The launch of a new Personal Lines product – MultiBonus – in the second quarter of 2011 generated significant interest, and take-up was ahead of expectations. The product is aimed at value-seeking clients and contains all the core personal policy features and options together with a cashback of 20% of premiums after two claim-free years. Ongoing effort went into the management and refinement of our core personal and commercial product suites. Adapting product

options, limits, coverage and pricing structures requires ongoing analysis and changes. Every year our product and underwriting teams make extensive adjustments to ensure that our product range remains up to date and continues to meet the precise insurance needs of our large and diverse client base.

A number of initiatives also saw new products being launched in non-traditional channels, such as Incredible Cover which is being distributed in Incredible Connection stores. Considerable effort also went into a strategic project that will see the transformation of our product management and rating capability from an IT perspective. This will dramatically enhance our ability to respond to market needs and reduce time-to-market for new products.

SANTAM RE

Significant progress was made in establishing Santam Re as a meaningful market participant in the reinsurance industry in support of our strategy to diversify our premium base geographically. Santam Re carried out the groundwork to build its capabilities by increasing its expertise and skills pool, and improving its IT infrastructure.

Santam Re has already leveraged extensive opportunities within the group – from Santam, Sanlam Emerging Markets, Centriq and MiWay, and more recently outside of the group within South Africa. We plan to grow our International business over the next five years to meet our growth and diversification targets.

REINSURING OUR OWN RISKS

International catastrophe crises loomed large in the global reinsurance market in 2011, with environmental tragedies taking centre stage on a regular basis. This put upwards pressure on reinsurance premiums. However, we are satisfied that we secured adequate cover.

Managing the business within Santam's defined risk appetite is fully embedded in our day-to-day operations and we are confident that our controls and protections put our clients and shareholders in a very secure position.

We conduct regular detailed reviews of Santam's risk exposures relative to its defined risk appetite parameters, and report these to the board every quarter. This enables us to manage our risk exposures and solvency to within the agreed parameters.

Solvency Assessment Management (SAM) Project

The Financial Services Board (FSB) is in the process of preparing to implement new prudential regulations (planned for 2015) that will bring about a principles-based, risk-sensitive approach to regulating insurers' financial soundness and risk management. This is referred to as the SAM framework and has largely been driven by international developments, in particular the European Union's Solvency II directive.

One of the big four audit firms recently conducted a high-level gap analysis of our readiness to implement the new framework and we are pleased to report that, based on their findings, we are on track to comply well ahead of the planned implementation date.

Santam has for a number of years made use of an internal dynamic financial analysis model to help its strategic decision-making in relation to capital, reinsurance, investments, risk appetite, mergers and acquisitions, and so on. The new regulatory framework will provide for the formal recognition of such models for capital quantification purposes subject to a rigorous approval process, as an alternative to the use of the prescribed standard formula. The advantage of an internal model is that it better enables the specific circumstances of a company like Santam to be taken into account. To this end, we are pleased to report that Santam is one of only a handful of companies that the FSB has admitted to an internal model approval process that will be conducted in the next 18 months, ahead of implementation in 2015.

Santam recently participated in a quantitative impact study that was conducted by the FSB to test the impact of a trial standard formula on the capital adequacy of South African insurers. We completed this and also shared details of the comparative results produced by our internal model at the same date. In the course of preparing our responses for the study, we were pleased to find that our results were as expected and that the differences between the results produced by our internal model and the FSB's standard formula were reconcilable, giving us comfort that Santam understands its risks and is prepared for the implementation in 2015.

SUSTAINABILITY AND CLIMATE CHANGE

Santam plays a leading role in the industry by collaborating with a range of stakeholders to identify, research, and understand systemic risks. Highlights of this process include:

- A project completed in the southern Cape to understand flood risk in specific areas and using this to improve underwriting practices.
- Seconding a senior Santam manager to the SAIA for six months to establish an industry-wide systemic risk initiative. SAIA has subsequently appointed a general manager to head up this function, and established a Strategic Risk Forum (which is being chaired by Santam executive John Melville). The focus of the latter is to identify key systemic risks that threaten to raise the cost of insurance to unacceptable levels in future, and collaborate with parties that can influence the drivers of these risks to reduce the exposures.
- Santam completed a study called the Eden study (in partnership with the CSIR and UCT) into the key systemic drivers of fire, flood and sea surge risk in the Eden district in the southern Cape. This also included an assessment of our sphere of potential influence and how we should collaborate with relevant parties to reduce the drivers of risk over which there is some control. The findings were published and presented at a side event at COP17 in December 2011.
- Santam became the first African member of ClimateWise in 2009 and is currently a member of its managing committee. ClimateWise is a global collaborative insurance initiative through which members aim to work together to respond to the myriad risks and opportunities of climate change.

The United Nations Environment Programme (UNEP) Finance Initiative (FI) is a global partnership between UNEP and the financial sector working together to understand the impacts of environmental, social and governance (ESG) considerations on financial performance. Santam joined the UNEP FI in 2010 and is represented on its Insurance Commission which developed the Principles for Sustainable Insurance (PSI). The PSI is a set of globally applicable best practice principles for the insurance industry, including actions to facilitate the systematic consideration of ESG risks and opportunities in insurance companies' business strategies and operations. Santam's internal systemic risk forum, chaired by the head of enterprise risk management, brings together all internal stakeholders to address systemic risk for the company (see detailed risk report in the Corporate Governance Report).

At the underwriting level, Santam continues to encourage its clients to apply best practice risk management principles to reduce their own risks.

WHAT WE WANT TO ACHIEVE IN 2012

Looking ahead, we are confident that the initiatives that we have worked on in 2011, both in the underwriting and reinsurance functions of Risk Services, will deliver benefits to support a further year of delivery from an underwriting and premium growth perspective.

The time and effort that we have invested in developing our models is also paying off. This will further enhance Santam's ability to price risks accurately to sustain and grow our underwriting profits.

In 2012 we are also expecting to see further progress on the transformation of our product management capability, a process that was commenced in 2011. This will dramatically enhance our flexibility and improve speed-to-market for new products.

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* Financial Intermediaries Association

WE DO INSURANCE WITH EXCELLENCE

RATED FIA*

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F THE YEAR

"WE BELIEVE THAT IT IS OUR RESPONSIBILITY TO LISTEN TO, ENGAGE WITH AND THEREBY IMPROVE THE WORLD IN WHICH WE LIVE AND IN WHICH WE DO BUSINESS."

INTRODUCTION

Santam's approach to doing business is about doing sustainable business. Since 1918 we have served the short-term insurance market, both in South Africa and abroad. Our ability to adapt to both financial and non-financial change for almost a century shows that as a company we understand what it takes to do business sustainably.

Our long-term strategy includes a thorough analysis of the full spectrum of risks we face and a commitment to respond to the concerns of those involved in or affected by our business. Our approach to environmental, social and governance (ESG) risks and opportunities comes from an appreciation of systemic risk and the way this impacts not only Santam as a company, but also our communities and the country and world we live in. ESG issues and their opportunities form part of our overall systemic risk and enterprise risk management processes. This investment in understanding the long-term significance of each risk and our commitment to be responsive to stakeholder concerns is what has kept our business sustainable and, we believe, will continue to do so into the future.

Our Sustainability Report is informed by the following standards and legislation:

- The King III report on Governance for South Africa, 2009 (King III)
- The Financial Sector Charter (FSC)
- The Department of Trade and Industry's (dti) Code of Good Practice for BBBEE
- The Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines
- The JSE's SRI Index

WHAT SUSTAINABILITY MEANS TO SANTAM

The insurance industry offers one of the clearest demonstrations that non-financial sustainability issues do not stand apart from business issues. What we do and how we behave impact our bottom line and the world around us. Therefore, we believe that it is our responsibility to listen to, engage with and thereby improve the world in which we live and in which we do business. One of the most important vehicles that we can use to influence our environment is our Santam brand. Our brand position of "Insurance, good and proper" further entrenches the approach to what we do. We do insurance properly, with integrity, excellence, single-minded focus, certainty and stature. It is ingrained in the business.

As mentioned earlier in this report, we believe that insurance should add value to people's lives, not questions and uncertainty; hence our renewed approach to be proactive and to minimise the risk of things going wrong. Insurance is a business built on integrity – we sell a promise to be there when things go wrong. Our stakeholders must be able to trust that we will honour our commitments.

It is consequently not surprising that a significant portion of our sustainability management framework links to our brand promise and the element of

integrity. Santam has reiterated that its business remains fully committed to the financial security of clients; mutually profitable relationships with intermediaries; and the well-being of employees.

SUSTAINABILITY AND RISK MANAGEMENT

The understanding of the risks created by interlinking and interdependencies in a system – where the failure of a single entity or cluster of entities can potentially bring down the entire system – is core to Santam's pursuit of sustainability. Underwriting success for Santam relies on our ability to accurately price risk, especially in an economic climate where many of our clients are under financial pressure. In 2011, for example, we had to take particular care to demonstrate the value of our products to retain clients.

We are actively involved in various projects that aim to understand the system dynamics between risk and resilience in a socio-economic context. This is exemplified in the Eden project referred to in the Santam Sustainability Report, of which we completed phase 1 during the current reporting year.

Climate change continues to top the list of our environmental risk elements. However, during 2011 crime emerged as one of the fastest growing elements impacting systemic risk.

HOW WE GOVERN AND MANAGE SUSTAINABILITY

The board has delegated responsibility for the implementation of our sustainability strategy to the sustainability committee. This committee meets quarterly to discuss progress on the material issues identified in our sustainability risk log. Issues are discussed according to an annual schedule of report submissions. The chairman of the sustainability committee then reports on these issues to the board of directors.

Sustainability is implemented by a dedicated business unit whose head reports to the executive head of market development to ensure direct access to the executive committee. Senior line managers in the business operations monitor sustainability components in their areas complemented by functions dedicated to Enterprise Development, Environmental Management and Stakeholder Relations.

We have not obtained independent third-party assurance of this Sustainability Report for the 2011 reporting period. Strategic statistical data such as that relating to transformation, broad-based black economic empowerment and our carbon footprint was independently assessed and verified for 2010 – and we intend to repeat this process in 2012 for the 2011 financial year. Our internal audit unit performed a review of selected data and statements reflected in this report. Based on the work performed, the statements and data in the report are in line with the supporting evidence provided by management. We intend to conduct more comprehensive internal audit assurance in 2012.

As the leading South African short-term insurer, Santam is represented on the board of the Ombud for Short-Term Insurance (OSTI). In this role we endeavour to facilitate the improvement of processes to ensure a more efficient resolution procedure in the OSTI office, particularly as this is in the interest of our clients. It is equally important for Santam to understand principles of fairness and equity, and this engagement with the OSTI enhances our approach to the fair treatment of our clients.

OUR MATERIAL SUSTAINABILITY ISSUES

We have identified ten sustainability components which are material to Santam. Each of these covers a number of sub-issues – giving 24 areas in total. These areas are allocated a focus-ranking, monitored in the sustainability material issue log and progress is reported on these components at the quarterly sustainability committee meetings. The table below links these ten components to the promises we make in our brand strategy and indicates how they align to our overall business strategy.

Issue	Sub-issue	Focus for 2011	The brand promise: *Insurance, good and proper*	Strategy focus
1 Sustaining our client base	Alignment of products, processes and initiatives to client needs and expectations	High	We insure with certainty	Balancing growth and profit
	Client satisfaction, retention and growth	High	We insure with excellence	
	Client privacy and confidentiality	High	We insure with integrity	
2 A sustained intermediary base	Maintaining equitable relationships with intermediaries	High	We insure with integrity	Developing relevant distribution models
	Growth in our black intermediary base	High	We insure with integrity	
	Impact of HIV/Aids on our intermediary base	Low	We insure with integrity	
	Intermediary compliance with industry standards	High	We insure with integrity	
3 A sustained supplier base	Preferential procurement	High	We insure with integrity	Balancing growth and profit
	Environment, health and safety in the supply chain	Medium	We insure with integrity	
4 Maintaining an ethical culture and managing economic crime	Application of ethical behaviour through the values process aimed at employees	High	We insure with integrity	Proactively managing risks, including emerging systemic risk
	Management of economic crime	High	We insure with integrity	
	Management of ethical behaviour relating to advertising	Low	We insure with integrity	
5 Solutions aligned to social and environmental needs	Growth in the emerging market	High	We insure with single-minded focus; we insure with integrity	Balancing growth and profit
	Products fulfilling a growing consumer environmental consciousness	Medium	We insure properly	

Issue	Sub-issue	Focus for 2011	The brand promise: *Insurance, good and proper*	Strategy focus
6 Human capital	Attraction, retention and development of employees with emphasis on equity	High	We insure with excellence	Focus on talent management
	Impact of HIV/Aids on our workforce	Low	We insure with integrity	Achieving operational and capital efficiencies
	Employee wellness	Medium	We insure with integrity	
	Occupational health and safety	Low	We insure with integrity	
7 Extending influence for the benefit of society	Aligning CSI initiatives with social, business, economic and environmental needs	Medium	We insure properly; we insure with integrity	Proactively managing risks, including emerging systemic risk
	Our broader socio-economic influence on society specifically through stakeholder engagement	High	We insure with stature	
8 Transformation including ownership and control	BBBEE in line with dti CoGP and FSC codes	High	We insure with integrity	Balancing growth and profit
9 Responsible investment	Direct investment to address social, economic and environmental needs	Medium	We insure properly	Proactively managing risks, including emerging systemic risk
10 Managing impacts on the environment	Environmental risk management, feeding into products and solutions adapted for environmental change	High	We insure with integrity	Proactively managing risks, including emerging systemic risk
	Internal facilities management to support Santam's environmental positioning	Medium	We insure with integrity	

SUSTAINABILITY HIGHLIGHTS

Sustaining our client base

- We introduced an internal arbitrator into the complaints resolution process from the start of March 2011. Where clients are seeking recourse they are given the option to escalate their complaints to the arbitrator to offer a highly experienced opinion on claims disputes.
- The Safend pilot project mentioned in our 2010 report was successfully concluded and is now being rolled out across the company. This software monitors the traffic of data to and from user devices and will help identify possible information theft scenarios.
- Our multi-channel distribution strategy continued to evolve in 2011 and our clients can choose how to access Santam products – through intermediaries, affinity partners or through our direct channels. We acquired a number of new businesses during 2010 and 2011 that has strengthened our positioning in this regard.

A sustained intermediary base

- Broker Services is split into 12 regions with two heads managing the north and south respectively. This enables clearer communication with intermediaries which improves speed of decision-making and access to senior management. Dedicated relationship managers (RMs) interact directly with local intermediaries on a regular basis to update them on product and service developments and to obtain feedback on their service experience and market developments.
- The Santam Black Intermediary Development Initiative (SBIDI) is a joint venture between the sustainability and business development teams with the goal of actively developing black intermediaries. SBIDI was launched mid-2008 and has evolved over time. The initiative takes promising black graduates (we have trained 112 graduates since) and gives them the training they need to become successful short-term insurance professionals with the long-term view of setting up their own intermediary businesses.

A sustained supplier base

- Our preferential procurement score achieved at the end of 2011 was 17.4 out of 20 (unverified). This is a marked improvement from the 15.5 points achieved at the end of 2010.
- We continue to work closely with our suppliers to ensure our clients receive excellent service and that suppliers contract to meet Santam's high standards on ESG issues.

Maintaining an ethical culture and managing economic crime

- Our business ethics and economic crime policy was drafted and approved in February 2011, broadening the previous focus on fraud to include unethical and criminal behaviour. The main aim of this policy is to clarify the accountability for management of unethical behaviour and economic crime. We are in the final stages of revising our code of ethics and a first draft has been circulated for comment.

Solutions aligned to social and environmental needs

- Santam's strategy for servicing the emerging market is driven by the Affinity Markets unit and supported by the Product Development business unit. A new management information system was developed and a complete project methodology implemented to improve speed and cost-efficiency in the implementation of new business opportunities.
- The solar geyser initiative, launched in 2010, gives clients the opportunity to replace damaged geysers with solar geysers, thereby reducing their energy consumption and carbon emissions. Uptake on this initiative has been slower than expected due to the upfront costs involved in the replacement of standard geysers with solar geysers.

Human capital

- Santam spent 1.6% of its total payroll for permanent employees on training in 2011. Of this, black training spend accounts for 1%. We continue to increase the black representation of employees and at the end of 2011 we achieved a 56.8% black representation comparative to 54.4% in 2010.
- As at the end of 2011, R1.4 million was invested in study aid assistance compared with R1.3 million in 2010.

Extending influence for the benefit of society

- Our stakeholder engagements during the year covered three broad areas: interaction with government (through the South African Local Government Association, Department of Energy and various other projects), industry (through the South African Insurance Association, the Insurance Institute of South Africa and Emerging Farmer Support) as well as research institutions such as universities (in particular on the Eden project – see details in the Santam Sustainability Report).

- Santam's Child Art programme is now in its 49th year and has shifted from being an art competition to building capacity among art teachers with a view to encouraging and inspiring children to use their creativity. In partnership with the Ibhabhathane project we have trained more than a thousand art teachers who received practical training on the skills and techniques to implement the new Curriculum Assessment Policy Statements (CAPS).

Transformation including ownership and control

- Santam maintained its BBBEE level 3 status as at the end of 2010 (verified scorecard) which can be found on the Santam website. Our BBBEE unverified score at the end of 2011 shows Santam maintaining its level 3 status by achieving a score of 82.1 out of 100. The focus for 2012 is to apply the same vigilance as in 2011.

Responsible investment

- Santam invests well in excess of the target amount of 3% net profit after tax stipulated in the dti Codes of Good Practice.
- At the end of 2011, R303 million (2010: R396 million) was invested in targeted investments.

Managing impacts on the environment

- The results from our 2011 ClimateWise report, which summarises the actions we have taken based on the six ClimateWise principles, indicated that we have made improvements in terms of both compliance and disclosure. We achieved a score of 85 points (out of a possible 100) compared to 73 in 2010. Our research conducted in the Eden district has been completed in 2011 and the findings were launched at the Santam, UNEP FI and ClimateWise side event at COP17. We intend to take these key learning points forward into 2012.

OUR PRIORITIES FOR 2012

- We will take the insights from the Eden project and implement practical applications.
- We will increase our engagement with key stakeholders such as local governments to promote collaborative risk management on the ground. Our overall preferential procurement strategy is to source mainly from level 4 and higher BBBEE suppliers. Our current focus is on increasing the proportion of black-owned businesses and especially black women-owned businesses we source from.
- Continue to embed SBIDI with the aim to improve our black intermediary representation
- Retain our top rating in the FIA Broker survey in Commercial and Corporate lines and regain our top rating in the Personal lines category
- Improve our employment equity score by increasing black employees to 59% of total employee complement.

TALKING SUSTAINABILITY

If you require more information on our sustainability process, 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
Ray-ann.sedres@santam.co.za
021 915 7289

The full 2011 Santam Sustainability Report is available on our website at www.santam.co.za

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"AS A FINANCIAL INSTITUTION, SANTAM HAS A RESPONSIBILITY TO CONDUCT ITS AFFAIRS WITH PRUDENCE AND TO SAFEGUARD THE INTERESTS OF ALL ITS STAKEHOLDERS."

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.

During the year under review, a number of governance-related regulations became effective for Santam, of which King III and the Companies Act of 2008 were the most noteworthy. The board endorses the Code of Corporate Practices and Conduct set out in the King III Report on Governance for South Africa ("King III"). The board is of the opinion that Santam has applied the significant governance principles in King III and that the company complies with all significant requirements of the JSE Listings Requirements. In instances where the company has elected not to apply certain recommendations contained in King III the rationale has been explained in the relevant sections of this report.

The board acknowledges its responsibility to ensure the integrity of the Integrated Report and believes that it addresses all material issues and that it fairly represents the integrated performance of the group.

During 2011 certain amendments were made to Santam's governance structure to ensure compliance with King III and the Companies Act of 2008. Significant changes include the replacement of the financial reporting review committee and statutory audit committee with a single committee, the audit committee. The board has also resolved that the sustainability committee be incorporated into the newly formed social, ethics and sustainability committee from commencement of the 2012 financial year.

Santam's commitment to good governance is formalised in its charters and policies.

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.

Santam's code of ethics prescribes that all employees must comply strictly with all relevant legal requirements and regulations that apply to their area of work. The code of ethics regulates conflict of interest in the company and further stipulates that company funds, services and products may not be used as contributions to political parties or political candidates. Company facilities may also not be made available to political candidates and campaigns.

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). During the year under review Santam conducted an analysis of its corporate governance practices compared with those recommended in King III and made recommendations on how the gaps should be addressed. The board and board committee charters were updated to incorporate King III recommendations and to articulate Santam's commitment to good governance. The board formalised the company's IT governance practices incorporating existing standards and frameworks, and the King III recommendations . Progress reports in this regard were presented to the Santam board and its audit and risk committees.

BOARD AND COMMITTEES

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

As at 31 December 2011, the board comprised 13 directors, of whom three are executive directors. Of the ten non-executive directors, six are independent. There is a formal, transparent board nomination process in terms of a policy detailing

BOARD MEMBERS IN 2011 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
MP Fandeso			*	B	M
BTPKM Gamedze		*		B	M
DCM Gihwala			*	B	M
VP Khanyile (Chairman)			*	B	M
IM Kirk	*			W	M
JG le Roux			*	W	M
NM Magau			*	B	F
MLD Marole			*	B	F
JP Möller		*		W	M
YG Muthien		*		B	F
P de V Rademeyer			*	W	M
Y Ramiah	*			B	F
MJ Reyneke	*			W	M
GE Rudman			*	W	M
J van Zyl		*		W	M
BP Vundla (resigned 17 January 2012)		*	B	M	M

Changes during 2011

Messrs le Roux, Rademeyer and Rudman resigned from the board in June 2011.
Mr Gihwala resigned from the board in September 2011.
Mr Fandeso was appointed to the board in October 2011.
Dr Magau resigned from the board in November 2011.
Ms Marole and Ms Ramiah were appointed to the board in December 2011.
Mr Gamedze has become an independent director in terms of King III on 1 January 2012.

procedures for appointment to the board. Such appointments are formal and a matter for the board as a whole, assisted by the human resources committee, which acts as a nominations committee in terms of section 3.84 of the JSE Listings Requirements. Directors are appointed, subject to re-election by the shareholders at the company's annual general meeting and to the Companies Act provisions relating to their removal. They retire by rotation every three years. Reappointment of directors is not automatic.

Effective operation of the board is principally the responsibility of the Chairman who is an independent non-executive director. There is a clear division of responsibility between the various roles within the company's corporate governance structure. The offices of Chairman and Chief Executive Officer are separate.

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

When appointing directors, the board takes cognisance of its needs in terms of different skills, experience, diversity, size and demographics.

ACCESS TO THE COMPANY SECRETARY

For the board to function effectively, all directors have full and timely access to relevant information to assist them in fulfilling their duties. All directors have access to the advice and services of the group company secretary and may take independent professional advice, at the company's expense, as and when required in fulfilling their duties. The company secretary is responsible for director training and induction.

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 were reviewed during 2011 to ensure better alignment with the King III principles and the Companies Act. The board charter includes a formal schedule of the matters it overseas.

The board charter sets out, inter alia, the 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 2008;
- 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.

The board charter prescribes that directors should conduct themselves in the best interest of the company and take special care to ensure that there are no conflicts between their own interest and the company's interest. Every director is required to declare their interests in any contract or proposed contract in writing to the company secretary who shall then bring it to the attention of the other directors. An affected director is required to accordingly recuse himself from the part of the meeting where the item in which he has an interest is being discussed.

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, responsibilities, Santam's business environment and sustainability issues relevant to the business.

A copy of the board charter is available on request from the group secretary.

SALIENT FEATURES

A. Reserved powers of the board

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

The Memorandum and Articles of Association of the company sets out the powers of the board of directors, while the Companies Act 2008, the common law as enforced in the courts of the country and the Delegation of Authority document, which is reviewed annually, govern the exercise of these powers.

The matters reserved for the board include:

1. Approval of:
- the company's vision, mission and values;
- the company's strategic objectives, business plans, annual budget, dividend policy and the monitoring of the company's performance against set objectives;
- all dividends;
- the Integrated Report;
- circulars to shareholders, including notices of shareholders meetings;
- financial risk management and capital policies, including funding and the issue of ordinary shares and loan capital;
- capital expenditure, acquisitions, joint ventures and disposals in excess of the limits set out in the Delegation of Authority document and the Articles of Association; and
- significant changes in accounting policy.
2. Recommending changes to the Articles of Association of the company, remuneration of directors and remuneration policy to shareholders for approval.
3. Composition of the board committees, electing a Chairman of the board, approval of the appointment of the Chief Executive Officer, executive directors and the company secretary.
4. Monitoring of and reporting on sustainability management.
5. Ultimate responsibility for IT governance.
6. Commencing business rescue proceedings as soon as the company is financially distressed.

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

B. Responsibility and accountability

Delegation of authority

The company's Delegation of Authority document provides an approval framework to ensure the company is optimally managed within a decentralised management environment. At the annual general meeting, 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 chairperson of each committee makes a presentation to the board on issues tabled for discussion at the committee meeting. All committees are chaired by independent non-executive directors, except for the human resources committee, which is chaired by a non-executive director who is not independent, Dr J van Zyl. Although he is not independent, the board is supportive of his chairmanship of the human resources committee given his knowledge of the business, his commercial experience and the necessity to align the company's remuneration approach with corporate strategy.

Group secretary

The group company 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 Ltd being a controlling shareholder.

"SANTAM ACKNOWLEDGES THE IMPORTANCE OF COMPLIANCE WITH THE REGULATORY FRAMEWORK IMPACTING ITS OPERATIONS."

D. Board evaluation

The board regularly reviews the range of skills, experience and effectiveness of its directors. This is done using a formal evaluation developed according to the recommendations of the King III report. A board-effectiveness evaluation is conducted annually. The human resources committee considers the results of the evaluation process and makes recommendations to the board as appropriate.

During the year under review the board and all of its committees measured their effectiveness. The directors have the opportunity to convey to the Chairman any concerns they might have in respect of the performance and conduct of their peers. The evaluations include an appraisal of the Chairman of the board or committee being evaluated. The 2011 assessments included an effectiveness assessment of the board itself collectively, an appraisal of the key board committees and the Chairman. The evaluations conducted for the period under review found no material concerns in respect of the board and board committee performance.

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 prior written authorisation from the Chairman to deal in company securities. The company secretary retains a record of all such share dealings and approvals. In terms of the policy, directors and senior management must also comply with JSE Listings Requirements. Employees that are exposed to price-sensitive information by virtue of their position are prohibited from trading in Santam securities during the company's closed periods, which correspond with the preparation and publication of its interim and final financial results. In terms of the policy, directors' dealings in securities are disclosed to the JSE via the company's sponsor, Investec Securities Ltd.

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.

During 2011, the sustainability committee convened four times and reported directly to the board on, inter alia, the issues listed above.

G. IT governance

During the year under review, Santam developed an IT governance framework and reporting system to provide the board with a clear view of the IT governance arrangements within the business. The framework enables the board to verify that Santam is deriving value through the appropriate use of IT in line with the strategy of the business and at an acceptable level of risk.

The Santam IT charter assists the board in discharging its IT responsibilities, while also ensuring that engagement between management and the board with regard to IT matters is a bi-directional process. Santam's IT charter embraces the principles contained in chapter 5 of the King III Code. Therefore, the board is responsible for IT governance and has the

ultimate responsibility to ensure that information and IT strategies are aligned with the strategies of the business. The audit and risk committees assist the board in carrying out its IT responsibilities.

Santam recognises the strategic role that IT plays in conducting business in a highly competitive environment. IT is deeply entrenched in the way the company conducts its business and is regarded as a strategic asset. At Santam, IT is governed by, inter alia, the following principles:

- Appropriate governance arrangements are established in support of the Santam business model.
- The business strategy is supported by an adequate IT investment portfolio; the intended benefits are formulated and the realisation thereof is measured.
- IT is acquired, used and disposed of validly, guided by organisational values and clearly formulated principles.
- IT risks are managed explicitly and actively, using the company's enterprise risk management framework.
- Business continuity plans are supported with regularly tested disaster recovery plans and capabilities.

H. Legal compliance

Santam has given substantial focus to legislative compliance during the reporting period. Santam acknowledges the importance of compliance with the regulatory framework impacting its operations, and its accountability to all its stakeholders in this regard. Therefore, Santam's legal compliance philosophy encapsulates integrity, fair dealing, accountability, objectivity, independence, good governance, transparency and collaboration.

In response to the regulatory environment within which it operates, Santam has put in place a full-time legal compliance function, which is responsible for the implementation of a legal compliance framework. As part of discharging its foregoing duty, the legal compliance function identifies legislation applicable to Santam, informs business of pertinent regulatory requirements and amendments, facilitates an analysis of their impact on business operations, facilitates the introduction of controls aimed at ensuring compliance, and monitors compliance. For increased efficiencies and effectiveness, the legal compliance function collaborates with other risk assurance providers on certain matters, and works closely with other entities within the Santam group. The legal compliance function follows a risk-based approach with regard to the resources dedicated to specific pieces of legislation, and different business units and entities within the group. In addition, Santam complies with mandatory industry codes.

Given the resources that strict compliance with non-mandatory industry codes would require, Santam adopts such codes to the extent that they enhance good governance, efficiencies and effectiveness.

The following legislation received additional focus during the period under review:

Companies Act 71 of 2008

Santam has had to respond to the provisions of the Companies Act 71 of 2008 ("the Act") during the reporting period. The board and committee charters have been reviewed internally and updated to ensure compliance with the Act and the board has resolved that the social, ethics and sustainability committee be constituted with effect from January 2012. The company has also requested the mandatory shareholder approval required for intercompany loans, as prescribed by the Act.

The company intends to have its Memorandum and Articles of Association replaced by a Memorandum of Incorporation (MOI) approved by the shareholders and other relevant stakeholders at the 2012 annual general meeting. The MOI will bring Santam's constitutional documents in line with the provisions of the new legislation regarding companies. The non-alterable provisions of the Act have been included in the MOI.

Short-term Insurance Act 53 of 1998

Following the Financial Services Board's issue of Directive 156.A.i (ST), which clarifies the requirements for collection of premiums and authorisation of intermediaries to collect premiums, Santam conducted a gap analysis to establish whether or not its practices and processes needed to be adjusted, with a view of complying with the Directive. Intermediary agreements of certain collection agents, in the underwriting management environment, have had to be reviewed pursuant to that exercise, to ensure that such collection agents are authorised in writing directly by Santam to collect premiums, as required by the directive. Santam is, furthermore, reviewing its process of ensuring continuous validity and adequacy of intermediaries' insurance guarantee facility.

Furthermore and following the commencement of Policy Protection Rule 7.4, Santam reviewed its policy documents, claims processes and systems. This Policyholder Protection Rule requires, inter alia, an insurer to inform a policyholder of its decision on a claim within 10 days of making the decision; to notify the policyholder of reasons for rejecting a claim or disputing the amount of the claim in the rejection letter; and to advise the policyholder of his rights of recourse and the applicable time frames within which to exercise those rights.

Financial Advisory and Intermediary Services Act 37 of 2002

To comply with the General Code of Conduct for authorised services providers and representatives, some amendments to which came into effect during the reporting period, Santam implemented a conflict of interest management policy, made its employees aware of the policy and introduced a system of monitoring expenditure on intermediaries, which the compliance function will audit annually.

To comply with board notice 106 of 2008, which requires key individuals and representatives to pass regulatory examinations by a prescribed period, depending on their date of first appointment, Santam has identified all employees that must pass their regulatory examinations by each cut-off date, contracted the services of a training service provider to prepare its employees for examinations, and enrols relevant employees for examinations at appropriate times.

Santam has an external FAIS compliance officer, who complements its own endeavours in ensuring compliance with the Act, and files prescribed regulatory reports.

Financial Intelligence Centre Act 38 of 2001

Santam's rendition of intermediary services in respect of a long-term category A product, necessitated its registration as an accountable institution, and the introduction of controls aimed at ensuring that it discharges its regulatory obligations emanating from being an accountable institution.

Competition Act 89 of 1998, as amended

Santam has put a compliance programme in place to ensure that it conducts its operations in a manner that promotes competition. The programme entails the allocation of responsibilities and regular compliance audits.

BOARD MATTERS

Board meetings

The board met five times at scheduled meetings in 2011. The board meets at least once every quarter and holds a strategy session in August.

Attendance schedule	01/03/2011	01/06/2011	30/08/2011 (strategy session)	31/08/2011	30/11/2011
B Campbell	*	*	*	*	*
MD Dunn	*	*	*	*	*
MP Fandeso	–	–	–	App	*
BTPKM Gamedze	*	*	*	*	*
DCM Gihwala	*	*	A	A	–
VP Khanyile (Chairman)	*	*	*	*	*
IM Kirk	*	*	*	*	*
JG le Roux	*	*	–	–	–
NM Magau	*	*	A	*	–
MLD Marole	–	–	–	–	App
JP Möller	*	*	*	*	*
YG Muthien	*	*	*	*	*
P de V Rademeyer	*	*	–	–	–
Y Ramiah	–	–	–	–	App
MJ Reyneke	*	*	*	*	*
GE Rudman	*	*	–	–	–
J van Zyl	*	*	*	*	*
BP Vundla	*	*	*	*	*

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

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.

In terms of Santam's Articles of Association, executive and non-executive directors are subject to retire by rotation every three years. Shareholders have the right to nominate a director, and five other shareholders must second the nomination. An abridged CV of the nominated director is sent with the notice 14 days before the 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.

BOARD COMMITTEES

The board has established subcommittees to assist it in discharging its duties and responsibilities. Each committee has its own charter/terms of reference that defines its duties and powers. The minutes of the committee meetings are included in the agendas of subsequent board meetings. Notwithstanding the delegation of functions to the committees, the board remains ultimately responsible for the proper fulfilment of such functions, except for the functions of the audit committee relating to the appointment, fees and terms of engagement of the external auditor.

AUDIT AND RISK COMMITTEES

The audit committee is appointed by shareholders, at the AGM, and the risk committee is appointed by the board. Their primary function, in addition to those required for the audit committee in terms of the Companies Act of 2008, is to help the board oversee financial matters and risk management activities. The committees have adopted formal charters and yearly work plans approved by the board. During August 2011, the Santam board resolved that the financial reporting review committee and statutory audit committee (the assurance committees) be incorporated into a single committee, the audit committee. Both the audit committee and the risk committee are chaired by an independent non-executive director.

AUDIT AND RISK COMMITTEES

Risk committee

Attendance schedule	15/02/2011	16/05/2011	15/08/2011	16/11/2011
B Campbell	*	*	*	*
MD Dunn (chairman)	*	*	*	*
MP Fandeso (appointed to the committee on 31 August 2011)	–	–	–	*
IM Kirk	*	*	*	*
JP Möller	*	*	*	*
DCM Gihwala	*	*	*	–
P de V Rademeyer	*	*	–	–
MJ Reyneke	*	*	*	*
GE Rudman	*	*	–	–

Key: *(*) = Present, (A) = Apology, (–) = Not a member at the time*

Financial reporting review committee (replaced by the audit committee from 15 August 2011)

Attendance schedule	15/02/2011	16/05/2011
JP Möller	*	*
P de V Rademeyer	*	*
GE Rudman	*	*
DCM Gihwala	*	*
MD Dunn (chairman)	*	*

Key: *(*) = Present, (A) = Apology, (–) = Not a member at the time*

Statutory audit committee (replaced by the audit committee from 15 August 2011)

Attendance schedule	15/02/2011	16/05/2011
DCM Gihwala	*	*
MD Dunn (chairman)	*	*
P de V Rademeyer	*	*

Key: *(*) = Present, (A) = Apology, (–) = Not a member at the time*

Audit committee (convened for the first time on 15 August 2011)

Attendance schedule	15/08/2011	16/11/2011
MD Dunn (chairman)	*	*
B Campbell	*	*
MP Fandeso (appointed to the committee on 31 August 2011)	–	*
DCM Gihwala	*	–

Key: *(*) = Present, (A) = Apology, (–) = Not a member at the time*

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 audit committee include:

- Overseeing integrated reporting
- Reviewing and recommending for approval by the board, the annual financial statements, the corporate governance report, the interim reports, preliminary or provisional result announcements, summarised integrated information, any other intended release of price-sensitive information and prospectuses, trading statements and similar documents
- Recommending the Integrated Report for approval by the board
- Reviewing and recommending the disclosure of sustainability issues in the Integrated Report and the annual comprehensive Sustainability Report, for approval by the board, to ensure that it is reliable, does not conflict with the financial information and provides a balanced view
- Recommending to the board whether or not to engage an external assurance provider on material sustainability issues
- Reviewing accounting policies and practices and consider any significant changes or departure from accounting policies and practices
- Reviewing the basis on which the company has been determined a going concern
- Considering changes to the dividend policy and recommending dividend declarations to the board
- Nominating the external auditor to the Santam group and its subsidiaries (who in the opinion of the committee are independent of the company) for appointment by the shareholders
- Approving the terms of engagement and remuneration for the external audit engagement and ensuring that the appointment of the auditor complies with the provisions of the Companies Act 2008 and any other legislation relating to the appointment of auditors

HUMAN RESOURCES COMMITTEE

Attendance schedule	08/02/2011	10/05/2011	16/08/2011	10/11/2011
J van Zyl (chairman)	*	*	*	*
JG le Roux	*	*	-	–
NM Magau	*	*	*	–
MD Dunn (co-opted to the committee for the November 2011 meeting)	–	–	–	*
VP Khanyile	*	*	*	*

Key: *(*) = Present, (A) = Apology, (–) = Not a member at the time*

- Defining a policy for non-audit services to be rendered by the external auditor to the company or a related company and pre-approving the contracts for non-audit services to be rendered by the external auditor
- Assisting the board in carrying out its IT responsibilities
- During 2011, as required by JSE Listings Requirement 3.84, the audit committee has considered the expertise and experience of the financial director, and the committee has satisfied itself that the appropriate requirements have been met. The audit committee is also satisfied with the expertise and adequacy of resources of the finance function.

External audit:

- During the year under review the audit committee reviewed communication from the external auditors and, after conducting its own review, confirmed the independence of the auditors. The committee also considered and determined the fees and terms of engagement of the external auditors.
- 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 audit committee members are encouraged to keep up to date with developments affecting their required skills. The audit committee has considered factors and risks that may impact on the integrity of the Santam integrated report and has reviewed the disclosure of sustainability issues in the report to ensure that it is reliable and does not conflict with the financial information. The audit committee has not recommended the engagement of an external assurance provider on material sustainability issues to the board as it is of the view that the assurance provided is adequate, given the maturity of the processes in place.

The audit committee is satisfied that it fulfilled its responsibilities in terms of its charter during the year under review. The committee believes that it has complied with its legal and regulatory responsibilities for the year. The committee reviewed the company's integrated report and recommended it to the board for approval.

HUMAN RESOURCES COMMITTEE

Executive and board remuneration is overseen by the human resources committee (HRC), a subcommittee of the Santam board. The HRC combines the roles of a remuneration and nominations committee. The board views these two functions as interrelated and has set the terms of reference of the committee to adequately cover the two functions without compromising governance standards.

The committee comprises only non-executive directors. The Chief Executive Officer attends committee meetings by invitation but excuses himself from all discussions regarding his own remuneration and benefits. The committee is satisfied that 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 shareholders to make a non-binding advisory vote at the AGM. This vote enables the shareholders to express their views on the remuneration policies adopted and their implementation.

The committee monitors the development and implementation of

the group's remuneration philosophy. The total reward of executives is designed to ensure that a substantial portion is dependent on performance, both company performance and individual performance. The attainment of appropriate group targets governs the eligibility of executives for annual performance bonuses and the vesting of their long-term incentive awards.

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

- Development of the remuneration strategy for executive directors and members of the Exco
- Development of short-term incentive plans for board approval
  It sets annual targets, monitors progress towards targets and reviews the incentive plans regularly to ensure that a strong link with performance is maintained.
- Development of long-term incentive schemes for board approval
  It sets guidelines for annual allocations and regularly reviews the structure of the schemes
- Development, monitoring and testing of appropriate performance drivers for both short-term and long-term incentives
- Management of the contracts of employment of executive directors and Exco members ensuring that their terms are compliant with good practice principles
- The individual remuneration packages for executive directors and Exco members, including total cost to company, benefits, short-term incentives, long-term incentives and conditions of employment
- The remuneration of non-executive directors
- 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
- Succession planning
- Human capital imperatives

Remuneration policy

The board agrees that competitive, market-related 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. Over and above this, the remuneration philosophy is positioned to reward exceptional performance and to maintain such performance over time.

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. Executive performance contracts include both short-term financial targets and long-term strategic objectives. This dual focus promotes and supports the group's focus on sustainable success.

During 2011, particular focus was given to ensuring alignment with the relevant regulatory and governance requirements and specifically those of King III.

Santam has adopted a total reward strategy for its employees. This strategy offers a value proposition consisting of guaranteed remuneration (including a choice of flexible benefits such as retirement funds, group life cover, two medical aid funds etc.) and short-term and long-term incentives, learning and development opportunities, a supportive work environment and a range of life-style benefits.

In delivering this value proposition a number of principles are applied:

- *We pay for performance that is aligned to strategy:* Performance is the cornerstone of our reward practices and there is clear differentiation between performers and non-performers. 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*: Our reward philosophy strives to be both consistent and transparent. Benchmarking is performed annually using consistent and recognised methodologies and the differential market value of various skill groups and roles is reflected in our pay practices.
- *Attraction and retention*: We focus on competitive remuneration

Element	Purpose	Performance period and measures	Operation and delivery
Guaranteed package	To compensate the employee for his/her time and competence at a market-related rate, taking into account individual performance and contribution.	Guaranteed package is reviewed annually based on individual performance and market benchmarks.	Guaranteed package is delivered to the employee as a cash salary and a range of compulsory and discretionary benefits (all benefits are funded from guaranteed package amount).
Performance bonus (short-term incentives)	To create a high-performance culture through a cash bonus linked to performance against contracted deliverables. To retain and motivate key talent.	Performance is evaluated annually against contracted deliverables.	Performance is measured at company, business unit and individual level against predetermined performance targets. All bonuses are funded from a central bonus pool, based on financial targets agreed at board level.
Share participation (long-term incentives)	To increase employee motivation and thereby create alignment between employees' interests and those of shareholders. To retain the services of valuable and highly skilled individuals.	Vesting takes place over a five-year period and is subject to certain criteria: – Vesting for all participants is subject to acceptable individual performance in terms of the company's performance rating scale. – In addition, for participants with a share multiple exceeding 3 times annual remuneration package, a company performance hurdle applies: The company hurdle requires return on capital to exceed the cost of capital by at least 2% for multiples between 3 and 5 and 6% for multiples in excess of 5.	Awards are made annually to selected staff based on seniority, performance and contribution. Awards are sized and timed to maintain an appropriate level of staff retention value.

The table below reflects the aggregated details of remuneration paid to the top three earners, who are not executive directors, for the year ended 31 December 2011. The disclosure is deemed sufficient to provide insight into remuneration levels of senior management.

	Guaranteed package	Performance bonus	Retention payment	Gain on exercise of deferred shares	Total cost
Total	R292 269	R6 500 000	R2 000 000	R2 716 622	R17 508 891

practices that attract and retain talent to deliver on our business strategy.

- *Share participation*: We encourage our employees to identify with the success of Santam through share participation as it establishes a clear link between their own efforts and the company's success.
- *Best practice*: Reward packages and people practices are geared to reflect local and international best practice.
- *Communication*: We make use of a range of channels to increase our employees' understanding of our pay practices.
- *We afford our managers discretion*: Management discretion is central to our remuneration philosophy – within the requirement that reward must always be based on merit.

The company recognises the difference between entities in our group and allows the businesses' relative autonomy in positioning themselves to attract, retain and reward their employees appropriately within an overarching framework. However, there are certain aspects of reward that are prescribed and all businesses of which Santam is the sole or part owner should adhere to them. For all other elements a general framework and guidelines for short-term and long-term incentive and retention processes are provided. General guidelines are also offered about how the businesses should apply discretion in their own internal remuneration allocation and distribution.

An overview of the executive remuneration structure

The various components of executive reward are summarised in the table on page 85. In general terms, the quantum of the different components of the package is determined as follows:

- The guaranteed component is determined with reference to market benchmarks and the individual's performance, competence and contribution.
- The short-term variable component of remuneration (performance bonus) is based on a combination of individual and annual business performance and it is benchmarked regularly.
- The quantum of the long-term award (shares) is based on the individual's seniority, performance, potential and overall value to the business. The eventual value delivered to the employee is dependent on company performance, as reflected in the share price.

The above arrangements will be modified in 2012 should significant changes in operating conditions or governance framework occur.

The full annual financial results on pages 6 to 9 reflect the total earnings and other benefits of executives and non-executive directors in accordance with the requirements of the Companies Act 2008 and the JSE Listings Requirements. The full annual financial results are available on our website, www.santam.co.za or in printed format on request from the company secretary.

Outperformance plan (OPP)

The Santam HRC has extended an OPP to the Santam Chief Executive Officer to reward superior performance over a five-year measurement period. Such an arrangement is available to selected leaders of the Santam group's main operating businesses and is used infrequently. No payment is made under the OPP unless expected growth in net insurance result over hurdle for the period is exceeded and full payment is only made if the stretch performance targets are met. The maximum payment that can be made under the OPP is 200% of annual guaranteed package over the measurement period.

SUSTAINABILITY COMMITTEE

The main function of this committee is to actively manage the material matters that affect the sustainability of the business. These would include:

- Minimising the risk associated with social, economic and environmental impacts, including stakeholder activism and government regulation

SUSTAINABILITY COMMITTEE

Attendance schedule	08/02/2011	10/05/2011	16/08/2011	09/11/2011
JG le Roux	*	*	–	–
NM Magau (chairperson until 7 November 2011)	*	*	*	–
YG Muthien	*	*	*	*
BP Vundla (chaired meeting of 9 November 2011)	*	*	*	*

Key: *(*) = Present, (A) = Apology, (–) = Not a member at the time*

- Ensuring that the business aligns to legislative requirements such as King III, JSE Listings Requirements, broad-based black economic empowerment, and other applicable legislation
- Adding value by monitoring and guiding management on:
  - developing and retaining a sustained client base;
  - developing solutions to accommodate change – inclusive of societal and environmental change;
  - developing and retaining a sustained supplier base;
  - having appropriate human capital processes and systems in place;
  - having a transformed business;
  - cultivating an ethical culture and combat/curb economic crime effectively;
  - applying environmental impact management and practices;
  - having a sustained intermediary base;
  - extending influence to the benefit of society; and
  - applying responsible investment practices

The sustainability committee is chaired by an independent non-executive director. The committee is supported in its tasks by members of senior management, including human resources, insurance services, corporate citizenship, the company secretary and finance.

In terms of its charter, the sustainability committee meets formally at least quarterly or as required for the effective performance of its duties. The sustainability committee is satisfied that it has fulfilled its responsibilities in accordance with its charter for the period under review.

SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE

The board established a social, ethics and sustainability committee with effect from 1 January 2012. In line with the Companies Act of 2008 and King III, this committee will oversee and monitor the company's activities in relation to:

- social and economic development, including the principles of the UN Global Compact, broad-based black economic empowerment, employment equity and the Organisation for Economic Co-operation and Development's recommendations on corruption; and
- good corporate citizenship, including the promotion of equality, corporate social responsibility, ethical behaviour and managing environmental impacts.

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

Attendance schedule	09/05/2011	31/10/2011
IM Kirk	*	*
JP Möller	*	*
P de V Rademeyer (chairman until 30 June 2011)	*	–
MJ Reyneke (chaired meeting of 31 October 2011)	*	*

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

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.

The board is in the process of appointing an appropriately qualified independent non-executive director to chair the committee, following the resignation of Mr Rademeyer in June 2011. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the period under review.

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 annually the levels of delegated authority to the Chief Executive Officer.

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 (ERM) process

Objective of ERM

The objective of ERM is to ensure that all material risks are identified, understood and managed to generate and protect value for all stakeholders on a sustainable basis.

Responsibilities for ERM

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 are appropriate to the nature, scale and complexity of its business and risks. The group's approach is aligned with the principles of King III, ISO 31000 and the requirements of our majority shareholder, Sanlam. Santam's ERM approach is underpinned by two principles:

- ERM is concerned with all risks faced by the Santam group.
- ERM is concerned with protecting shareholder value while ensuring that policyholders are adequately protected.

The Financial Services Board (FSB) continued the development of the 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 and pragmatic approach to risk and solvency management.

The risk management framework and process are designed to assist the board to ensure that management monitors risks continually and reports back to the risk committee

on the status of risks. A formal risk appetite policy has been developed and approved by the board. The risk appetite policy includes parameters for all material risk categories. Although not fully developed yet, some risk tolerances are included in the company's risk appetite framework. Breaches and potential breaches are quarterly reported to and reviewed by the board.

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 resources committee, sustainability committee and the investment committee. Where appropriate, feedback from these committees is incorporated into the quarterly report 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

A combined assurance model has been developed working together with Santam internal audit and other assurance and compliance functions. A summary is provided to the Santam audit committee in terms of Santam's highest inherent risks and the type of assurance provided over these risks. The "lines of defence" concept was adopted to determine that adequate controls, objective review and independent assurance are adequate over key risks faced by Santam. The implementation and roll-out of the combined assurance model and lines of defence concept supports the regulatory measures as currently being defined by the FSB. The process of implementation and refinement of these models and concepts will continue in 2012.

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 2011. 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 90.

In a corporate context, risk is encountered when goals are pursued. Santam's group strategy is to be the leading general insurance group in South Africa and selected other emerging markets. This is to be achieved by extending Santam's leadership position in the local market and building a reputation as Africa's leading general insurance group. Given the chosen strategy, supported by strategic goals and business plans, a number of risks are being faced by Santam. The key strategic and business risks identified by management, in line with the above strategic statement, supporting goals and plans, are as follows:

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 on the further improvement of access control and security, crisis communication and integration of the recovery planning. 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 implemented a system of internal control, comprising policies and standards, procedures, systems and reports, 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.

Goal: Leadership position (Dimension: Market share)	
Key risks	Key initiatives
Balancing profit and growth in soft market conditions	Growth through further diversification of markets and implementation of the distribution strategy Improvement and optimisation of the sales processes Improvement of client retention initiatives Specific underwriting initiatives to ensure risk-based pricing is aligned with the segmentation and pricing models
Goal: Leadership position (Dimension: Financial performance)	
Key risks	Key initiatives
Challenges in obtaining the appropriate rate for the risk (underwriting risks) balanced with the leadership positioning	Underwriting manager agencies' strategy and support by the underwriting business units Implementation of continued scientific risk modelling and pricing Proactively influencing the management of systemic risk in South Africa to address root causes Investing in risk assessment capability Building on our underwriting intellectual capital
Volatility and unpredictability of investment performance	Managing risk within the defined risk appetite supported by continual oversight by management and the investment committee Considering tactical hedging on an ongoing basis
Challenges in controlling acquisition and claims costs (efficiencies)	Further optimising claims and acquisition processes within Santam Realising further sourcing and supply-chain benefits in the claims process
Goal: Leadership position (Dimension: Brand positioning)	
Key risks	Key initiatives
Reputational risk including risk of not delivering on brand positioning – "Insurance, good and proper"	Formal communication plan and strategy coupled with our crisis management plan. Formalised Corporate Affairs role whose duties include monitoring and providing feedback to business Formalised product development and market research processes supporting brand positioning Continuing our proactive risk management journey, translating this into appropriate value propositions per market segment
The impact of challenging certain business practices in the industry and the potential of affecting our reputation	Formal stakeholder engagement process dealing with the concerns of those involved Building on relationships that have been established

The key risks linked to the strategic goals for the group has been listed below:

Grow through diversification	
Key risks	Key initiatives
Challenges to profitably grow and retain or increase market share	Completing the multichannel distribution journey Continued performance focus on current business to extend leadership position Establishing international footprint (in selected emerging markets) and increasing revenue flow
Manage the risk pool	
Key risks	Key initiatives
Challenges in terms of pricing – achieving the appropriate rate in the market for the risk accepted	Continued performance focus on current business to extend leadership position Pursuing operational efficiency, introducing new process and technology solutions Proactively managing Santam's traditional and non-traditional risk, including emerging systemic risk Establishing international footprint (in selected emerging markets) and increasing revenue flow
Drive system efficiency (includes insurance value chain, internal processes and technology)	
Key risks	Key initiatives
Impact of changes (including strategic projects and regulation) on the group's operational capabilities (including the effectiveness of the controls environment) and the ability to efficiently manage the business through the change.	Continued performance focus on current business Pursuing operational efficiencies by introducing new process and technology solutions Maturing governance risk and compliance processes protecting shareholders' interest
Inside out: Uncovering excellence	
Key risks	Key initiatives
Inability to achieve or maintain a high-performance and service culture, and to manage change successfully Inability to attract and retain the desired skills and develop dynamic leadership (including succession planning)	Developing Santam group's human and organisational capital

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 and 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 combined assurance reports, 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 (which include the internal financial controls) occurred during the year under review.

Internal financial controls

Internal financial controls are based on established policies and procedures. Management is responsible for implementing internal financial controls, ensuring personnel are suitably qualified, that there is appropriate segregation of duties, and that appropriate reviews are performed.

Enterprise risk management, internal audit and external audit, performed a combined assurance project, to assess the design adequacy of the internal financial controls in the most significant accounting cycles. No significant deficiencies were found in the adequacy of the controls. Results of this review were reported to executive management and the Santam group audit committee in November 2011. The effectiveness of these controls will be tested by internal audit in 2012.

Assurance providers – internal audit

The main internal assurance provider in Santam is the internal audit and forensic service business units (A&FS). Internal audit provides objective and independent assurance to management and the board of Santam Ltd, via the audit committee, about risk management, control and governance processes.

Internal audit is governed by an internal audit charter, approved by Santam's audit committee, and it is reviewed annually. The charter defines the purpose, authority and responsibilities of the function.

The head of internal audit reports at each audit committee meeting and has a direct reporting line to the chairman of the audit committee. The committee operates independently of executive management but have an administrative reporting line to the financial director and unrestricted access to the Chief Executive Officer and/or any other member of executive management.

The head of internal audit is responsible for co-coordinating internal audit efforts to ensure appropriate coverage, while maximising efficiency.

The business unit follows a risk-based planning approach.

Internal audit conducts a robust planning process which incorporates various criteria to prioritise and classify the subsidiaries, strategic business units and functions in the Santam group.

Subsidiaries and strategic business units which were classified as high-risk were included in the audit universe. Depending on the risk classification all other material subsidiaries and business units will be included in the audit universe on a two- or three-year cycle.

Business functions, which include the governance and risk management functions, were prioritised and included in the audit universe, based on the following factors:

- The top residual risks of the company
- Whether the function can result in a material misstatement of financial information
- The current skill set of the internal audit team.

Outsourced processes were included in the planning process and included in the audit universe, where appropriate.

The annual plan is reviewed regularly to ensure it remains relevant and responsive to changes in the operating environment. The Santam audit committee approves the internal audit plan for the Santam group. Detailed audit plans for subsidiaries with separate licences are approved by their respective finance and risk committees.

Internal audit systematically analysed and evaluated the significant risks and associated controls in the audit universe and, in terms of their agreed scope, they have not identified any material breakdown in internal control.

Significant control weaknesses are reported, in terms of an escalation protocol, to all levels of management, including executive management. The audit committee receives a report on significant issues and actions taken by management on a quarterly basis.

Internal audit also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of combined assurance. Internal audit, in conjunction with ERM, facilitated the implementation of a combined assurance and internal control framework for the group.

Internal audit proactively reviews its practices and resources for adequacy and appropriateness to meet the ever-increasingly demanding corporate governance and regulatory environment, including the requirements of King III and the FSB's Solvency Assessment and Management project.

The internal audit team compromises with well-qualified experienced employees to ensure that the function has the competence to match Santam's diverse requirements. Where specific specialist skills or additional resources are required, these are obtained from third parties. Internal audit resources are subject to review by Santam's audit committee.

The compliance function is incorporated in the Corporate Legal Services business unit. The risk committee approves their assurance plan and findings from examinations.

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, financial performance and cash flows 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 its work and the results of its audits.

Santam has a formal pre-approval policy on the use of external auditors for non-audit services. The services rendered by the auditors are monitored by the audit committee on a quarterly basis. Non-audit services rendered by the group's external auditors amounted to R3 287 000. This includes R100 000 for assurance-related services, R317 000 for tax-related services and R2 870 000 for other services. Specific approval from the audit committee was obtained when non-audit fees exceeded the pre-approval policy.

During the year under review the audit committee reviewed communication from the external auditors and, after conducting its own review, confirmed the independence of the auditors.

The committee also considered and determined the fees and terms of engagement of the external auditors.

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.

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.

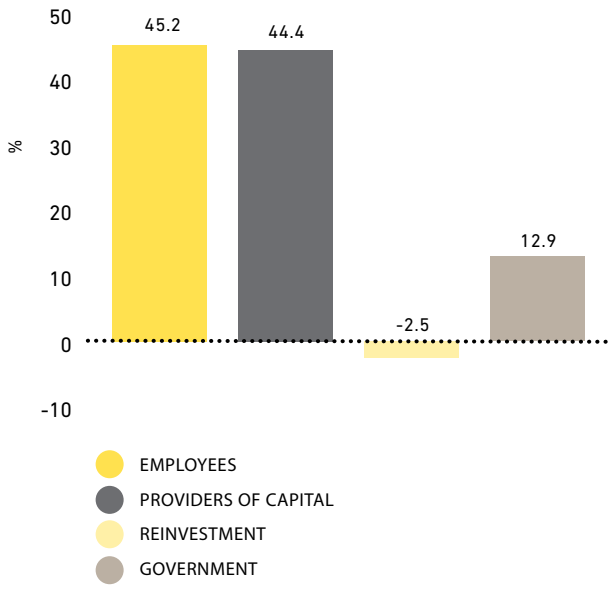
Please refer to the Sustainability Report at www.santam.co.za for more detail regarding Santam's ethical culture.

VALUE-ADDED STATEMENT

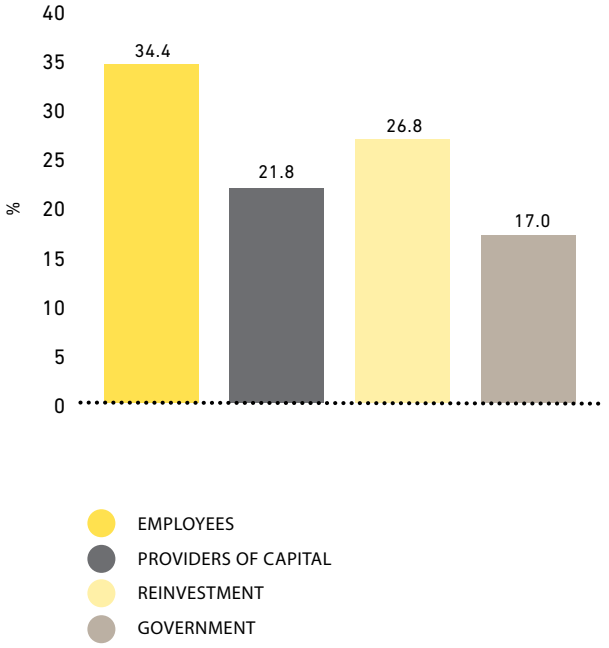
VALUE ADDED	Group 2011 R million	Group 2010 R million
Gross written premium	17 707	15 855
Claims paid and cost of other services	14 759	13 398
	2 948	2 457
Investment income net of fees	828	1 311
	3 776	3 768

VALUE DISTRIBUTED		
Employee benefits	1 706	1 332
Government	486	639
Direct taxation on income	450	532
STC	36	107
Providers of capital	1 677	1 205
	3 869	3 176
Retained for reinvestment and future support of business	(93)	592
Depreciation and amortisation of intangible assets	106	43
Retained income before transfer to reserves	(340)	510
Compulsory reserves for future support of business	141	38
	3 776	3 768

VALUE DISTRIBUTED 2011



VALUE DISTRIBUTED 2010



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APPROVAL OF ANNUAL FINANCIAL STATEMENTS

TO THE MEMBERS OF SANTAM LTD
RESPONSIBILITY FOR AND APPROVAL OF THE GROUP ANNUAL FINANCIAL STATEMENTS

The board of Santam Ltd accepts responsibility for the integrity, objectivity and reliability of the group and company financial statements of Santam Ltd. 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.

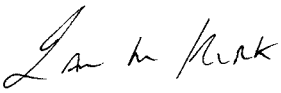
The responsibility of the external auditor is to express an independent opinion on the fair presentation of the financial statements based on their audit of Santam Ltd and its subsidiaries.

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 Ltd 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

28 February 2012

AUDITOR'S REPORT

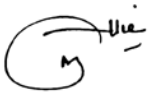
The company's external auditors, PriceWaterhouseCoopers Inc, have audited the abridged financial report. A copy of their unqualified opinion is available on request at the company's registered offices.

PREPARATION AND PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The preparation of the audited financial statements was supervised by the financial director of Santam Ltd, MJ Reyneke. The full set of annual financial results are published on our website at www.santam.co.za or can be requested from the company secretary.

SECRETARIAL CERTIFICATION

In accordance with section 88(2)(e) of the Companies Act, 71 of 2008, 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

28 February 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Audited At 31 Dec 2011 R million	Audited At 31 Dec 2010 R million
ASSETS			
Non-current assets			
Property and equipment		80	88
Intangible assets		994	988
Deferred income tax		207	251
Investments in associates		274	211
Financial assets – at fair value through income			
Equity securities	6	3 856	3 832
Debt securities	6	6 160	4 246
Derivatives	6	1	–
Financial assets – at amortised cost			
Cell owners' interest		40	12
Reinsurance assets	7	244	315
Current assets			
Financial assets – at fair value through income			
Short-term money market instruments	6	1 775	3 685
Reinsurance assets	7	1 256	952
Deferred acquisition costs		332	251
Loans and receivables including insurance receivables	6	1 836	1 735
Income tax assets		36	26
Cash and cash equivalents		1 598	1 143
Total assets		18 689	17 735
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital		107	107
Treasury shares		(635)	(651)
Other reserves		1 492	1 265
Distributable reserves		5 072	4 405
		6 036	5 126
Non-controlling interest		105	93
Total equity		6 141	5 219
LIABILITIES			
Non-current liabilities			
Deferred income tax		115	269
Financial liabilities – at fair value through income			
Debt securities	6	964	925
Derivatives	6	–	1
Financial liabilities – at amortised cost			
Cell owners' interest		643	589
Insurance liabilities	7	1 404	1 323
Provisions for other liabilities and charges		1	3
Current liabilities			
Financial liabilities – at fair value through income			
Debt securities	6	24	24
Investment contracts	6	104	495
Derivatives	6	–	74
Financial liabilities – at amortised cost			
Collateral guarantee contracts		114	108
Insurance liabilities	7	7 071	6 440
Deferred reinsurance acquisition revenue		102	40
Provisions for other liabilities and charges		105	33
Trade and other payables		1 828	1 890
Current income tax liabilities		73	302
Total liabilities		12 548	12 516
Total shareholders' equity and liabilities		18 689	17 735

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Audited Year ended 31 Dec 2011 R million	Audited Year ended 31 Dec 2010 R million	Change %
Gross written premium		17 707	15 855	12%
Less: Reinsurance premium		3 033	2 336	
Net premium		14 674	13 519	9%
Change in unearned premium				
Gross amount		241	(65)	
Reinsurers' share		(219)	34	
Net insurance premium revenue		14 652	13 550	8%
Investment income	8	676	633	7%
Income from reinsurance contracts ceded		321	236	
Net gains on financial assets and liabilities at fair value through income	8	189	537	
Gain on remeasuring existing interest in associates on acquisition		–	215	
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost		–	6	
Net income		15 838	15 177	4%
Insurance claims and loss adjustment expenses		10 788	9 531	
Insurance claims and loss adjustment expenses recovered from reinsurers		(1 384)	(848)	
Net insurance benefits and claims		9 404	8 683	8%
Expenses for the acquisition of insurance contracts		2 324	2 311	
Expenses for marketing and administration		2 114	1 648	
Expenses for asset management services rendered		28	29	
Amortisation of intangible assets		68	27	
Impairment of investment in subsidiaries		–	–	
Expenses		13 938	12 698	10%
Results of operating activities		1 900	2 479	(23%)
Finance costs		(94)	(120)	
Share of profit of associates		85	63	
Impairment charge on net investment in associate		–	6	
Profit before tax		1 891	2 428	(22%)
Income tax expense	9	(486)	(639)	
Profit for the year		1 405	1 789	(21%)
Other comprehensive income				
Currency translation differences		108	(72)	
Total comprehensive income for the year		1 513	1 717	
Profit attributable to:				
– equity holders of the company		1 376	1 762	
– non-controlling interest		29	27	
		1 405	1 789	
Total comprehensive income attributable to:				
– equity holders of the company		1 484	1 690	
– non-controlling interest		29	27	
		1 513	1 717	
Earnings attributable to equity shareholders				
Earnings per share (cents)	12			
Basic earnings per share		1 216	1 560	(22%)
Diluted earnings per share		1 202	1 532	(22%)
Weighted average number of shares – millions		113.15	112.96	
Weighted average number of ordinary shares for diluted earnings per share – millions		114.47	114.99	

	Attributable to equity holders of the company					
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Non-controlling interest R million	Total R million
Balance as at 1 January 2010	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)**
Total comprehensive income for the year ended 31 December 2010	–	–	(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)**
Balance as at 31 December 2010	**107**	**(651)**	**1 265**	**4 405**	**93**	**5 219**
Profit for the year	–	–	–	1 376	29	**1 405**
Other comprehensive income:						
Currency translation differences	–	–	108	–	–	**108**
Total comprehensive income for the year ended 31 December 2011	–	–	108	1 376	29	**1 513**
Purchase of treasury shares	–	(37)	–	–	–	**(37)**
Sale of treasury shares	–	53	–	–	–	**53**
Loss on sale of treasury shares	–	–	–	(68)	–	**(68)**
Transfer to reserves	–	–	119	(119)	–	**–**
Share-based payments	–	–	–	63	–	**63**
Transfer to share-based payment liability	–	–	–	(30)	–	**(30)**
Dividends paid	–	–	–	(593)	(25)	**(618)**
Net excess received on acquisition of non-controlling interest	–	–	–	38	–	**38**
Interest acquired from non-controlling interest	–	–	–	–	8	**8**
Balance as at 31 December 2011	**107**	**(635)**	**1 492**	**5 072**	**105**	**6 141**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Audited Year ended 31 Dec 2011 R million	Audited Year ended 31 Dec 2010 R million
Cash generated from operations		2 522	2 115
Interest paid		(119)	(95)
Income tax paid		(813)	(755)
Net cash from operating activities		1 590	1 265
Cash flows from investing activities			
Cash generated/(utilised) in investment activities		201	(270)
Acquisition of subsidiary	10	(343)	(357)
Cash acquired through purchase of subsidiary	10	3	262
Purchases of equipment		(39)	(26)
Purchases of software		(28)	(1)
Proceeds from sale of equipment		1	–
Acquisition of associated companies		–	(17)
Net cash from investing activities		(205)	(409)
Cash flows from financing activities			
Purchase of treasury shares		(37)	(34)
Proceeds on sale of treasury shares		4	11
(Decrease)/increase in investment contract liabilities		(413)	129
Dividends paid to company's shareholders		(593)	(1 113)
Dividends paid to minorities		(25)	–
Increase in cell owners' interest		26	42
Purchase of subsidiary from non-controlling interest	11	–	(90)
Net cash used in financing activities		(1 038)	(1 055)
Net increase/(decrease) in cash and cash equivalents		347	(199)
Cash and cash equivalents at beginning of period		1 143	1 379
Exchange gains/(losses) on cash and cash equivalents		108	(37)
Cash and cash equivalents at end of year		1 598	1 143

1. BASIS OF PRESENTATION

This abridged consolidated financial information for the year ended 31 December 2011 has been prepared in accordance with IAS 34 – *Interim Financial Reporting* and in compliance with the Listings Requirements of the JSE Limited. The abridged consolidated financial information does not include all of the information required by IFRS for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRSs.

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the previous financial year.

3. ESTIMATES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these abridged consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011.

4. RISK MANAGEMENT

The group's activities expose it to a variety of financial risks: market risk (including price risk, interest rate risk, foreign currency risk and derivatives risk), credit risk and liquidity risk. Insurance activities expose the group to insurance risk (including pricing risk, reserving risk, accumulation risk and reinsurance risk). The group is also exposed to operational risk and legal risk.

The capital risk management philosophy is to maximise the return on shareholders' capital within an appropriate risk framework.

The abridged consolidated financial statements do not include all risk management information and disclosure required in the annual financial statements and should be read in conjunction with the group's annual financial statements as at 31 December 2011.

There have been no changes in the risk management policies since the previous year-end.

During 2011 there were no significant changes in the business circumstances that affect the fair value of the group's financial assets and liabilities. There were no reclassifications of financial assets and liabilities in 2011.

5. SEGMENT INFORMATION

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

Two core activities of the group, i.e. insurance activities and investment activities, are reviewed 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.

The performance of insurance activities is considered 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.

5.1 For the year ended 31 December 2011

Business activity	Insurance activities R million	Investment activities R million	Total R million
2011			
Revenue	17 707	468	18 175
Gross written premium	17 707		17 707
Net written premium	14 674		14 674
Net earned premium	14 652		14 652
Claims incurred	9 404		9 404
Net commission	2 003		2 003
Management expenses	2 103	11	2 114
Underwriting result	1 142	(11)	1 131
Investment return on insurance funds	388		388
Net insurance result	1 530	(11)	1 519
Investment income net of management fee*		355	355
Income from associates net of impairment		85	85
Amortisation and impairment of intangible assets	(68)		(68)
Income before taxation	1 462	429	1 891
Total assets	8 398	10 291	18 689
Total liabilities	11 560	988	12 548

* *Interest income of R48 million and finance cost of R94 million are included.*

Insurance class	Gross written premium R million	Underwriting result R million	Total assets* R million	Total liabilities* R million
2011				
Accident and health	286	45	31	137
Alternative risk	1 924	(5)	354	1 941
Crop	575	12	234	386
Engineering	736	120	167	382
Guarantee	17	9	6	20
Liability	1 157	142	341	1 950
Miscellaneous	16	1	1	13
Motor	7 621	471	48	1 608
Property	4 981	256	612	1 930
Transportation	394	91	39	212
Unallocated	–	(11)	16 855	3 969
Total	17 707	1 131	18 689	12 548
Comprising:				
Commercial insurance	8 844	940	1 425	5 403
Personal insurance	6 939	207	55	1 236
Alternative risk	1 924	(5)	354	1 941
Unallocated	–	(11)	16 855	3 969
Total	17 707	1 131	18 689	12 548

5.2 For the year ended 31 December 2010

Business activity	Insurance activities R million	Investment activities R million	Total R million
Revenue	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**
Underwriting result	1 161	(15)	**1 146**
Investment return on insurance funds	396		**396**
Net insurance result	1 557	(15)	**1 542**
Investment income net of management fee*		840	**840**
Income from associates		69	**69**
Amortisation of intangible asset	(23)		**(23)**
Income before taxation	1 534	894	**2 428**
Total assets	9 446	8 289	**17 735**
Total liabilities	11 492	1 024	**12 516**

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

Insurance class	Gross written premium R million	Underwriting result R million	Total assets* R million	Total liabilities* R million
2010				
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**
Total	**15 855**	**1 146**	**17 735**	**12 516**
Comprising:				
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**
Total	**15 855**	**1 146**	**17 735**	**12 516**

	Audited At 31 Dec 2011 R million	Audited At 31 Dec 2010 R million

6. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME

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

Financial assets at fair value through income	**11 792**	11 688
Loans and receivables	**1 836**	1 735
Total financial assets	**13 628**	13 423

Financial assets and liabilities at fair value through income – Fair value estimation

The table below analyses financial instruments, carried at fair value through income, by valuation method. The different levels have been defined as follows:

– **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, prices) or indirectly (that is, derived from prices)

– **Level 3:** Inputs for the asset or liability that are not based on observable data (that is, unobservable inputs)

Financial assets at fair value through income 2011	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	3 360	–	–	**3 360**
Unitised funds	–	80	–	**80**
Irredeemable preference shares	2	–	–	**2**
Unquoted	–	–	414	**414**
Total equity securities	**3 362**	**80**	**414**	**3 856**
Debt securities				
Quoted				
Government and public bonds	1 575	182	–	**1 757**
Unitised funds	–	392	–	**392**
Money market instruments > 1 year	–	1 371	–	**1 371**
Unquoted				
Government and public bonds	–	167	–	**167**
Money market instruments > 1 year	–	2 197	–	**2 197**
Redeemable preference shares	–	–	276	**276**
Total debt securities	**1 575**	**4 309**	**276**	**6 160**
Derivatives				
Interest rate swaps	–	–	1	**1**
Total derivatives	**–**	**–**	**1**	**1**
Short-term money market instruments	**–**	**1 775**	**–**	**1 775**
	4 937	**6 164**	**691**	**11 792**

2010	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	3 460	–	–	3 460
Unitised funds	–	36	–	36
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	334	334
Total equity securities	**3 462**	**36**	**334**	**3 832**
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
Money market instruments > 1 year	–	354	–	354
Redeemable preference shares	–	–	309	309
Total debt securities	**1 816**	**2 122**	**309**	**4 246**
Short-term money market instruments	**–**	**3 685**	**–**	**3 685**
	5 278	**5 843**	**643**	**11 764**

Financial liabilities at fair value through income

2011	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Debt securities	**988**	**–**	**–**	**988**
Investment contracts	**–**	**104**	**–**	**104**
	988	**104**	**–**	**1 092**

2010	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Debt securities	**949**	**–**	**–**	**949**
Investment contracts	**–**	**495**	**–**	**495**
Derivatives				
Interest rate swaps	–	–	1	1
Fence	–	–	74	74
Total derivatives	**–**	**–**	**75**	**75**
	949	**495**	**75**	**1 519**

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

	Audited At 31 Dec 2011 R million	Audited At 31 Dec 2010 R million
7. INSURANCE LIABILITIES AND REINSURANCE ASSETS		
Gross		
Long-term insurance contracts		
– claims incurred but not reported	9	9
Short-term insurance contracts		
– claims reported and loss adjustment expenses	4 191	3 777
– claims incurred but not reported	1 246	1 189
– unearned premiums	3 029	2 788
Total insurance liabilities – gross	8 475	7 763
Recoverable from reinsurers		
Long-term insurance contracts		
– claims incurred but not reported	1	1
Short-term insurance contracts		
– claims reported and loss adjustment expenses	920	880
– claims incurred but not reported	150	146
– unearned premiums	429	240
Total reinsurers' share of insurance liabilities	1 500	1 267
Net		
Long-term insurance contracts		
– claims incurred but not reported	8	8
Short-term insurance contracts		
– claims reported and loss adjustment expenses	3 271	2 897
– claims incurred but not reported	1 096	1 043
– unearned premiums	2 600	2 548
Total insurance liabilities – net	6 975	6 496
8. INVESTMENT INCOME AND NET GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME		
Dividend income	150	118
Interest income	436	535
Foreign exchange differences	90	(20)
Net realised gains on financial assets	140	49
Net fair value gains on financial assets designated as at fair value through income	21	517
Net fair value gains on financial assets held for trading	9	47
Net fair value gains on derivatives	80	42
Net fair value gains on financial liabilities designated as at fair value through income	(61)	(118)
Net fair value losses on debt securities	(39)	(85)
Net fair value losses on investment contracts	(22)	(33)
	865	1 170

	Audited At 31 Dec 2011 R million	Audited At 31 Dec 2010 R million
9. TAX		
South African normal taxation		
Current year	567	580
Charge for the year	531	472
STC	36	108
Prior year	(4)	(11)
Foreign taxation	34	32
Income taxation for the year	597	601
Deferred taxation	(111)	38
Current year	(111)	39
STC	–	(1)
	486	639
Reconciliation of taxation rate (%)		
Normal South African taxation rate	28.0	28.0
Adjust for		
– Exempt income	(2.2)	(1.4)
– Investment results	(1.9)	(4.9)
– STC	1.9	4.4
– Other	(0.1)	0.2
Net reduction	(2.3)	(1.7)
Effective rate (%)	25.7	26.3

10. BUSINESS COMBINATIONS

2011

Acquisition/Increase in shareholding

a) MiWay Group Holdings (Pty) Ltd

During the year the deferred purchase consideration for MiWay Group Holdings (Pty) Ltd was settled in cash. A profit of R4 million was recognised in the statement of comprehensive income.

b) Mirabilis Engineering Underwriting Managers (Pty) Ltd

On 1 March 2011, the Santam Group acquired 55% of the voting equity interest in Mirabilis Engineering Underwriting Managers (Pty) Ltd by merging its construction and engineering business into Mirabilis. The new merged entity will be the leading engineering underwriting manager in the South African market.

	a) MiWay Group Holdings Ltd	b) Mirabilis Engineering Underwriting Managers (Pty) Ltd	Total
Details of the assets and liabilities acquired at fair value are as follows:			
Deferred taxation	–	(5)	(5)
Intangible assets	–	18	18
Investments	–	5	5
Loans and receivables	–	1	1
Cash and cash equivalents	–	3	3
Trade and other payables	–	(4)	(4)
Net asset value acquired	–	18	18
Goodwill	–	28	28
Excess of acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost	–	(38)	(38)
Less: Investment in associated share previously acquired	–	(8)	(8)
Deferred purchase consideration paid	343	–	343
Purchase consideration paid	343	–	343

2010	Net asset value acquired	Goodwill	Purchase consideration paid
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.	100	–	94
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. The company is being independently managed as an intermediary.	97	356	263
c) MiWay Group Holdings Ltd On 31 December 2010, Swanvest 120 (Pty) Ltd increased its shareholding in MiWay Group Holdings Ltd from 31.25% to 100%. It is strategically important that Santam makes proper inroads into the emerging 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.	119	319	–
	316	675	357

	Audited At 31 Dec 2011 R million	Audited At 31 Dec 2010 R million
11. TRANSACTIONS WITH NON-CONTROLLING PARTIES		
a) Mirabilis Engineering Underwriting Managers (Pty) Ltd		
On 1 March 2011, Santam Ltd sold the non-controlling interest of 45% in its construction and engineering business by merging it into Mirabilis Engineering Underwriting Managers (Pty) Ltd.		
Non-controlling interest acquired	–	78
Net excess (received)/paid on sale/acquisition of non-controlling interest	(38)	12
Settled through acquisition of Mirabilis Engineering Underwriting Managers (Pty) Ltd	38	–
Purchase consideration paid	–	90

Comparative information relates to the acquisition of the non-controlling interest in Centriq Holdings (Pty) Ltd on 1 January 2010.

12. EARNINGS PER SHARE		
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	1 376	1 762
Weighted average number of ordinary shares in issue (million)	113.15	112.96
Earnings per share (cents)	1 216	1 560
Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	1 376	1 762
Weighted average number of ordinary shares in issue (million)	113.15	112.96
Adjusted for share options	1.32	2.03
Weighted average number of ordinary shares for diluted earnings per share (million)	114.47	114.99
Diluted basic earnings per share (cents)	1 202	1 532
Headline earnings per share		
Profit attributable to the company's equity holders (R million)	1 376	1 762
Adjusted for:		
Impairment of goodwill	–	10
Reversal of impairment charge on net investment in associates	–	(6)
Profit on sale of subsidiaries and associates	–	(215)
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	–	–
Headline earnings (R million)	1 376	1 545
Weighted average number of ordinary shares in issue (million)	113.15	112.96
Headline earnings per share (cents)	1 216	1 367
Diluted headline earnings per share		
Headline earnings (R million)	1 376	1 545
Weighted average number of ordinary shares for diluted earnings per share (million)	114.47	114.99
Diluted headline earnings per share (cents)	1 202	1 343
13. DIVIDENDS PER SHARE		
Ordinary dividend per share (cents)	555	510
Special dividend per share (cents)	850	500

(I) INVESTMENTS – COMPOSITION

2011	Number of shares	Group market value/ Directors' valuation R million
A) Analysis based on IFRS classification: Financial assets at fair value through income		
i) Debt securities – at fair value through income		
Quoted		
Government and other bonds		1 757
Other		1 371
Unitised funds		392
		3 520
Unquoted		
Government and public bonds		167
Money market instruments (long-term instruments)		2 197
Unquoted redeemable preference shares		
Redeemable preference shares:		
Sanpref Cum Red Pref	234 000	235
RMB Specialised Lines Holdings (Pty) Ltd	4 000	4
Investec – AELPREF	37 000	37
		276
Total debt securities at fair value through income		6 160
ii) Equity securities – at fair value through income		
Each of the following investments has an individual value of more than 1.5% of the total quoted equity investment portfolio. Details of the investments below 1.5%, summarised as Other, are open to inspection at the registered office of the company.		
Quoted		
MTN Group Ltd	1 950 754	280
Sasol Ltd	679 177	262
Anglo American Plc	718 678	213
BHP Billiton Plc	844 334	198
SAB Miller Ltd	589 341	167
Standard Bank Group Ltd	1 486 110	147
British American Tobacco Plc	335 550	129
Naspers Ltd	317 016	112
Absa Bank Ltd	793 911	112
Old Mutual Plc	6 281 567	107
Vodacom Group Ltd	1 114 495	99
The Bidvest Group Ltd	581 663	90
Remgro Ltd	672 601	80
African Bank Investments Ltd	2 285 039	78
Tiger Brands Ltd	291 855	73
Woolworths Holdings Ltd	1 868 225	73
Compagnie Financière Richemont SA	1 654 217	67
Impala Platinum Holdings Ltd	370 233	62
Anglo Platinum Ltd	101 164	54
Investec plc	1 264 759	54
RMB Holdings Ltd	1 961 371	54
Other		849
		3 360
Unquoted		414
Quoted		
Unitised funds		80
Irredeemable preference shares		2
Total equity securities at fair value through income		3 856

	Group market value/ Directors' valuation R million
iii) Derivatives – at fair value through income	1
iv) Cash and short-term money market instruments	
Short-term money market instruments	1 775
Cash and cash equivalents	1 598
v) Associated companies	274
Total financial assets	13 664
B) Analysis based on investment classification	
Equities	
– Quoted	3 360
– Unquoted	414
Preference shares	
– Quoted	2
– Unquoted	276
Bonds	5 492
Unitised funds	472
Derivatives	1
Short-term money market instruments	1 775
Cash and cash equivalents	1 598
Associated companies	274
	13 664

(I) INVESTMENTS – COMPOSITION

2010	Number of shares	Group market value/ Directors' valuation R million
A) Analysis based on IFRS classification: Financial assets at fair value through income		
i) Debt securities – at fair value through income		
Quoted		
Government and other bonds		1 816
Other		1 174
Unitised funds		398
		3 388
Unquoted		
Government and public bonds		195
Money market instruments (long-term instruments)		354
Unquoted 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
		309
Total debt securities at fair value through income		4 246
ii) Equity securities – at fair value through income		
Each of the following investments has an individual value of more than 1.5% of the total quoted equity investment portfolio. Details of the investments below 1.5%, summarised as Other, are open to inspection at the registered office of the company.		
Quoted		
MTN Group Ltd	1 929 741	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
		3 460
Unquoted		334
Quoted		
Unitised funds		36
Irredeemable preference shares		2
Total equity securities at fair value through income		3 832

	Group market value/ Directors' valuation R million
iii) Derivatives – at fair value through income	(75)
iv) Cash and short-term money market instruments	
Short-term money market instruments	3 685
Cash and cash equivalents	1 143
v) Associated companies	211
Total financial assets net of derivative	13 042
B) Analysis based on investment classification	
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
	13 042

(II) ANALYSIS OF SHAREHOLDERS

Analysis of shareholders	Number of shareholders	% of total shareholders	Number of shares	% Interest
1 – 100 shares	876	16.94%	64 745	0.05%
101 – 1 000 shares	2 516	48.69%	1 126 720	0.95%
1 001 – 50 000 shares	1 684	32.59%	9 570 656	8.02%
50 001 – 100 000 shares	40	0.77%	2 819 604	2.36%
100 001 – 10 000 000 shares	50	0.97%	26 793 882	22.45%
More than 10 000 000 shares	2	0.04%	78 970 810	66.17%
Total	**5 168**	**100.00%**	**119 346 417**	**100.00%**
Type of shareholder				
Individuals	3 570	69.08%	4 358 655	3.65%
Companies	362	7.00%	92 884 299	77.82%
Growth funds/unit trusts	138	2.67%	8 910 091	7.47%
Nominee companies or trusts	975	18.87%	3 985 025	3.34%
Pension and retirement funds	123	2.38%	9 208 347	7.72%
Total	**5 168**	**100.00%**	**119 346 417**	**100.00%**

Shareholder spread	Shareholders in SA		Shareholders other than in SA		Total shareholders	
	Nominal number	% Interest	Nominal number	% Interest	Nominal number	% Interest
Public shareholders	5 006	25.90%	145	100.00%	5 151	28.59%
Directors	13	0.14%	–	–	13	0.14%
Trustees of employees' share scheme	1	0.00%	–	–	1	0.00%
Holdings of 5% or more	3	73.96%	–	–	3	71.27%
Sanlam Ltd	1	58.96%	–	–	1	56.82%
Central Plaza Investments 112 (Pty) Ltd*	1	9.71%	–	–	1	9.35%
Guardian National Insurance Ltd**	1	5.29%	–	–	1	5.10%
Total	**5 023**	**100.00%**	**145**	**100.00%**	**5 168**	**100.00%**

The analysis includes the shares held as treasury shares.

** BEE special-purpose company*
*** Owner of treasury shares*

(III) ANALYSIS OF DEBT SECURITY HOLDERS

Analysis of debt security holders	Number of debt security holders	% of total debt security holders	Number of units	% Interest
1 - 50 000 units	1	1.16%	47 700	–
50 001 - 100 000 units	1	1.17%	85 600	0.01%
100 001 - 1 000 000 units	32	37.21%	19 047 000	1.90%
1 000 000 - 10 000 000 units	39	45.35%	175 930 000	17.59%
More than 10 000 000 units	13	15.12%	804 889 700	80.50%
Total	**86**	**100.00%**	**1 000 000 000**	**100.00%**
Type of debt security holder				
Banks	1	1.16%	10 500 000	1.05%
Brokers	2	2.33%	53 547 700	5.35%
Endowment funds	5	5.81%	15 758 600	1.58%
Insurance companies	7	8.14%	182 792 800	18.28%
Investment companies	5	5.81%	179 352 500	17.94%
Medical aid schemes	2	2.33%	1 150 000	0.12%
Mutual funds	25	29.07%	93 027 400	9.30%
Nominees and trusts	2	2.33%	1 490 000	0.15%
Pension funds	34	39.53%	353 421 000	35.33%
Private companies	3	3.49%	108 960 000	10.90%
Total	**86**	**100.00%**	**1 000 000 000**	**100.00%**

Debt security holder spread	Debt security holders in SA Nominal number	% Interest
Government Employees Pension Fund	214 767 500	21.48%
Old Mutual Life Assurance Company (South Africa) Ltd	145 051 400	14.51%
Momentum Group Ltd	125 000 000	12.50%
Indwa Investments Ltd	100 000 000	10.00%
RMB Capital Markets	53 500 000	5.35%
Other	361 681 100	36.17%
Total	**1 000 000 000**	**100.00%**

DEFINITIONS FOR INDUSTRY-SPECIFIC TERMS

acquisition costs	Those costs that are primarily related to the acquisition of new or renewal of insurance contracts, e.g. commissions and management expenses. Acquisition costs are often expressed as a percentage of earned premium and referred to as the acquisition cost ratio.
binder	An authority issued by an insurer to another party to: enter into, vary or renew a short-term policy on behalf of that insurer; determine the wording of a short-term policy; determine premiums under a short-term policy; determine the value of policy benefits under a short-term policy; or settle claims under a short-term policy.
Catastrophe (short-term) cell captive insurer	Fire, earthquake, windstorm, explosion and other similar events that result in substantial losses. An insurer that is structured with separate independent cells. The assets and liabilities of the cells are ringfenced. Profits and losses from business introduced by the cell owner to the insurer are attributable to the cell owner.
claim (short-term)	A demand in the insurer for indemnification for a loss incurred from an insured peril.
claims incurred	Claims cost for an accounting period made up of: – claims paid for the period, including claims handling expenses, – less outstanding claims at the end of the preceding accounting period, including IBNR, plus outstanding claims at the end of the current accounting period, including IBNR
claims incurred but not reported (IBNR)	Claims resulting from events which have taken place, but of which the insurer has not received notices or reports of loss. An estimate is made of the amount of these claims based on previous experience.
claims ratios	Ratios expressing the relationship between claims and premiums. The net claims ratio expresses claims net of recoveries from reinsurers as a percentage of premiums net of premiums ceded to reinsurance. The gross claims ratio reflects the position before reinsurance is taken into account. Also referred to as loss ratios.
deferred acquisition costs (DAC)	Acquisition costs relating to unearned premiums, disclosed as a separate asset on an insurer's balance sheet.
earned premium	The proportions of premium attributable to the periods of risk that relate to the current accounting period. It represents written premium adjusted by the unearned premium provision at the beginning and end of the accounting period.
FSB	The Financial Services Board, the regulator of insurance companies in South Africa.
gross written premiums	Premiums which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance or from other insurers in relation to inwards reinsurance contracts. These are premiums on contracts entered into during the accounting period or adjustment to premiums from prior years. Also defined as premiums written and received but before deduction of reinsurance ceded.

intermediary	A person who negotiates contracts of insurance or reinsurance with the insurer or reinsurer on behalf of the insured or reinsured.
loss ratio	Refer to "claims ratio"
net written premiums	Gross premiums written or received on all business less return premiums and premiums ceded to reinsurers.
reinsurance premium	The premium paid by the ceding company to the reinsurer in consideration for the liability assumed by the reinsurer.
salvage	The amount received by an insurer from the sale of (usually damaged) property on which he has paid a total loss to the insured.
short-term insurance	Defined in the Short-term Insurance Act as providing benefits under short-term policies, which means engineering policies, guarantee policies, liability policies, miscellaneous policies, motor policies, accident and health policies, property policies or transportation policies or a contract comprising a combination of any of those policies.
Solvency Assessment Management (SAM)	The project launched by the FSB to develop a new solvency regime for the South African long-term and short-term insurance industries to be in line with international standards and specifically the Solvency II initiative under way in Europe.
solvency margin	Is a measurement of the financial strength of a short-term insurer. It represents the shareholders' funds, expressed as a percentage of net written premium income. This method of measurement is generally accepted internationally.
underwriting	The process of examining, accepting, or rejecting insurance risks, and classifying or segmenting those selected, in order to change the proper premium for each.
underwriting cycle	The regular pattern of rising profits and increasing premiums and reduced profits/losses, and decreased premiums experienced in short-term insurance. The cycle starts when insurers underwriting standards become more stringent and premiums increase. This happens once underwriting losses reach unacceptable levels.
underwriting result	The underwriting profit or loss calculated by deducting claims incurred, net of commission and management expenses from premiums earned.
unearned premium provision	The portion of premiums attributable to the periods of risk that relate to subsequent accounting periods and which are carried forward to such subsequent accounting periods.

ADMINISTRATION

NON-EXECUTIVE DIRECTORS

B Campbell, MD Dunn, MP Fandeso, BTPKM Gamedze, VP Khanyile (Chairman), MLD Marole, JP Möller, YG Muthien, J van Zyl, BP Vundla (resigned effective 17 January 2012)

EXECUTIVE DIRECTORS

IM Kirk (Chief Executive Officer), Y Ramiah, MJ Reyneke (Chief Financial Officer)

SPONSOR

Investec Bank Ltd

TRANSFER SECRETARIES

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COMPANY SECRETARY

Masood Allie

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NSX share code: SNM