

## Scope and boundary

antam's second integrated report reviews the financial year for the 12 months that ended 31 December 2012. This report covers all social, economic and governance aspects that are material to the long-term sustainability of the company.

The report is informed by the following legislation and standards:

- King Code of Governance Principles 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) G3.1 Sustainability Reporting Guidelines
- JSE's SRI Index and Listings Requirements
- The Companies Act 71 of 2008 as amended
- The International Integrated Reporting Council (IIRC) prototype Integrated Reporting framework
- International Accounting Standards requirements

The following guiding principles were used to develop the content and prepare the presentation thereof:

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder responsiveness
- Materiality and conciseness
- Reliability
- Comparability and consistency

All information was collected and prepared on the same basis as the previous report in terms of the entities covered, the measurement methods and the time frames used. The information covers all material issues relating to business strategy, risks and areas of critical importance to our stakeholders.

The structure of the report is essentially the same as the 2011 integrated report. However, the operational reports have been expanded to ensure more detailed coverage of key business units in the group. Matters dealing with the group strategy and sustainability have been addressed throughout the report and not separately reported on as in 2011.

As was the case last year, this report only contains abridged financial statements. The full financial statements, the Santam sustainability report and this integrated report are published on the company's website (www.santam.co.za). These reports can also be requested from the company secretary, Mr Masood Allie (tel: 021 915 7000).

Cross references to notes in this report are made with reference to the full set of financial accounts.

## 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 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.

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CORPORATE GOVERNANCE
 REPORT

**IBC** 

ADMINISTRATION

# "INSURANCE SHOULD ADD VALUE, NOT QUESTIONS OR UNCERTAINTY."

he health of the South African economy depends on a robust, inclusive and responsible short-term insurance industry where insurance offers policyholders real value. This is particularly the case in challenging economic times marked by financial market volatility, slowing domestic growth and personal incomes, growing competition, soft premium rates, higher auto repair and other costs and increasing systemic risk. The pooling of risk is essential to the financial security of both individuals and businesses.

At Santam, we believe in the simple principle that insurance should add value, not questions or uncertainty. It should provide peace of mind, not parameters or excuses. That has been our philosophy since we first opened our doors on 1 May 1918, and that is why we paid 99% of claims made in the past year.

Santam has managed to build a diverse company that stretches into all areas of general insurance, across personal, commercial and specialist markets. This diversity, coupled with a world-class scientific underwriting capability, enables the company to steer its way through the ups and downs of the typical underwriting cycle.

There are many factors contributing to Santam's success, but at the heart of it all are its people – employees who drive the company forward, our intermediaries who support us and our clients who trust us with their most precious belongings and their businesses.

The Santam group leads the South African short-term insurance industry with:

- a market share exceeding 22%,
- assets totaling almost R20 billion,
- a world-class contact centre infrastructure,
- a thriving intermediary network, and
- a local footprint of close to one million policyholders, which includes 80 of the top 100 companies listed on the Johannesburg Stock Exchange.

Since 2008, Santam's share price has more than doubled and shares were trading at R190.25 at the end of December 2012. This bears testimony to our excellent performance and the confidence that the market has in our brand and in our company.

The Santam brand is strongly positioned and differentiated based on the value that we offer consumers across a wide range of market segments. Santam's value proposition extends beyond products and premium rates. We have the size, experience, expertise, data, technology, infrastructure and partnerships to deliver insurance that is meaningful, valuable and of enduring consequence and substance. Our promise of insurance good and proper encompasses our single-minded focus and the unique way in which we deliver insurance – with excellence, integrity, certainty and stature.

The company has investments in several subsidiaries and associates and is currently expanding its product offerings on the continent and in selected emerging markets.

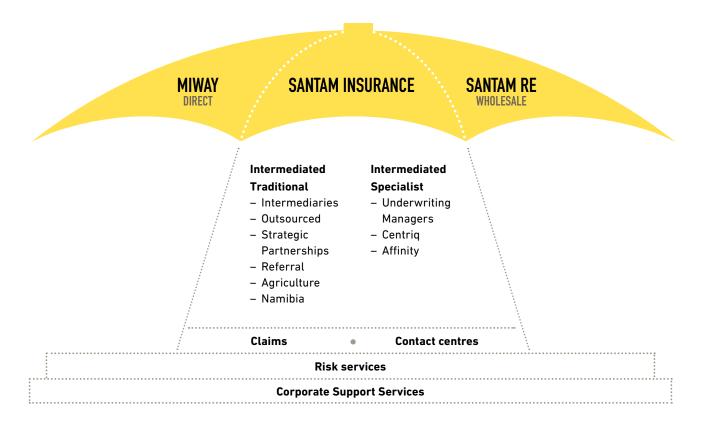
Santam has a thorough understanding of all the markets in which it operates and has the ability to customise solutions based on the needs and behaviour of our clients. We make it easy for people to do business with us and our offering is enhanced by our extensive intermediary network. The company, with its underwriting managers and the wholly owned subsidiaries MiWay and Centriq, offers a diversified range of insurance solutions. These include engineering, guarantee, liability, miscellaneous, motor, accident and health, property, transport, agriculture, hospitality, alternative risk transfer and cell captive facilities.

Santam Re is a division of Santam Ltd and was formed in 2010. The company seeks to position itself as a respected

reinsurer across the African continent, India, Southeast Asia and China. Santam Re aims to be recognised as a preferred emerging markets reinsurer, committed to long-term profitable client partnerships while offering world-class financial strength.

Santam's success has been, and will continue to be, determined by its ability to adjust to change and address a dynamic systemic risk landscape. Over the years, Santam has been able to continually reposition and improve itself in the changing business environment, to employ the best people, to provide a relevant offering to clients and to optimise systems to drive efficiency. This is and will remain at the core of our value proposition.

## SANTAM GROUP BUSINESS UNITS



# SANTAM HAS TWO WHOLLY OWNED SUBSIDIARIES THAT OPERATE UNDER THEIR OWN LICENCES AND WITH INDEPENDENT BRANDS

## MIWAY

MiWay offers personal lines insurance solutions direct to clients. The MiWay philosophy is to empower clients by providing value-for-money products with a hands-on approach to service delivery. The MiWay brand is innovative and consumer-centric. It communicates short-term insurance solutions to consumers with fresh, tongue-in-cheek messages through a variety of channels. MiWay was named best medium sized company in the Deloitte's Best Company to Work For survey in 2012.

## CENTRIQ

Centriq is the second largest specialist cell captive insurance company in South Africa. It was founded on the principles of valued relationships, client services and empowerment and continues to apply these principles to create distinctive, value-adding solutions specifically designed with the client's requirements in mind. Centriq is committed to delivering innovative, customised risk financing, affinity insurance and underwriting manager facilities.







antam partners with best-of-breed underwriting managers to deliver specialist and niche insurance solutions.

## ASSOCIATED MARINE UNDERWRITING

Associated Marine is Africa's biggest marine insurer in terms of range, footprint and capacity.

## CORPORATE SURE UNDERWRITING MANAGERS (C-SURE)

C-Sure was created exclusively for sectional title and share block properties. C-Sure was designed to give intermediaries and clients the most comprehensive and innovative insurance solutions available in the market. They do this by understanding the marketplace needs.

## **EMERALD RISK TRANSFER**

Emerald Risk Transfer is a leading provider of property insurance solutions for large industrial and commercial businesses. The Emerald team's solution-oriented approach to creating sustainable, quality products is an integral part of their culture.

## ECHELON PRIVATE CLIENT INSURANCE

Echelon focuses on "private clients" – professionals, executives and business owners – who demand cost-effective and personalised risk solutions.

## HOSPITALITY AND LEISURE UNDERWRITERS

Hospitality and Leisure's products cater for the needs of the hospitality sector, including retail businesses such as restaurants and caterers.

## MIRABILIS ENGINEERING UNDERWRITING MANAGERS

Mirabilis offers a fully comprehensive range of engineering insurance solutions in South Africa and other emerging markets.

### SANTAM AVIATION

Santam Aviation offers general aviation insurance solutions through specialist intermediaries.

## SANTAM BONDS AND GUARANTEES

Santam Bonds and Guarantees offer a wide range of surety solutions

## SANTAM TRANSPORT

This division is the leading heavy commercial vehicle insurer in South Africa. Santam Transport offers the most comprehensive cover and exceptional service delivery to transport contractors.

## STALKER HUTCHISON ADMIRAL (SHA)

The SHA team is dynamic and focused and has extensive experience in the broad-form liability field. SHA is the market leader when it comes to crime and civil liability coverage for all entities including financial institutions, as well as directors and officers

## TRAVEL INSURANCE CONSULTANTS (TIC)

TIC offers specialised travel insurance solutions.

## VULINDLELA UNDERWRITING MANAGERS (VUM)

VUM specialises in providing the widest range of insurance solutions for owners of minibus, midibus and metered taxis in South Africa.

## LEGAL EXCHANGE CORPORATION (LEXCORP)

 $\ensuremath{\mathsf{LEXCorp}}$  focuses on legal expense insurance and related classes of business.

## INDWE RISK SERVICES

Santam acquired 100% shareholding in Indwe Risk Services (Indwe) in 2010. Indwe is managed independently as an insurance intermediary and offers a wide range of products to more than 100 000 individual, commercial and corporate clients. Indwe excels at taking full responsibility for clients' insurance policy administration needs, assuring a fast and efficient claims turnaround time and professional risk analysis.

## THE HUMAN FACE OF SANTAM

n February 2012, Santam introduced a new television commercial featuring Oscar winner Sir Ben Kingsley in a restaurant, with a bartender behind him moving in and out of frame. He reminds the audience how easy it is to overlook things that are right in front of you. If you go for the cheapest insurance you might miss an important detail. "What if I told you," he concludes, "that Floyd's uniform has changed four times while I've been talking to you?" The ad caught on, and people were watching it carefully to see where his outfit changed.

A large South African fast food chain, renowned for their satirical advertising, then parodied the ad with one of their own. Instead of ignoring it or threatening to sue, Santam created a response. "Under normal circumstances we'd be upset but frankly we're flattered," said a Kingsley-like narrator in the new ad. Then he made a demand: Santam would "overlook the indiscretion" if the fast-food chain delivered a food order from their menu to the Johannesburg Children's Home.

Santam's challenge took South Africa by storm. Within two hours of being posted on YouTube, it started trending on twitter where it soon became the most discussed topic in South Africa. It got more than 250 000 hits on YouTube, and Santam is now being used globally as an example of a brand that is human, progressive, contemporary and accessible to a growing group of clients.





The following awards relate directly to the campaign:

- The Grand Midas at the Midas Awards in New York, effectively citing Santam's campaign as the best financial services advertising worldwide during 2012.
- Two Gold Loeries for the tactical television campaign featuring Sir Ben Kingsley in a bar scene. The Loeries committee also ranked Santam among the top ten South African brands (#7).
- A Bronze Lion at the Cannes Festival of Creativity. Santam was the only South African brand to win in the film category.
- A Silver Clio Award.
- A Bronze Bookmark Award.
- Two Creative Ad Circle Ad of the Month awards.
- An Excellence Award from Cover Magazine for changing perceptions of the South African insurance industry for the better.

## Group performance

**9.5**%

GROSS WRITTEN PREMIUM GROWTH

R2.4 billion

STRONG CASH GENERATION

4%

UNDERWRITING MARGIN OF 4% SIGNIFICANTLY IMPACTED BY CATASTROPHE EVENTS

28%

INCREASE IN TAX CHARGE, SIGNIFICANTLY IMPACTED BY STC SPECIAL DIVIDEND AND CGT INCLUSION RATE CHANGE

**55%** 

INCREASE IN INVESTMENT RETURNS

**15.5**%

FINAL DIVIDEND OF 410 CENTS PER SHARE, UP 15.5%

\* ONE-OFF INCREASE OF 7% TO ACCOUNT FOR IMPACT OF DIVIDENDS TAX

41%

**GROUP SOLVENCY RATIO** 

Key facts	2012	2011
Gross written premium	R19.4 billion	R17.7 billion
Gross written premium growth	9.5%	11.7%
South Africa market share	>22%	>22%
Claims ratio	68.3%	64.2%
Acquisition cost ratio	27.7%	27.7%
Net underwriting margin	4.0%	8.1%
Solvency ratio	41%	48%
Return on shareholders' funds	19.3%	25.0%
Headline earnings per share	994 cents	1 216 cents
Number of group employees	4 696	4 375
BBBEE level	3	3
Black ownership percentage (2012 unverified)	29.6%	29.6%
Global credit rating company	AAA claims paying ability	AAA claims paying ability
Fitch rating	AA+ Insurer Financial Strength	AA+ Insurer Financial Strength
Standard & Poor's rating	A- international rating	NA

Investment case

Santam is an exciting investment opportunity listed on the JSE:

- Largest short-term insurer in South Africa with a market share in excess of 22%
- Solid underwriting performance and earnings growth over many years
- Widely recognised specialist insurance skills
- Targeted capital management strategy resulting in a strong and efficient statement of financial position together with regular special dividend pay-outs (five payments over the past eight years)
- Stable dividend policy with consistent dividend declarations
- Strong cash flow
- Exciting direct offering through MiWay
- Award winning claims management capability
- Well positioned to deal with and benefit from regulatory changes

		Seven-year compound growth							
PERFORMANCE PER ORDINARY SHARE		%/average	2012	2011	2010	2009	2008	2007	2006
Cents per share									
Headline earnings		(7.2)	995	1 216	1 367	906	373	881	1 555
Continuing operations			995	1 216	1 367	906	408	1 029	1 555
Discontinued operations			-				(35)	(148)	
Dividends			640	555	510	466	430	410	380
Special dividends Net asset value			- ( 0 ( 0	850 5 329	500 4 535	/ 012	2 5 / 0	2 200 3 585	5 633
Net asset value			4 840	5 329	4 535	4 012	3 548	3 383	5 633
INSURANCE ACTIVITIES*									
Net claims paid and provided (%)	Avg	67.5	68.3	64.2	64.1	70.6	68.4	68.2	68.6
Cost of acquisition (%)	Avg	26.3	27.7	27.7	27.3	25.8	25.2	25.6	24.9
Net commission paid (%)	Avg	14.2	13.0	13.7	15.3	14.9	14.3	13.9	14.1
Management expenses (%)	Avg	12.2	14.7	14.1	12.0	10.9	10.9	11.7	10.8
Combined ratio (%)	Avg	93.8	96.0	91.9	91.4	96.4	93.6	93.8	93.5
Underwriting result (%) Earned premium (%)	Avg	6.2	100.0	8.1 100.0	8.6 100.0	3.6 100.0	100.0	100.0	100.0
* Continuing activities expressed as a % of net earned premium			100.0	100.0	100.0	100.0	100.0	100.0	100.0
continuing detivities expressed as a 70 of het earned premium									
INVESTMENT ACTIVITIES									
Interest, dividends and foreign exchange differences net of									
asset management fees			722	554	484	568	771	595	455
Net gain/(loss) on financial assets and liabilities at fair value			/ 00	100	F27	/70	(701)	/ = /	1 205
through income			480	189	537	479	(721)	454	1 205
RETURN AND PRODUCTIVITY									
Earnings expressed as a % of average shareholders'									
funds (%)	Avg	25.1	19.3	25.0	37.1	26.6	18.1	16.6	32.7
Pre-tax return on total assets (%)	Avg	10.0	8.6	10.1	13.7	8.9	5.0	9.1	14.8
Effective tax rate (%)#	Avg	29.7	36.7	25.7	26.3	26.5	36.1	31.9	24.7
Gross premium per employee (R000)*#			3 680	3 608	5 116	4 883	4 436	4 012	3 836
# Continuing activities * Alternative Risk Transfer premiums excluded									
Atternative Was Transfer premiuma excluded									
SOLVENCY AND LIQUIDITY									
Dividend cover (times)	Avg	2.7	3.9	2.2	3.1	2.1	1.5	2.3	4.1
Solvency margin (%)	Avg	45.9	41.4	47.7	44.8	41.7	41.7	42.0	62.0
OTHER STATISTICS									
Number of permanent employees			4 696	4 375	2 757	2 742	2 807	2 840	2 789
Employee composition (% of black employees)			59.8	56.8	54.4	50.8	49.7	46.1	44.1
Number of shareholders			5 565	5 169	4 616	4 303	3 871	4 552	4 556
BBBEE rating (2011 unverified)*			3	3	3	3	Α	Α	Α
Corporate social investment spend (% of NPAT)			1.1	0.8	0.7	0.8	1.0	0.3	0.2
* Financial Services Charter 2006 to 2008; Dti codes from 2009									
CANTAM CHARE REPERPIANCE									
SANTAM SHARE PERFORMANCE AND RELATED INDICATORS									
Market price per share (cents)									
Closing			19 025	14 231	13 050	10 850	7 930	10 400	8 745
Highest			20 112	15 500	13 547	11 000	9 500	13 720	9 500
Lowest			13 950	11 707	9 710	7 000	6 200	8 202	6 300
Market capitalisation (R million)			21 651	17 555	14 750	12 245	8 934	11 656	10 287
Santam share price index**			2 437	1 967	1 640	1 347	957	1 287	1 066
FTSE – JSE financial index**			821	597	578	506	394	610	615
Closing price/earnings (times)			19.1	12.7	9.5	12.0	13.5	11.5	5.6
Closing price/equity per share (times)		3.9	2.9	2.9	2.5	2.1	2.9	1.5	
Closing dividend yield (%)			1.2	3.6	3.9	4.3	5.4	3.9	4.3
Number of shares issued (million)		113.8	113.3	113.0	112.9	112.7	112.1	117.6	
Number of shares traded (million)		12.1	12.6	18.5	21.9	24.4	39.3	34.9	
Number of shares traded as a % of total number of									
shares in issue			10.6	11.1	16.3	19.4	21.7	35.1	29.7
Value of shares traded (R million)			2 018.6	1 674.4	2 039.5	1 915.6	2 019.8	4 270.9	2 728.3
** Base year 1992									

Results for 2008, 2007 and 2006 are shown for continuing operations only.

	Seven-year compound growth							000/
STATEMENTS OF COMPREHENSIVE INCOME	%/average	2012	2011	2010	2009	2008	2007	2006
Gross premium income	8.2	19 386	17 707	15 855	15 026	14 179	13 173	12 115
Net premium income	7.8	15 822	14 674	13 519	12 894	11 873	10 919	10 104
Underwriting result* Investment return on insurance funds	(0.1)	623 415	1 186 388	1 161 396	466 420	752 540	664 319	627 250
Net insurance result		1 038	1 574	1 557	886	1 292	983	877
Investment income and associated companies		827	440	915	670	(520)	805	1 515
MiWay DBP and Santam BEE transaction costs		(57)	(55)	(15)	(13)	(13)	- (0)	-
Amortisation of intangible asset/Impairment of goodwill Income before taxation		1 700	(68) 1 891	(29) 2 428	1 518	(7) 752	1 786	2 390
Taxation		624	486	639	402	271	570	593
Non-controlling interest		49	29	27	34	21	26	23
Net income from continuing operations Results from discontinued operations		1 027	1 376	1 762	1 082	460 25	1 190 (168)	1 774 70
Net income attributable to equity holders	(9.3)	1 027	1 376	1 762	1 082	485	1 022	1 844
* Underwriting result was restated to reflect the impact of the BEE cost and MiWay deferred bonus plan (note 5 of abridged financial statements).								· · · · · · · · · · · · · · · · · · ·
STATEMENTS OF FINANCIAL POSITION								
Property and equipment Intangible assets		99 990	80 994	88 988	47 143	42 155	38 135	59 108
Deferred tax asset		221	207	251	88	81	40	27
Investments in associates		261	274	211	198	175	215	239
Financial assets	5.8	10 538	10 057	8 090	6 337	5 955	7 315	7 517
Technical assets Current assets		2 095 5 533	1 832 5 245	1 518 6 589	2 070 8 199	2 252 7 724	2 265 5 419	2 291 6 575
Non-current assets held for sale		-	-	-	-	-	2 060	-
Total assets		19 737	18 689	17 735	17 082	16 384	17 487	16 816
Shareholders' funds Equity – non-current assets held for sale	(3.0)	5 617	6 141 –	5 219	4 672	4 135 –	4 079 71	6 750
Non-current liabilities		2 030	1 723	1 787	1 517	1 666	1 907	902
Technical provisions		9 805	8 577	7 803	8 316	8 238	7 729	7 768
Current liabilities, provisions		2 285	2 248	2 926	2 577	2 345	2 095	1 396
Non-current liabilities held for sale  Total equity and liabilities		19 737	18 689	17 735	17 082	16 384	1 606 17 487	16 816
		.,,,,,	10 007	17.700	17 002		17 107	10010
STATEMENTS OF CASH FLOWS	(0 F)	2.25/	2 / 02	2.020	1 705	1 275	2.007	2.10/
Cash generated from operating activities after finance costs Income tax paid	(0.5)	2 256 (521)	2 403 (813)	2 020 (755)	1 725 (115)	1 375 (669)	2 094 (288)	2 196 (606)
Net cash from operating activities		1 735	1 590	1 265	1 610	706	1 806	1 590
Cash generated/(utilised) in investment activities		936	201	(270)	(1 477)	921	12	(390)
Disposal/(acquisition) of associated companies (Acquisition)/disposal of subsidiaries net of cash		(6)	(343)	(17) (357)	26 (11)	(55) (3)	21 (61)	24 153
Cash acquired/(sold) through acquisition/sale of subsidiary		_	3	262	(23)	(1 139)	52	(188)
Cash utilised in additions to property and equipment		(94)	(66)	(27)	(36)	(47)	(29)	(17)
(Acquisition)/disposal of book of business  Net cash used in investing activities		(81) 755	(205)	(409)	(1 467)	(272)	(2)	(2)
Proceeds from issuance of ordinary shares		- 755	(203)	(407)	(1 407)	2	34	29
Net purchase of treasury shares		-	(33)	(23)	(33)	(19)	(726)	-
Increase in debt securities		- (4.5)	-	-	- (4.04)	- (4.00)	964	-
Decrease in investment contract liabilities  Decrease in collateral guarantee contracts		(17) (39)	(413)	129	(101)	(138)	230	_
Dividends paid		(1 674)	(618)	(1 113)	(513)	(476)	(2 977)	(1 185)
Increase in cell owners' interest		90	26	42	87	111	8	61
Purchase of subsidiary from non-controlling interest  Net cash used in financing activities		(1 640)	(1 038)	(90)	(560)	(520)	(2 467)	(1 095)
Net increase/(decrease) in cash and cash equivalents		850	347	(199)	(417)	(86)	(668)	75
Cash and cash equivalents at beginning of year		1 598	1 143	1 379	1 938	1 983	2 659	4 927
Translation gains/(losses) on cash and cash equivalents		23	108	(37)	(142)	41	(8)	140
Cash and cash equivalents at end of year Non-current assets classified as held for sale		2 471	1 598 –	1 143	1 379	1 938 	1 983 (812)	5 142 ———
Cash and cash equivalents at end of year – Continuing operations		2 471	1 598	1 143	1 379	1 938	1 171	5 142

Results for 2008, 2007 and 2006 are shown for continuing operations only.

## Board of directors



## 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

1 VP KHANYILE (62) Independent non-executive Chairman

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.

## 2 B CAMPBELL (62) Independent non-executive director BA, MBL, ACII & FCII (UK) | Appointed 4 October 2010 | Previous managing director of Mutual & Federal

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

## 3 MD DUNN (68) Independent non-executive director FCA, CA(SA) | Appointed 16 April 2010 | Director of Munich Reinsurance Company of Africa Ltd, Munich Mauritius Reinsurance Company Ltd and the Vumelana Advisory Fund NPC.

- 4 MP FANDESO (54) Independent non-executive director BSc (Hons), MBA | Appointed on 10 October 2011 | Previous chief executive officer of the Land and Agricultural Development Bank of South Africa. Director of SA Breweries Ltd and Senwes Ltd.
- 5 BTPKM GAMEDZE (54) Independent non-executive director

BA (Hons), MSc, FASSA | Appointed 16 October 2006 | Director of Credit Guarantee Insurance Company (Pty) Ltd, Sanlam Emerging Markets (Pty) Ltd, Sanlam Investment Management (Pty) Ltd, Exoport 12 (Pty) Ltd, Alt-e Technologies (Pty) Ltd, AE-AMD (Pty) Ltd, Pan African Holdings (Kenya) and Botswana Insurance Holdings Limited. President of the Actuarial Society of South Africa and founding president of the Association of the South African Black Actuarial Professionals (ASABA).

# 6 GG GELINK (63) Independent non-executive director BComm (Hons), NatDip Public Admin, HEd, BAcc (Hons) | Appointed 1 June 2012 | Chief executive officer of Deloitte Southern Africa from 2006 to 2012 and chairman of the African Children's Feeding Scheme. Director of FirstRand Ltd, Grindrod Ltd, Allied Electronics Corporation Ltd (Altron), Egstra Holdings Ltd and MTN Zakhele.

## 7 IM KIRK (54) Chief Executive Officer

FCA (Ireland), CA(SA), HDip BDP (Wits) | Appointed 14 June 2007 | Director of Stalker Hutchison Admiral (Pty) Ltd, Centriq group of companies, MiWay group of companies, Emerald Risk Transfer (Pty) Ltd, SAIA, Nova Risk Partners Ltd and Beaux Lane (SA) Properties (Pty) Ltd.

## 8 MLD MAROLE (50) Independent non-executive director BComm, Dip Tertiary Education, MBA | Appointed

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 and Development Bank of Southern Africa. Appointed as commissioner of the presidential review committee from May 2010 to March 2012.

## 9 JP MÖLLER (53) Non-executive 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, Genbel Securities Ltd and Ubuntu-Botho Investment Holdings (Pty) Ltd.

## 10 HD NEL (44) Chief financial officer, Executive director

CA(SA) | Appointed 17 September 2012 | Previously head of the PricewaterhouseCoopers Financial Services Practice in the Western Cape and responsible for the statutory audits of a number of listed entities. Director of Centriq group of companies, Censeo (Pty) Ltd, Emerald Risk Transfer (Pty) Ltd, MiWay Group of companies, Stalker Hutchison & Associates (Pty) Ltd, Central Plaza Investments 112 (Pty) Ltd, Guardian National Insurance Company Ltd and Swanvest 120 (Pty) Ltd.

## 11 Y RAMIAH (45) Executive director

BA LLB, MBA, AMP (Harvard), HDip Tax (Admitted Attorney) | Appointed 13 December 2011 | Director of Sanlam Ltd, Sanlam Life Ltd, Sanlam Investment Management (Pty) Ltd, Sanlam Investment Holdings Ltd, Grindrod SA (Pty) Ltd and Adopt a School Foundation.

## 12 MJ REYNEKE (55) Non-executive director

CA(SA) | Appointed to the board on 26 August 2003 and as non-executive director on 17 September 2012 | Director of Credit Guarantee Insurance Corporation of Africa Ltd, Indwe Broker Holdings Ltd, MiWay group of companies, Santam Namibia Ltd and Central Plaza Investments 112 (Pty) Ltd.

## 13 J VAN ZYL (56) Non-executive director

PhD, DSc (Agric) | Appointed 1 August 2001 | Chief executive officer of Sanlam Ltd and Sanlam Life Insurance Ltd. Director of Channel Life Ltd, Sanlam Developing Markets Ltd, Sanlam Emerging Markets Ltd, Sanlam Investment Holdings Ltd, Sanlam UK Ltd and Sanlam Netherlands Holding BV, One Vision Investments (Pty) Ltd and Dippenaar & Reinecke (Pty) Ltd. Chairman of Association of Savings and Investment South Africa, Chairman of Vumelana Advisory Fund NPC. Council member of the University of Pretoria and trustee of the Hans Merensky Foundation.

IAN KIRK (54)



TEMBA MVUSI (57)



## 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 and sustainably over the medium to long term.

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

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

YEGS RAMIAH (45)



EDWARD GIBBENS (43)



## People and brand services BA LLB, MBA, AMP (Harvard), 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 wellbeing and development in their broadest form and stays abreast of international best practice in talent management.

Broker distribution AllSA, 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.





HENNIE NORTJÉ (49)



## 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.

Operations 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 ensures efficient policy administration and operation of sales and administration contact centres.





RENÉ OTTO (54)



## Chief financial officer CA(SA)

## Appointed 2012

Responsible for the finance function of the company, including financial reporting, corporate finance, investments, tax, internal audit, enterprise risk management, corporate communication and corporate legal services.

## Chief executive officer of MiWay Insurance BLC LLB, LLM

## Appointed 2007 (appointed to executive management 2012)

Admitted Advocate of the Supreme Court. Responsible for executing strategic plans and financial performance of MiWay Insurance Ltd as founding head and current chief executive officer.

JAN DE KLERK (51)



JOHN MELVILLE (47)



## Information management MDP

## Appointed 2007

Responsible 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.

## 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.





## **Group sourcing**

## Appointed 2009 (Appointed to executive management 2012)

Responsible for Santam and Sanlam group sourcing and facilities; leveraging the entire group's procurement spending power to deliver synergies and manage efficiency in the supply chain, and drive the business opportunities and change management related to new initiatives. Further responsible for the attainment of the financial sector charter procurement dimensions.

# EARNING THE ITWEB

# BESTONATION AWARD

IS PROOF THAT OUR INVESTMENT IN INDUSTRY-LEADING SOLUTIONS IS PAYING OFF WITH GREAT RESULTS. OUR IMPLEMENTATION OF ANALYTICS TECHNOLOGY ENABLES US TO HANDLE CLAIMS WITH MORE EFFICIENCY THAN

EVER BEFORE.....

# "OUR COMMITMENT WAS AGAIN ACKNOWLEDGED WHEN SANTAM WAS IDENTIFIED AS A TOP PERFORMER IN THE JSE SRI INDEX."

## Q: What were the highlights for Santam during 2012?

Santam once again performed well in a year that presented unique challenges and unexpected events.

Our strategy offers a clear roadmap for the future, and we are committed to continue implementing it in a way that will balance profits and growth for the Santam group. We believe that this is the only way to ensure sustainability. Our commitment was once again acknowledged when Santam was identified as a top performer in the JSE SRI index.

We set up our first small business investment fund to support Santam's commitment to transformation and enhance the group's long-term systemic risk approach.

The group underwent significant change on the operational side through the rolling out of a number of strategic projects, which included a strong focus on improving our service levels to our intermediary network and our direct business to clients.

This was particularly challenging as we experienced high volumes of claims during the last quarter of 2012, driven by unusual weather conditions such as floods, hail and fires that affected individuals and businesses in Mpumalanga, the Eastern Cape, KwaZulu-Natal and Gauteng. But as always, we continued delivering on our promise of insurance good and proper under even the most challenging circumstances for our policyholders.

## Q: How did the global and local business environment impact Santam's business?

Low growth rates in the developed world were exacerbated by a number of factors that destabilised South Africa. These included service delivery strikes, unrest on farms, serious problems in the mining sector and a continuing gap between aspirations and achievements in education.

Under these circumstances, our ability to adjust to change and address a dynamic systemic risk landscape becomes even more critical. We expect that the South African insurance sector will remain a low-growth scenario for some time.

## Q: What are the characteristics and key success factors for Santam, given these challenges?

Keeping our promises, understanding the needs of our policyholders, adding value to our existing relationships and ensuring that our interactions are driven by committed, well-trained and efficient employees. Our success depends on our ability to execute Santam's three strategic pillars:

- Growth through diversification
- Manage the risk pool
- Drive system efficiencies.

# Q: How do you ensure that these key success factors are underpinned by good governance?

Governance is a priority for the board and the leadership of the company. I believe that we have been consistently transparent about our efforts to ensure good governance over many years. We adapted a group governance policy this year, which will assist us in refining our governance practices.



# "THE CHALLENGE FOR THE BOARD REMAINS TO DRIVE DIVERSIFIED GROWTH IN A TOUGH ECONOMIC ENVIRONMENT."

# Q: What was the biggest challenge for the Santam board during 2012?

The board provides direction to the group and acts as a sounding board for management. Our role is to keep the long-term sustainability of the group in mind, often under difficult short-term conditions. The challenge for the board remains to drive diversified growth in a tough economic environment especially for a company with a large existing market share. The challenge was amplified in 2012 given the short-term pressures of catastrophes experienced in the fourth quarter in the insurance industry.

## Q: What progress has been made in terms of transformation?

I am pleased to report that Santam maintained a BBBEE level 3 (unverified as of yet) status for 2012, despite the changes made to the scorecard in 2012. Our biggest challenge has been in the areas of management control and employment equity. However, we are addressing this and we remain committed to transformation as it is a key strategic driver for Santam.

The board is also aware of the need to balance the financial performance of the company with its transformation agenda, cost management and effective controls.

## Q: Are there any changes in the competitive landscape that will impact Santam going forward?

Absolutely. We are seeing new competitors, new services and new products being offered to existing users of short-term insurance, and new entrants to the industry. We are certainly not complacent about our position despite being the largest player in the industry. Underinsurance and non-insurance remain our most significant challenges. Both require that we refine our business model, improve our offerings to be more relevant and attractive, and that we include our stakeholders in the process of developing solutions especially in the case of vulnerable communities.

# Q: What can we expect from Santam in terms of global expansion in the next year?

Our expansion into other markets has been cautious and well planned. We are exploring strategic partnerships with Sanlam who are expanding their global footprint. Chief Executive Officer, Ian Kirk, has covered this in detail in his 2012 report on page 22.

## Q: What are your expectations from Santam for 2013?

We will need to deal with the after effects of the last quarter of 2012's claims. We will have to manage premium increases in a market that will resist it.

Santam's priority will be to effectively service and retain our clients, grow the skills pool in the insurance industry, execute our strategy and sustainably grow the company to the benefit of all stakeholders.

# Q: Are there any last comments that you would like to share about the board, management and the future of Santam?

We had a number of changes to the board during 2012:

- Mr BP Vundla resigned during
   January 2012 after almost
   10 years on the board.
- Ms YG Muthien resigned during September 2012.
- Mr GG Gelink was appointed to the board during June 2012.
- Mr HD Nel was appointed to the board during September 2012.
- Mr MJ Reyneke, previously an executive director, became a non-executive director during September 2012.

I would like to welcome our new board member and express my appreciation and thanks to the outgoing members. Every board member makes a unique contribution to the success of Santam. I would like to announce that I will be stepping down from the Santam board after the company's next annual general meeting in May 2013. Business developments within the Thebe group require my dedicated focus and therefore I am not able to continue in this role beyond May 2013.

I want to thank my fellow board members, the executive management, employees, intermediaries and our controlling shareholder for their support during my tenure – it is a privilege to be part of Santam's legacy.



# WE TOOK THE HONOURS ......AT THE 2012 ......

# FIA SHORT-TERM INSURER OF THE YEAR A WARDS

FOR PERSONAL AND COMMERCIAL INSURANCE, AS VOTED FOR BY INTERMEDIARIES. IT IS PROOF THAT OUR INNOVATIVE INSURANCE SOLUTIONS AND SUPPORT CREATES THE FOUNDATION OF A TRUSTED RELATIONSHIP WITH INTERMEDIARIES AND CONTINUES TO ENDORSE OUR COMMITMENT TO INSURANCE GOOD AND PROPER

# WE BELIEVE THAT INSURERS MUST BE SEEN AS BEING IN THE BUSINESS OF RESCUING POLICYHOLDERS."

he financial year was characterised by tough underwriting conditions in the final quarter in contrast with excellent investment market returns. The Santam group maintained its growth momentum despite continued pressure from soft market conditions, while the South African business environment remained challenging. On top of poor GDP growth, inflationary pressure and low interest rates, the insurance industry was impacted by unprecedented catastrophe claim events.

The year started with floods in Mpumalanga and Limpopo and ended with a spate of catastrophes in the form of more floods in the Eastern Cape and KwaZulu-Natal, severe hailstorms in Gauteng and devastating fires in St Francis Bay. These disasters affected the lives of many people and demonstrated the importance and value of insurance.

Our approach to doing insurance good and proper was evident in the comprehensive and speedy resolution of the claims that arose from these events. We believe that insurers must be seen as being in the business of rescuing policyholders when disaster strikes, paying claims with urgency and efficiency. Insurance is valueless if you cannot trust your insurer to be there in your hour of need. We handled more than 50 000 claims during November compared to a normal average of 30 000 claims per month, following several natural disasters and the St Francis Bay fire in October and November.

Santam paid out 68 cents for every rand of premium in claims during 2012. This was set against an industry average of only 63 cents, according to a report from the Financial Services Board. Almost half of all claims are settled within 24 hours and we are particularly proud to have paid out 99% of all claims made by our policyholders in our traditional intermediated business units in the last year.

The impact of these natural disasters on our financial results again highlight the industry's exposure to weather patterns and natural disasters.

Santam's long-term viability depends on our ability to understand these risks, choose which risks we want to insure and then price these appropriately. However, we also need to invest time and resources in analysing and reducing these risks, as a group and as an industry.

The state of local infrastructure has a significant impact on the damages our clients suffer from disasters and on the claims we pay out. These environmental and social systemic risks have an impact on the sustainability of Santam as a business, and the industry as a whole.

The 15% depreciation of the rand during the year increased the cost of claims, especially in motor and property where many replacement items are imported. Reinsurance rates, another significant input cost, increased after 2011's international catastrophes. Increases in these uncontrollable costs ultimately drive premium increases, although it proves difficult to adjust these in the short term under soft market conditions.



The year also saw the entry of a number of new competitors into the market with the promise of more to come. We welcome competition as it stimulates innovation and keeps us on our toes.

## THIS YEAR'S PERFORMANCE

In our 2011 integrated report, we stated a number of targets for the planning cycle up to 2014. During the past year, we delivered on these as follows:

premium growth overall at 4%. For a company like Santam with a market share in excess of 22% this was an outstanding achievement.

The group's 2012 acquisition cost ratio remained consistent with the previous year. We are revisiting our acquisition cost target in light of changes to the group structure and the impact of strategic projects over the next few years.

2012

2011

## **2014 STRATEGIC OBJECTIVES**

	2012	2011
Achieve an underwriting margin of 5% to 7% over		
the medium term	4.0%	8.1%
Drive down the acquisition cost ratio over the		
medium to long term	27.7%	27.7%
Growing our market share in the South African		
short-term insurance market	>22%	>22%

The 2012 underwriting margin was significantly impacted by several catastrophe events resulting in the net underwriting margin dropping to 4% – below the medium-term target of 5% to 7%.

However, the benefits of our diversified business model were evident again this year. While our traditional intermediated and direct businesses were under pressure, other areas of the business units performed well. Our specialist and reinsurance businesses were able to use their market position and expertise to protect margins and continue growing premiums.

Premium growth continued the solid performance of 2011, with gross written premium for the group increasing 9.5% (2011: 12%), gaining market share with industry premiums reflecting marginal net written

Return on insurance funds on net earned premium was on par with 2011 despite the low interest rate environment due to the increase in float balances. Investment results were good on the back of strong equity markets, contributing R1 339 million to headline earnings (2011: R865 million).

Headline earnings for the year were R1 130 million (2011: R1 376 million), declining 18% on the previous year.

We have managed churn rates down to historic lows for the group. By improving our understanding of our client segments and policyholders' needs, we remain competitive in our chosen markets and continue improving the quality of our book.

## **STRATEGY**

Our challenges as an established industry player are to fight complacency, stay agile and continue improving our efficiencies to compete in an industry where new entrants can start operating in their chosen segments. Therefore, we have continued with the implementation of our three pillar strategy.

## **Growth through diversification**

Our traditional intermediated business units (personal and commercial lines) remains the core of our group. We are confident that we are taking the necessary actions to recover our margins and continue growing in this area. We believe that our intermediated offering enjoys a strategic advantage across a range of factors through the solid advice provided by our skilled intermediary base.

Our other businesses made a good contribution with MiWay reflecting strong gross premium growth again. Santam Re continues developing responsibly, sourcing business in China, India, Malaysia, South Africa, and the rest of Africa. Our specialist businesses grew strongly, benefiting from their focus and underwriting expertise in their chosen niches. More information on the business units' results can be found in our operational reviews that start on page 46.

Geographic expansion will focus on emerging markets in the rest of Africa and Asia, and will come from three sources:

 Expansion of Santam Re, which achieved an important milestone this year when Santam received an A- international credit rating from Standard & Poor's. The fact THREE-PILLAR STRATEGY THAT IS INTEGRALLY LINKED TO ITS BRAND POSITIONING AND CORPORATE IDENTITY

# **INSURANCE GOOD AND PROPER**



## INSIDE OUT: UNCOVERING EXCELLENCE

that the rating is above sovereign rating is a credit to the quality of capital and risk management in the Sanlam and Santam groups.

- The activities of our specialist underwriters who underwrite individual risks.
- Our role as the short-term insurance technical partner in strategic markets in which Sanlam invests.

We are committed to expanding responsibly in the South African emerging market through our affinity partners and our direct sales channels.

## Managing the risk pool

Our success depends on our ability to drive the growth, diversity and quality of the risk pool. We continued to refine our risk management processes, redefining our risk appetite during the year, running several scenario exercises and driving these processes down to business unit level.

Our investment in understanding our market and client segments continues showing benefits as we apply it across all business units – enabling us to ensure our products show real value in each segment.

A critical part of our proactive approach to risk management is our continuing investment to manage systemic risk in South Africa. We are doing this by addressing the root causes of the events that trigger claims. An example of this can be seen in the work we have done in the Eden Project to research risk and resilience for business and society. This enables us to drive risk management through identifying and funding projects in

vulnerable districts that reduce our risk on the ground and build capacity in risk services to interpret and respond to systemic risk.

The learnings from the research conducted in the Eden Project into the key systemic drivers of fire, flood and sea surge risk in the southern Cape, are now being translated into concrete action through the Business Adopt-a-Municipality (BAAM) project.

## Driving system efficiency

We cannot directly influence the effects of currency depreciation or international reinsurance rates on our costs. Therefore, we focus on operating as efficiently as possible. This reduces claims costs, helps us deliver on our brand promise and creates benefits for our clients and intermediaries. We see our efficiency in claims service as

a competitive differentiator and this is complemented by our predictive analytics model, claims card benefits and the range of value-added services we offer our clients.

Wherever possible, we use our influence to reduce costs for our clients: one example of this is our partnership to provide motor glass at a realistic price. Another is introducing new remuneration models for our panel beating and towing partners.

We also continue investing in strategic initiatives to ensure the group achieves its long-term goals. This year we again committed 1% of net earned premium in projects that include:

- An effective online presence through which clients, intermediaries, suppliers and business partners can interact with us. The project also optimises internal processes to reduce operational and transactional costs.
- A centralised back-office
   processing and the enhancement
   of the regional service structure
   of the commercial and personal
   lines contact centres to improve
   service quality, quote volumes and
   conversion rates.
- The implementation of a core underwriting and product management technological capability. This will enable Santam to be more agile and responsive to client, intermediary and market demands.
- Various projects to ensure compliance with pending legislation. These projects also focus on demonstrating how

- early adoption of the principles underlying these regulations can be translated into a competitive advantage.
- Initiatives to further improve service levels to our intermediaries and clients across the board.

Spending on current projects will continue for the next two years and we anticipate that the full benefits will start to accrue from 2016. These initiatives will ensure the group remains agile and competitive against new market entrants.

## MATERIAL SUSTAINABILITY ISSUES

It is increasingly clear to us that developing our position as Africa's leading general insurance group requires a long-term appreciation of broader trends in the social, environmental and governance spheres. We consider these aspects of sustainability to be as important to the group and its stakeholders as considerations of short-term financial sustainability.

Santam became a founding signatory of the Principles of Sustainable Insurance, which were launched during 2012. These principles provide a global framework for insurance companies to better manage their environmental, social and governance risks and opportunities. More information on this can be found at www.unepfi.org

We have also identified the ten issues that are most material to the group's sustainability. These issues are set out in the table on page 28

(available at www.santam.co.za), and the operational review and corporate governance report that follow.

Therefore, I would like to highlight only the following points:

## Balancing profit and growth in soft market conditions

The group's financial viability and ability to generate long-term sustainable value for all stakeholders depend on our ability to grow premiums and maintain underwriting margins at an appropriate level. There is a delicate balance between growing premium income, maintaining margins and retaining clients. Growing premium income through sacrificing margin is not sustainable and hiking margins in a soft market wipes out premium growth and incentivises our clients to look elsewhere.

When input costs (claims, commissions, reinsurance and management expenses) rise we try to offset these against efficiency gains within the company. However, at some point cost increases must be recouped through premium increases.

As mentioned, 2012 saw significant losses through various catastrophe events. Hail damage resulted in losses of almost R280 million gross. Over the last 10 years, the previous highest lost from hail damage in a single year occurred in 2004 when the financial impact was just over R50 million, adjusted for inflation and exposure. The losses suffered from catastrophic fire events and specifically St Francis Bay, amounted to almost R60 million. The previous highest loss over the past 10 years of almost R25 million was recorded in 2005.

These events confirm that better risk management on the ground becomes an even greater imperative for future success as exposure and volatility increases due to natural environment changes combined with urban development trends. We will continue focusing on influencing urban development and planning; regulations and building standards; and risk management practices; while ensuring that we manage rate increases appropriately.

We expect the market to be firmer in 2013 as the cost issues that are affecting our business are affecting that of our competitors equally.

### **Transformation**

Santam is committed to transforming our workforce and management structures and to using our influence to support transformation in the broader industry and the country.

We retained our level 3 contributor status against the Department of Trade and Industry Codes of Good Practice despite the bar moving higher this year.

By strategically allocating our spend into the supply chain, we are making a significant difference to enterprise development and social upliftment. We took the next step in this process by establishing Santam's responsible investment initiative in 2012, which invests directly in the sustainability of black-owned enterprises.

We continue investing in growing black intermediaries in the industry, support various social upliftment programmes through our CSI initiatives, and interact directly with vulnerable municipalities to manage the impact of catastrophes on the surrounding communities.

## Regulation and compliance

Inadequate service levels, poor corporate governance practices and non-compliance with regulations can have a significant impact on the group's sustainability. We aspire to the highest standards of corporate governance and apply the guidelines contained in King III, as more fully discussed in our corporate governance report on page 72.

We have made significant progress in reorienting our capital structure to meet the new solvency regulations that come into effect in 2015. We have focused on identifying how we can best deploy our capital resources in new capital opportunities or continue to return it to shareholders by way of special dividends.

The regulatory burden that we face is significant, dominated in 2012 by binder regulations, SAM (solvency asset management) and TCF (treating customers fairly).

Please refer to the end of this report for a full list of material issues and how we deal with them.

## OUTLOOK

We do not expect global economic conditions to improve in the short term. This makes it unlikely that the pressure on South African consumers will abate and the economy accelerates. We expect ongoing claims cost pressures to offset the increased competition in the short-term

insurance market and lead to a firmer market in 2013. Nominal interest rates are expected to stay low keeping float income subdued.

We will continue implementing our projects and delivering value to our clients and other stakeholders in 2013. We are confident that the underlying strengths of the group – our diversified business model, strong position geographically and in all market segments, innovative products and highly efficient claims processing – will support us in meeting our goals and further entrench our leadership position.

We will continue engaging with municipalities, national government and strategic stakeholders to influence the environment in which we operate positively.

## THANK YOU

I would like to thank our more than 4 300 employees in the group for their dedication and commitment during the year and for continuing to 'walk the talk' in delivering insurance good and proper.

Our intermediaries experienced many pressures during the year, of economic, service and regulatory nature. We thank them for their loyalty to Santam and the significant value they add to our clients. They are key to our business model.

Our suppliers and business partners are critical enablers to operate efficiently and reach new markets – without their support we could not have achieved these good results in such a challenging environment.

MATERIAL ISSUES

Finally, thank you to Vusi Khanyile our group chairman, for his guidance and support, the board for their valued input, and the executive team for their commitment to implementing our strategy and building the group in a difficult year.

Santam has a fantastic heritage. We have negotiated some challenging times in the last six years and we anticipate the environment to remain tough for the foreseeable future. But, with the continued dedication and commitment of our people, and the support of our stakeholders, we can continue implementing our long-term strategy and meeting our goals.

IM KIRK
Chief Executive Officer

In h Mink

MAIERIAL	122052
1.	AVAILABILITY OF SKILLS
2.	OPERATIONAL CAPABILITY AND CHANGE MANAGEMENT
3.	INVESTMENT PERFORMANCE
4.	NEW TECHNOLOGY
5.	NEW COMPETITORS AND BUSINESS MODELS
6.	CATASTROPHES AND CLIMATE CHANGE
7.	ABILITY TO ENTER NEW MARKETS (INCLUDING UNINSURED)
8.	BALANCING PROFIT AND GROWTH IN SOFT MARKET CONDITIONS
9.	TRANSFORMATION
10.	LEGISLATION AND COMPLIANCE

Which aspect of our strategy is relevant	How we mitigate this	More detail
Drive system efficiency Manage the risk pool	<ul> <li>Internal skills transfer and retention</li> <li>Remuneration and incentives</li> <li>Industry training initiatives</li> <li>Graduate programme</li> <li>Employee development initiatives</li> </ul>	Sustainability report
Drive system efficiency Manage the risk pool	<ul> <li>Strategic projects to ensure compliance and competitiveness</li> <li>Effective internal control</li> </ul>	Operational overviews, governance report, sustainability report
Supportive of all aspects	<ul><li>Third-party investment manager</li><li>Monitoring markets</li><li>Diversified portfolio</li></ul>	Chief financial officer's report
Drive system efficiency	<ul> <li>Strategic projects to manage complex transitions</li> <li>New client communication and business channels developed</li> </ul>	Operational overviews
Growth through diversification	<ul> <li>Innovative risk solutions</li> <li>Strategic acquisitions and partnerships</li> <li>Intermediary engagement and support to identify opportunities across value chain</li> </ul>	Operational overviews, sustainability report
Manage the risk pool	<ul> <li>Optimising reinsurance</li> <li>Strategic projects and stakeholder management</li> </ul>	Chief Executive Officer's report, operational overviews, sustainability report
Growth through diversification	<ul> <li>Growing our black intermediary network</li> <li>Proactive stakeholder management</li> </ul>	Operational overviews, sustainability report
Growth through diversification Manage the risk pool	<ul> <li>Brand awareness</li> <li>Brand promise</li> <li>Predictive underwriting modelling</li> <li>Management of acquisition cost</li> </ul>	Chief financial officer's report, operational overviews, sustainability report
Growth through diversification Manage the risk pool	<ul> <li>Aligning CSI with social, business and environmental needs</li> <li>Strategic supply chain management</li> </ul>	Chief Executive Officer's report, sustainability report
Growth through diversification Drive system efficiency	<ul><li>Strategic projects to manage new requirements</li><li>Industry participation and lobbying</li></ul>	Chief Executive Officer's report, operational overviews, corporate governance report, sustainability report



# ASKAFRICA ORANGE

# AWARD

FOR EXCELLENCE IN SHORT-TERM INSURANCE SHOWS THAT OUR INSURANCE ADDS VALUE TO PEOPLE'S LIVES, NOT QUESTIONS OR UNCERTAINTY.

OUR COMMITMENT TO LIVING OUR BRAND PROMISE IS ONE OF THE REASONS THAT WE PAY MORE CLAIMS THAN ANYONE ELSE, SHOWING THAT WE DO INSURANCE WITH THE GREATEST COMMITMENT.

# "CATASTROPHE EVENTS DURING 2012 RESULTED IN LOSSES TO SANTAM IN EXCESS OF R400 MILLION, MORE THAN THREE TIMES THE AVERAGE OF THE PAST 12 YEARS."

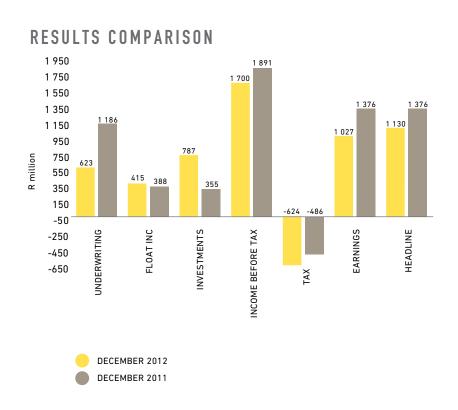
## **OVERVIEW**

The Santam group achieved positive underwriting results in a financial year characterised by a number of significant catastrophe events while also achieving 9.5% growth in gross written premium.

Excellent investment results were achieved on the back of the outstanding performance of the equities and bond markets in South Africa.

The income tax charge increased by 28% compared to 2011. The most significant taxation drivers were the STC charge (secondary tax on companies) of R96 million on the special dividend in the first half of the year and an increase of R80 million in the deferred tax provision on fair value movements of equities due to the increase in the CGT (capital gains tax) inclusion rate effective from 2013.

Headline earnings decreased by 18% compared to 2011. Cash generated from operations declined marginally to





## Chief financial officer's report

R2.4 billion (2011: R2.5 billion) while the solvency margin of 41% remains within our long-term target range of 35% to 45%, following the payment of the special dividend in March 2012. The return on capital (ROC) was impacted by the relatively adverse underwriting conditions and the increased taxation charge and reduced to 19.3% (2011: 25.0%). Excluding the impact of the STC charge on the special dividend and the higher CGT inclusion rates, Santam achieved a 22.6% ROC.

## **FINANCIAL RESULTS**

An abridged set of financial statements for 2012, prepared in accordance with IAS 34 has been included with the integrated report. The full annual financial statements are available on our website at www.santam.co.za, or in printed format on request from the company secretary.

In the past, group underwriting results included the MiWay deferred bonus plan expense (DBP) and the Santam BEE transaction costs. The MiWay DBP was introduced in 2011 to compensate management for the 10% stake they previously held in MiWay. An additional share incentive scheme was subsequently introduced representing a standard long-term incentive scheme. The BEE transaction costs relate to the Santam BEE transaction in 2007 in terms of which Santam shares are allocated to black employees and business partners.

The MiWay DBP relating to the compensation of the 10% interest previously held by management in MiWay and Santam BEE transaction costs are unrelated to the core underwriting performance of the group. Therefore, the underwriting results are shown excluding these expenses and the comparative segmental numbers have been restated as follows:

	2011 Rm	2011 % of net earned premiums
Net underwriting results as previously reported	1 131	7.7
MiWay DBP and Santam BEE		
transaction costs	55	0.4
Restated underwriting result	1 186	8.1

The salient financial statistics are set out on page 6.

## **Economic environment**

Real GDP growth slowed to 1.2% annualised in the third quarter of 2012. The low interest rate environment continued, with a further 0.5% reduction in the repo rate over the year. The tough economic conditions, coupled with the weakening of the rand, provided a challenging backdrop for players in the short-term insurance market.

## **Underwriting performance**

The South African insurance industry was significantly impacted by a number of catastrophe events during 2012, most notably the floods in Mpumalanga in January 2012, a number of significant hail storms in Gauteng during October and November 2012 and a devastating fire at St Francis Bay also in November 2012. These events resulted in losses to Santam in excess of R400 million net of catastrophe reinsurance, more than three times the average annual catastrophe claims registered by the group over the past 12 years (restated to 2012 rand values and exposure).

The South African short-term insurance market is highly competitive and the relatively high margins achieved in 2010 and 2011 created soft market conditions in 2012. We also saw an increase in claim frequencies and severities in 2012. This was linked to multiple catastrophe events noted above and an increase in other large claims, most notably fire claims. Claim severities in key classes such as motor and to some extent property are closely linked to the level of the exchange rate. The weakening of the rand during 2012 put further pressure on underwriting margins. These factors all contributed to a challenging underwriting year and reduced underwriting profits compared to 2011.

Santam's continued focus to optimise our claims processes and our diversified business lines, including our specialist insurance products, ensured that the group achieved a 4.0% (2011: 8.1%) net underwriting margin in these challenging underwriting conditions. We have started to implement premium increases following the increased claim frequency and severity.

The "typical" short-term insurers in South Africa as classified by the FSB, have traditionally generated an average underwriting margin of between 4% and 6% through the cycles. "Typical" insurers per the FSB's

### **NET INSURANCE RESULT UNPACKED**

Net earned premium
Claim incurred
Commission
Expenses
Underwriting surplus
Interest on insurance funds
Net insurance result

classification (and reflected in the statistics) include the
direct writers and the banks who have earned high margins
compared to the intermediated insurers, which explains
the progressive increase in industry margins. We consider
intermediated insurers to be our peers.

Santam's underwriting result compared to the "typical" insurers has 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 in 2011 from 4% to 6% to between 5% and 7% over our current strategic planning cycle up to 2014. Following the significant catastrophe events in 2012 we have not achieved

A2012 Rm	Ratios*	A2011 Rm	Ratios*
15 626		14 652	
10 679	68.3	9 404	64.2
2 024	13.0	2 003	13.7
2 300	14.7	2 059	14.1
623	4.0	1 186	8.1
415	2.6	388	2.6
1 038	6.6	1 574	10.7

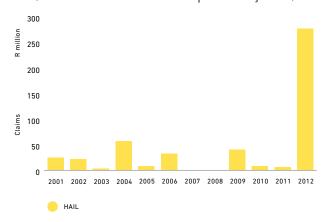
this target. However, we are confident that this will be achievable over the next two years given our expectations of market conditions. Furthermore, our strategic initiatives to support the higher target through the cycles over the medium term are progressing well.

As indicated above, margins were significantly impacted by multiple catastrophe events during 2012.

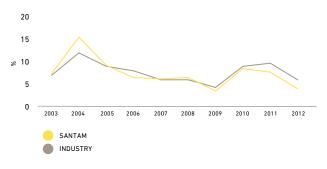
- The motor and property books (mainly personal lines) took the brunt of the floods, hail and fire catastrophe events resulting in reduced underwriting results in 2012 of R89 million (2011: R512 million) for motor and R32 million (2011: R258 million) for property.
- The crop, engineering, liability and corporate property specialist lines of business performed well and recorded excellent underwriting results, showing the strength of a diversified book of business.

### GROSS TOTAL SANTAM CATASTROPHE EVENT CLAIMS HAIL

### South Africa and Namibia (in 2012 rand values and exposure adjusted)



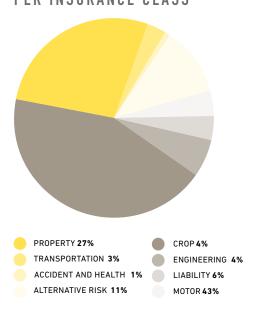
### SANTAM VS. SOUTH AFRICA NET UNDERWRITING MARGIN %



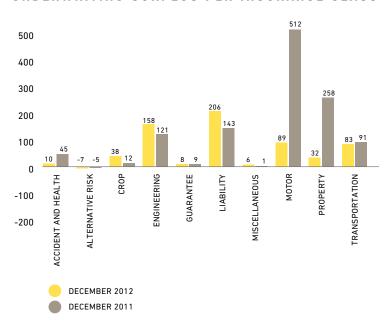
Source: Santam and FSB

### Chief financial officer's report

### GROSS WRITTEN PREMIUM PER INSURANCE CLASS



### UNDERWRITING SURPLUS PER INSURANCE CLASS



- The portfolio management business was also negatively impacted by the catastrophe events.
- MiWay achieved excellent growth of 38% and reached gross written premium income in excess of R1 billion in 2012 while achieving a gross claims ratio of 62.8%, on par with 2011 despite the impact of the hail storms in Gauteng.
- Santam Re has grown its gross written premium relating to external business to more than R520 million, while achieving sound underwriting results.

The group achieved satisfactory growth in its traditional intermediary business, specialist insurance and MiWay which resulted in a 9.5% increase in gross written premium. Gross written premium in the South African insurance

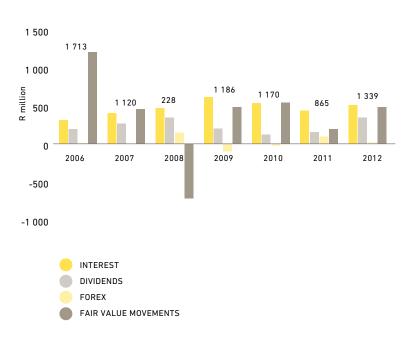
industry is historically linked to GDP growth plus inflation plus a margin of up to 2%. We are pleased with the growth that we achieved given that it outperformed this historical benchmark of GDP growth plus CPI by close to 1.2%.

Given our strategic objective of retaining our leadership position in the short-term insurance industry, 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

Commercial insurance Personal insurance Alternative risk Total

2012		20	11
Gross written premium	Net under- writing result	Gross written premium	Net under- writing result
Rm	Rm	Rm	Rm
9 660	767	8 844	941
7 623	(137)	6 939	250
2 103	(7)	1 924	(5)
19 386	623	17 707	1 186

### INVESTMENT INCOME



distorted by reinsurance arrangements. Based on the 2011 FSB data the gross written premium of the industry grew by 9.6% (vs. net written premium growth of 8%) compared to Santam's growth in gross written premium of 11.7% in 2011. The Santam group's market share was 22.9% based on the 2011 data; 25% of typical and cell captive segments. Santam's net written premium growth of more than 7% for 2012 compared to industry growth of 4%.

Positive growth was achieved across all significant insurance classes. The top performing insurance class from a growth percentage perspective was the transportation class which grew by 29%, following the acquisition of the Regent aviation book of business. The crop business grew by 19%, benefiting from the increase in commodity prices. The engineering book of business grew by 17%, 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 was supported by the growth in our direct insurance business, MiWay.

The net acquisition cost ratio of 27.7% was in line with 2011. The increase in management expenses from 14.0% in 2011 to 14.7% in 2012 can be ascribed to the significant growth in MiWay and increased external management fees, offset by a lower performance bonus provision. The

commission expenses ratio declined by 0.7% to 13.0% due to the increased impact of MiWay, where no commission expenses are incurred. We have continued investing in a number of strategic projects to improve our online interaction capability, centralise our back-office processing and the development of a new core underwriting and product management platform. These strategic projects (discussed in more detail in the Chief Executive Officer's report on page 26) and other small initiatives added 1.2% (2011: 0.8%) to our net acquisition cost ratio and are expected to continue in 2013. We are confident that these projects will add to Santam's competitive advantage in future. We continue assessing the appropriate level for acquisition cost taking cognisance of our business composition, the impact of our strategic initiatives and the structural changes in the industry.

Our aim is to retain an optimum amount of risk after reinsurance, taking into account the group's risk appetite and the cost of reinsurance. The level of reinsurance earned premium as a percentage of gross earned premium increased from 16% in 2011 to 18% in 2012. The increase is mainly attributable to an increase in the reinsurance purchased by certain of our specialist insurance businesses, and an increase in the cost of our catastrophe reinsurance cover.

### Chief financial officer's report

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 group with a strong focus on risk management, operating efficiencies and focused expense management.

### Net insurance result

Investment returns on insurance funds of R415 million increased from the R388 million earned in 2011, resulting mainly from higher float levels despite lower interest rates in 2012

The combined effect of insurance activities resulted in a net insurance income of R1 038 million or a 6.6% margin, compared to R1 574 million and a margin of 10.7% in 2011.

### Investment income

Investment income comprises interest, dividends, realised and unrealised investment gains and foreign exchange differences. Despite the low interest rate environment, Santam managed to increase its interest income by 15%. Dividend income included a dividend of R181 million from Santam's run-off international business. Dividends from Santam's portfolio investments were 7% higher than 2011 levels.

The strong equity markets resulted in an increase in income from fair value movements in 2012 of R480 million compared to the R189 million generated in 2011. Santam's investment portfolio performance compared favourably to the benchmarks set in the investment mandates.

The weakening of the rand during 2012 had a positive impact on the valuations of our foreign currency assets held by our local operations of R14 million.

Net earnings from associated companies decreased from R85 million in 2011 to R40 million in 2012. Credit Guarantee Insurance Corporation of Africa Ltd delivered a positive contribution to associated earnings. The 26% investment in NICO Holdings Ltd in Malawi was impaired by R43 million following the devaluation of the Malawian currency which had an adverse effect on the banking and other financial services business units of NICO Holdings.

Since the acquisition of Santam's controlling stake in Indwe during 2010, the market conditions have weakened due to increased competition and low premium increases resulting in a slowdown in Indwe's growth rate. Therefore,

an impairment of R35 million of the goodwill acquired and R25 million relating to software developed by Indwe was deemed necessary.

### Cash flow

The group's operations generated R2.4 billion in cash for the year in line with the R2.5 billion in 2011.

### **Dividends**

The company paid an interim dividend of 230 cents per share which was 15% higher than the 200 cents per share in 2011. Santam declared a final dividend of 410 cents per share for 2012 (2011: 355 cents per share) resulting in a total dividend of 640 cents per share for the year (2011: 555 cents per share). This represents an increase of 15%. The increase in the dividend per share includes a one-off adjustment of approximately 7% to account for the STC saving for the company resulting from the introduction of dividends withholding tax.

Dividend payments are made in the context of the company's capital management policy. Santam aims for stable dividend growth in line with the company's long-term sustainable business growth. When special dividends are being considered, we take into account capital levels (as informed by the solvency margin target range of 35% to 45%) and potential investment opportunities.

The group solvency margin of 41% at year-end is within our targeted solvency range and represents a sound capital position given our economic and risk capital requirements.

### **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 annual financial statements.

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.

Investment management is outsourced to Sanlam Investment Management (SIM), an external fund manager under predetermined mandates. The overall performance of the fund manager against the mandates is monitored and tracked by management and reported to the Santam investment committee and board 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 2012 approximately R12.5 billion of the total group investments was managed by SIM. Their mandates consist of a combination of various benchmarks, inter alia, SWIX and SteFi.

The Santam Resilient Investment Fund was established in February 2013, with the objective of supporting businesses in our supply chain which could positively impact our systemic risk over the long term. The intention is also for these target entities to qualify as Enterprise Development initiatives under the Broad-based Black Economic Empowerment Codes of Good Practice.

The composition of Santam's total investments was as follows as at 31 December 2012:

### **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 amount and type of risk that the company is willing to assume in the pursuit of value creation.

### Issue of shares

The company did not issue any new shares during the year.

### Treasury shares

As a result of the large voluntary share buy-back in 2007 and smaller share repurchases since, the group repurchased a total of 8.7 million of Santam shares, classified as treasury shares. Since 2007, 3.2 million shares have been reissued for employee share incentive scheme purposes. The number of shares reissued during 2012 amounted to 0.5 million shares. The total number of treasury shares held at the end of 2012 was 5.5 million. The company has the right to reissue these shares at a later date subject to approval by the JSE and the Regulator.

### **Credit rating**

Santam obtained an A- (A minus) international and AA+ (double A plus) national scale long-term counterparty credit and insurer financial strength rating from Standard & Poor's in October 2012. The current outlook is negative, reflecting their outlook on the sovereign rating.

### **ASSET CLASS COMPOSITION**

Equities
Debt securities
Derivatives
Cash and short-term money market
Associated companies
Total

2012	2012	2011	2011
Rm	%	Rm	%
3 551	25.1	3 856	28.2
6 957	49.1	6 160	45.1
6	0.1	1	0.0
3 388	23.9	3 373	24.7
261	1.8	274	2.0
14 163	100.0	13 664	100.0

### "THE REGULATORY ENVIRONMENT REMAINS DYNAMIC."

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 remained stable.

Global Credit Rating 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). This is the highest rating that can be attained by an insurance company.

These ratings of Santam reflect its strong competitive position, core status within the Sanlam group, sound capital position, strong and stable operating performance and solid risk management processes.

### 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 close to 26%. The excess is maintained for the following reasons:

- 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 41% at 31 December 2012 was within our targeted solvency range. Net asset value per share decreased from 5 330 cents at the end of 2011 to 4 840 cents at the end of 2012 as a result of the special dividend payment in March 2012. We will continue monitoring our solvency levels and required solvency range in light of industry changes and regulatory requirements. We remain committed to efficient capital management.

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

The Santam BBBEE scheme consists of three components:

- The Emthunzini Black Economic Empowerment Staff Trust (the Staff Trust)
- The Emthunzini Black Economic Empowerment
   Business Partners Trust (the Business Partners Trust)
- The Emthunzini Broad-based Black Economic
   Empowerment Community Trust (the Community Trust)

The total value in the scheme at 31 December 2012 was R985 million. The value in the scheme is proportionally allocated to these three trusts. Of the current value in the scheme, 49% (R483 million) is attributable to the Business Partners Trust, 26% (R256 million) to the Staff Trust and 25% (R246 million) to the Community Trust. During 2012 the dividend income received by BEE SPV was sufficient to fully service the senior debt facility and make a proportional payment towards servicing of the mezzanine debt.

Within the trusts, allocations are made to beneficiaries according to the specific rules in the respective trust deeds. To date, more than 50% of the value in the scheme has been allocated to participants.

During 2012, the scheme made further unit allocations to new black employees that joined the Santam group and to black employees that were promoted since the previous allocation

In total, 25% of the value in the scheme will be allocated to specific projects within previously disadvantaged communities. The scheme allocated R6 million to the Community Trust for distribution to identified beneficiaries during 2012. More information on the scheme can be found in our sustainability report on our website at www.santam.co.za.

### **CORPORATE ACTIONS**

The following corporate transactions were completed during the year ended 31 December 2012:

The group acquired 100% of Riscor Underwriting Managers (Pty) Ltd (Riscor) on 1 September 2012. Riscor acquired from Topexec Management Bureau (Pty) Ltd and Combined Administration Management Services (Pty) Ltd their intermediary administration business units, comprising fixed assets and intangible assets on 1 September 2012 and 1 November 2012 respectively. The transactions created a leading short-term insurance underwriting management and administration business in the South African market. The merged Riscor entity will operate as an independent administration business. The total cost of acquisition of the subsidiary as well as the value of business acquired amounted to R29 million.

The acquisition of Mirabilis Engineering Underwriting Managers (Pty) Ltd (Mirabilis) reported on in 2011 is starting to bear fruit as demonstrated by the significant growth achieved in this business during 2012.

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

### REGULATORY ENVIRONMENT

The regulatory environment remains dynamic with a number of developments in progress and expected for promulgation in 2013.

Our approach to legal compliance and the philosophy is discussed in detail in the corporate governance report. The most significant regulatory developments in 2012, in addition to the SAM initiatives mentioned below, related to the outsourcing directive and the alignment of existing binder agreements to Binder Regulations. The impacts of these developments were significant as business relationships and agreements had to be reviewed and updated to ensure alignment.

Looking forward, the application of the "twin peaks" approach to regulatory supervision will be a significant change. In light of this, the Regulator is also aligning itself to meet international standards. Therefore, we will continue to see a number of regulatory changes to both improve the supervision by regulators and to also bring South African regulations in line with international standards. At the core remain the underlying principles of financial stability, policyholder protection and financial inclusion.

The Financial Sector Code (the Code) which is aimed at ensuring financial inclusion was gazetted in terms of the Broad-Based Black Economic Empowerment Act. The Code is the binding legal framework against which the empowerment progress of the financial sector will be measured in future. It creates financial sector-specific commitments which include increasing access to financial services and making available empowerment financing to ensure that more lower income consumers are included in the financial system.

Santam will continue to take a pragmatic approach and integrate legislative and regulatory requirements into our business processes to ensure that all the relevant stakeholders, specifically policy holders, are adequately protected and sustainable value is created in line with all stakeholder expectations. This approach ensures that a balance is maintained between business priorities and regulatory imperative while also taking into account resources and cost-efficiency.

### **REGULATORY SOLVENCY AND CAPITAL REQUIREMENTS**

One of the most important regulatory developments is the new solvency regime that the FSB is in the process of developing for the South African long-term and short-term insurance industries to be in line with international standards. This will be done under the new solvency assessment and management (SAM) banner.

### "THE SPECIALIST LINES OF BUSINESS RECORDED EXCELLENT RESULTS, SHOWING THE STRENGTH OF THE DIVERSIFIED BOOK OF BUSINESS."

The basis of the SAM regime will be the principles of the Solvency II Directive as adopted by the European Parliament, but 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 (IBNR) claims provisions and the calculation of capital adequacy was 1 January 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 1 January 2015.

As previously reported, Santam operates an internal capital model in line with best practice to assist management with capital management, risk quantification and decision-making. Santam is in the process of applying to the FSB to use this internal model for determining its capital requirements once SAM has been enacted. We expect that capital requirements for Santam under this approach will be slightly lower than the current interim measures solvency requirement, of 28%.

### **LOOKING AHEAD**

Real GDP growth is expected to remain low for South Africa at below 3%.

Towards the end of 2012, the South African disinflation trend drew to a close and headline inflation started increasing, driven mostly by higher food prices. The rebasing of the CPI index and the introduction of new weights in 2013 is expected to lift inflation by around 0.2%, on average in 2013, when the new, larger weight for electricity becomes effective. Headline CPI is expected to average 5.7% in 2013.

Following the soft market conditions during the past few years and the increase in claims frequency and severity during 2012, a hardening of insurance rates is expected in 2013. This should improve average premium levels. Santam is positioned to manage increases selectively through our market and risk segmentation approach. In addition, our growth through diversification strategy positions the group well to leverage for growth in high-growth segments and territories.

The weakening of the rand during 2012 and the early part of 2013 will put further upwards pressure on claims cost, most notably on the cost of motor vehicle repairs due to the increased cost of imported vehicle parts. We are optimistic

that our continued efforts to drive efficiency in the value chain and our overall focus on cost efficiency in the group will offset some of the impact of the upwards cost pressure.

2012 was hallmarked by extreme man-made and natural events that had major political, economic, social, environmental and regulatory impact on South Africa. Although we are not anticipating a return of these extreme events during 2013 it signals that government, business and society need to respond proactively to the increasing levels of environmental, social and governance (ESG) risk in the overall system. We are confident that we are taking the necessary steps to positively influence this risk response both inside and outside our business.

GDP growth at below trend and a relatively benign medium to long-term inflation forecast imply that nominal interest rates are expected to remain at current levels during 2013. This will put continued pressure on the return on insurance funds from year to year.

Uncertainty remains in the investment markets due to the slow global recovery and a number of economic challenges in South Africa.

HD NEL

Chief financial officer



# At the INTERNATIONAL PAYBEFORE AWARDS,

THE SANTAM CLAIMS CARD PROGRAMME WAS GLOBALLY RECOGNISED AS THE "BEST CORPORATE PREPAID PROGRAMME". OUR PROGRAMME HAS REVOLUTIONISED THE WAY WE PAY OUR CLAIMS — FURTHER ENSURING THAT ALONGSIDE CONVENIENCE AND CHOICE, OUR POLICYHOLDERS BENEFIT FROM AN INNOVATIVE CASH-BACK REWARDS STRUCTURE

### PERSONAL | COMMERCIAL | ART | SANTAM RE | SUPPORT SERVICES

### **PERSONAL LINES**

### **FINANCIAL PERFORMANCE**

	2012	2011	Change
	Rm	Rm	%
GROSS WRITTEN PREMIUM	7 623	6 939	10
NET UNDERWRITING MARGIN	(137)	250	(>100)

### TRADITIONAL INTERMEDIATED

### WHAT WE DO

We have a broad and sophisticated multiproduct and multichannel distribution offering that provides comprehensive cover to our clients through a wide range of value-add products.

Our policies offer unique benefits to their target segment and can be tailored through flexible excess structures and voluntary policy benefits to suit each individual client's needs.

### FINANCIAL AND OPERATIONAL PERFORMANCE

- Santam's traditional intermediated personal lines business unit showed strong growth in tough market conditions.
- We have seen a marked improvement in the churn rate for personal lines on an annualised basis. This was mainly due to the introduction of predictive client segmentation. Automated renewals were aligned to

policyholders' propensity to cancel and to claim, and the impact on policies was capped to improve retention by 6.5%.

- Policy unit growth was positive with gross written premium growth exceeding the average market growth.
- Profitability came under pressure in particular due to:
  - o An abnormal spate of weather conditions in 2012, most notably:
    - Floods in Mpumalanga, Port Elizabeth and Durban
    - Hail in KwaZulu-Natal, Gauteng and surrounding areas
  - o Increased fire claims, most notably St Francis Bay.
- We won the Financial Intermediaries Association (FIA)
   Award for short-term insurer of the year personal insurance.

### "INSURANCE IS VALUELESS IF YOU CANNOT TRUST YOUR INSURER TO BE THERE IN YOUR HOUR OF NEED."

### **OUR STAKEHOLDERS**

Stakeholder	Engagement	Key stakeholder concerns	Approach
CLIENTS	<ul> <li>Sponsorships</li> <li>Marketing campaigns</li> <li>Positive consumer interactions at activations highlighting policy terms and conditions</li> <li>Social media</li> <li>Consumer education content to media</li> </ul>	<ul> <li>Increasing brand presence and choice amid fierce competition</li> <li>Taking advantage of critical growth market opportunities</li> <li>Growing the middle market with low insurance penetration</li> <li>Client service and claims payouts</li> <li>Communication in line with Treating Customers Fairly principles</li> </ul>	<ul> <li>Stand out and be noticed to prompt consideration</li> <li>Create positive experiences to support conversion and retention</li> <li>Consumer insurance education tools</li> <li>Fast-track claims settlement</li> </ul>
INTERMEDIARIES	<ul> <li>Information sharing through electronic newsletters</li> <li>Access to claims resolution</li> <li>Support on behalf of their clients</li> <li>Face-to-face interactions through relationship managers and regional intermediary distribution heads</li> <li>Intermediary forums</li> <li>Training courses</li> <li>Annual Broker Conference</li> </ul>	<ul> <li>Regulatory changes and requirements</li> <li>Environment, including cost and time of compliance</li> <li>Economy and the effects on the insurance market</li> <li>Quality of service and process efficiencies</li> <li>Transformation imperatives</li> <li>Penetration and service of emerging markets</li> </ul>	- Continuous intermediary communication strategy dealing with industry insights, regulatory environment and other high-value inputs. All communication provides for continuous feedback and offer intermediaries the opportunity to engage with Santam at different levels
EMPLOYEES	<ul> <li>Performance contracting</li> <li>Development discussions</li> <li>Team meetings</li> <li>Culture workshops</li> <li>Surveys</li> <li>Communication initiatives</li> <li>Intranet</li> <li>Team and community sites</li> <li>Trade union (SASBO)</li> </ul>	<ul> <li>Career and personal development</li> <li>Learning environment</li> <li>Positive relationships</li> <li>Consistency and fairness</li> <li>Diversity and inclusion</li> <li>Employee benefits</li> <li>Transformation</li> </ul>	<ul> <li>Formal and informal channels exist to enhance communication</li> </ul>
SUPPLIERS	– Service level agreements	<ul><li>Quality</li><li>Price</li><li>Ability to deliver on a sustainable basis</li><li>Preferential procurement</li></ul>	<ul> <li>Commodity contracts have been established to service policyholders on a national basis</li> <li>BBBEE credentials important</li> </ul>

### Operational review: Personal lines

### RISKS THAT WE MANAGE

Risk	Our response
CHANGING MARKET CONDITIONS	<ul><li>Continuously evaluating risk management models and rating factors</li><li>Claims management costs</li></ul>
GROWTH AND MARKET RELEVANCE	<ul> <li>Focusing on product development</li> <li>Ensuring delivery and leveraging of claims efficiency and procurement strength</li> <li>Diversification of distribution channels</li> <li>Review and modernisation of the Santam brand and leveraging of partner brands</li> <li>Continuously evaluating risk management models and rating factors</li> </ul>
INCREASE IN REGULATION AND COMPLIANCE REQUIREMENTS	<ul> <li>Proactive engagement with regulatory role players</li> <li>Assigning appropriate accountability to management</li> <li>Training and awareness campaigns</li> <li>Monitoring and audits</li> </ul>
ATTRACTING AND RETAINING SKILLED EMPLOYEES	<ul> <li>Training and development</li> <li>Remuneration practices</li> <li>Employee engagement initiatives</li> <li>Job rotation</li> </ul>
IMPROVING OPERATIONAL EFFICIENCIES AND PROCESSES WHILE MANAGING AND MINIMISING CHANGE IMPACT ON KEY STAKEHOLDERS	<ul> <li>Clear change management processes, including stakeholder engagement plans</li> <li>Internal training and development</li> </ul>

What we are aiming for	How this supports the Santam strategy	How this supports our stakeholder approach
IMPLEMENT FURTHER COST SAVINGS AND IMPROVE PRODUCTIVITY ACROSS THE PERSONAL LINES BUSINESS UNIT	- Drive system efficiencies	<ul> <li>Improved service at lower cost to the business</li> <li>Create positive experiences to support conversion and retention</li> </ul>
PROFITABLE GROWTH	<ul><li>Growth through diversification</li><li>Manage the risk pool</li></ul>	<ul> <li>Growing of market share with resultant increase in profitability</li> </ul>
DRIVE AN IMPROVED CLIENT AND INTERMEDIARY EXPERIENCE	<ul><li>Growth through diversification</li><li>Drive system efficiencies</li></ul>	<ul> <li>Improved client experience with resultant positive effects for our other key stakeholders</li> <li>Create positive experiences to support conversion and retention</li> </ul>
RAISE THE LEVELS OF FINANCIAL LITERACY IN THE ENTRY LEVEL AND MIDDLE MARKET TO ENABLE MORE INFORMED DECISION–MAKING	<ul> <li>Growth through diversification</li> </ul>	<ul> <li>Growing the insurance market and ensuring greater financial stability for the insured</li> </ul>
UNDERSTANDING AND MANAGING SYSTEMIC RISK AND IMPROVING AWARENESS IN THE MARKET	<ul> <li>Manage the risk pool</li> </ul>	<ul> <li>Risk mitigation and control through understanding for both client and Santam</li> </ul>

### Operational review: Personal lines

### **MIWAY**

### WHAT WE DO

MiWay is a direct insurer underwriting predominantly personal lines short-term insurance business unit. The company deploys state-of-the-art call centre and information technology. Current services include:

- short-term insurance
- motor warranty
- credit life

MiWay offers a different business model, segmentation, risk profile, lapse percentages and churn rates to the traditional

businesses. This supports Santam's strategy of growth through diversification. We are confident that the business will continue to coexist well with, and complement, the intermediary business model within the group.

### FINANCIAL AND OPERATIONAL PERFORMANCE

Despite a highly competitive landscape and exceptionally high incidence of adverse weather-related claims, MiWay continued to grow strongly and keep loss ratios under control. This trend is expected to continue in 2013.

	2012	2011	Change
GROSS WRITTEN PREMIUM	R1 070 million	R775 million	+38%
NET UNDERWRITING RESULT	(R37.1 million)	(R28.5 million)	-30%
GROSS CLAIMS RATIO	62.8%	62.7%	0.0%
GROSS ACQUISITION COST RATIO	36.3%	38.3%	-5%
NEW POLICIES ADDED	105 243	92 567	+14%
NUMBER OF EMPLOYEES	1 111	927	+20%
NUMBER OF CLIENTS	165 638	124 076	+33%

### **OUR STAKEHOLDERS**

Stakeholder	Engagement	Key stakeholder concerns	Approach
CLIENTS	<ul> <li>We encourage open communication via telephone, SMS, email and all forms of social media</li> </ul>	<ul><li>Service-related enquiries</li><li>Claims-related concerns</li><li>Increased premiums</li><li>Affordability of insurance</li></ul>	<ul> <li>We strive to achieve maximum client satisfaction without compromising commercial soundness</li> </ul>
EMPLOYEES	<ul> <li>We involve employees in all areas of the business especially where they are affected. We encourage them to contribute freely to the way the business is managed</li> </ul>	<ul> <li>Information sharing</li> <li>Transparency</li> <li>Rewards and recognition</li> <li>Fairness and consistency</li> </ul>	<ul> <li>We encourage and enable information sharing and access to decision-makers</li> <li>Our employees are extremely important to and for the business. We have a strong value-based culture and a passion for client services</li> </ul>

### Operational review: Personal lines

### **OUR STAKEHOLDERS (CONTINUED)**

Stakeholder	Engagement	Key stakeholder concerns	Approach
SUPPLIERS	<ul> <li>General emails</li> <li>Contract discussions and agreements are done on a one-on-one basis</li> <li>Policies and contracts</li> </ul>	<ul> <li>Suppliers are an extension of our service</li> <li>The selection and appointment of a reliable, qualified and service-orientated panel of suppliers is therefore of the utmost importance</li> </ul>	<ul> <li>New applications are evaluated according to:         <ul> <li>Location</li> <li>Speciality fields</li> <li>BEE rating</li> </ul> </li> <li>We strive to build strong long-term relationships that benefit our business objectives and add value to our service offering</li> </ul>

### **RISKS THAT WE MANAGE**

Risk	Our response
INCREASED PRICE COMPETITION	- We strive to remain competitive without compromising quality.
DEPENDENCY ON KEY DATA PROVIDERS (CONNECTIVITY AND RELIANCE ON THEIR ABILITY TO PROVIDE MIWAY WITH DATA)	<ul> <li>We manage our relationships with data providers closely to ensure a steady supply of leads.</li> </ul>
RELIANCE ON IT SYSTEM	<ul> <li>Together with our strategic partners, we strive to ensure the stability and protection of our systems while keeping abreast of new developments and opportunities.</li> </ul>
ACTUAL CLAIMS AND EXPENSE EXPERIENCE (INCLUDING RELATED MANAGEMENT EXPENSES) BEING WORSE THAN THAT ASSUMED IN PREMIUM RATES	<ul> <li>We manage this risk through ongoing actuarial analysis, management control and finance and risk committee oversight.</li> </ul>

What we are aiming for	How this supports the Santam strategy	How this supports our stakeholder approach
STRONG GROSS WRITTEN PREMIUM GROWTH	<ul> <li>Growth through diversification</li> </ul>	<ul> <li>Strengthens the value proposition for clients</li> </ul>
DECREASING MANAGEMENT EXPENSES	- Drive system efficiencies	<ul> <li>Making a meaningful contribution to growth and profitability</li> </ul>
STABLE, PROFITABLE LOSS RATIO	<ul> <li>Manage the risk pool</li> </ul>	<ul> <li>Making a meaningful contribution to growth and profitability</li> </ul>
STRONG BRAND	<ul> <li>Manage the risk pool</li> </ul>	<ul> <li>Entrenching a strong value- based culture</li> </ul>
EMPLOYER OF CHOICE	<ul> <li>Manage the risk pool</li> </ul>	<ul> <li>Promotes a win-win relationship with employees</li> </ul>

### PERSONAL | COMMERCIAL | ART | SANTAM RE | SUPPORT SERVICES

### **COMMERCIAL LINES**

### **FINANCIAL PERFORMANCE**

	2012	2011	Change
	Rm	Rm	%
GROSS WRITTEN PREMIUM	9 660	8 844	9
NET UNDERWRITING MARGIN	766	941	(18)

### TRADITIONAL INTERMEDIATED

### WHAT WE DO

We offer a business portfolio that serves small to large enterprises by providing flexible and unique commercial insurance solutions that are tailored to suit the needs of entrepreneurs and businesses.

We follow a client-centric approach by rating commercial risks according to a number of tailored risk profiles.

### FINANCIAL AND OPERATIONAL PERFORMANCE

- The lapse rate in commercial lines improved by more than 10%.
- Profitability came under pressure in particular due to:
  - An abnormal spate of weather conditions in 2012, most notably
    - Floods in Mpumalanga, Port Elizabeth and Durban
    - Hail in KwaZulu-Natal, Gauteng and surrounding areas
  - o Increased fire claims.

- The client survey for relationships improved on an already healthy basis.
- We won the FIA Award for short-term insurer of the year commercial insurance.

For information on risks, stakeholders and short-term goals in commercial lines, please refer to the personal lines report (page 46) as the information is the same for both business units.

### Operational review: Commercial lines

### **SPECIALIST LINES**

### WHAT WE DO

Specialist lines provides a full insurance solution to clients and intermediaries that focus on the insurance of complex and niche risks. This requires skilled resources to assess and quantify the risk and exposure through our underwriting managers and business units who are featured on page 4.

Our strategic intent is to provide specialist products which are client-driven and which are supported by bespoke underwriting criteria to manage and quantify their risks.

### FINANCIAL AND OPERATIONAL PERFORMANCE

- The specialist business units performed well in terms of growth and underwriting margins.
- The acquisition of Mirabilis is now embedded and offering new income streams.
- The acquisition of the Regent aviation book is contributing to the scale in the aviation business.
- The diversity of the specialist lines in itself meant that the contribution to growth and profit was achieved across a wide spectrum, with the most notable contributions being AMUA, Santam transport, SHA, Mirabilis and Emerald, which is encouraging.

### **OUR STAKEHOLDERS**

Stakeholder	Engagement	Key stakeholder concerns	Approach
CLIENTS	<ul> <li>Interaction with intermediaries</li> </ul>	<ul> <li>Pricing and appropriate cover</li> <li>Efficient claims experience</li> </ul>	<ul> <li>Specialist products offered through UMAs (underwriting managers) with underwriting and claims settlement mandates enables more accurate rating/underwriting and a more efficient claims fulfilment process</li> </ul>
INTERMEDIARIES	<ul> <li>Products offered primarily through intermediaries</li> <li>Regular interaction with UMA employees</li> </ul>	<ul> <li>Pricing</li> <li>Changes in regulations affecting fee structures</li> </ul>	<ul> <li>Constant interaction between UMA management and intermediaries</li> <li>Reinsurance structures carefully managed</li> <li>New binder holder regulations have provided an opportunity for intermediaries to be remunerated for additional services</li> </ul>
EMPLOYEES	<ul> <li>Divisional UMA employees form part of the Santam brand</li> <li>Employees of subsidiaries managed as part of the individual UMA brand</li> </ul>	<ul> <li>Reward and recognition.</li> <li>Sustainability of the start-up UMAs</li> </ul>	<ul> <li>Benchmarking of reward structures by Santam HR</li> <li>Active involvement by the Santam Niche portfolio managers to assist in the success of the start-up UMAs</li> </ul>

### Operational review: Commercial lines

### **RISKS THAT WE MANAGE**

Risk	Our response
ATTRACTING AND RETAINING SKILLED EMPLOYEES	<ul> <li>Improving the innovative culture</li> <li>Raising the profile of the specialist business unit within the Santam brand</li> </ul>
REINSURANCE CAPACITY AND COST	- Continued sound underwriting and risk management
REPUTATION AND BRANDS	<ul> <li>Placing the client at the core of our thinking</li> </ul>
INCREASED REGULATION AND COMPLIANCE REQUIREMENTS	<ul> <li>Ensuring that our business models and employees comply and thus ensuring sustainability</li> </ul>

What we are aiming for	How this supports the Santam strategy	How this supports our stakeholder approach
IMPLEMENT FURTHER COST SAVINGS, IMPROVED PRODUCTIVITY AND OPTIMISE CLAIMS AND UNDERWRITING PROCESSES	- Drive system efficiencies	<ul> <li>Knock-on effect on pricing and profitability</li> <li>Business and profit sustainability</li> <li>More accurate rating/ underwriting and a more efficient claims fulfilment process</li> <li>Lower pricing possible due to lower operating costs</li> <li>Improved client experience</li> </ul>
CONTINUE TO FINE-TUNE OUR OPERATIONS TO CONTINUALLY IMPROVE SERVICE QUALITY	<ul><li>Growth through diversification</li><li>Drive system efficiencies</li></ul>	<ul><li>Improved client experience</li><li>Improved efficiency and profit sustainability</li></ul>
GAIN A DEEPER UNDERSTANDING OF CLIENT NEEDS	<ul> <li>Growth through diversification</li> </ul>	<ul> <li>Improved client experience</li> </ul>
SEEK OUT NEW SPECIALIST MARKETS	<ul> <li>Growth through diversification</li> </ul>	<ul><li>Improved client experience</li><li>Improved profit sustainability</li></ul>
ATTRACT AND RETAIN TOP TALENT	<ul> <li>Manage the risk pool</li> </ul>	<ul> <li>Improves risk quality and knowledge</li> <li>Create a sustainable business with improved underwriting results</li> </ul>

### Operational review: Alternative risk transfer

### PERSONAL | COMMERCIAL | ART | SANTAM RE | SUPPORT SERVICES

### **ALTERNATIVE RISK TRANSFER**

### **FINANCIAL PERFORMANCE**

	2012	2011	Change
	Rm	Rm	%
GROSS WRITTEN PREMIUM	2 103	1 924	9
NET UNDERWRITING MARGIN	(7)	(5)	(40)

### **CENTRIQ**

### WHAT WE DO

Centriq specialises in alternative risk finance solutions, underwriting management agencies and affinity business, using our cell captive structure to underpin many of our unique risk solutions and insurance business partnerships. We operate using two licences, a short-term and a life insurance licence. Centriq operates as a stand-alone business within the group.

### We are positioned as follows:

 We are a leading provider of alternative risk finance solutions to corporate clients, providing risk transfer solutions which the traditional insurance market is unable or unwilling to provide. Our route to market is to work via mainly the large insurance broking and consulting groups.

- We have a focused business dedicated to partnering with a number of specialist underwriting managers who represent us across the spectrum of traditional insurance market segments.
- We have a focused business dedicated to partnering with businesses and other companies to provide affinity insurance solutions.

### FINANCIAL AND OPERATIONAL PERFORMANCE

- A new chief executive officer was appointed on
   1 April 2012, following an executive management restructure.
- Centriq's A+ rating by the Global Credit Rating Company was reaffirmed in 2012.
- The evaluation of Centriq results should focus on profit before tax and not merely underwriting performance since Centriq earns management fees and investment returns on funds invested. Income before tax increased by 106% to R70 million (2011: R34 million).
- Our ROE for 2012 exceeded our group internal target.

### Operational review: Alternative risk transfer

- Our strategy to retain more risk for our own account has been executed and positive results are starting to show.
- We maintained a high retention of clients and business partners, with the only lost business being business we chose to shed.
- All key people leading our various business units and technical teams have been retained.
- Employment engagement levels have increased significantly.
- We launched an innovative concept: A cycling community insurance project (read more about this project in the Sustainability Report available at www.santam.co.za).

### **OUR STAKEHOLDERS**

Stakeholder	Engagement	Key stakeholder concerns	Approach
CLIENTS	– Engagement via intermediaries	<ul> <li>Sustainability of Centriq</li> <li>(our financial strength)</li> <li>Market reputation</li> </ul>	<ul> <li>Maintain financial strength through defined risk appetite parameters and prudent risk capital maintenance</li> <li>Maintain our Global Credit Rating Company credit/ claims paying ability rating</li> <li>Santam group position</li> </ul>
BUSINESS PARTNERS (UMAS AND AFFINITY PARTNERS)	<ul> <li>We enter into insurance business partnerships with these stakeholders who represent our front office and claims administration service providers.</li> </ul>	<ul> <li>Sustainability of Centriq (our financial strength)</li> <li>Market reputation</li> </ul>	<ul> <li>Maintain financial strength through defined risk appetite parameters and prudent risk capital maintenance</li> <li>Maintain our Global Credit Rating credit/claims paying ability</li> <li>Santam group position</li> </ul>
INTERMEDIARIES	<ul> <li>Periodic email/electronic news updates</li> <li>One-on-one engagement through our relationship managers</li> <li>Risk management and compliance workshops</li> </ul>	<ul> <li>Sustainability of Centriq</li> <li>(our financial strength)</li> <li>Market reputation</li> </ul>	<ul> <li>Maintain financial strength through defined risk appetite parameters and prudent risk capital maintenance</li> <li>Maintain our Global Credit Rating credit/claims paying ability</li> <li>Santam group position</li> </ul>
EMPLOYEES	<ul> <li>Ongoing employer/employee relationship.</li> <li>Performance contracting twice a year</li> <li>Monthly engagement survey</li> <li>Monthly employee communication session</li> <li>Company team building/communication event</li> </ul>	<ul> <li>Career and development opportunities</li> <li>Working environment</li> <li>Culture and values</li> <li>Remuneration levels</li> </ul>	<ul> <li>Active employee         management, counselling,         performance management,         training and support         programmes, coaching and         leadership development         interventions and clear and         results-driven remuneration         and incentive policies</li> </ul>
SUPPLIERS	<ul> <li>Reinsurers: Ongoing supplier of risk-bearing capacity.</li> <li>Claims fulfilment partners: Contracting.</li> </ul>	<ul> <li>Reinsurers: Centriq's and our underwriting partners' capabilities to price, accept and administer insurance contracts</li> <li>Claims fulfilment partners: Centriq's financial security to settle invoices</li> </ul>	<ul> <li>Demonstration of capability through proactive relationships and engagement, plus performance-driven contracts</li> </ul>

### Operational review: Alternative risk transfer

### **RISKS THAT WE MANAGE**

Risk	Our response
INCREASE IN REGULATION AND COMPLIANCE REQUIREMENTS	- Proactive engagement with regulatory role players
OUTSOURCED BUSINESS RELATIONSHIPS	<ul> <li>Upfront due diligence prior to business partner selection and ongoing audit and engagement activities to monitor quality and business partner suitability</li> </ul>
UNDERWRITING RISK	<ul> <li>Ongoing underwriting performance reviews: Business partner commercial terms must be aligned to quality of underwriting results, defined risk parameters and reinsurance protection programmes</li> </ul>
CREDIT RISK — ON OUR INVESTMENTS, REINSURERS, CELL OWNERS AND CERTAIN INSUREDS ON STRUCTURED INSURANCE DEALS	<ul> <li>Investment counterparty risk: Defined in terms of strict investment grade requirements and executed in terms of SIM's internal controls and systems</li> <li>Reinsurers: Only use reinsurers with a global credit rating of A- or better in terms of maximum exposure limits and concentration risks</li> <li>Cell owners: Limited credit risk appetite and this is monitored on a monthly basis</li> <li>Corporate insureds: Each deal structure is analysed on a deal-by-deal basis and credit risk is only taken within risk appetite</li> </ul>

What we are aiming for	How this supports the Santam strategy	How this supports our stakeholder approach
GROSS WRITTEN PREMIUMS: GROWTH	<ul> <li>Growth through diversification</li> </ul>	<ul> <li>Growth in market share and improved financial sustainability</li> </ul>
RETURN ON EQUITY — TO MEET AND EXCEED GROUP TARGET	<ul> <li>Growth through diversification</li> </ul>	<ul> <li>Maintain financial strength through defined risk appetite parameters and prudent risk capital maintenance</li> </ul>
IMPROVED PRODUCTIVITY	- Drive system efficiencies	<ul> <li>Business sustainability improved due to lower operating expenses</li> <li>Improved profit sustainability</li> </ul>
REDUCE OUR CARBON FOOTPRINT, MAINTAIN OUR COMMITMENT TO EDUCATION AND CONTINUE TO REMAIN COMMITTED TO HIGHEST LEVEL OF REGULATORY COMPLIANCE NOT ONLY IN FORM BUT ALSO IN SUBSTANCE	- Drive system efficiencies	<ul> <li>Business sustainability</li> </ul>

### PERSONAL | COMMERCIAL | ART | SANTAM RE | SUPPORT SERVICES

### **SANTAM RE**

### WHAT WE DO

Santam Re is a wholesale reinsurance service provider to Santam/Sanlam group businesses and independent insurers in South Africa, other African countries, India and Southeast Asia. Santam Re operates on the Santam short-term insurance licence. As a reinsurer to Santam/Sanlam group companies, Santam Re enables the group to optimise the size, quality and diversity of its overall risk pool, relative to its capital resources and risk appetite.

Our strategic intent is to write inwards reinsurance profitably by delivering a value-adding service to the group and external insurer clients in our targeted territories. Our aim is for this to be a significant contributor to the group's premium and earnings growth in future, while at the same time providing diversification by geography and distribution channel

### FINANCIAL AND OPERATIONAL PERFORMANCE

- Market development initiatives resulted in good progress, with new business secured in South Africa, the rest of Africa, China, India, Indonesia and Malaysia, but business volumes from third parties are still small in context of the Santam group with gross written premium of R526 million for 2012.
- Santam secured an A- international credit rating from Standard & Poor's. This will support the growth objectives of Santam Re.
- Progress was made in partnering with Sanlam in its expansion into new markets.
- Considerable progress was made in the development of the underwriting and technical skill base and appropriate IT systems.

### "THE BENEFITS OF OUR DIVERSIFIED BUSINESS MODEL WERE EVIDENT AGAIN THIS YEAR."

### Operational review: Santam Re

### **OUR STAKEHOLDERS**

Stakeholder	Engagement	Key stakeholder concerns	Approach
GROUP Businesses	<ul> <li>Contracting and underwriting</li> </ul>	<ul> <li>Pricing and appropriate cover</li> </ul>	<ul> <li>All underwriting decisions subject to a rigorous modelling, assessment and peer review process</li> <li>Expand and diversify portfolio to manage risk pool</li> </ul>
NON-GROUP Businesses	<ul> <li>Contracting and underwriting</li> </ul>	<ul><li>Pricing and appropriate cover</li><li>Market reputation</li></ul>	<ul> <li>All underwriting decisions subject to a rigorous modelling, assessment and peer review process</li> <li>Understand portfolios of insurers we are reinsuring</li> <li>Expand and diversify portfolio to manage risk pool</li> </ul>
EMPLOYEES	– Regular meetings, e-mails and information sharing	<ul> <li>Career and personal development</li> <li>Positive relationships</li> <li>Consistency and fairness</li> <li>Employee benefits</li> <li>Transformation</li> </ul>	<ul> <li>Development of a strong team dynamic</li> <li>Formal and informal channels exist to resolve concerns</li> <li>Underwriting skills are critical for the business – therefore, attraction and retention are important</li> </ul>

### **RISKS THAT WE MANAGE**

Risk	Our response
AVAILABILITY OF UNDERWRITING SKILLS	<ul> <li>Expand source pool internationally</li> </ul>
DOWNWARD ADJUSTMENT OF THE SANTAM STANDARD & POOR'S CREDIT RATING	<ul> <li>Proactive management of all factors</li> <li>In relation to sovereign rating risk, roll out alternative model in group's international business portfolio if necessary</li> </ul>
DOWNWARD ADJUSTMENT OF REINSURANCE COUNTERPARTIES BY STANDARD & POOR'S	<ul> <li>Continuous review of our risk appetite, treaty exposure and counterparty status</li> </ul>
ABILITY TO DELIVER ON LONG-TERM TARGETS	<ul> <li>Expanding international business</li> <li>Securing a retrocession programme that optimises revenue flows through enhanced capacity while ensuring proper protection of Santam</li> </ul>

What we are aiming for	How this supports the Santam strategy	How this supports our stakeholder approach
CREATE HUMAN RESOURCE CAPACITY TO SUPPORT GROWTH	- Manage the risk pool	<ul> <li>Development of a strong team dynamic</li> <li>Underwriting skills are critical for the business – therefore, attraction and retention are important</li> </ul>
INCREASE NEW BUSINESS FLOWS, ESPECIALLY IN SOUTHEAST ASIA	<ul><li>Growth through diversification</li><li>Manage the risk pool</li></ul>	<ul> <li>Expand and diversify portfolio to manage risk pool</li> </ul>
DEVELOPING AND IMPLEMENTING AN IT ADMINISTRATION SYSTEM	- Drive system efficiencies	<ul> <li>All underwriting decisions subject to a rigorous modelling, assessment and peer review process</li> </ul>

### PERSONAL | COMMERCIAL | ART | SANTAM RE | SUPPORT SERVICES

### **SUPPORT SERVICES**

### **CLAIMS**

### FINANCIAL AND OPERATIONAL PERFORMANCE

	2012	2011	Change
VALUE OF CLAIMS PAID OUT	R4.83 billion	R4.05 billion	+19.3%
AMOUNT OF SPEND WITH SUPPLIERS	R1.8 billion	R1.6 billion	+12.5%
TOTAL NUMBER OF CLAIMS PROCESSED	367 505	336 444	+9.2%
SUCCESSFUL CLAIMS PAID OUT (%)	99%	98%	+1%
FRAUDULENT CLAIMS (%)	0.24%	0.27%	-0.0%
NUMBER OF ASSESSORS	450	432	+4.2%
NUMBER OF SANTAM DRIVE-IN CENTRES	33	16	+106.3%
NUMBER OF PANEL BEATERS	1 230	1 260	-2.4%

### WHAT WE DO

Claims Services administers the process of assessing and paying out claims to policyholders, mainly for the business administered on our internal systems. This excludes outsourced business and subsidiaries. Our main objectives are to provide our clients with quick turnaround times, quality client service and a fair settlement in their time of need.

Our strategic intent is to deliver quality service to our clients and ensure that our claims service remains a competitive advantage for Santam. We are continually making investments to ensure that our operating model is relevant and cost-effective.

- 99% of claims made have been paid out in an environment where claims frequency per policy is increasing.
- November claims increased to almost 50 000 claims due to various catastrophes in October and November.
- Agreed service levels have been maintained while claims handling costs increased below inflation.
- The average cost per claims increased by 9.3% for a motor claim and by 8.9% for a non-motor householders' claim. The weakened rand resulted in a higher cost for imports which increased the average cost per claim.
   This impacted negatively on underwriting margins.

- We developed an alternative glass offering, new motor and non-motor salvage solutions and an intelligent write-off model. The intelligent write-off model will assist us in making informed choices on the threshold for economical repairs compared to optimum salvage recovery.
- The claims card launched in 2011 has been successfully implemented as an alternative to cash settlements.
- We refined the segmentation of high-risk and low-risk claims. This enables us to deliver better service levels by processing more claims more efficiently.
- Our efforts at industry transformation continue, especially in terms of motor vehicle repairs. During the year we started moving away from payments according to assessment, and replacing this practice with authorisation mandates to our repairers, governed by a capped average repair cost that is based on a fixed percentage of the average sum assured to cover the cost of repairs to remove conflict of interest in the industry.

## "OUR MAIN OBJECTIVES ARE TO PROVIDE OUR CLIENTS WITH QUICK TURNAROUND TIMES, QUALITY CLIENT SERVICE AND A FAIR SETTLEMENT."

### **OUR STAKEHOLDERS**

Stakeholder	Engagement	Key stakeholder concerns	Approach
CLIENTS	<ul> <li>Claims logged through contact centres, internet or e-mail</li> <li>Claims negotiated via contact centres and e-mail</li> <li>Face-to-face engagement by roaming assessors and through motor claims assessed at drive-in centres</li> <li>Communication via media</li> </ul>	<ul> <li>Turnaround time of claim</li> <li>Client service</li> <li>Convenience</li> <li>Quality assessment</li> <li>Minimal conflict</li> <li>Recourse on disputed claims</li> </ul>	<ul> <li>Focus on claims efficiency, turnaround time and improving service and communication.</li> <li>Fast-track claims with low risk and low quantum</li> <li>Independent recourse through internal ombudsman referral</li> </ul>
INTERMEDIARIES	<ul><li>Contact centres</li><li>Internet</li><li>E-mail</li><li>Forums</li></ul>	<ul><li>Turnaround time of claims</li><li>Efficiency</li><li>Client services</li><li>Retention focus</li><li>Loss ratio</li></ul>	<ul> <li>Focus on claims efficiency, turnaround time and improving service</li> <li>Improved communication with intermediaries</li> </ul>
EMPLOYEES	<ul> <li>Change management process to understand the new claims philosophies and the system enhancements</li> </ul>	<ul><li>Upskilling of employees</li><li>Training</li><li>Development</li><li>Recognition and reward</li></ul>	<ul> <li>Employees are constantly trained in-house</li> </ul>
SUPPLIERS (REPAIR)	<ul> <li>Continuous interaction through procurement business unit</li> <li>Engagement during process of directing spend to the most competitive suppliers</li> </ul>	<ul><li>Spend direction</li><li>Competitors</li><li>Procurement policy</li><li>BBBEE status</li><li>Profitability</li></ul>	<ul> <li>Creating value partnerships.</li> <li>Aligning supplier interest with Santam's interests</li> </ul>

### **RISKS THAT WE MANAGE**

Risk	Our response	
BUY-IN FROM INDUSTRY ASSOCIATIONS	<ul> <li>Ongoing innovation and influence of industry leaders and relevant associations</li> <li>Ongoing information sharing</li> </ul>	
SANTAM'S REPUTATIONAL RISK	<ul> <li>Continue consumer education through media</li> <li>Award-winning advertising campaign</li> <li>Claims services are the first real interaction that a client has with Santam – superior service levels by skilled employees deployed in the claims arena</li> </ul>	
INCREASE IN CLAIMS RATIO DUE TO REGULATORY CHANGES (SUCH AS THE CONSUMER PROTECTION ACT)	<ul> <li>Create awareness at intermediary level about the potential impact and advocating the application of stricter underwriting and increased premium levels</li> </ul>	
INCONSISTENCY BETWEEN ASSESSORS	<ul> <li>Conflict being addressed by moderation after assessment where necessary</li> </ul>	

What we are aiming for	How this supports the Santam strategy	How this supports our stakeholder approach
REMOVING THE CONFLICT FROM THE CLAIMS PROCESS BETWEEN SANTAM, THE CLIENT AND/OR INTERMEDIARY AND SERVICE PROVIDERS	- Drive system efficiencies	<ul> <li>Increase number of drive- in centres and improve transparency</li> <li>Drive claims cost down through strategic partnerships</li> </ul>
MAXIMISE OUR SALVAGE RETURNS BY IMPLEMENTING INTELLIGENT WRITE-OFF — THEREBY OFFERING THE CLIENT THE OPTION TO WRITE OFF A VEHICLE EARLY IN THE CLAIMS LIFECYCLE IF THE QUALIFYING CRITERIA ARE MET	- Drive system efficiencies	<ul> <li>Improved claims experience and transparency</li> </ul>
REALISE FURTHER COST SAVINGS RELATING TO CLAIMS MANAGEMENT AND DIRECT CLAIMS COST	- Drive system efficiencies	<ul> <li>Development of new initiatives to optimise cost and client experience (including fitting certified after-market parts)</li> <li>Focus on claims efficiency, turnaround time and improving service</li> <li>Fast-track claims with low risk and low quantum</li> </ul>
CONTINUE TO IMPROVE SERVICE QUALITY AND SPEED	<ul> <li>Drive system efficiencies</li> </ul>	<ul> <li>Development of new initiatives to optimise cost and client experience</li> <li>Focus on claims efficiency, turnaround time and improving service</li> <li>Fast-track claims with low risk and low quantum</li> </ul>
REDUCE CLAIMS LEAKAGE — PAYING OUT THE CORRECT AMOUNT	<ul><li>Drive system efficiencies</li><li>Manage the risk pool</li></ul>	<ul> <li>Optimising profitability</li> </ul>

### **CONTACT CENTRES**

### WHAT WE DO

Santam's Contact Centres provide quotations, issue new policies, deal with claims and handle general policy maintenance and renewal functions for existing policies. Our contact centres are located in the following regions:

- Cape Town commercial
- Pretoria commercial
- Johannesburg personal lines
- Bloemfontein agriculture
- Johannesburg incident management: claims

Our strategic intent is to contribute to profitable growth through increased conversion rates and reduced churn rates by driving operational excellence.

### **OPERATIONAL PERFORMANCE**

- We consolidated Santam's contact centres with a view to improve efficiency, predictability of outcomes, costs, service levels, control and standardisation of processes:
  - o Personal lines: 1 in Johannesburg (2011: 2)o Commercial lines: 1 in Cape Town and 1 in
    - Pretoria (2011: 6, including
    - Bloemfontein)
  - o Agriculture: 1 in Bloemfontein (2011: non
    - centralised)

- Affected employees were upskilled and redeployed in the business where applicable. Employee numbers increased from 619 at the end of 2011 to 711 in 2012.
- The commercial contact centres' workflow has been split between commodity and non-commodity policies to improve turnaround and predictability of the more than 4 million calls and emails received per year.
- Dedicated sales people and a new processing model have been deployed to drive conversion rates in preferred segments of the business.
- A client relationship management system and a work force management solution, including a centralised document processing solution, will be implemented in 2013.
- Conversion rates decreased by 3.6% during the year due to the consolidation process, competitor activity and premium adjustments.
- The churn rate improved by 5.5% due to client retention initiatives.

### **OUR STAKEHOLDERS**

Stakeholder	Engagement	Key stakeholder concerns	Approach
CLIENTS	<ul><li>Contact centres</li><li>Research</li><li>Surveys</li></ul>	<ul> <li>Cover required at a reasonable price and good service levels</li> </ul>	<ul> <li>Research client needs and develop relevant products and services</li> </ul>
INTERMEDIARIES	<ul> <li>Contact centres</li> <li>Relationship manager interaction</li> <li>Research</li> </ul>	<ul> <li>Processing of instructions:</li> <li>o Consistently</li> <li>o Timeously</li> <li>o Accurately</li> </ul>	<ul> <li>Focus on sales and administrative efficiency, dispute resolution and client profiling to ensure correct pricing</li> </ul>
EMPLOYEES	<ul><li>Contact centres</li><li>Relationship managers</li><li>Santammers</li><li>Intermediary interaction</li></ul>	<ul> <li>Speed and efficiency of processing of quotations, policies and renewals</li> </ul>	<ul> <li>Focus on skills, quality         <ul> <li>and productivity to ensure</li> <li>effective and efficient</li> <li>fulfilment of requests</li> </ul> </li> </ul>
SUPPLIERS	<ul><li>Contact centres</li><li>Risk services</li><li>Intermediary distribution interaction</li></ul>	<ul> <li>Processing of quotations, policies and renewals according to Santam's underwriting principles and rules within an agreed mandate and service level.</li> </ul>	<ul> <li>Creating a holistic delivery value chain, end-to-end, to ensure client expectations are met</li> </ul>

### **RISKS THAT WE MANAGE**

Risk	Our response		
MAINTAINING SERVICE LEVELS DURING CHANGE PROCESS	<ul> <li>Upskilling, training and redeployment of employees</li> </ul>		
LACK OF BUY-IN FROM INTERMEDIARIES	<ul> <li>Create holistic view of the change initiative with specific focus on benefits</li> <li>Regular feedback on progress</li> <li>Utilise relationship managers to facilitate change</li> <li>Communicate successes and service improvements</li> </ul>		
LACK OF BUY-IN FROM EMPLOYEES	<ul> <li>Create holistic view of the change initiative with specific focus on the importance of the role of internal stakeholders and the benefits to intermediaries and Santam.</li> <li>Regular feedback on progress against plan, business results and benefits</li> </ul>		

What we are aiming for	How this supports the Santam strategy	How this supports our stakeholder approach
OPTIMISING CONTACT CENTRES AS A COST-EFFICIENT CHANNEL	<ul><li>Drive system efficiencies</li><li>Manage the risk pool</li></ul>	<ul> <li>Creating a holistic delivery value chain, end-to-end, to ensure client expectations are met</li> <li>Focus on skills, quality and productivity to ensure effective and efficient fulfilment of requests</li> </ul>
IMPROVE SERVICE QUALITY	<ul><li>Growth through diversification</li><li>Drive system efficiencies</li></ul>	<ul> <li>Creating a holistic delivery value chain, end-to-end, to ensure client expectations are met</li> <li>Focus on skills, quality and productivity to ensure effective and efficient fulfilment of requests</li> <li>Research client needs and develop relevant products and services</li> </ul>
IMPROVED WORKFLOW	<ul> <li>Drive system efficiencies</li> </ul>	<ul> <li>Creating a holistic delivery value chain, end-to-end, to ensure client expectations are met</li> </ul>
GAIN A DEEPER UNDERSTANDING OF CLIENT NEEDS	<ul> <li>Growth through diversification</li> </ul>	<ul> <li>Research client needs and develop relevant products and services</li> </ul>
IMPROVED CLIENT RETENTION	<ul><li>Growth through diversification</li><li>Drive system efficiencies</li></ul>	<ul> <li>Research client needs and develop relevant products and services</li> </ul>

## THE INTEGRATION OF OUR RISK APPETITE AND INVESTMENT STRATEGY ENABLES US TO EFFECTIVELY MANAGE THE CAPITAL WE HOLD."

### **RISK SERVICES**

### WHAT WE DO

Risk services are responsible for:

- the design, development and pricing of all product lines
- ensuring optimal underwriting processes and margins
- risk and capital management
- management of the group's overall risk pool
- developing and ensuring the adequacy and relevance of measurement tools
- management of group's reinsurance purchasing

We have an excellent track record of underwriting, supported by our product lines and underwriting skills. The integration of our risk appetite and investment strategy enables us to effectively manage the capital that we hold against our portfolio of risks.

### **OPERATIONAL PERFORMANCE**

 Ongoing data and environmental analysis enabled further refinements to our pricing basis, taking into account claim and cancellation propensities.

- Implementation of a market-leading set of value-added products on our flagship Multiplex product was received with great enthusiasm by intermediaries and regional and relationship managers.
- We implemented an automated vehicle value adjustment initiative while still preserving the integrity of premium rates required for the motor risk pool.
- We created additional capacity for new business take-on on outsourced systems, revisited our scoring models for new business and implemented client segmentation. We are on schedule with the development phase of our new information management system.
- The second quantitative impact study under SAM was completed and we achieved our milestones under the internal model approval process.
- Considerable progress was made on a project to replace the personal and commercial lines policy, underwriting and administration platforms.

### **OUR STAKEHOLDERS**

Stakeholder	Engagement	Key stakeholder concerns	Approach
SANTAM GROUP Businesses	<ul> <li>Predictive modelling</li> <li>Risk appetite policies</li> <li>Pricing and product design</li> </ul>	<ul> <li>Long-term growth and sustainability</li> <li>New product development</li> <li>Appropriate pricing</li> </ul>	<ul> <li>Short-term and long-term monitoring of the environment and market trends to enable sustainable business decisions</li> <li>Proactive risk management to serve as a competitive differentiator</li> </ul>
SHORT-TERM INSURANCE INDUSTRY	– Strategic risk forum	<ul> <li>Increasing levels of systemic risk</li> </ul>	<ul> <li>Collaborative mitigation of risks</li> <li>Active engagement with all representatives in value chain</li> </ul>
EMPLOYEES	<ul> <li>Regular meetings, emails and information sharing</li> </ul>	<ul> <li>Career and personal development</li> <li>Positive relationships</li> <li>Consistency and fairness</li> <li>Employee benefits</li> <li>Transformation</li> </ul>	<ul> <li>Development of a strong team dynamic</li> <li>Formal and informal channels exist to resolve concerns</li> <li>Underwriting skills are critical for the business – therefore attraction and retention are important</li> </ul>
SERVICE PROVIDERS	<ul><li>Strategic projects</li><li>Independent reviews</li></ul>	<ul> <li>Sustainable and successful implementation of initiatives</li> <li>Compliance</li> </ul>	<ul> <li>Collaborative efforts to improve risk awareness and compliance</li> </ul>

### RISKS THAT WE MANAGE

Risk	Our response	
TRADE-OFF BETWEEN UNDERWRITING MARGINS AND GROWTH	<ul> <li>Early risk identification and actions taken to increase premium strength in the risk pool</li> <li>Active management of acquisition cost and service levels</li> </ul>	
ATTRACTING AND RETAINING SKILLED EMPLOYEES	<ul> <li>Ongoing focused training initiatives</li> </ul>	
OUTSOURCING RISKS	<ul> <li>Ensuring intermediary compliance with new regulations</li> </ul>	
FOREIGN CURRENCY MANAGEMENT	<ul> <li>A Santam group foreign exchange management policy has been developed and implemented</li> </ul>	
DOWNWARD ADJUSTMENT OF REINSURANCE COUNTERPARTIES BY STANDARD & POOR'S	<ul> <li>Continuous review of our risk appetite, treaty exposure and counterparty status</li> </ul>	

What we are aiming for	How this supports the Santam strategy	How this supports our stakeholder approach
CONTINUED SELECTIVE PREMIUM RATE INCREASES	<ul><li>Growth through diversification</li><li>Manage the risk pool</li></ul>	<ul> <li>Long-term growth and sustainability</li> </ul>
IMPROVING PRICE CONTROLS ON BUSINESS ACQUISITION AND RENEWALS IN COMMERCIAL LINES	- Drive system efficiency	<ul> <li>Implementation of a commercial rating tool to deploy on outsourced platforms</li> </ul>
MANAGEMENT OF EXPOSURE TO CURRENT AND FUTURE OPERATING EXPENSES DENOMINATED IN FOREIGN CURRENCY	<ul><li>Drive system efficiency</li><li>Manage the risk pool</li></ul>	<ul> <li>Long-term sustainability and management of international expansion risks</li> </ul>
CREATE ADDITIONAL CAPACITY IN SYSTEMS AND PEOPLE	- Drive system efficiency	<ul> <li>Development of a strong team dynamic</li> <li>Underwriting skills are critical for the business – attraction and retention are therefore important</li> </ul>
INTERNAL MODEL APPROVAL PROCESS AND APPLICATION SUCCESSFUL (SAM)	<ul><li>Drive system efficiency</li><li>Manage the risk pool</li></ul>	<ul> <li>Collaborative efforts to improve risk awareness and compliance</li> </ul>
REFINE UNDERWRITING GOVERNANCE PROCESSES FOR OUTSOURCED BUSINESS	- Drive system efficiency	<ul> <li>Collaborative efforts to improve risk awareness and compliance</li> </ul>



# AS ONE OF THE TOP OF THE SOUTH AFRICAN COMPANIES

EXCHANGE SRI INDEX IN THE LOW ENVIRONMENTAL IMPACT CATEGORY. WE ALSO BECAME THE FIRST AFRICAN MEMBER OF CLIMATEWISE AND A LEADING MEMBER OF THE UNITED NATIONS ENVIRONMENT PROGRAMME (UNEP) FINANCE INITIATIVE. OUR GLOBAL PARTNERSHIPS WITH THE FINANCIAL SECTOR SHOW THAT WE ARE TAKING STEPS TO UNDERSTAND THE BUSINESS IMPACT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS.

# "SANTAM STRIVES FOR THE HIGHEST STANDARDS OF INTEGRITY AND ETHICS."

#### STATEMENT OF COMMITMENT

Santam's board of directors is committed to the highest level of effective corporate governance and strives for the highest standards of integrity and ethics in all the company's undertakings.

The company is subject to the JSE Listings Requirements and the guidelines contained in the King Code on Governance Principles for South Africa 2009 ("King III"). The Santam board endorses the Code of Corporate Practices and Conduct set out in King III. The board is of the opinion that Santam has applied the significant governance principles in King III and that the company has complied with the JSE Listings Requirements during 2012. 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.

In compliance with JSE and the King Committee's recommendation, a summary of the application of all the principles contained in chapter 2 of the King III Code is included in this report (see table on page 73). A register detailing the company's application of all 75 principles set out in King III is available on the company's website www.santam.co.za

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.

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 incorporation of the sustainability committee into the newly formed social, ethics and sustainability committee from the commencement of the 2012 financial year. In compliance with the Companies Act, Santam's memorandum of incorporation was also approved by its shareholders at the annual general meeting on 30 May 2012.

Santam's commitment to good governance is formalised in its charters, policies and operating procedures. Governance processes are regularly reviewed to take into account the evolving regulatory environment and best practice.

# COMPLIANCE WITH THE CODE OF CORPORATE PRACTICES AND CONDUCT

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.

#### **CORPORATE GOVERNANCE PRINCIPLES**

	Ke	ey .
King III code of governance principles contained in chapter 2 of the code Boards and directors	<b>√</b> # †	Compliant Partially compliant Non-compliant
The board should act as the focal point for and custodian of corporate governance	√	
The board should appreciate that strategy, risk, performance and sustainability are inseparable	√	
The board should provide effective leadership based on an ethical foundation	√	
The board should ensure that the company is and is seen to be a responsible corporate citizen	√	
The board should ensure that the company's ethics are managed effectively	√	
The board should ensure that the company has an effective and independent audit committee	√	
The board should be responsible for the governance of risk	√	
The board should be responsible for information technology (IT) governance	√	
The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	<b>√</b>	
The board should ensure that there is an effective risk-based internal audit	√	
The board should appreciate that stakeholders' perceptions affect the company's reputation	√	
The board should ensure the integrity of the company's integrated report	√	
The board should report on the effectiveness of the company's system of internal controls	√	
The board and its directors should act in the best interests of the company	√	
The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act	# (	(when required)
The board should elect a Chairman of the board who is an independent non-executive director. The Chief Executive Officer of the company should not also fulfil the role of Chairman of the board	<b>√</b>	
The board should appoint the Chief Executive Officer and establish a framework for the delegation of authority	<b>√</b>	
The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent	1	
Directors should be appointed through a formal process	√	
The induction of and ongoing training and development of directors should be conducted through formal processes	<b>√</b>	
The board should be assisted by a competent, suitably qualified and experienced company secretary	<b>√</b>	
The evaluation of the board, its committees and the individual directors should be performed every year	<b>√</b>	
The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	1	
A governance framework should be agreed upon between the group and its subsidiary boards	<b>√</b>	
Companies should remunerate directors and executives fairly and responsibly	√	
Companies should disclose the remuneration of each individual director and prescribed officer	<b>√</b>	
Shareholders should approve the company's remuneration policy	1	

Santam's code of ethics was updated, reviewed and formally approved by the board during 2012. The code 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

During 2012 the board and board committee charters were updated to further articulate Santam's commitment to good governance. Santam's group governance policy was formally approved by the board in November 2012. The board enhanced the formalisation of the company's IT governance practices applying existing standards and frameworks, and the recommendations of King III. Progress reports in this regard were periodically presented to the Santam board and its audit and risk committees.

#### **BOARD AND COMMITTEES**

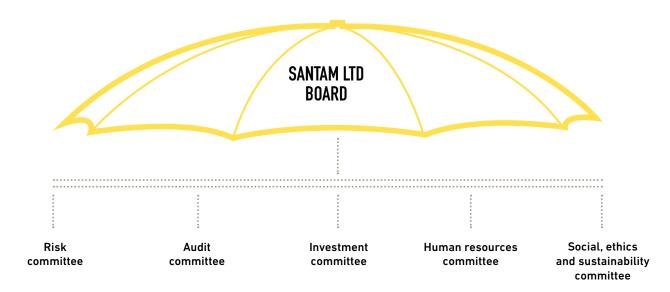
#### Structure

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

#### Composition

As at 31 December 2012, the board comprised 13 directors, of whom three are executive directors. Of the ten non-executive directors, seven are independent. There is a formal, transparent board nomination process, in terms of a policy detailing 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. Non-executive directors 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 responsibilities of the chairman and chief executive officer have been clearly defined and are separate. No individual has unfettered powers of decision-making.



Non-executive directors are all able to influence decision-making. They come from various industries and possess extensive expertise and business experience, bringing a wide range of skills to the board. 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. The effectiveness of the board composition and the performance of all its directors are assessed annually.

#### 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.

#### **BOARD CHARTER**

#### **Objective**

The board's responsibility to ensure best practice in company conduct is entrenched in the board charter, which is reviewed annually. The charter delineates the powers of the board, which ensures an appropriate balance of power and authority. The board charter includes a formal schedule of the matters it oversees.

#### **BOARD MEMBERS IN 2012**

				Race	Gender
			Independent	W = White	M = Male
Name	Executive	Non-executive	non-executive	B = Black	F = Female
B Campbell			*	W	М
MD Dunn			*	W	М
MP Fandeso			*	В	М
BTPKM Gamedze			*	В	М
GG Gelink			*	В	М
VP Khanyile (Chairman)			*	В	М
IM Kirk	*			W	М
MLD Marole			*	В	F
JP Möller		*		W	М
YG Muthien		*		В	F
HD Nel	*			W	М
Y Ramiah	*			В	F
MJ Reyneke		*		W	М
J van Zyl		*		W	М
BP Vundla			*	В	М

#### Changes during 2012

Mr Gamedze became an independent director in terms of King III on 1 January 2012.

Mr Vundla resigned from the board on 17 January 2012.

Mr Gelink was appointed to the board with effect from 1 June 2012.

Ms Muthien resigned from the board with effect from 5 September 2012.

Mr Reyneke retired from his executive role with effect from 17 September 2012 and remains on the board as a non-executive director.

Mr Nel was appointed as an executive finance director with effect from 17 September 2012.

#### Corporate governance report

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 memorandum of incorporation;
- the Companies Act 2008;
- the JSE Listings Requirements;
- the King III Code on Governance; and
- the Short-term Insurance Act.

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. All board members are required to declare any potential conflict of interest between their obligations to the company and their personal interests. When a potential conflict of interest does exist, an affected director is required to accordingly recuse himself from the part of the meeting where the matter 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. New 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 of incorporation 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 annual integrated report;
- circulars to shareowners, 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 memorandum of incorporation; and
- significant changes in accounting policy.
- 2. Recommending changes to the memorandum of incorporation of the company, remuneration of directors and remuneration policy to shareholders for approval.
- Composition of the board committees, electing the 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. There are a number of governance policies that complement the delegation of authority. These policies are reviewed on a regular basis.

#### Chairman

The Chairman provides 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 execution of the strategic direction 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.

#### Company secretary

The group company secretary provides guidance to the board collectively 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. The directors have unlimited access to the advice and services of the group secretary. The company secretary further ensures that board procedures, regulations and governance codes are observed. The company secretary is responsible for director training and induction, as well as the annual board evaluation process.

The board has concluded, after due assessment and following a review of the company's secretary's qualifications, experience and performance, that the group secretary is competent and has the appropriate qualifications and experience and that he has maintained an arm's length relationship with the board and its directors. The company secretary is not a director of the company. The group secretary also acts as secretary for the committees of the board.

#### 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.

#### D. Board evaluation

The board annually reviews the range of skills, experience and effectiveness of its directors. The directors have the opportunity to convey to the Chairman any concerns that they might have in respect of the performance and conduct of their peers. The human resources committee considers the results of the evaluation process and makes recommendations to the board as appropriate.

In 2012 the evaluation of the board and the committees was conducted with the use of an external service provider. The 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 significant matters or material concerns in respect of the board and board committee performance.

An informal review, conducted by the human resources committee, takes place for all directors prior to their standing for re-election at the annual general meeting. The performance of all directors standing for election at the annual general meeting in May 2013 has been considered by the board, and their re-election is supported.

#### 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 and the company secretary 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 unpublished, price-sensitive information in relation to the company's shares by virtue of their positions 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, and in compliance with the Listings Requirements, directors' dealings in securities are disclosed to the JSE via the company's sponsor.

#### F. Integrated sustainability reporting

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

The social, ethics and sustainability committee convenes regularly and reports directly to the board on, inter alia, the issues listed above.

#### G. IT governance

Santam's IT governance framework and reporting system provides 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, which embraces the principles contained in chapter 5 of the King III Code, 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. 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. The board has satisfied itself, based on reports received from these committees, that an appropriate IT governance framework exists and is functioning effectively.

Santam recognises the strategic role that IT plays in conducting business in a highly competitive environment. IT is regarded as a strategic asset and is deeply entrenched in the way the company conducts its business. 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 with 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. Compliance

Santam recognises the importance of compliance with the regulatory and non-regulatory framework (such as industry codes) impacting its operations, and its accountability to all its stakeholders in this regard, not only from an entity level but also from a group perspective. Consequently, Santam's legal compliance philosophy encapsulates integrity, fair dealing, accountability, objectivity, independence, good governance, transparency and collaboration.

As a consequence of the environment in which it operates, Santam has a full-time legal compliance function, which bears the responsibility of implementing the legal compliance framework. This 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 and works closely with other entities within the Santam group. In implementing the compliance framework, a risk-based approach is adopted ensuring optimal use of resources and entails focusing on regulation which has a high impact on Santam's operations. The following important regulatory developments received dedicated focus during the period under review.

#### Short-term Insurance Act 53 of 1998

Section 48A Binder Regulations – alignment of binder agreements with provisions of regulations

In December 2011, the regulations which regulate the relationship between insurers and entities that perform functions which fell within the ambit of "binder functions" were released. Insurers were to align their existing binder agreements with the provisions of the binder regulations by 31 December 2012.

Santam's management has embarked on an extensive exercise in 2012 to ensure that all binder agreements are aligned and signed with its various business partners who fall within the ambit of these regulations.

#### Directive 159 A.i. (LT&ST) - Outsource Directive

In April 2012, the Financial Services Board (FSB) issued Directive 159 A.i (ST) dealing with outsourcing of insurance functions by insurers. The directive provides a regulatory framework from which insurers are required to operate when outsourcing insurance services to a third party which would normally be performed by the insurer.

Santam has consequently compiled an outsource policy which was approved by Santam's board and which sets out the procedure to be adopted when appointing a third party to perform insurance services on its behalf. Santam also engaged in a process of ensuring that existing outsource arrangements are aligned with the provisions of the outsource directive.

# Broad-Based Black Economic Empowerment Act – Financial Sector Code

The Financial Sector Code (the Code) which is aimed at ensuring financial inclusion was gazetted in terms of the Broad-Based Black Economic Empowerment Act.

The Code is the binding legal framework against which the empowerment progress of the financial sector will be measured in future. It creates financial sector-specific commitments which include increasing access to financial services and making available empowerment financing to ensure that more lower income consumers are included in the financial system.

#### Treating Customers Fairly ("TCF")

Santam participated in the pilot exercise initiated by the FSB to determine the industry's readiness in meeting the outcomes contemplated under the TCF campaign driven by the FSB. Since its participation in 2011, Santam, as a member of the FSB's various TCF workgroups, has been and still is involved in assisting the FSB with this initiative. Santam continues to participate in the various TCF work groups set up by the South African Insurance Association (SAIA) and the FSB to influence the regulator on how to implement TCF within the financial services industry.

#### Protection of Personal Information Bill 2009 ("the Bill")

The Protection of Personal Information Bill ("the Bill") is aimed at promoting the protection of personal information processed by companies and introduces various measures with which companies must comply.

Santam has conducted an assessment to identify the impact of the Bill on its operations. A formal programme has been implemented to ensure that the necessary requirements are fully addressed.

#### Solvency Assessment Management ("SAM") – Draft Insurance Laws Amendment Bill (ILAB)

This draft Bill is aimed at putting in place interim measures to which insurers must comply pending the full implementation of the SAM requirements. These measures include implementing governance, risk management and internal control frameworks. The provisions relating to the governance framework address issues relating to:

- the composition and governance of a board of directors;
- the structure of the board;
- composition of audit committees;
- duties of directors; and
- roles and responsibilities of the board of directors.

The provisions relating to risk management and internal control systems require that an insurer has a risk management system in place, and risk management policies; an internal control system and dedicated control functions (i.e. risk management, compliance, actuarial and internal control). The draft Bill further proposes more stringent outsourcing requirements, which an insurer must adhere to, if it outsources any element of its insurance business.

# Financial Services Laws General Amendment Bill 2012 ("Bill")

This Bill is aimed at aligning existing financial services legislation with legislation and proposes various amendments to the Short-term Insurance Act, such as the repeal of the definition of "independent intermediary", the deletion of section 8(5) of the Short-term Insurance Act, which entitles an independent intermediary to charge policyholders a fee for rendering services as agreed to between such independent intermediary and policyholder; and proposes a dramatic increase in fines for noncompliance with the Short-term Insurance Act.

The Bill also proposes an amendment to the Financial Services Board Act, excluding entities subject to FSB legislation from the provisions of the Consumer Protection Act. The FSB will be the lead regulator as far as financial services and insurance business are concerned.

# BOARD MATTERS Board meetings

The Santam board met five times at scheduled meetings in 2012. The board meets at least once every quarter and holds a strategy meeting in August devoted to approving the strategic direction of the company.

#### 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. Non-executive directors are subject to rotation every three years. Shareholders have the right to nominate a director and five other shareholders must second the nomination, subject to the company's memorandum of incorporation. An abridged CV of the nominated directors is sent with the notice of the annual general meeting (AGM) and the CV's of directors nominated for re-election has been included on page 94 of this report. Therefore, company shareholders have the opportunity to continually participate in the election process for new directors and/or replacing existing directors.

At the AGM, shareholders vote by a single resolution to determine whether the director will be appointed. Directors appointed by the board after the AGM are required to retire at the following AGM and stand for re-election by shareholders. The appointment of non-executive directors are formalised in a letter of appointment between the company and the non-executive director.

#### **BOARD COMMITTEES**

The board has established subcommittees to assist it in discharging its duties and responsibilities. Each committee acts within agreed terms of reference derived from charters, annually approved by the board. Committee charters comply with the requirements of the Companies Act. Chairpersons of committees report on the proceedings of their committee at the subsequent board meeting, and the minutes of the committee meetings are provided to the board. Notwithstanding the delegation of functions to the committees, the board remains ultimately accountable for the proper fulfilment of such functions, except for the statutory functions of the audit committee relating to the appointment, fees and terms of engagement of the external auditor.

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 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. Both the audit committee and the risk committee are chaired by an independent non-executive director.

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, is 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

#### **BOARD MEETING**

#### ATTENDANCE SCHEDULE

			28/08/2012 (strategy		
Name	28/02/2012	30/05/2012	session)	29/08/2012	28/11/2012
B Campbell	*	*	*	*	*
MD Dunn	*	*	*	*	*
MP Fandeso	*	*	*	*	*
BTPKM Gamedze	*	*	*	*	*
GG Gelink	_	_	*	*	*
VP Khanyile (chairman)	*	*	*	*	*
IM Kirk	*	*	*	*	*
MLD Marole	*	*	*	*	*
JP Möller	*	*	*	*	*
YG Muthien	*	*	A	А	Res
HD Nel	_	_	_	_	*
Y Ramiah	*	*	*	*	*
MJ Reyneke	*	*	*	*	*
J van Zyl	*	*	*	*	*
BP Vundla	Res	-	-	_	_

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

- 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 considering 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 is 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

- 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

#### External audit

- The audit committee reviewed the relevant types of non-audit services provided by the external auditors and, after conducting enquirees and representations, confirmed the independence of the auditors. The committee also considered and determined the fees and terms of engagement of the external auditors.
- As required by JSE Listings Requirement 3.84, the audit committee considered the expertise and experience of the financial director in November 2012 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.
- Audit committee members are encouraged to keep up to date with developments affecting their required skill set.
   The audit committee has considered factors and risks that may impact the integrity of the Santam integrated report and has reviewed the disclosure of sustainability

#### Corporate governance report

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 and risk committees are satisfied that they fulfilled their responsibilities in terms of their charters during 2012. The committees believe that they have complied with their legal and regulatory responsibilities for the year. The committees 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 terms of reference of the committee adequately covers the two functions. The board has in February 2012 resolved that as from May 2013 the HRC will consist of two separate sub committees, namely the nominations committee and remuneration committee, which will be constituted as prescribed by the JSE Listings Requirements.

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

# AUDIT AND RISK COMMITTEES Risk committee

#### ATTENDANCE SCHEDULE

			29/06/2012 (ad hoc	26/07/2012 (ad hoc		
Name	14/02/2012	14/05/2012	meeting	meeting)	13/08/2012	14/11/2012
B Campbell	*	*	*	*	*	*
MD Dunn (chairman)	*	*	*	*	*	*
MP Fandeso	*	*	*	*	*	*
BTPKM Gamedze	_	*	*	А	Α	А
GG Gelink	_	-	*	*	*	*
IM Kirk	*	*	*	*	*	*
JP Möller	*	*	*	*	*	*
HD Nel						*
MJ Reyneke	*	*	А	A	*	*

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

#### **Audit committee**

#### ATTENDANCE SCHEDULE

Name	14/02/2012	27/02/2012 (ad hoc meeting)	14/05/2012	13/08/2012	28/08/2012 (ad hoc meeting)	14/11/2012
MD Dunn (chairman)	*	*	*	*	*	*
B Campbell	*	*	*	*	*	*
MP Fandeso	*	*	*	*	*	*
BTPKM Gamedze	_	-	*	Α	*	А
GG Gelink	_	_	_	*	*	*

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

#### **HUMAN RESOURCES COMMITTEE**

#### ATTENDANCE SCHEDULE

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J van Zyl (chairman) VP Khanyile MLD Marole

Key: (\*) = Present

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 individual and 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 individual and group performance hurdles as well as guidelines for annual allocations and performs regular reviews of 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

06/11/2012	14/08/2012	07/05/2012	06/02/2012
*	*	*	*
*	*	*	*
*	*	*	*

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-term 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.

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 employee's interests and that 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 three 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 three and five and 6% for multiples in excess of five.	Awards are made annually to selected employees based on seniority, performance and contribution.  Awards are sized and timed to maintain an appropriate level of employees retention value.

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 lifestyle 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 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 it. 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 84. 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 2013 should significant changes in operating conditions or governance framework occur.

Pages 74 to 78 of the 2012 annual financial statements reflect the total earnings and other benefits of executive directors, non-executive directors and prescribed officers in accordance with the requirements of the Companies Act 2008 and the JSE Listings Requirements. The full annual financial statements 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 but 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. For the Chief Executive Officer, the maximum payment that can be made under the OPP is 200% of annual guaranteed package over the measurement period.

#### SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE

#### ATTENDANCE SCHEDULE

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14	а	•	T,	◡

BTPKM Gamedze MLD Marole (chair) YG Muthien Y Ramiah

Key: (\*) = Present, (Res) = Resigned

06/11/2012	14/08/2012	07/05/2012	06/02/2012	
*	*	*	*	
*	*	*	*	
Res	*	*	*	
*	*	*	*	

# SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE REPORT

The board established a social, ethics and sustainability committee with effect from 1 January 2012 to perform, inter alia, the functions prescribed by Regulation 43 of the Companies Act, 2008. The committee also assists the board in ensuring that the sustainability strategy and objectives are effectively integrated into the business. The committee, in addition to performing the function for Santam Ltd, accepted the role of the social and ethics committee for all South African subsidiaries who have a public interest score of 500 or more in the past two years.

The responsibilities of the committee are as follows:

- Monitoring Santam's activities relating to social and economic development, broad-based black economic empowerment, and employment equity
- Monitoring good corporate citizenship, including the promotion of equality, corporate social responsibility, ethical behaviour and managing environmental impacts
- Monitoring changes in empowerment charters and codes
- Monitoring functions required in terms of the Companies
   Act and its regulations

The committee is also responsible to actively manage the material matters that affect the sustainability of the business. These include:

- Minimising the risk associated with social, economic and environmental impacts including stakeholder activism and government regulation
- 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:
  - o developing and retaining a sustained client base;
  - developing solutions to accommodate change inclusive of societal and environmental change;

- o developing and retaining a sustained supplier base;
- having appropriate human capital processes and systems in place;
- o having a transformed business;
- cultivating an ethical culture and combating/curbing economic crime effectively;
- applying environmental impact management and practices;
- o having a sustained intermediary base;
- o extending influence to the benefit of society; and
- o applying responsible investment practices.

During 2012 the committee recommended the targeted level BBBEE contributor status and reviewed the strategy, plans and progress made towards achieving Santam's BBBEE targets. The committee further reviewed the report compiled by the company's appointed BBBEE verification agency which confirmed that Santam had maintained a level 3 BBBEE contributor status.

The committee is chaired by an independent non-executive director and comprises a majority of non-executive directors. The committee is supported in its tasks by members of senior management, including human resources, sustainability, stakeholder relations, risk services, corporate social investment, the company secretary and finance. In terms of its charter, the committee meets formally at least twice per annum, or as required for the effective performance of its duties. The social, ethics and sustainability committee is satisfied that it has fulfilled its responsibilities in accordance with its charter for the period under review. The committee members believe that the group is substantively addressing the issues required to be monitored by the committee in terms of the Companies Act.

#### **INVESTMENT COMMITTEE**

#### ATTENDANCE SCHEDULE

Name		02/05/2012	24/10/2012
GG Gelink (appointed to the committee as chairm	an from 1 June 2012)	-	*
IM Kirk		*	*
JP Möller		*	*
HD Nel (appointed to the committee on 17 Septen	nber 2012)	-	*
MJ Reyneke (chaired meeting of 2 May 2012)		*	*

#### INVESTMENT COMMITTEE

Key: (\*) = Present, (-) = Not a member at the time

The investment committee meets to evaluate and monitor the investment portfolio and the performance of investment managers. These meetings are made up of quarterly feedback sessions with analysts and two formal investment committee meetings a year. The investment committee guides the board on the mandates of investment managers, and makes recommendations regarding the company's investment philosophy. The committee reviewed the Santam group investment policy during November 2012 and recommended it to the Santam board for approval.

The committee is chaired by an independent non-executive director. 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

For detail about Santam's ERM process see the risk management report on page 90.

#### 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. 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.

#### 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.

Internal audit and external audit expanded on the combined assurance project that was initiated in 2011. The design adequacy and effectiveness of the internal financial controls in the most significant accounting cycles in Santam Ltd were documented and tested. No significant deficiencies were found. Results of this review were reported to executive management and the Santam group audit committee in February 2013. The adequacy and effectiveness of the internal financial controls of the significant subsidiaries will also be documented and tested by internal audit in 2013.

#### Assurance providers - Internal audit

The main internal assurance provider in Santam is the internal audit and forensic service (A&FS) business units. 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 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 has an administrative reporting line to the Chief financial officer 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 of 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 Enterprise Risk & Compliance business unit. The risk committee approves its 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 of the company and the group.

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

Santam has a formal pre-approval policy on the use of external auditors for non-audit services. The 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 R2 698 000. This includes R2 221 000 for assurance-related services and R477 000 for tax-related services.

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

#### **RISK MANAGEMENT REPORT**

The objective of risk management is to create and protect value for legitimate stakeholders, improve decision-making and contribute to retaining and building Santam's leadership position in terms of financial performance, reputation/brand, market share and the protection of policyholders.

Santam's board recognises and acknowledges that it is accountable for the total system of risk management and 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. The board also ensures that the risk management and internal control systems 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.

During the year, Santam's risk governance structures have been further strengthened to improve risk management capability across the group and to ensure alignment with expected regulatory developments. The role of chief risk officer is being fulfilled by the newly created executive risk committee (ERC). The primary responsibilities of the ERC include ownership of the internal model, reviewing the own risk and solvency assessment (ORSA) process and calculation of technical provisions, managing compliance with Santam's risk appetite, ensuring an effective risk management system throughout the company, reviewing large or complex corporate transactions and acting as the actuarial control function for the time being. The ERC reports to the executive committee and to the Santam risk committee on risk matters.

The financial risk management business unit assists the ERC in the relevant areas and the enterprise risk management business unit provides independent oversight

and systems for the management of all categories of risks. Both these functions have direct reporting lines to the Santam risk committee to ensure independent and objective oversight over risks.

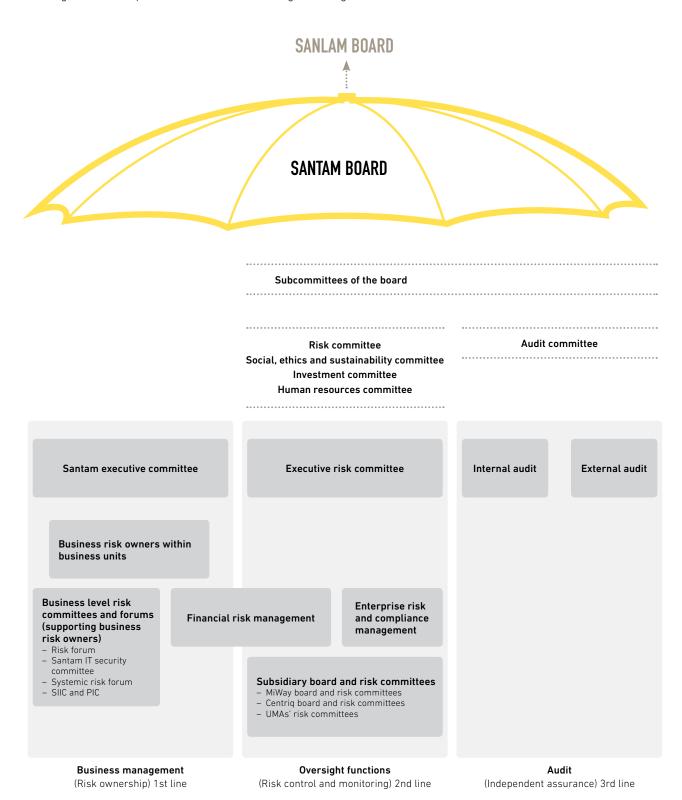
Executive management remains accountable to the board in ensuring that suitable risk management and internal control processes are embedded and integrated into the strategic and operational management of the company.

In addition to changes in the risk management governance structures, the risk management policies and processes were updated to include new legislation and regulatory requirements (especially SAM) and to consider the evolving scope of the group's business. The policies form part of the group's governance framework and encompasses the totality of strategies, policies and procedures for identifying, measuring, monitoring, managing and reporting of all material risks to which the group may be exposed.

Risk monitoring and management is a continuous process. However, to enable transparency and adequate oversight, formalised risk reporting structures and requirements are defined and aligned with the Santam risk committee responsibilities and requirements.

Various processes are implemented to ensure all aspects and categories of risks are covered, assessed and monitored to ensure that risks are managed within the overall Santam board's risk appetite. The focus in 2012 was to establish and update risk profiles and risk appetites supported by top-down and bottom-up processes to cover all categories of risks (strategic, insurance, liquidity, market, credit and operational). The Santam group risk appetite was further supported by developing risk appetites for all its major businesses and licensed entities which are also reviewed and reported to the Santam risk committee via the respective boards and committees. The internal model is used to monitor that risks remain within acceptable levels defined within the risk appetite. Qualitative statements within the risk appetite are monitored by ERM processes. Risk scenarios have been developed during 2012 to support and review the strategic risks (particularly the ones with longer time horizons) and to also test the correlations and dependencies between these risks.

The diagram below represents Santam's risk management organisational structure:



#### Corporate governance report

Alignment between risk management and other assurance providers, including internal and external audit, compliance and quality assurance functions, is important to ensure that adequate assurance is provided over significant risks and any gaps identified and addressed. This process is referred to as the "combined assurance process". The combined assurance model documents and summarises the assurance provided over significant risks and are reported and reviewed by the audit committee at least on an annual basis.

The following board committees monitor specific risks with overall oversight and review provided by the risk committee:

- Human resources committee
- Social, ethics and sustainability committee
- Investment committee

#### Risk disclosure

The integrated ERM process is mature and is applied consistently throughout the Santam group. Based on independent reviews and maturity assessments presented to the risk committee, the board is confident that the integrated ERM programme is adequate in identifying current and emerging risks and ensuring that these risks are managed appropriately. The most significant risks currently being managed by executive and senior management, together with key initiatives, form part of the material issues as set out on page 28.

#### **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.

During the year, the group underwent a crisis simulation to test the ability to continue business. The simulation confirmed that management is well prepared to handle a crisis. Areas of improvement have been identified and will be implemented during the next year.

#### IT GOVERNANCE

The King Code of Governance Principles for South Africa 2009 (King III) defines information technology (IT) governance as a board responsibility. For the board to successfully discharge its responsibility, management has established an IT governance framework and reporting system that provides the board with a clear and understandable view of the effectiveness of IT governance arrangement within the group. This view enables the board to verify on behalf of all stakeholders that Santam is deriving value through the appropriate use of IT in line with strategy and at an acceptable level of risk.

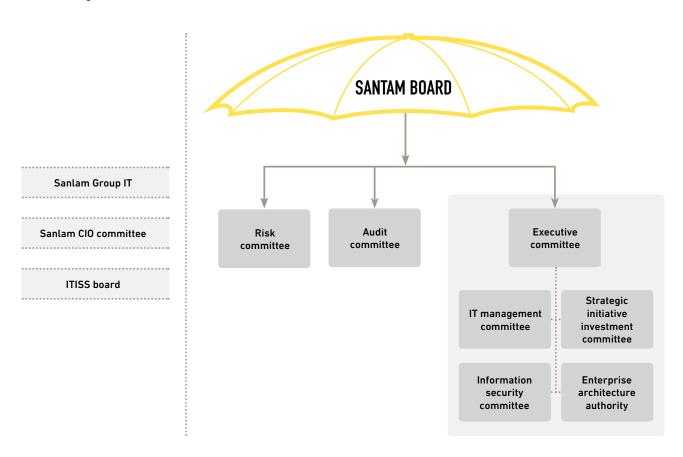
Santam follows a hybrid approach to IT governance to ensure that all IT functions are managed and executed in a controlled and standardised manner within the group. The governance framework is directed by the Santam IT charter, which describes the IT governance mechanisms, principles and responsibilities within the group.

In addition to King III, Santam's IT governance is also aligned with the international standard for IT governance advocated by the IT Governance Institute (ITG) and associated underlying CobiT control framework (ISACA's control objectives for IT) and ITIL. The information security governance is aligned with the Standard of Good Practice of the International Security Forum (ISF) and with ISO 27002.

IT governance at Santam is implemented and executed through a number of governance bodies and reporting lines. Authority and accountability have been allocated at the level most appropriate for decision-making on the quality and rending of IT services.

During the year, and following the appointment of an IT portfolio manager with overall IT governance maturity and reporting responsibility, the approach to IT in Santam has been adapted to focus on improvement in the areas that was identified during the 2010 IT Governance King III assessment performed by the Sanlam group. Particular attention were given to formalising and standardising reporting to the Santam board and executive committee through an IT balanced scorecard and to the risk and audit committee through an IT risk appetite report.

#### Santam's IT governance structure:



A new IT operational structure was implemented in April 2012. This was the result of a process of several years during which IT at Santam has evolved from a maintenance-orientated concern to a parallel approach where the disciplines of systems engineering and system maintenance and support are established as distinct competencies – necessitated by the increasing demand for core systems replacements in support of Santam's strategic projects.

Following the implementation of the new structure, the focus was on developing IT capability maturity based on centres of expertise – each focusing on its own technical specialisation and functional specialisation related specifically to the requirements of the short-term insurance industry.

Within the new split structure, the maintenance team ensures business continuity whereas the building team supports the strategic projects.

The IT governance process also includes the evaluation of Santam's 120 applications against an optimised target portfolio, reduced total cost of ownership and technical debt. This provides the group with a decommissioning plan to replace legacy systems. All decommissioning, new system development and infrastructure investments are evaluated against the Santam IT risk appetite to determine the level of risk the company is willing to take in implementing its strategy.

# CURRICULUM VITAE OF DIRECTORS UP FOR RE-ELECTION AND APPOINTMENT

The following directors will be nominated for re-election at the annual general meeting of Santam Ltd to be held on 29 May 2013.

#### **B** Campbell

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

#### **BTPKM Gamedze**

Director of Credit Guarantee Insurance Company (Pty)
Ltd, Sanlam Emerging Markets (Pty) Ltd, Sanlam
Investment Management (Pty) Ltd, Exoport 12 (Pty) Ltd,
Alt-e Technologies (Pty) Ltd, AE-AMD (Pty) Ltd, Pan African
Holdings (Kenya) and Botswana Insurance Holdings Limited.
President of the Actuarial Society of South Africa and
founding president of the Association of the South African
Black Actuarial Professionals (ASABA).

#### JP Möller

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

#### J van Zyl

Chief executive officer of Sanlam Ltd and Sanlam Life Insurance Ltd. Director of Channel Life Ltd, Sanlam Developing Markets Ltd, Sanlam Emerging Markets Ltd, Sanlam Investment Holdings Ltd, Sanlam UK Ltd and Sanlam Netherlands Holding BV, One Vision Investments (Pty) Ltd and Dippenaar & Reinecke (Pty) Ltd. Chairman of Association of Savings and Investment South Africa, Chairman of Vumelana Advisory Fund NPC. Council member of the University of Pretoria and trustee of the Hans Merensky Foundation.

#### **GG Gelink**

Chief executive officer of Deloitte Southern Africa from 2006 to 2012 and chairman of the African Children's Feeding Scheme. Director of FirstRand Ltd, Grindrod Ltd, Allied Electronics Corporation Ltd (Altron), Eqstra Holdings Ltd and MTN Zakhele.

#### **HD Nel**

Previously head of the PricewaterhouseCoopers Financial Services Practice in the Western Cape and responsible for the statutory audits of a number of listed entities. Director of Centriq group of companies, Censeo (Pty) Ltd, Emerald Risk Transfer (Pty) Ltd, MiWay Group of companies, Stalker Hutchison & Associates (Pty) Ltd, Central Plaza Investments 112 (Pty) Ltd, Guardian National Insurance Company Ltd and Swanvest 120 (Pty) Ltd.

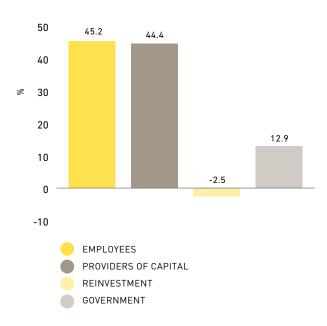
	2012	2011
VALUE ADDED	R million	R million
Gross written premium	19 386	17 707
Claims paid and cost of other services	16 461	14 759
	2 925	2 948
Investment income net of fees	1 242	828
	4 167	3 776
VALUE DISTRIBUTED		
Employee benefits	1 866	1 706
Government	624	486
Direct taxation on income	481	450
STC	143	36
Providers of capital	763	1 677
	3 253	3 869
Retained for reinvestment and future support of business	914	(93)
Depreciation and amortisation of intangible assets	160	106
Retained income before transfer to reserves	1 995	(340)
Compulsory reserves for future support of business	(1 241)	141
	4 167	3 776

### VALUE DISTRIBUTED 2012

# 50 45.4 40 32.7 \$ 30 15.2 10 6.7



#### VALUE DISTRIBUTED 2011





# CLIMATE CLIMATE CHANGE LEADERSHIP

A W A R D S

DECLARED OUR RESEARCH ON THE IMPACT OF CLIMATE CHANGE-RELATED RISKS AND THE ABILITY OF INSURANCE TO ADAPT. AS THE WINNER IN THE FINANCIAL SERVICES SECTOR. THIS STUDY WAS CONDUCTED ON THE EDEN PROJECT, IN PARTNERSHIP WITH THE CSIR, UNIVERSITY OF CAPE TOWN AND WWF.

• APPROVAL OF ABRIDGED FINANCIAL STATEMENTS

AUDITOR'S REPORT

• PREPARATION AND PRESENTATION OF ABRIDGED FINANCIAL STATEMENTS

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#### Approval of abridged financial statements

#### TO THE SHAREHOLDERS OF SANTAM LTD

#### RESPONSIBILITY FOR AND APPROVAL OF THE ABRIDGED FINANCIAL STATEMENTS

The board of Santam Ltd accepts responsibility for the integrity, objectivity and reliability of the group 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 auditors 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 abridged financial statements fairly present the financial position, the results of the operations and cash flows in accordance with IAS 34 – Interim Financial Reporting.

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

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

**VP KHANYILE** 

Chairman

IM KIRK

Chief Executive Officer

In h Mink

27 February 2013

#### Auditor's report

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

#### Preparation and presentation of abridged financial statements

The preparation of the abridged financial statements was supervised by the Chief financial officer of Santam Ltd, HD Nel. The full set of annual financial statements 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

27 February 2013

# Consolidated statement of financial position

	Notes	Audited At 31 Dec 2012 R million	Audited At 31 Dec 2011 R million
ASSETS			
Non-current assets			
Property and equipment		99	80
Intangible assets		990	994
Deferred income tax		221	207
Investments in associates		261	274
Financial assets – at fair value through income Equity securities	6	3 551	3 856
Debt securities	6	6 957	6 160
Derivatives	6	6	1
Financial assets – at amortised cost			
Cell owners' interest		24	40
Reinsurance assets	7	137	244
Current assets			
Financial assets – at fair value through income			
Short-term money market instruments	6	917	1 775
Reinsurance assets	7	1 618	1 256
Deferred acquisition costs  Loans and receivables including insurance receivables	6	340 2 088	332 1 836
Income tax assets	0	57	36
Cash and cash equivalents		2 471	1 598
Total assets		19 737	18 689
FOURTY			
EQUITY  Capital and reserves attributable to the company's equity holders			
Share capital		107	107
Treasury shares		(579)	(635)
Other reserves		77	1 492
Distributable reserves		5 904	5 072
Manager Lands and Company		5 509	6 036
Non-controlling interest Total equity		108 5 617	105 6 141
Total oquity		0017	0111
LIABILITIES			
Non-current liabilities		00/	445
Deferred income tax Financial liabilities – at fair value through income		284	115
Debt securities	6	1 034	964
Investment contracts	6	83	48
Financial liabilities – at amortised cost			
Cell owners' interest		712	643
Insurance liabilities	7	1 340	1 404
Provisions for other liabilities and charges		-	1
Current liabilities Financial liabilities – at fair value through income			
Debt securities	6	24	24
Investment contracts	6	12	56
Financial liabilities – at amortised cost			
Collateral guarantee contracts		75	114
Insurance liabilities	7	8 318	7 071
Deferred reinsurance acquisition revenue		147	102 105
Provisions for other liabilities and charges Trade and other payables		161 1 886	1 828
Income tax liabilities		44	73
Total liabilities		14 120	12 548
Total shareholders' equity and liabilities		19 737	18 689
• •			

# Consolidated statement of comprehensive income

	Notes	Audited Year ended 31 Dec 2012 R million	Audited Year ended 31 Dec 2011 R million	Change %
Gross written premium		19 386	17 707	9.5%
Less: Reinsurance written premium		3 564	3 033	
Net written premium		15 822	14 674	7.8%
Change in unearned premium				
Gross amount		323	241	
Reinsurers' share		(127)	(219)	
Net insurance premium revenue		15 626	14 652	6.6%
Investment income	8	859	676	
Income from reinsurance contracts ceded		516	321	
Net gain on financial assets and liabilities at fair value through income	8	480	189	
Net income		17 481	15 838	10.4%
Insurance claims and loss adjustment expenses		12 167	10 788	
Insurance claims and loss adjustment expenses recovered from reinsurers		(1 488)	(1 384)	
Net insurance benefits and claims		10 679	9 404	13.6%
Net insurance benefits and claims		10 07 7	7 404	13.070
Expenses for the acquisition of insurance contracts		2 540	2 324	
Expenses for marketing and administration		2 349	2 114	
Expenses for asset management services		31	28	
Amortisation and impairment of intangible assets		116	68_	
Expenses		15 715	13 938	12.7%
Results of operating activities		1 766	1 900	(7.1%)
Finance costs		(106)	(94)	
Net income from associates		83	85	
Impairment on investment in associate		(43)		
Profit before tax		1 700	1 891	(10.1%)
Income tax expense	9	(624)	(486)	
Profit for the year		1 076	1 405	(23.4%)
Other comprehensive income				
Currency translation differences		23	108	
Total comprehensive income for the year		1 099	1 513	
Profit attributable to:		1.007	1 376	
- equity holders of the company		1 027 49	1 3/6	
- non-controlling interest		1 076	1 405	
Total comprehensive income attributable to:		1 070	1 403	
– equity holders of the company		1 050	1 484	
- non-controlling interest		49	29	
		1 099	1 513	
Earnings attributable to equity shareholders	12			
Basic earnings per share (cents)	۱۷	904	1 216	(25.7%)
Diluted earnings per share (cents)		895	1 202	(25.5%)
		3,3	1 202	(23.070)
Weighted average number of shares — millions		113.56	113.15	
Weighted average number of ordinary shares for diluted earnings		44		
per share – millions		114.81	114.47	

# Consolidated statement of changes in equity

#### Attributable to equity holders of the company

	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Non- controlling interest R million	Total R million
Balance as at 1 January 2011	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			100			100
ended 31 December 2011	_	_	108	1 376	29	1 513
Purchase of treasury shares	_	(37)	100	1 3 / 0		(37)
Sale of treasury shares		53				53
Loss on sale of treasury shares	_	-		(68)		(68)
Transfer to reserves	_	_	119	(119)	_	(00)
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
Profit for the year	_	_	-	1 027	49	1 076
Other comprehensive income:						
Currency translation differences	_	_	23		-	23
Total comprehensive income for the year						
ended 31 December 2012	-	_	23	1 027	49	1 099
Sale of treasury shares	_	56	_	_	-	56
Loss on sale of treasury shares	_	-	-	(57)	-	(57)
Transfer to reserves	_	-	(1 438)	1 438	-	-
Share-based payments	_	-	-	50	-	50
Dividends paid	_	_	-	(1 626)	(48)	(1 674)
Interest acquired from non-controlling interest			_		2	2
Balance as at 31 December 2012	107	(579)	77	5 904	108	5 617

## Consolidated statement of cash flows

Cash generated from operations         2 337         2 522           Interest paid         (81)         (119)           Income tax paid         (81)         (119)           Net cash from operating activities         1 735         1 590           Cash flows from investing activities         81         201           Cash generated by investment activities         935         201           Acquisition of subsidiary         10         -         (343)           Cash acquired through acquisition of subsidiary         10         -         3           Purchases of equipment         (63         (39)           Purchases of software         (31)         (28)           Proceeds from sale of equipment         1         1         1           Acquisition of associated companies         (6)         -           Acquisition of book of business         (81)         -           Net cash from/(used in) investing activities         755         (205)           Cash flows from financing activities         755         (205)           Cash flows from financing activities         -         4           Proceeds on sale of treasury shares         -         4           Proceeds in collateral quarantee contracts         (37)         -	No	otes	Audited Year ended 31 Dec 2012 R million	Audited Year ended 31 Dec 2011 R million
Income tax paid         (521)         (813)           Net cash from operating activities         1735         1590           Cash flows from investing activities         Second transparent of the subsidiary         Second transparent of the subsidiary         10         -         (343)           Cash acquired through acquisition of subsidiary         10         -         3           Purchases of equipment         (63)         (37)           Purchases of software         (31)         (28)           Proceeds from sale of equipment         1         1           Acquisition of associated companies         (66)         -           Acquisition of book of business         (81)         -           Net cash from/(used in) investing activities         755         (205)           Cash flows from financing activities         -         (37)           Purchase of treasury shares         -         4           Pocrease in collateral guarantee contracts         (39)         -           Decrease in investment contract liabilities         (17)         (413)           Dividends paid to non-controlling interest         (48)         (25)           Increase in cell owners' interest         90         26           Net cash used in financing activities         (1640)	Cash generated from operations		2 337	2 522
Net cash from operating activities         1735         1590           Cash flows from investing activities         201           Cash generated by investment activities         935         201           Acquisition of subsidiary         10         –         (343)           Cash acquired through acquisition of subsidiary         10         –         3           Purchases of equipment         (63)         (39)           Purchases of software         (31)         (28)           Proceeds from sale of equipment         1         1           Acquisition of associated companies         (6)         –           Acquisition of associated companies         (81)         –           Act cash from/(used in) investing activities         755         (205)           Cash flows from financing activities         755         (205)           Proceeds on sale of treasury shares         -         (37)           Proceeds on sale of treasury shares         -         4           Decrease in investment contract         (39)         -           Decrease in investment contract liabilities         (17)         (413)           Dividends paid to company's shareholders         (1626)         (593)           Dividends paid to non-controlling interest         (48)	Interest paid		(81)	(119)
Cash flows from investing activities         935         201           Cash generated by investment activities         935         201           Acquisition of subsidiary         10         –         (343)           Cash acquired through acquisition of subsidiary         10         –         3           Purchases of equipment         (63)         (39)           Purchases of software         (31)         (28)           Proceeds from sale of equipment         1         1         1           Acquisition of associated companies         (6)         –           Acquisition of book of business         (81)         –           Net cash from/(used in) investing activities         755         (205)           Cash flows from financing activities         -         (37)           Proceeds on sale of treasury shares         –         (37)           Proceeds on sale of treasury shares         –         4           Decrease in collateral guarantee contracts         (39)         –           Decrease in investment contract liabilities         (17)         (413)           Dividends paid to company's shareholders         (1626)         (593)           Dividends paid to company's shareholders         (48)         (25)           Increase in cell owne	Income tax paid		(521)	(813)
Cash generated by investment activities         935         201           Acquisition of subsidiary         10         -         (343)           Cash acquired through acquisition of subsidiary         10         -         3           Purchases of equipment         (63)         (39)           Purchases of software         (31)         (28)           Proceeds from sale of equipment         1         1           Acquisition of associated companies         (6)         -           Acquisition of book of business         (81)         -           Net cash from/(used in) investing activities         755         (205)           Cash flows from financing activities         -         (37)           Purchase of treasury shares         -         (37)           Proceeds on sale of treasury shares         -         (37)           Poccease in collateral guarantee contracts         (39)         -           Decrease in investment contract liabilities         (17)         (413)           Dividends paid to company's shareholders         (1626)         (593)           Dividends paid to non-controlling interest         (48)         (25)           Increase in cell owners' interest         90         26           Net cash used in financing activities	Net cash from operating activities		1 735	1 590
Acquisition of subsidiary         10         -         (343)           Cash acquired through acquisition of subsidiary         10         -         3           Purchases of equipment         (63)         (39)           Purchases of software         (31)         (28)           Proceeds from sale of equipment         1         1         1           Acquisition of associated companies         (6)         -           Acquisition of book of business         (81)         -           Net cash from/(used in) investing activities         755         (205)           Cash flows from financing activities         -         (37)           Proceeds on sale of treasury shares         -         (37)           Pecrease in collateral guarantee contracts         (39)         -           Decrease in ocllateral guarantee contracts         (39)         -           Decrease in investment contract liabilities         (17)         (413)           Dividends paid to company's shareholders         (1 626)         (593)           Dividends paid to non-controlling interest         (48)         (25)           Increase in cell owners' interest         90         26           Net cash used in financing activities         (1 640)         (1 038)           Net inc	Cash flows from investing activities			
Cash acquired through acquisition of subsidiary         10         -         3           Purchases of equipment         (63)         (39)           Purchases of software         (31)         (28)           Proceeds from sale of equipment         1         1           Acquisition of associated companies         (6)         -           Acquisition of book of business         (81)         -           Net cash from/(used in) investing activities         755         (205)           Cash flows from financing activities         -         (37)           Proceeds on sale of treasury shares         -         (37)           Pecrease in collateral guarantee contracts         (39)         -           Decrease in investment contract liabilities         (17)         (413)           Dividends paid to company's shareholders         (1626)         (593)           Dividends paid to non-controlling interest         (48)         (25)           Increase in cell owners' interest         90         26           Net cash used in financing activities         850         347           Cash and cash equivalents at the beginning of the year         1 598         1 143           Exchange gains on cash and cash equivalents         23         108	Cash generated by investment activities		935	201
Purchases of equipment         (63)         (39)           Purchases of software         (31)         (28)           Proceeds from sale of equipment         1         1           Acquisition of associated companies         (6)         -           Acquisition of book of business         (81)         -           Net cash from/(used in) investing activities         755         (205)           Cash flows from financing activities         -         (37)           Purchase of treasury shares         -         (37)           Proceeds on sale of treasury shares         -         4           Decrease in collateral guarantee contracts         (39)         -           Decrease in investment contract liabilities         (17)         (413)           Dividends paid to company's shareholders         (1 626)         (593)           Dividends paid to company's shareholders         (1 626)         (593)           Dividends paid to non-controlling interest         (48)         (25)           Increase in cell owners' interest         90         26           Net cash used in financing activities         (1 640)         (1 038)           Net increase in cash and cash equivalents         850         347           Cash and cash equivalents at the beginning of the year	Acquisition of subsidiary	10	-	(343)
Purchases of software         (31)         (28)           Proceeds from sale of equipment         1         1           Acquisition of associated companies         (6)         -           Acquisition of book of business         (81)         -           Net cash from/(used in) investing activities         755         (205)           Cash flows from financing activities         -         (37)           Purchase of treasury shares         -         (37)           Proceeds on sale of treasury shares         -         4           Decrease in collateral guarantee contracts         (39)         -           Decrease in investment contract liabilities         (17)         (413)           Dividends paid to company's shareholders         (1 626)         (593)           Dividends paid to non-controlling interest         (48)         (25)           Increase in cell owners' interest         90         26           Net cash used in financing activities         (1 640)         (1 038)           Net increase in cash and cash equivalents         850         347           Cash and cash equivalents at the beginning of the year         1 598         1 143           Exchange gains on cash and cash equivalents         23         108	Cash acquired through acquisition of subsidiary	10	-	3
Proceeds from sale of equipment11Acquisition of associated companies(6)-Acquisition of book of business(81)-Net cash from/(used in) investing activities755(205)Cash flows from financing activities-(37)Purchase of treasury shares-(37)Proceeds on sale of treasury shares-4Decrease in collateral guarantee contracts(39)-Decrease in investment contract liabilities(17)(413)Dividends paid to company's shareholders(1 626)(593)Dividends paid to non-controlling interest(48)(25)Increase in cell owners' interest9026Net cash used in financing activities(1 640)(1 038)Net increase in cash and cash equivalents850347Cash and cash equivalents at the beginning of the year1 5981 143Exchange gains on cash and cash equivalents23108	Purchases of equipment		(63)	(39)
Acquisition of associated companies(6)-Acquisition of book of business(81)-Net cash from/(used in) investing activities755(205)Cash flows from financing activities-(37)Purchase of treasury shares-(37)Proceeds on sale of treasury shares-4Decrease in collateral guarantee contracts(39)-Decrease in investment contract liabilities(17)(413)Dividends paid to company's shareholders(1 626)(593)Dividends paid to non-controlling interest(48)(25)Increase in cell owners' interest9026Net cash used in financing activities(1 640)(1 038)Net increase in cash and cash equivalents850347Cash and cash equivalents at the beginning of the year1 5981 143Exchange gains on cash and cash equivalents23108	Purchases of software		(31)	(28)
Acquisition of book of business(81)—Net cash from/(used in) investing activities755(205)Cash flows from financing activities—(37)Purchase of treasury shares—(37)Proceeds on sale of treasury shares—4Decrease in collateral guarantee contracts(39)—Decrease in investment contract liabilities(17)(413)Dividends paid to company's shareholders(1 626)(593)Dividends paid to non-controlling interest(48)(25)Increase in cell owners' interest9026Net cash used in financing activities(1 640)(1 038)Net increase in cash and cash equivalents850347Cash and cash equivalents at the beginning of the year1 5981 143Exchange gains on cash and cash equivalents23108	Proceeds from sale of equipment		1	1
Net cash from/(used in) investing activities755(205)Cash flows from financing activities-(37)Purchase of treasury shares-(37)Proceeds on sale of treasury shares-4Decrease in collateral guarantee contracts(39)-Decrease in investment contract liabilities(17)(413)Dividends paid to company's shareholders(1 626)(593)Dividends paid to non-controlling interest(48)(25)Increase in cell owners' interest9026Net cash used in financing activities(1 640)(1 038)Net increase in cash and cash equivalents850347Cash and cash equivalents at the beginning of the year1 5981 143Exchange gains on cash and cash equivalents23108	Acquisition of associated companies		(6)	_
Cash flows from financing activitiesPurchase of treasury shares-(37)Proceeds on sale of treasury shares-4Decrease in collateral guarantee contracts(39)-Decrease in investment contract liabilities(17)(413)Dividends paid to company's shareholders(1 626)(593)Dividends paid to non-controlling interest(48)(25)Increase in cell owners' interest9026Net cash used in financing activities(1 640)(1 038)Net increase in cash and cash equivalents850347Cash and cash equivalents at the beginning of the year1 5981 143Exchange gains on cash and cash equivalents23108	Acquisition of book of business		(81)	
Purchase of treasury shares - (37) Proceeds on sale of treasury shares - 4 Decrease in collateral guarantee contracts (39) - Decrease in investment contract liabilities (17) (413) Dividends paid to company's shareholders (1626) (593) Dividends paid to non-controlling interest (48) (25) Increase in cell owners' interest 90 26 Net cash used in financing activities (1 640) (1 038)  Net increase in cash and cash equivalents 850 347 Cash and cash equivalents at the beginning of the year 1 598 1 143 Exchange gains on cash and cash equivalents 23 108	Net cash from/(used in) investing activities		755	(205)
Purchase of treasury shares - (37) Proceeds on sale of treasury shares - 4 Decrease in collateral guarantee contracts (39) - Decrease in investment contract liabilities (17) (413) Dividends paid to company's shareholders (1626) (593) Dividends paid to non-controlling interest (48) (25) Increase in cell owners' interest 90 26 Net cash used in financing activities (1640) (1038)  Net increase in cash and cash equivalents 850 347 Cash and cash equivalents at the beginning of the year 1598 1143 Exchange gains on cash and cash equivalents 23 108	Cash flows from financing activities			
Decrease in collateral guarantee contracts  Decrease in investment contract liabilities  Dividends paid to company's shareholders  Dividends paid to non-controlling interest  Dividends paid to non-controlling interest  Cash used in financing activities  Net increase in cash and cash equivalents  Cash and cash equivalents at the beginning of the year  Exchange gains on cash and cash equivalents  Cash and cash equivalents  Dividends paid to company's shareholders  (1626)  (1593)  (1626)  (25)  (188)  (25)  (1 640)  (1 038)  Cash and cash equivalents	•		_	(37)
Decrease in investment contract liabilities (17) (413) Dividends paid to company's shareholders (1 626) (593) Dividends paid to non-controlling interest (48) (25) Increase in cell owners' interest 90 26 Net cash used in financing activities (1 640) (1 038)  Net increase in cash and cash equivalents 850 347 Cash and cash equivalents at the beginning of the year 1 598 1 143 Exchange gains on cash and cash equivalents 23 108	Proceeds on sale of treasury shares		_	4
Dividends paid to company's shareholders(1 626)(593)Dividends paid to non-controlling interest(48)(25)Increase in cell owners' interest9026Net cash used in financing activities(1 640)(1 038)Net increase in cash and cash equivalents850347Cash and cash equivalents at the beginning of the year1 5981 143Exchange gains on cash and cash equivalents23108	Decrease in collateral guarantee contracts		(39)	_
Dividends paid to non-controlling interest(48)(25)Increase in cell owners' interest9026Net cash used in financing activities(1 640)(1 038)Net increase in cash and cash equivalents850347Cash and cash equivalents at the beginning of the year1 5981 143Exchange gains on cash and cash equivalents23108	Decrease in investment contract liabilities		(17)	(413)
Increase in cell owners' interest9026Net cash used in financing activities(1 640)(1 038)Net increase in cash and cash equivalents850347Cash and cash equivalents at the beginning of the year1 5981 143Exchange gains on cash and cash equivalents23108	Dividends paid to company's shareholders		(1 626)	(593)
Net cash used in financing activities(1 640)(1 038)Net increase in cash and cash equivalents850347Cash and cash equivalents at the beginning of the year1 5981 143Exchange gains on cash and cash equivalents23108	Dividends paid to non-controlling interest		(48)	(25)
Net increase in cash and cash equivalents Cash and cash equivalents at the beginning of the year Exchange gains on cash and cash equivalents  850 347 1143 23 108	Increase in cell owners' interest		90	26
Cash and cash equivalents at the beginning of the year 1 598 1 143 Exchange gains on cash and cash equivalents 23 108	Net cash used in financing activities		(1 640)	(1 038)
Cash and cash equivalents at the beginning of the year 1 598 1 143 Exchange gains on cash and cash equivalents 23 108	Net increase in cash and cash equivalents		850	347
Exchange gains on cash and cash equivalents 23 108	·			
cash and cash equivalents at the end of the year Z 4/1 1598	Cash and cash equivalents at the end of the year		2 471	1 598

#### Notes to the financial information

#### BASIS OF PRESENTATION

This abridged consolidated financial information for the year ended 31 December 2012 has been prepared in accordance with IAS 34 - Interim Financial Reporting and in compliance with the JSE Listings Requirements. 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 2012, which have been prepared in accordance with IFRSs.

#### **ACCOUNTING POLICIES** 2.

The accounting policies applied are consistent with those of the previous and current 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 2012.

#### 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 2012.

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

During 2012 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 2012.

#### SEGMENT INFORMATION

Segments have been identified by business activity, i.e. insurance activities and investment activities, as these activities mainly affect the group's risk and returns. No geographical segmentation is disclosed as southern Africa is regarded as one reportable segment for management purposes.

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Chief Executive Officer, supported by the group executive committee (Exco).

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; with 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.

#### Notes to the financial information

In the past, group underwriting results included the MiWay deferred bonus plan expense (DBP) and the Santam BEE transaction costs. The MiWay DBP was introduced in 2011 to compensate management for the 10% stake they previously held in MiWay. An additional share incentive scheme was subsequently introduced representing a standard long-term incentive scheme. The BEE transaction costs relate to the Santam BEE transaction in 2007 in terms of which Santam shares are allocated to black employees and business partners.

The MiWay DBP, relating to the compensation of the 10% interest previously held by management in MiWay and the Santam BEE transaction costs are unrelated to the core underwriting performance of the group. Therefore, the underwriting results are shown excluding these expenses and the comparative segmental numbers have been restated as follows:

	2011 Rm	2011 % of net earned premiums
Net underwriting results as previously reported	1 131	7.7
MiWay DBP and Santam BEE transaction costs	55	0.4
Restated underwriting result	1 186	8.1

In previous financial years technical assets and liabilities per insurance class were disclosed. The disclosure has been discontinued given that the chief operating decision-maker does not review this information.

#### For the year ended 31 December 2012

Business activity	Insurance activities R million	Investment activities R million	Unallocated R million	Total R million
2012				
Revenue	19 386	858		20 244
Gross written premium	19 386		-	19 386
Net written premium	15 822		·	15 822
Net earned premium	15 626			15 626
Claims incurred	10 679			10 679
Net commission	2 024			2 024
Management expenses	2 300			2 300
Underwriting result	623			623
Investment return on insurance funds	415			415
Net insurance result	1 038			1 038
Investment income net of management fee*		787		787
Income from associates net of impairment		40		40
MiWay DBP and Santam BEE transaction costs			(57)	(57)
Amortisation and impairment of intangible assets _	(108)			(108)
Income before taxation	930	827	(57)	1 700

<sup>\*</sup> Interest income of R88 million and finance cost of R106 million are included.

	Gross written premium	Underwriting result
Insurance class	R million	R million
2012		
Accident and health	286	10
Alternative risk	2 103	(7)
Crop	687	38
Engineering	860	158
Guarantee	40	8
Liability	1 227	206
Miscellaneous	23	6
Motor	8 361	89
Property	5 291	32
Transportation	508	83
Total	19 386	623
Comprising:		
Commercial insurance	9 660	767
Personal insurance	7 623	(137)
Alternative risk	2 103	(7)
Total	19 386	623

#### 5.2 For the year ended 31 December 2011

Business activity – Restated	Insurance activities R million	Investment activities R million	Unallocated 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	2 059			2 059
Underwriting result	1 186			1 186
Investment return on insurance funds	388			388
Net insurance result	1 574			1 574
Investment income net of management fee*		355		355
Income from associates net of impairment		85		85
MiWay DBP and Santam BEE transaction costs			(55)	(55)
Amortisation of intangible assets	(68)			(68)
Income before taxation	1 506	440	(55)	1 891

<sup>\*</sup> Interest income of R48 million and finance cost of R94 million are included.

Insurance class	Gross written premium R million	Underwriting result R million
2011		
Accident and health	286	45
Alternative risk	1 924	(5)
Crop	575	12
Engineering	736	121
Guarantee	17	9
Liability	1 157	143
Miscellaneous	16	1
Motor	7 621	511
Property	4 981	258
Transportation	394	91
Total	17 707	1 186
Comprising:		
Commercial insurance	8 844	941
Personal insurance	6 939	250
Alternative risk	1 924	(5)
Total	17 707	1 186

	Audited At 31 Dec 2012 R million	Audited At 31 Dec 2011 R million
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	11 431	11 792
Loans and receivables	2 088	1 836
Total financial assets	13 519	13 628

#### 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

2012	Level 1	Level 2	Level 3	Total
_	R million	R million	R million	R million
Equity securities				
Quoted				
Listed	3 183	-	-	3 183
Unitised funds	-	94	-	94
Irredeemable preference shares	2	-	-	2
Unquoted	_	-	272	272
Total equity securities	3 185	94	272	3 551
Debt securities				
Quoted				
Government and other bonds	1 644	87	_	1 731
Redeemable preference shares	-	275	-	275
Money market instruments				
(long-term instruments)	-	1 513	-	1 513
Unquoted				
Government and other bonds	-	31	-	31
Money market instruments				
(long-term instruments)	_	3 378	_	3 378
Redeemable preference shares	_	_	29	29
Total debt securities	1 644	5 284	29	6 957
Derivatives				
Interest rate swaps	_	-	6	6
Total derivatives	-	_	6	6
Short-term money market instruments	_	917	_	917
· -	4 829	6 295	307	11 431

2011	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
-	K million	K million	K million	K 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 other bonds	1 575	182	_	1 757
Redeemable preference shares	_	392	_	392
Money market instruments				
(long-term instruments)	_	1 371	_	1 371
Unquoted		1 07 1		1 07 1
Government and other bonds	_	167	_	167
Money market instruments		107		107
(long-term instruments)		2 197		2 197
	_	2 197	27/	
Redeemable preference shares	1.575		276	276
Total debt securities	1 575	4 309	276	6 160
Derivatives			1	1
Interest rate swaps			11	1
Total derivatives	_	<del>-</del>	1	1
Short-term money market instruments		1 775	<del>-</del>	1 775
-	4 937	6 164	691	11 792
Financial liabilities at fair value				
through income				
2012	Level 1	Level 2	Level 3	Total
2012	R million	R million	R million	R million
-		TO THIRD IN	TO THICK ON	TO THIRTIEST
Debt securities	1 058	_	_	1 058
Investment contracts		95		95
-	1 058	95		1 153
2011	Level 1	Level 2	Level 3	Total
_	R million	R million	R million	R million
Debt securities	988	-	-	988
Investment contracts		104		104
_	988	104	_	1 092

During 2007 the company issued unsecured subordinated callable notes to the value of R1 billion in two tranches. The fixed effective rate for the R600 million issue was 8.6% and 9.6% for the second tranche of R400 million, representing the R203 companion bond plus an appropriate credit spread at the time of the issues. The fixed coupon rate, based on the nominal value of the issues, amounts to 8.25% and for both tranches the optional redemption date is 15 September 2017. Between the optional redemption date and final maturity date of 15 September 2022, a variable interest rate (JIBAR-based plus additional margin) will apply.

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

		Audited At 31 Dec 2012 R million	Audited At 31 Dec 2011 R million
7.	INSURANCE LIABILITIES AND REINSURANCE ASSETS		
	Gross		
	Long-term insurance contracts		
	- claims incurred but not reported	14	9
	Short-term insurance contracts		
	- claims reported and loss adjustment expenses	4 948	4 191
	– claims incurred but not reported	1 311	1 246
	- unearned premiums	3 385	3 029
	Total insurance liabilities – gross	9 658	8 475
	Non-current liabilities Current liabilities	1 340 8 318	1 404 7 071
	Recoverable from reinsurers		
	Long-term insurance contracts		
	- claims incurred but not reported	2	1
	Short-term insurance contracts	_	·
	- claims reported and loss adjustment expenses	977	920
	- claims incurred but not reported	192	150
	– unearned premiums	584	429
	Total reinsurers' share of insurance liabilities	1 755	1 500
	Non-current assets	137	244
	Current assets	1 618	1 256
	Net		
	Long-term insurance contracts		
	– claims incurred but not reported	12	8
	Short-term insurance contracts		
	– claims reported and loss adjustment expenses	3 971	3 271
	– claims incurred but not reported	1 119	1 096
	– unearned premiums	2 801	2 600
	Total insurance liabilities – net	7 903	6 975
8.	INVESTMENT INCOME AND NET GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME		
	Investment income	859	676
	Dividend income*	342	150
	Interest income	503	436
	Foreign exchange differences	14	90
	Net realised gains on financial assets	358	140
	Net fair value gains on financial assets designated as at		
	fair value through income	360	21
	Net fair value (losses)/gains on financial assets held for trading	(166)	9
	Net realised gains on derivatives	5	80
	Net fair value losses on financial liabilities designated as at		
	fair value through income	(77)	(61)
	Net fair value losses on debt securities	(70)	(39)
	Net fair value losses on investment contracts	(7)	(22)
		1 339	865

<sup>\*</sup> Dividend income for the group includes a dividend of R181 million from Santam's run-off international business.

	Audited At	Audited At
	31 Dec 2012	31 Dec 2011
	R million	R million
9. TAX		
South African normal taxation		
Current year	433	567
Charge for the year	294	531
STC	139	36
Prior year	10	(4)
Foreign taxation – current year	38	34
Income taxation for the year	481	597
Deferred taxation	143	(111)
Current year	139	(111)
STC	4	_
Total taxation	624	486
Reconciliation of taxation rate (%)		
Normal South African taxation rate	28.0	28.0
Adjust for	-	
– Exempt income	(2.6)	(2.2)
– Investment results	(3.2)	(1.9)
<ul> <li>Change in CGT inclusion rate</li> </ul>	4.7	_
- STC	8.4	1.9
– Other	1.4	(0.1)
Net increase/(reduction)	8.7	(2.3)
Effective rate (%)	36.7	25.7

#### 10. BUSINESS COMBINATIONS

#### 2012

#### Additions

#### Riscor Underwriting Managers (Pty) Ltd

The group acquired 100% of Riscor Underwriting Managers (Pty) Ltd (Riscor) on 1 September 2012 for a nominal amount. Riscor acquired from Topexec Management Bureau (Pty) Ltd and Combined Administration Management Services (Pty) Ltd their intermediary administration business units, comprising fixed assets and intangible assets on 1 September 2012 and 1 November 2012 respectively. The merged Riscor entity will operate as an independent administration company.

The total purchase price amounted to R29 million. Intangible assets of R39 million and deferred taxation of R10 million were recognised. Net operating assets amounted to approximately R1 million.

#### Disposals

#### Stilus Underwriting Managers (Pty) Ltd

On 1 January 2012, the Santam group sold its 60% interest in Stilus Underwriting Managers (Pty) Ltd.

	Audited	Audited
	At	At
	31 Dec 2012	31 Dec 2011
	R million	R million
Details of assets and liabilities sold are as follows:		
Deferred taxation	(2)	_
Trade and other payables	4	_
Net asset value sold	2	_
Plus: Non-controlling interest	(2)	-
Purchase consideration received		_

#### 2011

#### Additions

#### 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  ${\sf R4}$  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 unit into Mirabilis.

		b) Mirabilis	
		Engineering	
	a) MiWay	Underwriting	
	Group	Managers	
	Holdings Ltd	(Pty) Ltd	Total
Details of the assets and liabilities acquired			
at fair value are as follows:			
Deferred taxation	-	(5)	(5)
Intangible assets	-	18	18
Financial assets at fair value through income	-	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

		Audited At 31 Dec 2012 R million	Audited At 31 Dec 2011 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 unit by merging it into Mirabilis Engineering Underwriting Managers (Pty) Ltd.		
	Net excess received on acquisition of non-controlling interest  Settled through acquisition of Mirabilis Engineering Underwriting Managers (Pty) Ltd  Purchase consideration paid	- - -	(38)
12.	EARNINGS PER SHARE Basic earnings per share Profit attributable to the company's equity holders (R million) Weighted average number of ordinary shares in issue (million) Earnings per share (cents)	1 027 113.56 904	1 376 113.15 1 216
	Diluted earnings per share  Profit attributable to the company's equity holders (R million)  Weighted average number of ordinary shares in issue (million)  Adjusted for share options  Weighted average number of ordinary shares for diluted earnings  per share (million)	1 027 113.56 1.25	1 376 113.15 1.32
	Diluted basic earnings per share (cents)	895	1 202
	Headline earnings per share Profit attributable to the company's equity holders (R million) Impairment of goodwill Impairment of software Impairment of investment and associate Tax charge and non-controlling interest	1 027 35 25 43 –	1 376 - - - -
	Headline earnings (R million)  Weighted average number of ordinary shares in issue (million)  Headline earnings per share (cents)	1 130 113.56 995	1 376 113.15 1 216
	Diluted headline earnings per share Headline earnings (R million) Weighted average number of ordinary shares for diluted earnings per share (million) Diluted headline earnings per share (cents)	1 130 114.81 984	1 376 114.47 1 202
13.	DIVIDENDS PER SHARE Ordinary dividend per share (cents) Special dividend per share (cents)	640 -	555 850

#### 14. EVENTS AFTER THE REPORTING PERIOD

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

# (I) Analysis of shareholders

Analysis of shareholders	Number of shareholders	% of total shareholders	Number of shares	% Interest
1 – 100 shares	928	16.66%	67 791	0.06%
101 – 1 000 shares	2 829	50.85%	1 247 405	1.05%
1 001 – 50 000 shares	1 732	31.12%	9 640 750	8.08%
50 001 – 100 000 shares	34	0.61%	2 350 135	1.97%
100 001 – 10 000 000 shares	40	0.72%	26 742 737	22.41%
More than 10 000 000 shares	2	0.04%	79 297 599	66.43%
Total	5 565	100.00%	119 346 417	100.00%
Type of shareholder				
Individuals	3 871	69.57%	4 624 484	3.89%
Companies	347	6.23%	79 595 419	66.68%
Growth funds/unit trusts	142	2.55%	20 804 109	17.43%
Nominee companies or trusts	1 107	19.89%	4 116 457	3.45%
Pension and retirement funds	98	1.76%	10 205 948	8.55%
Total	5 565	100.00%	119 346 417	100.00%

	0	olders in Africa	Shareholders other than in South Africa		Total shareholders	
Shareholder spread	Nominal number	% Interest	Nominal number	% Interest	Nominal number	% Interest
Public shareholders Directors	5 411 10	26.27% 0.14%	140	100.00%	5 551 10	28.77% 0.14%
Trustees of employees' share scheme Holdings of 5% or more	1 3	0.00% 73.59%	- -	_ _	1 3	0.00% 71.09%
Sanlam Ltd Central Plaza Investments	1	59.10%	-	_	1	57.09%
112 (Pty) Ltd*	1	9.68%	_	_	1	9.35%
Guardian National Insurance Ltd**	1	4.81%	-	-	1	4.65%
Total	5 425	100.00%	140	100.00%	5 565	100.00%

The analysis includes the shares held as treasury shares.

<sup>\*</sup> BEE special-purpose company \*\* Owner of treasury shares

# (II) Analysis of debt security holders

	Number of debt security holders	% of total debt security holders	Number of units	% Interest
Analysis of debt security holders				
1 – 50 000 units	1	1.09%	31 700	_
50 001 – 100 000 units	2	2.17%	185 600	0.02%
100 001 – 1 000 000 units	31	33.70%	18 467 000	1.85%
1 000 000 – 10 000 000 units	42	45.65%	176 822 000	17.68%
More than 10 000 000 units	16	17.39%	804 493 700	80.45%
Total	92	100.00%	1 000 000 000	100.00%
Type of debt security holder				
Intermediaries	2	2.17%	53 531 700	5.35%
Endowment funds	5	5.43%	13 458 600	1.35%
Insurance companies	9	9.78%	213 792 800	21.38%
Investment companies	1	1.09%	125 000 000	12.50%
Medical aid schemes	2	2.17%	1 150 000	0.12%
Mutual funds	35	38.04%	209 120 900	20.91%
Nominees and trusts	2	2.17%	1 490 000	0.15%
Pension funds	33	35.89%	356 546 000	35.65%
Private companies	3	3.26%	25 910 000	2.59%
Total	92	100.00%	1 000 000 000	100.00%

		Debt security holders in South Africa	
Debt security holder spread	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%	
RMB Capital Markets	53 500 000	5.35%	
Other Tabel	461 681 100	46.16%	
Total	1 000 000 000	100.00%	



# WE RECEIVED THE GRAND

# MIDAS AWARD,

AN INTERNATIONAL ACKNOWLEDGEMENT
OF OUR BRAND ADVERTISING BEING THE BEST IN THE
FINANCIAL SERVICES CATEGORY. OUR RELENTLESS FOCUS
ON BRAND EXCELLENCE CONTINUED TO LEAVE ITS MARK,
RESULTING IN HIGHLY AWARDED COMMUNICATION CAMPAIGNS AT
THE CANNES LIONS AWARDS AND THE LOERIE AWARDS......

#### 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 resulting from events which have taken place, but of which the claims incurred but not reported (IBNR)

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 statement of financial position.

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.

#### Definitions for industry-specific terms

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 ratios."

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.

Defined in the Short-term Insurance Act as providing benefits under short-term insurance

> 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.

UMA Underwriting management agencies

underwriting The process of examining, accepting, or rejecting insurance risks, and

classifying or segmenting those selected, to change the proper premium

for each.

The regular pattern of rising profits and increasing premiums and reduced underwriting cycle

> 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.

#### Assurance statement

Santam's 2012 integrated report is the result of combined input from all the different business units reporting on their activities and achievements for the year. Our external auditors, PricewaterhouseCoopers Inc, provide assurance over the abridged financial statements included in this report. Santam has not obtained full independent thirdparty assurance on the non-financial data included in the integrated report for 2012. However, internal audit provided assurance on some aspects of the Sustainability Report (refer to the assurance statement in this report on www.santam.co.za).

The key component of assurance is the verification and sign-off by Santam's executive management. Their conclusion is that there is sufficient evidence to support Santam's claims regarding its performance. The Integrated Report 2012 was reviewed by the Santam audit committee and recommended for approval to the board who provided final approval. Therefore, we believe that this report offers stakeholders the necessary basis to make considered evaluations of the performance and sustainability of the company.

#### NON-EXECUTIVE DIRECTORS

B Campbell, MD Dunn, MP Fandeso, BTPKM Gamedze, GG Gelink, VP Khanyile (Chairman), MLD Marole, JP Möller, MJ Reyneke, J van Zyl

#### **EXECUTIVE DIRECTORS**

IM Kirk (Chief Executive Officer), HD Nel (Chief financial officer), Y Ramiah

#### **SPONSOR**

Investec Bank Ltd

#### TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd 70 Marshall Street, Johannesburg 2001 PO Box 61051, Marshalltown 2107 Tel: 011 370 5000 Fax: 011 688 7721

www.computershare.com

#### **COMPANY SECRETARY**

Masood Allie

#### SANTAM HEAD OFFICE AND REGISTERED ADDRESS

1 Sportica Crescent Tyger Valley Bellville 7530 PO Box 3881, Tyger Valley 7536 Tel: 021 915 7000

Fax: 021 914 0700 www.santam.co.za

Registration number 1918/001680/06

ISIN ZAE000093779

JSE share code: SNT

NSX share code: SNM



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