



2018

INTEGRATED
REPORT







OUR DIVERSITY MAKES THE DIFFERENCE.

Every human being is unique, with their own lifestyle, values and needs. Protecting them and their assets can't be one-size-fits-all. At Santam, we've spent over 100 years creating a wide range of offerings using the varied skills of many different people. As South Africa's leading short-term insurer, it's something we do through our involvement in South Africa, the African continent and other emerging markets. Like an African pattern, these different elements work together to make us strong and resilient. And together they help us deliver ***Insurance good and proper.***

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31 December 2018

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SALIENT FEATURES

<p>Gross written premium (GWP) conventional insurance growth of</p> <p>7% to R27.7 billion</p> <p><i>Long-term goal: ≥Real gross domestic product (GDP) growth</i></p>	<p>Conventional insurance: acquisition cost ratio of</p> <p>30.4%</p> <p><i>Long-term goal: 27%</i></p>	<p>Headline earnings per share increased by</p> <p>47% to 2 099 cents</p>
<p>Alternative risk transfer (ART) operating result increased by</p> <p>14% to R96 million</p>	<p>Conventional insurance: underwriting margin of</p> <p>9.2%</p> <p><i>Long-term goal: 4% – 8% through the cycles</i></p>	<p>Economic capital coverage ratio of</p> <p>159%</p> <p><i>Long-term goal: 130% – 170%</i></p>
<p>Return on capital of</p> <p>31.8%</p> <p><i>Long-term goal: > 24%</i></p>	<p>Conventional insurance: investment return on insurance funds of</p> <p>2.4%</p> <p><i>Long-term goal: 2.5% of net earned premium (NEP) through the cycles</i></p>	<p>Santam's share of the net insurance result (NIR) of Santam Emerging Markets (SEM) and SAN JV increased by</p> <p>16% to R283 million</p>
<p>Gross claims</p> <p>R18.4 billion</p>		

	2018	2017
Gross written premium earned outside South Africa	R3.4 billion	R3.2 billion
Number of group employees	6 043	5 990
Santam group BBBEE level*	1	2
Santam black ownership percentage**	34%	28%
Global credit rating	AA-(ZA) South African national scale (under review)	AAA(ZA) South African national scale
Standard & Poor's Global rating	BB+ Local currency, global scale zaAAA South African national scale	BB+ Local currency, global scale zaAA+ South African national scale
Socio-economic development spend as % of net profit after tax*	0.64%	0.86%

* Based on Santam Ltd and its South African subsidiaries.

** As per the revised FSC scorecard.

TRUSTED BY **85 OF**
THE JSE'S TOP 100
COMPANIES

CERTIFIED AS A
TOP EMPLOYER
FOR THE THIRD
CONSECUTIVE YEAR

INCLUDED IN
THE FTSE/JSE
**RESPONSIBLE
INVESTMENT TOP 30
INDEX**

LEVEL 1 BBBEE RATING
ACCORDING TO THE
FINANCIAL SECTOR
CHARTER (FSC)

WELCOME TO OUR REPORT

Santam Ltd (“Santam” or “the group”) is a South African company listed on the JSE Ltd (JSE) since 1964 under the insurance (non-life) sector. The company was founded in 1918 and our headquarters are in Cape Town, South Africa. Santam effected a secondary listing of its shares on the A2X Markets exchange on 1 February 2019. Santam is a subsidiary of the South African financial services group, Sanlam, which holds 61.5% of Santam’s shares.

This integrated report (the “report”) reviews the financial year for the 12 months ended 31 December 2018 (the “reporting period” or the “year”). It covers general insurance and investment operations, and applies to Santam Ltd and its subsidiaries, which make up the Santam business portfolio:



REPORTING FRAMEWORKS, GUIDELINES AND STANDARDS

This report was developed with due consideration of the following reporting requirements and principles:

- King IV Report on Corporate Governance™ for South Africa, 2016 [King IV™]¹
- International Financial Reporting Standards (IFRS)
- Companies Act, 71 of 2008, as amended (the Companies Act)
- JSE Listings Requirements
- International Integrated Reporting Council’s (IIRC) Integrated Reporting <IR> Framework

FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements with respect to Santam’s future performance and prospects. These statements relate to, among others, gross premium growth levels, underwriting margins and investment returns. These statements represent our judgements and future expectations. Risks, uncertainties and other important factors could cause actual results to differ materially from our expectations. Forward-looking statements apply only as of the date on which they are made, and Santam is under no obligation to update or revise any of them, whether because of new information, future events or otherwise.

APPROVAL

The integrated report was reviewed by the audit and the social, ethics and sustainability (SES) committees. The reviewed report was recommended to the board, who approved it on 27 February 2019. On this basis, the board is satisfied that the report addresses all material matters, whether positive or negative, and offers the necessary substance for the providers of financial capital to make considered evaluations about the performance and sustainable value creation ability of the group.

TIPS FOR OUR READERS

- Santam’s performance over the long term (a period of seven years), according to key performance indicators, is set out on page 146.
- There is a glossary of insurance and financial terms, as well as abbreviations on page 150.
- Details regarding reporting frameworks; guidelines and standards; content assurance; and reporting elements can be found on page 144.

For more information, please visit www.santam.co.za.

Please share your experience of reading this report by emailing us on: investor.relations@santam.co.za. Readers can also interact with us on the following social media platforms:



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SANTAM IS THE MAIN DRIVER BEHIND THE RESILIENT INVESTMENT FUND, WHICH NOW ALSO ATTRACTS OTHER THIRD PARTY FUNDS. TO DATE R86 MILLION HAS BEEN ALLOCATED TO THE FUND SINCE 2013, WHICH INVESTS IN COMPANIES THAT HAVE A DIRECT POSITIVE IMPACT ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISKS.

62% (2017: 56%) SCORE FOR PERFORMANCE AGAINST THE CLIMATEWISE PRINCIPLES: CONTRIBUTING TO A LOW-CARBON CLIMATE-RESILIENT ECONOMY.

01

WE'VE GOT ONE OF EVERYONE.

It's our people who make Santam the company it is. Our diversified business footprint in South Africa is reflected in the people who work for us.





**In this
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- 6 Key data about Santam
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KEY DATA ABOUT SANTAM

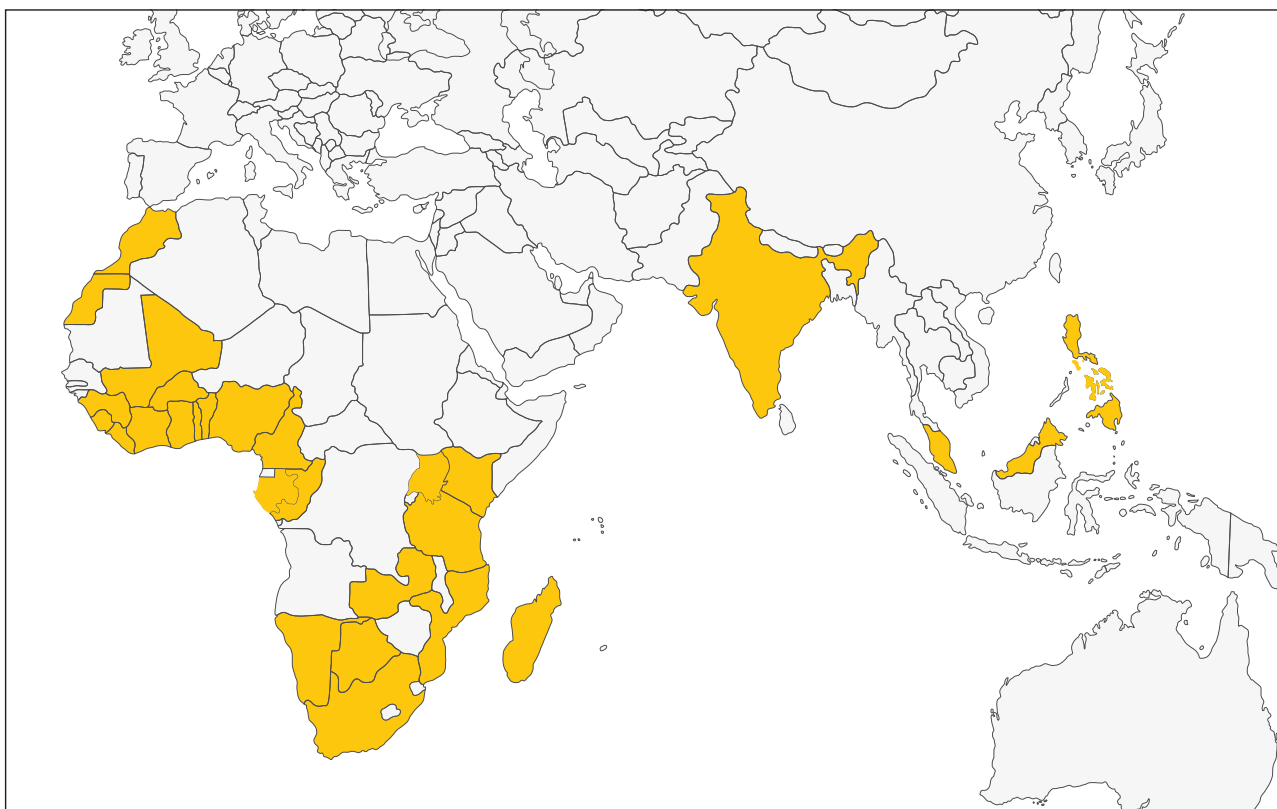
WHO WE ARE AND WHAT WE DO

- Santam is a leading multinational general insurance group in South Africa that writes insurance business predominantly in Africa, India, Southeast Asia, as well as other emerging markets.
- Santam has a market share of more than 22% in South Africa.
- We provide products and services through a network of over 3 600 intermediaries as well as direct channels.
- The group's more than 1 million policyholders range from individuals to commercial and specialist business owners and institutions.
- We derive revenue from insurance activities and investments.
- The performance of insurance activities is based on gross written premium as a measure of growth, with operating result as a measure of profitability.

OUR INSURANCE ACTIVITIES

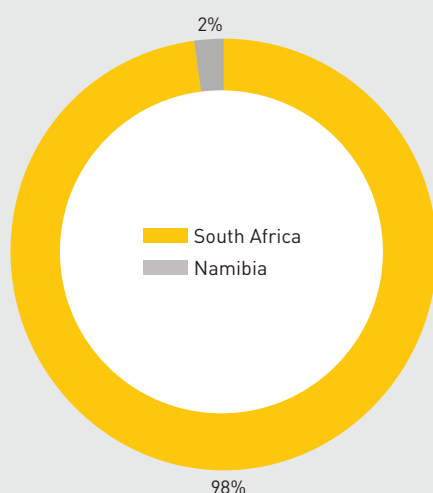
Insurance operating segments	Inclusive of:
Conventional insurance	Conventional insurance business written on insurance licences controlled by the group, consisting of the following business units: <ul style="list-style-type: none"> – Santam Commercial and Personal – Santam Specialist (niche and agriculture business) – Credit insurance written by Santam Structured Insurance (SSI) – Santam re – MiWay
Alternative risk transfer insurance (ART)	ART insurance business written on the insurance licences of Centriq and SSI
Santam Emerging Markets (SEM) partner businesses, including Saham Finances	Santam's share of the insurance results of the SEM general insurance businesses, including Saham Finances held through SAN JV

WHERE WE OPERATE

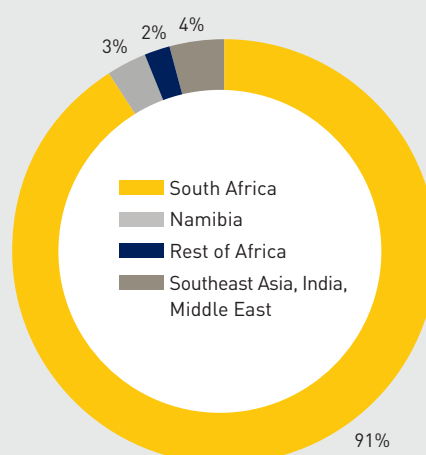


Our strengths remain our diversified footprint, capital strength, recognised brand, technical expertise and our ability to grow business flows outside of South Africa.

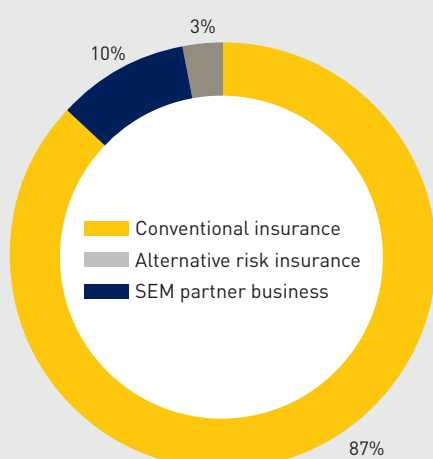
WHERE OUR EMPLOYEES WORK



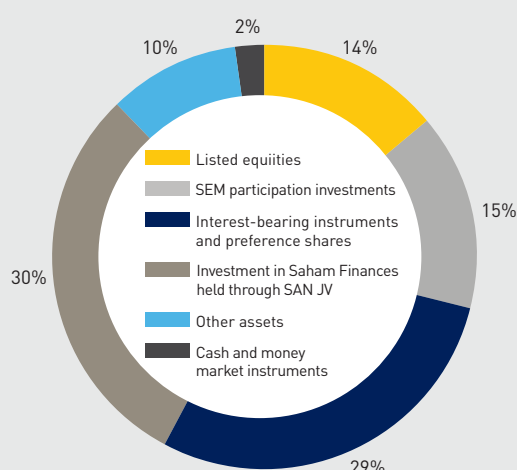
OUR GROSS WRITTEN PREMIUM PER REGION (EXCLUDING SEM AND SAHAM)



OUR NET INSURANCE RESULTS



WHAT WE INVEST IN



THE SANTAM BUSINESS PORTFOLIO: OUR BUSINESS UNITS

For an overview of each business unit's performance in 2018, see the Santam business portfolio: our performance in the chief executive officer's report on page 58, and the chief financial officer's report from page 66.

SANTAM COMMERCIAL AND PERSONAL

Our multichannel insurance business in South Africa and Namibia

Santam offers a business portfolio in South Africa and Namibia that serves both retail and commercial markets by providing appropriate insurance solutions that suit the needs of entrepreneurs and businesses. We offer a multiproduct and multichannel distribution portfolio for personal insurance. The portfolio provides clients with

comprehensive cover through a wide range of products. Policies target each segment's needs profile, and can be tailored through flexible excess structures and policy benefits.

Santam Commercial and Personal offers independent administration through Brolink.

Santam Commercial and Personal lines distribution channels	Classes of general insurance products
<ul style="list-style-type: none"> National and independent intermediaries Direct contact centre Outsourced portfolio administrators Referral business Affinity business Sanlam agency network 	<ul style="list-style-type: none"> Accident and health Engineering Guarantee Liability Marine Motor Property

SANTAM SPECIALIST

Our specialist insurance business portfolio in emerging markets

The Santam Specialist business unit focuses on the insurance of large and complex risks in niche market segments. Underwriting these classes of insurance requires skilled resources to assess and quantify the risk and exposure as provided by the unit's underwriting managers and niche business units. Products are client-driven and supported by specialist underwriting. This demonstrates our understanding of this unique risk environment, and is testament to our dedication to meet and exceed client expectations.

The Santam Specialist business unit	Classes of general insurance products
<ul style="list-style-type: none"> Underwriting managers and niche business units: <ul style="list-style-type: none"> Santam Marine is a leading marine underwriter covering cargo, hull and liabilities. Santam Specialist Real Estate was created exclusively for residential and commercial sectional title and share block properties. It is designed to give intermediaries and clients comprehensive and innovative insurance solutions. Emerald Risk Transfer provides property insurance solutions for large industrial and corporate businesses. Echelon Private Client Insurance focuses on the high-net-worth personal lines segment of the market. Hospitality and Leisure Underwriters caters for the needs of the hospitality sector from the smallest to the largest risks, including retail businesses; from restaurants and caterers, to game lodges and hotels. Mirabilis Engineering Underwriting Managers offers a comprehensive range of engineering insurance solutions. Santam Aviation specialises in general aviation for commercial and private sector insurance including hull, third-party and passenger liability insurance. Santam Bonds and Guarantees provides a wide range of surety solutions, including construction guarantees, contract bonds and court bonds. Santam Transport is the leading heavy commercial vehicle insurer in South Africa and offers comprehensive cover to transport contractors. Stalker Hutchinson Admiral (SHA) provides insurance against broad-form liability, banker's blanket, cyber and computer crime, directors' and officers' liability, professional indemnity for traditional and emerging professions, personal accidents, kidnapping and ransom, and motor fleet insurance. Travel Insurance Consultants (TIC) is South Africa's largest travel insurance provider. It offers specialised travel insurance solutions including emergency medical, loss of money or baggage, and travel supplier insolvency for leisure and corporate travellers. Vulindlela Underwriting Managers (VUM) specialises in providing a range of insurance solutions for owners of minibus, midibus and metered taxis in South Africa. VUM recently entered the small, medium and micro enterprises (SMME) market to expand the relationship of the taxi base to include other assets and motor vehicles in underinsured markets. Centriq is a specialist cell captive insurer that offers alternative risk finance solutions. Santam Agriculture is the leading crop insurer in South Africa, focusing on named peril insurance and multiperil crop insurance. Santam Structured Insurance (SSI) is an industry innovator in specialist insurance structuring. It offers domestic and cross-border individually designed financial solutions to partners and clients. These solutions include risk finance and trade credit insurance. 	<ul style="list-style-type: none"> Accident and health ART Aviation Credit insurance Crop Engineering Guarantee Liability Livestock and game Marine Motor Property Risk finance Strategic investments Structuring Supply chain finance Underwriting solutions

BUSINESS PROFILE FEATURE: CENTRIQ

Centriq offers access to insurance licences to affinity groups, underwriting management agencies (UMAs) and corporates. The in-house team of specialists offers the following:

- Conventional and structured insurance policies
- Multi-year funded insurance structures
- Blended risk transfer/retention insurance policies
- First-party cells
- Specialist UMA solutions via cell captive structures
- Alternative distribution/brand affinity third-party cells

Centriq's clients and partners include underwriting managers whose clients are commercial entities and individuals, as well as large commercial entities. These entities, in turn, distribute insurance products to their individual clients. Alternative risk finance clients include mines and larger commercial and corporate entities.

Tailored policies allow clients to control their own insurance purchasing and risk management decisions using an accredited, recognised risk transfer mechanism. This assists them to build up insurance capacity for unforeseen events, and realise cost savings and other benefits on their traditional insurance programmes.

A cell captive, or "virtual insurance company" is owned and controlled jointly by the client and the insurer. Centriq's cell captive partners expose themselves to underwriting risk as if they were a fully-fledged insurance company, without having to be one. Centriq manages the setup, financial management and regulatory compliance of the cell, allowing the business partner to manage the insurance transacting and operations.

BUSINESS PROFILE FEATURE: SANTAM STRUCTURED INSURANCE

SSI's client base includes consumers; small, medium and large corporates; and entities such as banks and agricultural businesses.

SSI leverages specialist technical skills and applies various insurance licences to offer diversified and bespoke solutions to clients. For example, post-retirement medical aid products are written on both general and life insurance to successfully build up fully -funded solutions for clients.

The supply chain finance and credit insurance divisions allow clients to manage their working capital and early settlement to suppliers, reducing their exposure to buyers and increasing the ability to trade.

The risk finance division offers insurance solutions to SMME clients via a unique distribution model.

MIWAY

A direct insurance business in South Africa

MiWay is a direct insurer that underwrites predominantly personal lines general insurance business through direct acquisition. This is supported by a smaller intermediated personal lines business and a suite of direct business insurance products. MiWay supports Santam's strategy of growth through diversification, which enables us to coexist with, and complement, the group's intermediary business model.

Current services	Classes of general insurance products
<ul style="list-style-type: none">- General insurance (motor, homeowners and household contents)- Motor warranty- Credit life- Accidental death or disability- Other value-added products- Business insurance- Life insurance (underwritten by Sanlam Life Insurance Ltd)	<ul style="list-style-type: none">- Motor- Property

SANTAM RE

Our reinsurance business in South Africa and international markets

Santam re is a wholesale reinsurance service provider for the Santam group general insurance businesses and independent general insurers in South Africa, Africa, the Middle East, India and Asia (including South Korea). Santam re operates under the

Santam general insurance licence, which enables us to optimise the size, quality and diversity of the overall risk pool relative to capital resources and risk appetite.

Classes of general insurance products:

- Accident and health
- Engineering
- Guarantee
- Liability
- Marine
- Motor
- Property

Santam re writes proportional and non-proportional reinsurance on marine and non-marine classes.

SANTAM EMERGING MARKETS INVESTMENTS

Our investments in emerging markets

Santam and SEM's acquisition of Saham Finances expanded it to north, west and east Africa, and the Middle East.

Sanlam Emerging Markets (SEM) is responsible for Sanlam's financial business services in emerging markets outside South Africa and through its partnership with SEM, Santam has economic participation in 34 countries in Africa, India and Malaysia.

Following the further investment in Saham Finances in 2018, Santam will take the lead in managing the combined Saham Finances and Santam Specialist business in Africa, in conjunction with SEM and Saham Finances.

BUSINESS PROFILE FEATURE: SAHAM FINANCES

Saham Finances is an insurance group with operations in 26 countries across north, west and east Africa, and the Middle East.

It predominantly writes general insurance business, which exceeds 80% of its portfolio, the balance being reinsurance, life insurance, assistance and third-party administration. Saham Assistance is an African market leader in Africa with a worldwide network of 450 000 service providers. Through third-party administration, Saham Finances manages extended healthcare networks.

Saham Finances has approximately 65 subsidiaries, a network of more than 700 branches and an employee complement of more than 3 000 people. It has a leading market share in many of the markets in which it operates.

Saham Finances owns 58.48% of Saham Assurance Maroc, which is listed on the Moroccan Stock Exchange. The group is signatory to the United Nations Environment Programme (UNEP) Principles for Sustainable Insurance (PSI).

INVESTMENT CASE

A LEADING GENERAL INSURER

LEADING MARKET POSITION

Santam is a 100-year-old leading South African general insurer with a presence in selected emerging markets, listed on the JSE since 1964.

STRONG AND CONSISTENT RETURNS

- Highly cash generative: consistent underwriting profits since 1918
- Efficient capital management and a stable dividend policy
- Always adapting to prevailing market conditions and risks
- Responsible investment: promotes good governance and value creation
- Sanlam Investments, our primary asset manager, is signatory to both the Code for Responsible Investing in South Africa (CRISA) and its forerunner, the United Nations-backed Principles of Responsible Investing (UNPRI)
- Enterprise risk management (ERM) framework: integrated into strategic decision-making and capital allocation

LEADING BRAND

Santam brand positioning: *Insurance good and proper*

- Fair and ethical business: enhanced credibility and reputation

LEADING SKILLS

- World-class scientific underwriting capability
- Diverse and specialist insurance skills
- Large and complex network of intermediaries, suppliers and business partners

LEADING SUSTAINABLE BUSINESS

Santam's integrated approach to managing long-term sustainability and community resilience supports our ability to continue to pay claims and ensure that individuals and communities recover from adverse incidents.

Market share of more than 22% in South Africa

Sanlam: a strong, stable and strategically aligned core shareholder

Average return on capital:

- Over 10 years **25.6%**
- Over five years **25.7%**

Ordinary dividend per share compound achieved over the last 10 years: 9.2%

Responsible investment: the three Emthunzini Black Economic Empowerment trusts continue to benefit from our good returns

Complaints resolved by consensus with client: 14.18%. Resolved by Ombudsman for short term insurance (OSTI) ruling: 1.52%*

Sunday Times Top Brands 2018: Business General Insurance Category

Santam was included in the first BrandZ™ Top 30 Most Valuable South African brands ranking

Talent development programmes: Future Leaders, Leadership Excellence and Senior Leadership 80 employees enrolled in 2018 (2017: 53)**

* These results reflect both personal and commercial matters.
** Santam internal leadership development programme

We were included in the FTSE4Good Index Series, which measures the performance of companies demonstrating strong ESG practices

Founding signatory to the UNEP PSI

Signatory to the PSI "assisting ocean stewardship through marine insurance" statement

We support the UNEP Finance Initiative (FI) survey on ESG issues in general insurance, with global guidelines forthcoming in 2019

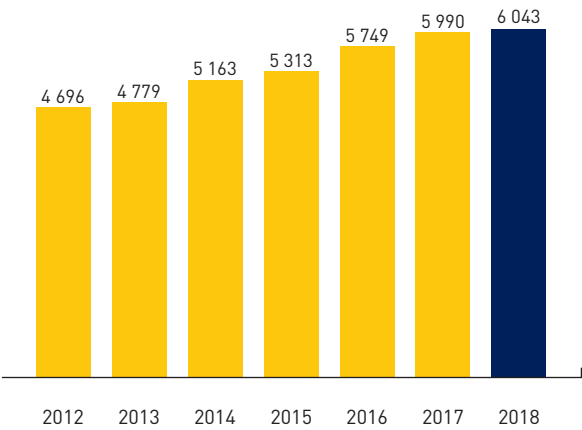
Santam included in the FTSE/JSE Responsible Investment Top 30 Index

GOOD AND PROPER THROUGH DIVERSITY
 Diversity leads to resilience and superior performance over time.

DIVERSE PEOPLE

Read about how Santam values and cultivates the diversity of our people under transformation on page 21 and the right people on page 53.

NUMBER OF PERMANENT EMPLOYEES

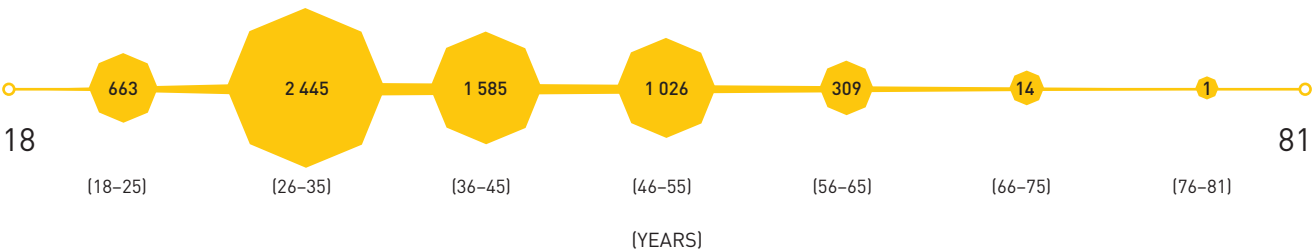


DIVERSITY OF GENDER

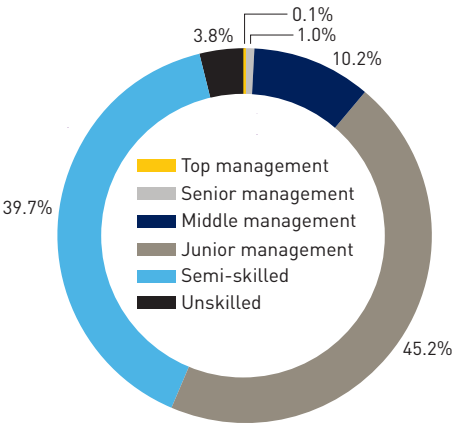


DIVERSITY OF AGE

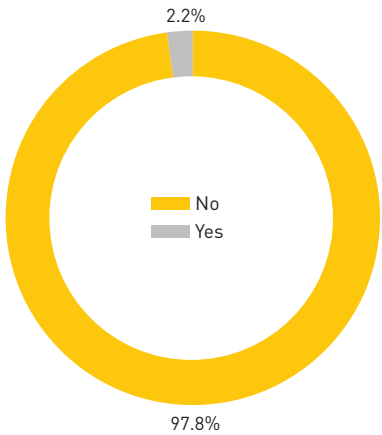
EMPLOYEES



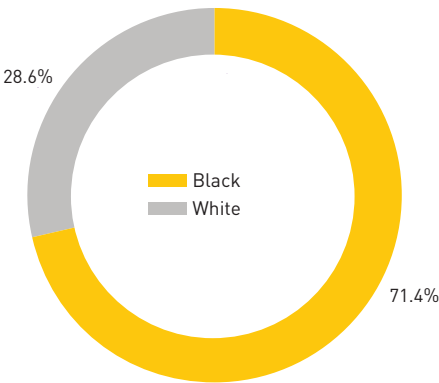
OCCUPATION LEVEL OF BLACK EMPLOYEES (RELATIVE TO TOTAL NUMBER OF BLACK EMPLOYEES)



EMPLOYEES WITH DISABILITIES



DIVERSITY OF RACE



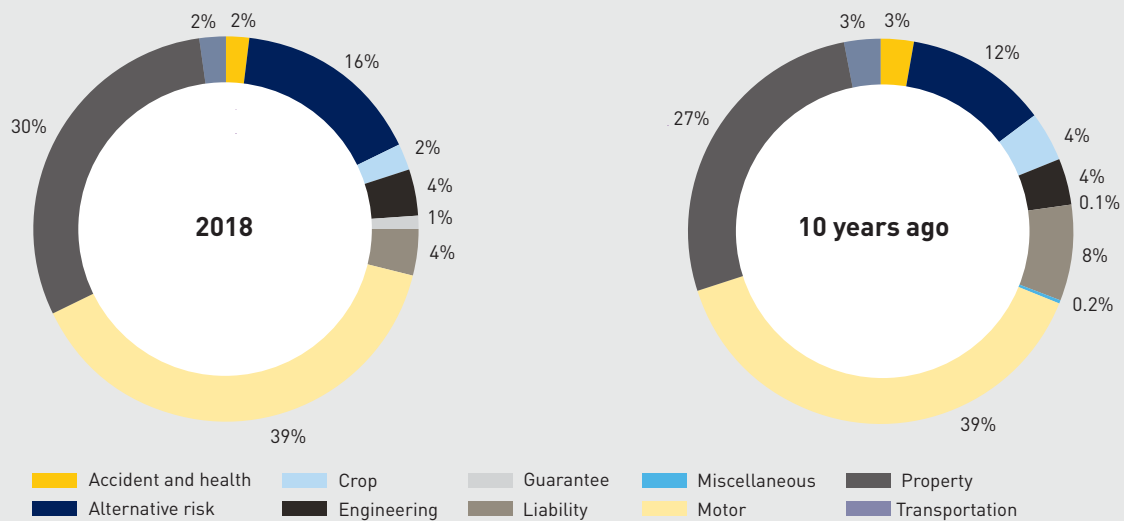
GEOGRAPHIC DIVERSIFICATION

- Partnership with SEM:
 - Strong international diversification capabilities
 - Access to insurance markets across Africa, India and Asia
- Premium flows from outside South Africa onto the Santam licence generated by Santam re and Santam Specialist
- Personal and commercial lines insurance exposures spread across South Africa and Namibia

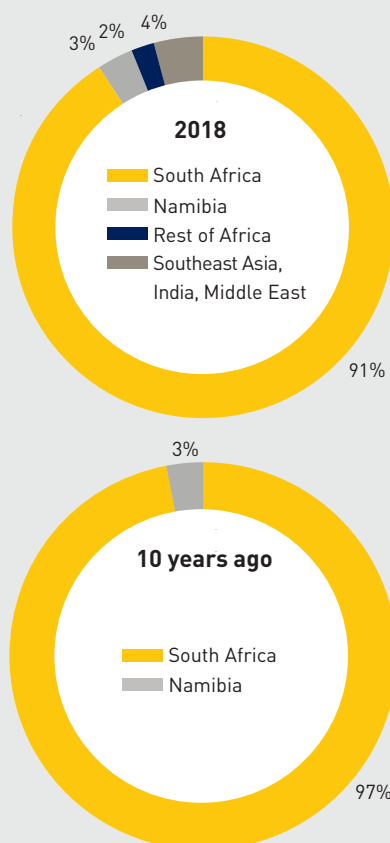
BUSINESS DIVERSIFICATION

- Portfolio: 10 classes (including ART) of insurance products across five business units
- Diverse channels and an omni-channel approach
- Diverse revenue streams, including insurance premiums from various territories and investment income

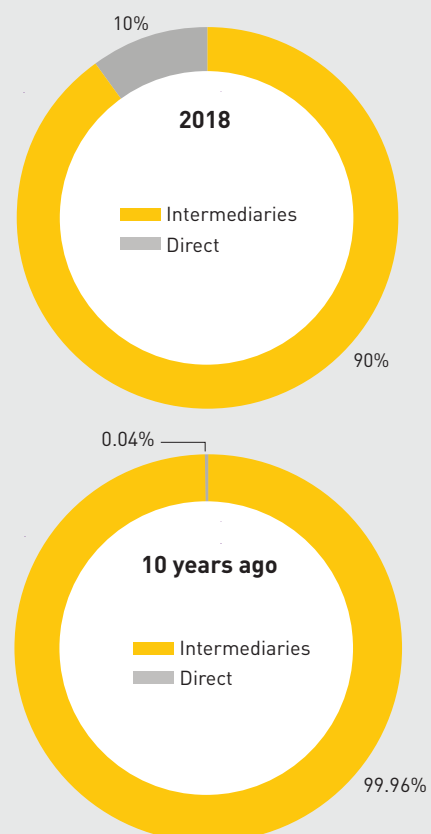
INSURANCE CLASSES (INCLUDING ALTERNATIVE RISK (ART)) (SOURCE OF GROSS WRITTEN PREMIUM)



GEOGRAPHIC TRANSFORMATION (SOURCE OF GROSS WRITTEN PREMIUM) (EXCLUDING SEM AND SAHAM)



CHANNEL TRANSFORMATION (SOURCE OF GROSS WRITTEN PREMIUM)





Santam has a strong competitive position, mainly because of our favourable brand and reputation, dominant position in the South African market and stable operating performance.



1 LEADING INSURANCE GROUP.

With policyholders across Africa, Asia and the Middle East, we have the insight and expertise to provide a diversified range of general insurance products and services to meet their specific needs.



In this section

- 16 Our role as insurance provider
- 24 Real-life story – True transformation through ongoing support

OUR ROLE AS INSURANCE PROVIDER

WHAT IS GENERAL INSURANCE?

Life is full of risks. Unexpected events can set people back for years – to the extent that it is almost impossible to recover.

Catastrophe events such as large-scale fires, floods and earthquakes can financially ruin businesses, families or individuals. However, smaller events can also be harmful. Recurring natural disasters like hail storms continually damage critical public infrastructure, housing and the means of production. Individuals and businesses are vulnerable to theft, car accidents, workplace mishaps and a host of other risks.

Many of these risk events have a systemic impact beyond the primary incident, thereby affecting national and local governments, small businesses and vulnerable communities.

Risk management refers to the steps people take to limit the impact of unexpected events. Individuals, businesses and governments can take measures to mitigate risks, but cannot entirely prevent it. The insurance sector takes on this exposure by insuring against these risks.

The insurance sector plays three roles in society: risk manager, investor and risk carrier. The general insurance sector's role is to pool risk and ensure consumers and businesses remain in the same financial position they were in before the incident that resulted in an insurance claim. General insurance helps people protect themselves and the things they value, such as business assets, homes, cars and valuables, from the financial impact of incidents, whether big or small.

THE ROLE OF GENERAL INSURANCE IN THE LARGER FINANCIAL SYSTEM

An economy requires a functioning and stable financial system to work effectively. Such a system can withstand shocks without giving way to processes that impair the allocation of savings to investments and the processing of payments in the economy.

Financial systems are becoming more complex. As such, economic stability (which was previously associated chiefly with the banking sector) depends on a wide network of players, including insurance companies.

According to the World Economic Forum (WEF) *Global Competitiveness Report 2018*, a developed financial sector fosters

productivity through the availability of credit, equity, debt, insurance and other financial products; and the mitigation of excessive risk-taking and opportunistic behaviour through regulation.

Within such a system, the insurance sector acts as a conduit for households and businesses to transfer risks to entities, such as risk managers and carriers, that are better equipped to handle them. They share risk, thereby enabling society to innovate and initiate projects that would otherwise be less feasible, and so contribute to economic growth and sustainability.

According to the EY *Global Insurance Trends Analysis 2018*, insurance penetration in emerging markets remains low, which unfortunately hampers progress towards inclusive growth.

Large numbers of uninsured people and businesses, risk protection gaps and underinsurance lead to many households and businesses having to bear all or most of the financial risk due to unexpected losses. Unexpected adverse financial impacts are often not provided for, which forces people to rely on credit to survive or meet monthly financial commitments.

Unnecessary debt can be avoided through adequate insurance, thereby freeing up income for savings and investments, which in turn contributes to sustainable economic growth and a financially healthy society.

THE SUSTAINABLE DEVELOPMENT GOALS (SDGs)

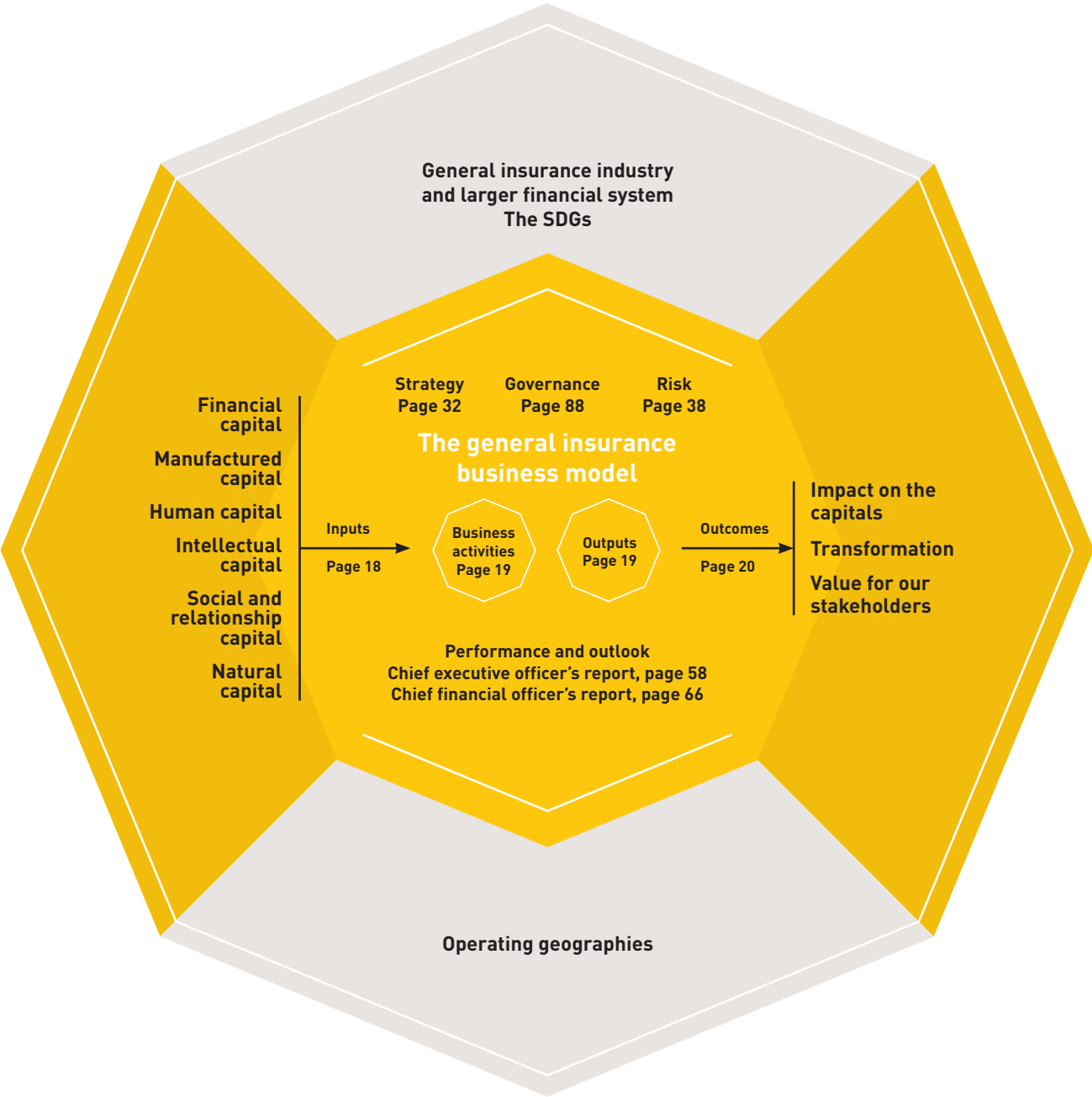
The SDGs are 17 global goals set by the United Nations General Assembly. The goals give a framework to end poverty and reverse environmental damage for a more sustainable planet by 2030. They are the blueprint to achieve a better and more sustainable future for all.

The SDGs call for collaboration between all sectors: private, public, grass roots and government. As risk managers, investors and risk carriers, general insurance providers can contribute to systemic and long-term sustainability.

Of the 17 global goals, Santam has elected to apply the SDGs listed below. Read more about Santam's process in determining which SDGs to apply, as well as how they relate to our strategic sustainability focus areas in the strategy section on page 32.



THE GENERAL INSURANCE VALUE CREATION MODEL



INPUTS: THE SIX CAPITALS AND VALUE CREATION

Companies depend on the capitals for their success – stocks of value defined by the <IR> Framework. Insurance companies also impact the six capitals, as they are affected or transformed by business activities and outputs.



FINANCIAL CAPITAL

- Financial capital is generated through gross written premiums, increased net insurance result and investment returns. It is conserved through efficiency initiatives.
- Financial capital funds business activities, including acquisitions and investment in technology. This generates more financial capital over the long term, which is distributed as claims, dividends, taxes or other expenses, such as salaries.
- Financial capital is also applied to improve socio-economic conditions, thereby making it a sustainably available capital.



MANUFACTURED CAPITAL

- Manufactured capital relates to infrastructure used by insurance companies and the physical assets of their clients.
- Insurers operate through buildings and systems, and their footprint grows as they expand into new territories.
- Insurance companies provide insurance cover for manufactured capital and invest funds in infrastructure development projects.
- Insurers are invested in the landscape in which they operate, as it constitutes a large portion of the risk pool.
- Insurers influence spatial planning, green design and developing capabilities such as geocoding, which assists in protecting and maintaining manufactured capital.



HUMAN CAPITAL

- Human capital refers to employees, intermediaries and supply chain partners.
- Insurers commit to human capital growth in South Africa by focusing on improved employee diversity, the development of supply chain preferential partners, and through collaboration with industry associations, such as the Financial Intermediaries Association of Southern Africa (FIA) and the South African Insurance Association (SAIA).
- The insurance industry must invest in, expand and transfer skills to ensure the availability of appropriate skills.
- Multinational groups are in a strong position to transfer skills through board memberships, secondments and group-wide training initiatives.



INTELLECTUAL CAPITAL

- Intellectual capital refers to industry-specific expertise and knowledge. It is impacted by scientific developments, social innovation and technology-driven change.
- This capital manifests in product development, distribution, pricing and client-centricity.
- Intellectual capital provides a competitive advantage through:
 - the improved ability to price risk;
 - innovative risk management capabilities; and
 - deep industry and underwriting experience and knowledge.



SOCIAL AND RELATIONSHIP CAPITAL

- Insurance companies rely on relationships of trust to deliver on promises.
- A company's network of intermediaries and suppliers is essential to the business model.
- Instances of fraud or dissatisfaction destroy this capital, and transformation initiatives expand this capital.
- Examples of transformation initiatives include consumer financial education programmes, which introduce more people to the benefits of insurance and other social investment initiatives.



NATURAL CAPITAL

- Insurance companies impact the use, transformation and destruction of natural capital through investment activities, risks insured, and claims settlement and procurement activities.
- The natural systems that underpin the global economy are deteriorating past the point of effective service provision. This will have potentially significant consequences for many businesses, and subsequently, those who have financed or insured them.
- More financial institutions are recognising the impact their portfolios have on the health of natural capital stocks, as well as their dependency on natural capital and ecosystem service flows, which are directly material to investment risk and returns.
- Climate risk, ecological degradation and increasing extreme weather events can significantly impact the financial capital and long-term viability of insurance companies.

BUSINESS ACTIVITIES

General insurance companies have three main sources of revenue: premiums, investment income on insurance funds from insurance activities, and investment returns on shareholder investments. Insurance income is generated by upfront premiums. Therefore, insurers have strong operating cash flow without requiring alternative funding.

Insurance activities typically include the following elements:

- Underwriting and pricing of risks based on an understanding and assessment of possible risk situations
- Designing policies to cover risks
- Client contracting and communication through the distribution network (intermediaries and direct)
- Managing claims costs and supplier network
- Carrying and diversifying risk through reinsurance
- Marketing and branding
- Claims payment and assistance, with associated implementation of prevention initiatives
- Systems and administrative support for distribution and claims management
- Investment management and capital allocation

Clients select a policy based on the cover they require and their trust in the insurer or brand. They can purchase their cover through several channels, including that of the intermediary. Complex commercial or specialist insurance options are highly dependent on advisory input from intermediaries.

For the business model to function, an insurer needs to offer clients a risk solution of value; run sophisticated administration and claims systems; work with a reliable network of suppliers; and access specialised skills, such as actuarial analysis and underwriting.

Underwriting is the key determinant of an insurance company's profitability. It is the process of evaluating and pricing the risk posed by each prospective client. A good underwriting process allows the insurance company to optimise the balance between a policy premium and potential claims against the policy.

The policy is priced using several modelling techniques to predict client behaviour. For example, considerations include the level of cover, the claims history of groups of people with similar characteristics and requirements, potential safety features, replacement value and demographics. In the contracting process, the client agrees to share risk with the insurer. For the client, risk sharing takes the form of an excess payment in the event of a claim.

When the client suffers an insured loss, they lodge a claim and the insurer, who has agreed to shoulder most of the risk, reimburses the client. Initiating a claim is often called the "moment of truth" in an insurer's relationship with a client. A positive claims experience encourages client loyalty and persistence, whereas a negative experience can cause far-reaching reputational damage for the insurer.

Insurance fraud occurs in different forms, varying from slightly exaggerated claims to deliberate "accidents" or damage. It is a criminal offence to submit a false claim, which results in higher premiums for all clients, as fraudulent claims impact the ratings analysis.

Reinsurance is a form of insurance cover for insurance companies, whereby an insurance company transfers a portion of its risks to the reinsurer. Reinsurance is a safety net: it reduces risk resulting from large claims and helps to balance available financial capital.

Income generated through premiums is invested to generate a return for shareholders, and to provide a capital buffer that enables the insurer to maintain liquidity to cover liabilities associated with claims made against policies underwritten.

OUTPUTS: GENERAL INSURANCE PRODUCTS AND SERVICES

General insurance offers a range of policies against eventualities such as property damage, motor accidents and loss of income.

Lines of business include, but are not limited to:

- **Commercial lines:** fleet and property insurance for businesses
- **Personal lines:** home and contents insurance, motor protection and travel insurance for individuals
- **Liability insurance:** professional indemnity and loss of earnings
- **Specialist insurance products covering wide-ranging eventualities:** workers' compensation and consumer credit; and industry-specific risks such as agriculture, marine and engineering
- **Risk sharing:** reinsurance

A general insurer's strategy determines the appropriate mix of products and services to achieve outcomes that will generate the greatest benefits to its stakeholders. Santam's range of products and services are listed under the Santam business portfolio: our business units on page 7.

SANTAM-SPECIFIC OUTCOMES

OUR IMPACT ON THE CAPITALS

Santam uses its capitals to effectively manage the size, quality and diversity of the risk pool in which we operate. We also positively impact the capitals by paying claims and influencing socio-economic activities through underwriting practices, claims management and risk products. Society benefits from increased insurance penetration and a reduced risk protection gap – wherever the insurer operates.

Long-term sustainability relies on our ability to manage systemic risk through partnerships, to diversify our geographic footprint, product and service offering, and to improve operating efficiency. The group's strategy is defined by focus areas that are continuously refined to entrench our competitiveness and resilience and to deliver ongoing sustainable and positive performance.

Capital	Read more
Financial capital	Chief financial officer's report on page 66
Manufactured capital	Growth through innovation and diversification, page 43 Partnerships for risk and resilience (P4RR), page 48 Continually increase efficiency, page 53 Real-life story: Stimulating conversations in the African insurance industry, page 37
Human capital	Transformation, page 21 The right people, page 53 Real-life story: true transformation through ongoing support, page 24
Intellectual capital	Growth through innovation and diversification, page 43 The right people, page 53 Real-life story: Industry 4.0: we've come a long way, we have a long way to go, page 46
Social and relationship capital	Our clients are at the core of <i>Insurance good and proper</i> , page 42 Transformation, page 21 Governance of transformation, page 21 Industry regulators, page 27 P4RR, page 48 Corporate social investment (CSI), page 50
Natural capital	Our strategy, page 32 P4RR, page 48

TRANSFORMATION

TRANSFORMATION IS A CRUCIAL OUTCOME OF SANTAM'S BUSINESS ACTIVITIES.

The group ensures transformation in several ways. Strategic, digital and geographic transformation are discussed in the 2018 performance against strategy section on page 42 and the chief executive officer's report on page 58. In this section we focus on socio-economic transformation, mostly in the South African context.

As a market leader, we have a responsibility and opportunity to lead by example. Santam's commitment to transformation and broad-based black economic empowerment (BBBEE) for the South African businesses remains a priority. We use the Financial Sector Code to measure our performance.

The feedback in this report focuses primarily on the South African market, and includes specific areas of transformation in countries where the group invests in collaboration with SEM.

Santam's progress in transforming the group – and contributing to transformation in the industry and economy – creates value for all our stakeholders. It also creates value within the group:

- To support our ability to compete globally, we need to include people who represent diverse populations.
- To create new products and innovative solutions in an ever-changing landscape, we need to harness the thinking of different people.
- We need to include diverse thinking to create an insightful, fact-based approach to serving a vast array of clients, employees and business partners.

The central tenet for transformation at Santam is to create an inclusive environment by conducting our business activities in a manner that resonates with all our stakeholders. Our focused transformation strategy ensures delivery on the following objectives:

- Driving high-impact transformation initiatives for business and societal value
- Creating a diverse and inclusive culture across our value chain
- Driving transformation using innovation
- Leading transformation compliance

The transformation strategy is fully integrated into current business functions and responsibilities, and leverages embedded reporting and management mechanisms. Santam executive management serves as the team responsible for implementing the transformation strategy.

The chief executive officer is accountable for implementing the transformation strategy. Each executive's transformation accountabilities are included in their respective annual key performance areas. The head of transformation and other executive heads are responsible for integration, monitoring and evaluating progress.

GOVERNANCE OF TRANSFORMATION

Transformation governance is critical in the insurance space, and therefore a priority for Santam. This is evident in the increased emphasis on transformation in the Insurance Act, 18 of 2017, which came into effect on 1 July 2018 (Insurance Act).

Governance of transformation is a priority for Santam. Transformation governance is overseen by the SES committee, and is on the board's agenda, driven by the executive committee.

As the leading general insurer in South Africa, Santam plays a key role in SAIA by facilitating transformation discussions with parliament and regulators and through fostering industry cooperation on wider economic transformation.

Transformation governance elements include:



TRANSFORMATION PERFORMANCE

In line with our transformation strategy, we identified stakeholder groupings for whom we can add the most value. Our strategy drives inclusive economic transformation, influences the growth of the economy and ultimately reduces unemployment:

Our people	<ul style="list-style-type: none"> Employee profile: 71% black, 29% white Appointment ratio: 88% black, 12% white 10 bursaries awarded Learnerships: 90 black learners in progress Graduates: 16 black graduates in the group Culture: 74% satisfaction rate for engagement barometer
Our intermediaries	<p>Black intermediary growth and diversification initiative</p> <ul style="list-style-type: none"> Objectives: intermediary diversification, leveraging market access in non-traditional markets, creating an inclusive insurance platform, and business growth Achievements thus far: 140 graduates (full qualification) were trained through the Black Broker Development learnerships and internships between 2016 and 2018; 61% of the learners were placed either within Santam or our business partners; 18% of the graduates were absorbed by the industry and 21% are still seeking employment
Our communities	<ul style="list-style-type: none"> In 2018, Santam facilitated the investment of R8 million in vulnerable communities through P4RR CSI spend: R11.5 million Santam Resilient Fund and its achievements to date: <ul style="list-style-type: none"> Houses built: 3 682 Jobs created: 535 Households assisted: 94 Homes supplied with green energy: 64
Our clients	<p>Consumer financial education (CFE)</p> <ul style="list-style-type: none"> CFE is applied at group level through a two-pronged approach: <ul style="list-style-type: none"> Funding is provided to SAIA to deliver CFE to the public A targeted approach focusing on the Santam emerging client market Our CFE programmes target individual and commercial clients Some CFE activations for the year include: <ul style="list-style-type: none"> Money Smart week – Soweto, Alexandra, Tembisa, Mamelodi Retail learning hub partnerships – The Box Shops, Jabulani and Vilakazi Emerging farmers – Buhle Academy Taxi SMMEs – South African National Taxi Council (SANTACO) CFE statistics: <ul style="list-style-type: none"> Approximately 1 million people reached via awareness initiatives, 3 000 reached through interactive initiatives Targeted spend: R9 million <p>Access products</p> <ul style="list-style-type: none"> Statistics: <ul style="list-style-type: none"> Current products: 24 products, verified by the Financial Sector Transformation Council, were approved and are available to emerging clients Policies in place: Santam has sold just over 200 000 policies into the access market
Our suppliers	<p>Enterprise and supplier development (ESD)</p> <ul style="list-style-type: none"> ESD is applied at group level through a two-pronged approach: <ul style="list-style-type: none"> Investment in the ASISA ESD fund – accessible to small businesses through loan funding Supplier Development programme in conjunction with Sanlam and ASISA – with directional procurement targeted at current suppliers in the group 28 jobs were created through the Sanlam, Santam and ASISA Supplier Development programme over the past 2 years SMME average revenue growth: 23% for the year SMME investment: Note that R50 million was invested in the ASISA ESD Fund to date; the fund allows Santam group suppliers to access loan funding at a favourable rate; R35 million was allocated to suppliers in the Santam supplier base

BBBEE PROGRESS

BBBEE status year-on-year

Year	2018	2017	2016	2015	2014
FSC level achieved	Level 1	Level 2	Level 2	Level 3	Level 3

Scorecard 2018

Element	Weighting	Final score
Ownership	23+5	26.80
Management and control	8	3.33
Employment equity	12	6.77
Skills development	20+3	17.36
Preferential procurement	20+4	20.42
Enterprise development	5+3	6.00
Supplier development	10+1	11.00
Consumer education	2+1	3.00
Socio-economic development	3+2	3.00
Access to financial services	12	9.75

Element summary feedback

Element	Summary feedback
Equity ownership	<ul style="list-style-type: none"> Santam continues to improve its black-owned and black-controlled shareholding, in line with our strategy of retaining highly credible empowerment credentials. The business achieved an overall black ownership representivity of 34% (2017: 28%). This improved the group's FSC ownership score: 2018: 26.80 points (2017: 23.54 points).
Management control and employment equity (EE)	<ul style="list-style-type: none"> Santam continues to drive diversification in its management structures across the group. The group improved its employment equity positioning year on year. As at the end of 2018, Santam achieved an EE FSC score of 6.77 points (2017: 5.97). The loss of key black executive-level management resulted in a reduction in black representivity: 2018: 40% (2017: 44% and 2016: 36%). Specifically black senior management levels, relative to total staff complement, improved: 2018: 32.35% (2017: 24.81%). Senior black female management improved: 2018: 13% (2017: 10.5%).
Skills development	<ul style="list-style-type: none"> Santam improved its FSC Skills development score: 2018: 17.36 points (2017: 16.45 points). Total skills spend of group leviable amount increased: 2018: 9% (2017: 7%).
Preferential procurement (PP)	<ul style="list-style-type: none"> Santam improved its FSC PP score: 2018: 20.42% (2017: 19.87%). The business improved its preferential spend to 51% black-owned businesses: 2018: 29% (2017: 23%) as well as spend to 30% black women-owned business: 2018: 10% (2017: 8%).
Enterprise and supplier development (ESD)	<ul style="list-style-type: none"> The group continues to invest in small and medium businesses through its investment opportunities and formalised supplier development programmes. The group achieved its 17 points year on year, with clear alignment to its preferential procurement objectives.
Consumer financial education (CFE)	<ul style="list-style-type: none"> In 2018, further emphasis was placed on driving focused financial education initiatives to middle emerging markets both at individual and small township SMMEs. The group continued its focus on the small-business emerging market and invested just over R9 million into CFE initiatives and was able to retain its 3 points achieved in 2017.
Socio-economic development	<ul style="list-style-type: none"> The group continues to invest in vulnerable communities. At the end of 2018, the group invested just on R11 million, which allowed it to retain its 3 points achieved the previous year.
Access to financial services	<ul style="list-style-type: none"> Santam group has made significant progress with regard to providing access products for the emerging South African middle market. The business was able to sell just over 200 000 policies into this market for 2018. This allowed us to improve our FSC Access score: 2018: 9.75 points (2017: 8.94 points).



REAL-LIFE STORY

TRUE TRANSFORMATION THROUGH ONGOING SUPPORT

“True economic transformation requires the investment of time as well as money to transfer skills and support emerging intermediaries through the inevitable tough times when starting a business.” – Dave Gould, Managing Director of Vulindlela Underwriting Managers (VUM)

Sbu Wanda grew up in KwaMashu, KwaZulu-Natal. By the age of 19 he was the sole guardian of his young sister and autistic cousin. He left the township to provide a better life for them. A natural entrepreneur, Sbu embarked on several business ventures, eventually settling on insurance, selling life cover and funeral policies.

At a Santam-sponsored golf day for intermediaries, Sbu met Dave Gould, Managing Director of VUM Emerging Business Insurance. They discussed their industry, and Dave convinced Sbu to shift his focus to general insurance.

This was not an easy choice to make, as the different business model meant that Sbu faced severe financial strain in the short term. In fact, he lost his home as a result.

However, Dave continued to support and mentor Sbu, whose business steadily grew to five branches in KwaZulu-Natal in 2018.

“It was a long road, but Dave and Santam helped me become a successful commercial insurance intermediary,” says Sbu.

Sbu benefitted from Santam’s BBBEE scheme through the Emthunzini Black Economic Empowerment Business Partners Trust. The dividends he earned enabled him to start a second business, Upper Highway Auto Repairs, in Hillcrest, KwaZulu-Natal. This business is particularly close to his heart, since it employs semi-skilled people from his community.

People employed in Sbu Wanda’s businesses: 42

CAPITALS



FINANCIAL CAPITAL



HUMAN CAPITAL



INTELLECTUAL CAPITAL



SOCIAL AND RELATIONSHIP CAPITAL

STAKEHOLDERS



EMPLOYEES



SUPPLIERS



INTERMEDIARIES



COMMUNITIES

VALUE FOR OUR STAKEHOLDERS

Meaningful stakeholder relationships are critical for Santam to remain profitable and play a positive role in society.

We share a business, socio-economic and ecological landscape with a range of stakeholders in South Africa and in the markets in which we invest. These stakeholders include:



Santam creates value and stability for our stakeholders by contributing to a robust, inclusive and responsible general insurance industry in all our markets. This supports sustainable social, environmental and economic development. Our transformation approach is holistic and integrated across all stakeholder networks.

Our approach to stakeholder engagement is aimed at building and maintaining quality business relationships with material stakeholders. It addresses the various challenges and opportunities that exist within the stakeholder framework. Santam believes in regular and productive engagement with stakeholders to ensure communication channels remain open and that we address their needs.

Through effective dialogue and collaboration, we create a sustainable business environment that supports our long-term strategy.

We review our stakeholder universe annually to ensure that new and emerging stakeholders who may have a material impact on the group are included.

Each material stakeholder grouping is assigned to an executive. On a quarterly basis, these executives provide feedback to the head of stakeholder relations, and issues arising from these stakeholder reports are presented to the SES committee and the board.

Below is a high-level outline of each stakeholder group's needs and interests, and our response through ongoing communication.



CLIENTS

Santam's commitment to our clients is captured in the brand promise: ***Insurance good and proper.***

Santam's core purpose is to provide risk solutions for individual and corporate clients. Therefore, client-centricity remains fundamental to the group strategy. It is imperative that we understand the changing needs of clients and innovate to meet them.

We monitor client perceptions and expectations through a complaints process and via social media. We continuously enhance our processes throughout the insurance value chain to handle on-demand service requests or faults. Ongoing market research and strategic reviews help us anticipate trends that influence client expectations.

Santam's clients want the assurance that we will honour our commitments by paying legitimate claims. Santam has an internal conduct of business committee to ensure we deliver specific, articulate fairness outcomes.



SHAREHOLDERS

The financial capital provided by investors and the dividends paid to them are central to the success and sustainable growth of our businesses.

We engage with shareholders through the AGM, results presentations, investor conferences and reports, among others. We regularly engage with Santam – our strategically aligned core shareholder.

Our success as a group directly impacts shareholders. Thus, they are invested and interested in the group's performance and its sustainable growth over the short, medium and long term.



EMPLOYEES

Skilled and motivated employees create value by providing clients with high-quality and innovative products and services. Our relationship with our people is critical to the success of the group.

Santam engages with employees through engagement pulse checks, the CEO roadshow and the management conference. Some employees are represented by the workers' union, Sasbo, which is affiliated with the financial services industry.

Our employees care about Santam's employment practices and policies, competitive remuneration, an enabling work environment, career and skills development, work-life balance and talent acquisition. Our strategic focus area, "the right people", ensures we respond to employee concerns. This includes a targeted people strategy, which involves talent management, a transformative culture, mentorships and a Wellness programme.



SUPPLIERS

For our business model to function, Santam needs a reliable network of suppliers including motor body repairers, electricians and plumbers.

Santam regularly engages with stakeholders such as the South African Auto Repairer and Salvage Association and South African Building Contractors and Civils Association to increase our support of supplier development initiatives.

We address social and empowerment challenges in South Africa by increasing procurement from black-owned suppliers. Santam also contributes financially to supplier development initiatives in the industry.

The money that Santam has invested in the ASISA ESD fund creates access to loan funding for new and small BBBEE suppliers in the sector. Now in its fourth year, this programme runs over a 12-month period and includes business assessment and incubation. It aims to prepare small black businesses for targeted procurement spend from the group. The SMMEs are also supported with an informal second year of business mentoring.



INTERMEDIARIES

Santam's intermediaries are a critical link between the group and clients. They guide clients through the structure of policies and offer advice, information and assistance regarding risk management strategies and claims processes.

Santam management conducts intermediary roadshows and extensive training initiatives. We also engage with the FIA and black intermediaries regarding industry transformation imperatives.



SEM

Santam drives diversification through investments and partnerships in Africa, India, Asia and other emerging markets through collaboration with SEM (including Saham Finances). We are working with SEM and Saham Finances to become a leading Pan-African specialist insurance provider.



INDUSTRY REGULATORS

Regulation secures a reliable insurance sector, which reduces systemic risk and promotes a functioning economy. Regulation increases client confidence and reduces the potential for reputational risk.

On 1 April 2018, two new regulators came into operation – the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA), replacing the Financial Services Board (FSB). The new Twin Peaks model of financial sector regulation in South Africa was then implemented. Our engagement with the new regulators is meaningful and constructive.



GOVERNMENT

We take our role and accountability as a corporate citizen seriously. We regularly engage with governmental stakeholders and have frequent discussions with government representatives and legal entities and institutions.

We act as a risk management partner for government, by forging partnerships with local, provincial and national government to ensure resilient communities.



COMMUNITIES

Santam and the communities in which we operate rely on each other for mutual success and resilience. We continue to invest in vulnerable communities through our CSI initiatives and our P4RR programme helps build stronger communities.

Read about our engagement and partnerships with communities in the transformation and P4RR sections on pages 21 and 48, respectively.



MEDIA

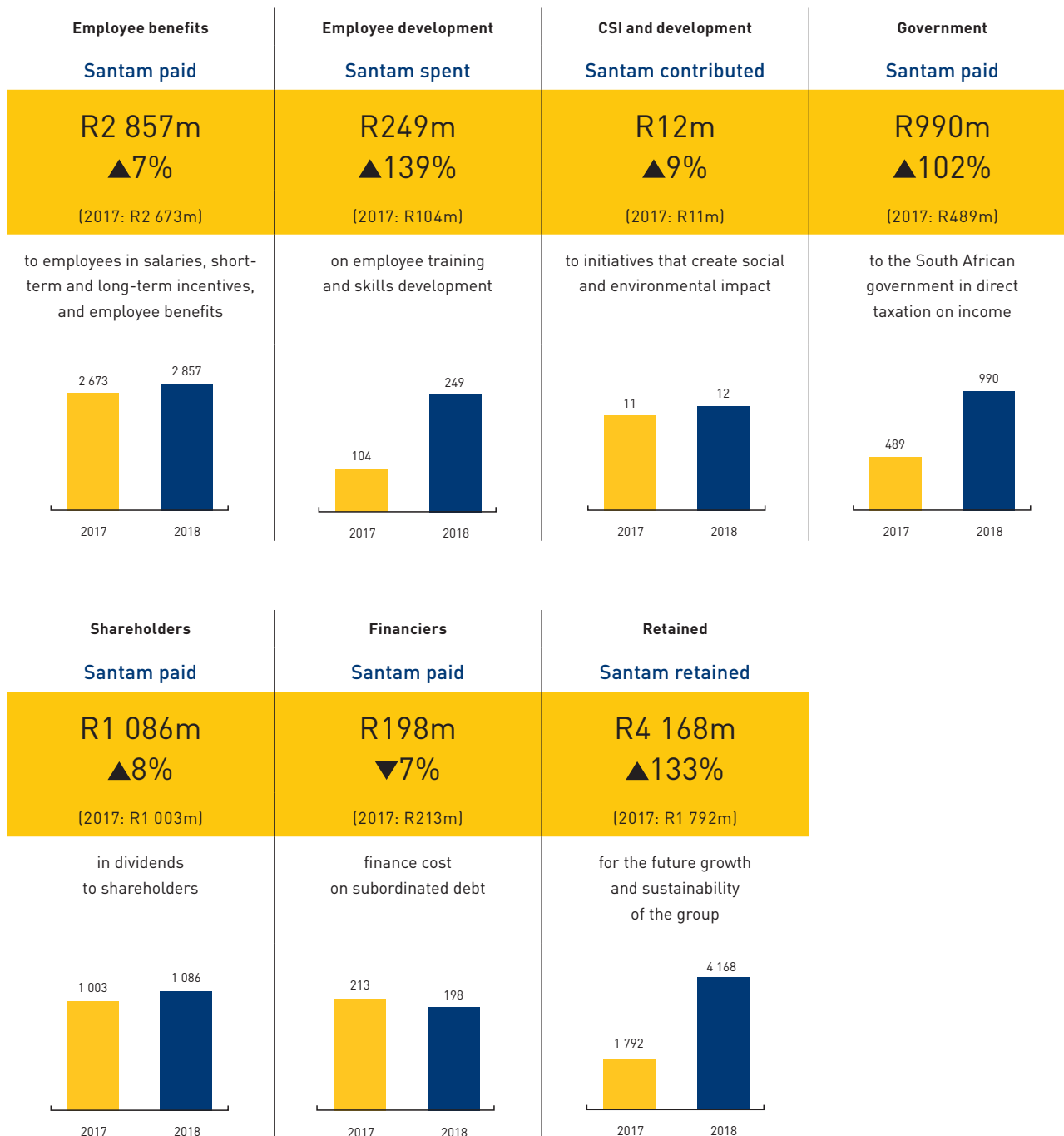
Santam views the media as a critical stakeholder in communicating the company's opinions and messages to other stakeholders. We maintain a mutually beneficial relationship with the media. We regularly share news on corporate developments with journalists and accommodate requests for information from South African and other media organisations.

More detail on stakeholder initiatives, decisions and actions can be found in the 2018 performance and progress against strategy section on page 42 and in the chief executive officer's report on page 58.

FINANCIAL VALUE-ADDED STATEMENT

	2018 R million	2017 R million
Gross written premium	33 109	29 720
Claims paid and cost of other services	(25 456)	(24 838)
Investment income net of fees	1 907	1 392
	9 560	6 274

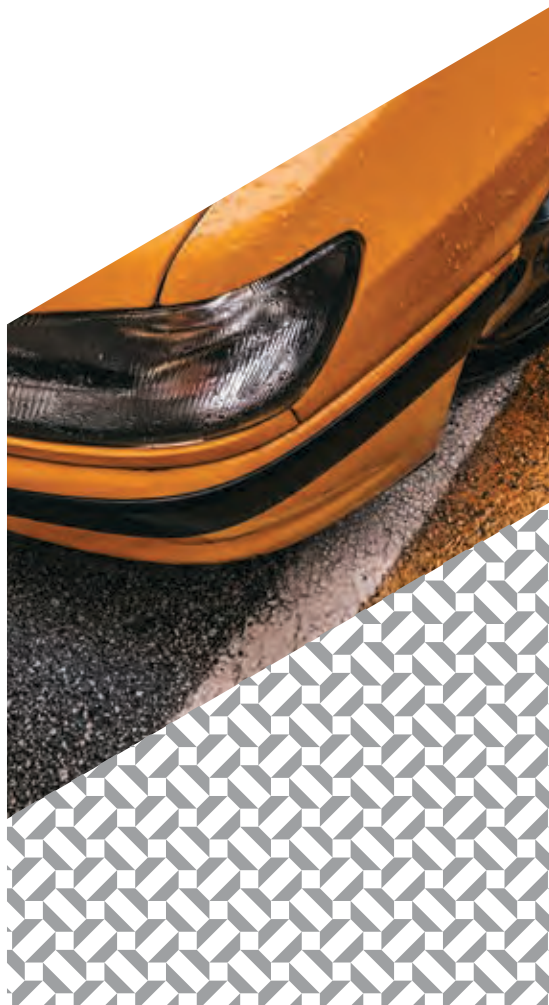
VALUE ADDED



*Santam has a responsibility
in supporting our stakeholders
towards a healthy, prosperous,
safe and empowered society.*

CARS. CONDOS. AND THEIR CONTENTS TOO.

Whatever our clients value, we do our best to protect it with a broad range of insurance solutions and unique benefits tailored to their specific needs.





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OUR STRATEGY

BACKGROUND

VISION 2020

In 2015, Santam set an ambitious target – **Vision 2020: to be the leading general insurer in South Africa with a presence in selected emerging markets.**

We identified five strategic focus areas to facilitate value creation and achieve our target:

Insurance good and proper	Deliver on the promise to clients in a way that creates value for all stakeholders
Growth through innovation and diversification	Achieve responsible, profitable and sustainable growth in South Africa and internationally
Manage the risk pool	Ensure proactive sustainable risk management while promoting dialogue and collaboration on risk and resilience
Continually increase efficiency	Maintain high standards of operational efficiency, ultimately creating robust and sustainable stakeholder outcomes
The right people	Influence and enable successful execution of the Santam strategy through engaged and competent people and partners

Santam's 2018 performance against these strategic focus areas is set out from page 42.

Our progress depends on strong foundations which rely on:

- adhering to the values of the Santam Way*;
- creating stakeholder value;
- long-term sustainability;
- reducing ESG-related systemic risk; and
- fulfilling Santam's socio-economic responsibility.

* The Santam Way defines the culture that is embedded throughout the group. Although some business units and subsidiaries formulate their own values and codes, these are aligned with the group values:



VISION 2020 SUSTAINABILITY FOCUS AREAS

Sustainable insurance is created by ensuring all activities in the insurance value chain are performed in a responsible and forward-looking way. This is done through a strategic approach that identifies, assesses, manages and monitors risks and opportunities associated with environmental, social and governance (ESG) issues. Sustainable insurance aims to reduce risk, develop innovative solutions, improve business performance, and contribute to environmental, social and economic sustainability.

The insurance industry has laid the foundation for supporting a sustainable society in which people are aligned and incentivised to adopt sustainable practices. The UNEP FI Principles for Sustainable Insurance (PSI) build on this foundation:

- Principle 1: We will embed in our decision-making ESG issues relevant to our insurance business.
- Principle 2: We will work together with our clients and business partners to raise awareness of ESG issues, manage risk and develop solutions.


- Principle 3: We will work together with governments, regulators and other key stakeholders to promote widespread action across society on ESG issues.
- Principle 4: We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

Read more about the UNEP FI PSI at www.unepfi.org/psi/the-principles/ and www.santam.co.za.

Santam defines and manages business initiatives that address material ESG issues through the Santam sustainability framework. These are linked to initiatives and accountability is assigned to relevant executives. The sustainability framework is continually reviewed and refined, with the SES committee providing regular oversight. More detail can be found in the social, ethics and sustainability committee section on page 97.

Reaching the insured and uninsured markets	We develop and implement our emerging market strategy through appropriate channels in the business to support growth and diversification. This includes the development of products to reach the emerging market in alignment with the FSC's targets and criteria.
Resilience through shared value partnerships	We work with local municipalities through P4RR and focus on disaster risk management, prevention and mitigation.
Develop sustainable business efficiencies (internal and external)	We manage the quality and impact of our own risk pool and address pressures on human, social and relationship, and natural capital by continuously increasing efficiency and through the brand promise, <i>Insurance good and proper.</i>
Responsible investment and solvency	We influence responsible systemic risk responses through vehicles such as the Resilient Investment (RI) Fund, the South African SME Fund, ESD, and CSI initiatives.

See the sustainability focus areas table on page 40 for key related activities and alignment to the capitals of value creation, our material matters, strategic risks and the SDGs.



Santam's 2018 strategy processes enabled us to identify those matters that are most material for stakeholders – and therefore material for the group to continue creating value in the long term.

2018 GROUP STRATEGY PROCESS

The Santam group is nearing the end of its five-year journey to Vision 2020. In 2018, we initiated processes, which included a Vision 2020 strategy progress review and the start of the new planning horizon, to consider what the group should address to become “future fit”.

The processes aim to:

- encourage participative planning within the Santam group leadership team;
- identify and address the key issues that impact Santam’s medium to long-term strategic agenda, including relevant ESG and other corporate sustainability issues;
- strengthen the alignment of strategic plans and resultant initiatives across the Santam group, as well as with other group companies across the wider Sanlam Group, including SEM; and
- promote an understanding of the required strategic and business changes, resource allocation and cultural behavioural elements needed for effective implementation across the group.

MATERIAL MATTERS – 10 THEMES SHAPING THE FUTURE OF GENERAL INSURANCE

The Santam group conducted a thorough process of environmental scanning which included the identification of material matters that are relevant to our company and stakeholders, now and into the future. These matters were tested against past strategic insights and debated by the executive committee and the board as part of the group’s annual strategy review process. Consequently, we identified 10 overarching themes that are shaping the future of insurance. We applied these themes to the Vision 2020 strategy and made appropriate adjustments. These 10 themes will inform the new group planning horizon.

INDUSTRY 4.0

- Digital capabilities are infiltrating nearly every industry, allowing insurance companies to transform their business models.
- Telematics technology is increasingly used, as insurers seek to differentiate their value beyond price – to maintain or raise client satisfaction.
- Internet of Things (IoT) connectivity is growing. It has the potential to reshape the way insurers assess, price and limit property and household contents insurance.
- Robotics processes, automation “bots” and artificial intelligence (AI) are a reality, given the rapid increases in computing power and decreases in data storage costs.
- Blockchain’s ability to facilitate secure collaboration between strangers has profound implications for the future of insurance.

WORKFORCE FOR THE FUTURE

- As technology develops at an accelerated pace, cognitive abilities and tasks that were once thought to be reserved for humans are increasingly carried out by machines. This raises concern about the impact on jobs and the subsequent risks for government, businesses and people.
- As technology becomes more modular and user-friendly, it takes over transactional tasks. Individualised performance will be achieved through uniquely human skills.
- A wave of AI-infused Expert Automation and Augmentation Software (EAAS) platforms will usher in a new era of AI-assisted or AI-enhanced productivity.

- Adaptive entrepreneurs are shifting away from the traditional nine-to-five in-office career towards one that affords more flexibility.
- Corporate internal culture is now part of the client-facing brand. For many consumers, it is important that brand values align with their own.
- The Internet and social media play a meaningful role in demanding that unfair or predatory behaviour is addressed. Toxic individuals and organisational cultures are called out.

COLLABORATIVE CONSUMPTION

- Consumers of all ages want and need less. Ownership is under question, and flexible, minimalist living is gaining popularity. Disruption of ownership is taking place across various industries, narrowing the focus to access rather than ownership – a concept known as the sharing economy or collaborative consumption.
- Traditional insurers and reinsurers must rethink their businesses to adapt to the new collaborative consumption mindset. Some organisations are embracing the sharing economy by collaborating, building or investing in start-ups.
- The insurance industry is seeing growth in micro-insurance, usage-based and peer-to-peer (P2P) business models. This is driven by InsurTech start-ups and mobile network companies who selectively target parts of the value chain. These new business models are, in part, aiming to service collaborative consumption.
- New models such as on-demand and P2P can potentially cut out intermediation. Blockchain technology can enhance trust, transparency and grow P2P insurance models.

ETHICAL LEADERSHIP OR TRUST DEFICIT

- Globally, trust in governments, the media, businesses and non-governmental organisations (NGOs) has fallen to its lowest level. This has given rise to populism in many regions, increasingly polarised societies, rising anger and disillusionment.
- Consumers are increasingly placing business ethics at the top of their list of considerations when spending money.
- Trust has been undermined by the fear of job losses due to globalisation and automation.
- If reputation is the currency of trust, then we need to actively manage our corporate reputation to safeguard it.
- Financial sector regulatory frameworks are expected to play a role in fostering trust in the financial services industry.

INCREASING REGULATORY RISKS

- Enhancing financial stability is the underlying driver for regulatory developments.
- A regulatory framework that addresses the global protection gap is particularly important for Africa and emerging economies that are most vulnerable to climate impacts. Refer to page 39.
- Awareness of cyber risks and potential liability in a shared economy has increased rigorous data protection regulations across the globe.
- Europe implemented General Data Protection Regulation (GDPR) in May 2018, which redefines client data management. The GDPR will significantly impact how insurers operate across most elements of the client value chain. The biggest impact is likely to be in managing data transfer, collection, storage, access and retention, which will restructure process designs and improve data usage.

- General insurance will face specific challenges, as sourcing data is expected to become more difficult. The use of telematics to price policies will become limited, as clients become aware of the type of personal data held.
- In South Africa, new regulations are geared towards enhancing financial stability and implementing new accounting regulations. The International Accounting Standards Board has agreed to amend the effective date of IFRS 17 Insurance contracts (IFRS 17) to annual periods commencing on or after 1 January 2022 (previously 1 January 2021) as well as to review IFRS 17 for possible amendments, mainly due to implementation challenges raised by those impacted. Insurers will have to consider readiness, to ensure compliance with the new standard once required.

RISK PROTECTION GAP

- Risk exposures are driven by digitalisation, urbanisation, climate change, value accumulation and concentration. These tend to outgrow insurance premiums, which leaves individuals, households, firms and the public sector underinsured.
- The risk protection gap is the difference between total losses and insured losses. This global problem affects emerging and developed countries alike.
- The natural catastrophe protection gap (uninsured losses as a share of total losses) remains large – only about 30% of catastrophe losses are insured.
- The cyber protection gap is estimated at about 90% in the face of major economic loss scenarios. Cyber insurance is emerging as the key lever to manage cyber risk.
- The protection gap needs a collaborative effort that involves all stakeholders. Governments can help improve the availability of retail and wholesale insurance by introducing compulsory schemes which create sufficiently large risk communities and risk pools. Many public sector entities are using new forms of sovereign risk transfer to relieve their balance sheets, especially for natural disaster losses.
- Insurers can employ digital and mobile technologies to address protection gaps by simultaneously promoting affordability, awareness and product appeal.

INCREASING CLIMATE CHANGE RISKS

- According to the WEF Global Risk Landscape 2018, environmental risks have become more prominent in recent years. Five risks in the environmental category have been ranked higher for impact and likelihood in the past 10 years. These risks are:
 - extreme weather events;
 - natural disasters;
 - failure of climate change mitigation and adaptation;
 - man-made environmental disasters; and
 - biodiversity loss and ecosystem collapse.
- Extreme weather events and natural disasters can cause more damage in emerging markets where city infrastructure is underdeveloped and in poor condition.
- Changing climate makes it difficult for insurers to develop models to assess the risk of catastrophic events and price insurance products appropriately.
- As extreme weather events become more common, insurance-related costs will rise. This compels insurers to consider how they cover such risks, and how they price the coverage. Insurers will need improved models and data, and some will forge new partnerships to obtain them.

EMERGENCE OF DIGITAL ECOSYSTEMS

- Data, the prevalence of “chatbots”, and the increasing application of AI are accelerating digitisation in various industries and reshaping client expectations. This blurs traditional industry boundaries, which prepares the ground for digital ecosystems.
- A digital ecosystem is a highly client-centric model, where users enjoy an end-to-end experience of a wide range of services and products. These are provided by a network of diverse, multi-industry players through a single-access platform.
- The emergence of ecosystems could threaten insurers along the value chain. There is a risk that other industries could benefit from deeper client relationships and better control of risk, while traditional insurers are marginalised as mere providers of capital to shrinking risk pools.
- Value-added services and reward programmes are increasingly targeted by new entrants to attract clients.
- To play a core role in emerging ecosystems, insurers must adopt a focused ecosystem mindset and improve data collection, analytics and predictive capabilities. This will enable dynamic pricing, risk mitigation and product innovation.

REGIONAL CHAMPIONS GOING GLOBAL

- The global insurance industry faces low interest rates, a challenging equity market, and tighter regulatory regimes. Hybrid consumption behaviour caused by the spread of digital platforms is prevalent in developed markets and is accelerating in developing markets.
- Insurers need to change their business models to adapt to these changes, along with the impact of price-comparison websites and the race to go digital.
- Regional champions are developing global ambitions and increasing their international presence.
- Projected slower growth in developed economies pressures regional and global insurers to expand internationally, with a focus on higher-growth emerging markets.
- The general insurance segment in developed markets is likely to face shrinking market volumes as more homes, offices and factories adopt technology for risk prevention strategies. As autonomous vehicles and shrinking ownership of cars becomes a reality, motor insurance is likely to lose its leading role.

ESG EMBEDDEDNESS

- The growing global awareness around the interconnectedness of economic systems with natural, social and political systems is set to continue.
- ESG has progressively gained traction among investors. In 2018, that interest reached a tipping point, with socially responsible investment values gaining acceptance across generations and wealth groups.
- Investments with a sustainable investment mandate now form more than 25% of the world’s professionally managed assets.
- Since 2013, there has been a 72% increase in the number of recorded regulations concerning ESG issues globally, resulting in more than 4 000 non-financial regulatory initiatives. In the past year, prominent organisations such as the Task Force for Climate-Related Financial Disclosure, the WEF and the World Business Council for Sustainable Development, have published their recommendations on how they expect companies to manage and disclose their non-financial risks.
- The WEF included plastic pollution as a critical area of concern. It highlighted the “huge volume of plastic waste in the world’s water” and the ubiquity of micro-plastics on land, in the ocean and in the air. Plastic waste has caused emerging risks such as damage to natural ecosystems and human health. The movement away from single-use plastics is likely to be extended to other forms of waste and pollution in the future.

UNEP PSI AND SANTAM: STIMULATING CONVERSATIONS IN THE AFRICAN INSURANCE INDUSTRY

An uninsurable world is a cost that society cannot afford. Understanding rapidly changing environmental, social and governance (ESG) trends – including climate change – is vital for an industry whose core business is to manage risk.

In April 2018, Santam hosted the first UNEP PSI Initiative Regional Market Event for Africa in Johannesburg. The aim of the event was to stimulate conversation within the African insurance industry about how to respond to the systemic risks and opportunities presented by global ESG trends.

The 52 participants included PSI members and other leading insurance organisations (both domiciled in Africa and global organisations with African operations), insurance regulators, city, local and national government officials, key international initiatives, business and industry leaders, civil society organisations and academia. They collectively identified the following matters as key to sustainable insurance development in Africa:

- The risk protection gap, and how the industry can reshape business models to address the needs of a larger client base
- Sustainable food systems as the basis of any credible economic development in Africa, and how the industry can collaborate with the agriculture industry, specifically small-scale farmers
- Resilient societies, and how insurers can partner with governments and other stakeholders on data sharing and disaster management, among other things

The second Regional Market Event for Africa will be hosted by Continental Reinsurance in April 2019, and the UNEP FI ESG guide for non-life insurance underwriting will launch in the first quarter of 2019.

“These events are necessary to ensure continuous dialogue between stakeholders to promote the sustainability of the general insurance industry. However, I do believe that it is very important to have more insurers present and greater government involvement.”

– Susan Walls, insurance technical adviser at SAIA

“The event provided the opportunity to benchmark initiatives with leading institutions and individuals. Opportunities to do more exist in the creation of open-access ESG data platforms, integrating ESG risks into credit-rating risk models and rewarding clients who demonstrate beyond best practice.”

– Wendy Engel, agricultural economist at the WWF

Number of UNEP PSI signatories worldwide: 64

CAPITALS



FINANCIAL CAPITAL



MANUFACTURED CAPITAL



INTELLECTUAL CAPITAL



SOCIAL AND RELATIONSHIP CAPITAL



NATURAL CAPITAL

STAKEHOLDERS



CLIENTS



SHAREHOLDERS



GOVERNMENT



COMMUNITIES



OUR STRATEGIC RISKS

One of the main functions of our strategy review process is responding to our strategic risks.

In determining Santam's strategic risks, the group and business units each have detailed risk appetite policies with criteria that consider financial and non-financial risk. This indicates how much risk Santam is willing to take on in the pursuit of its strategic and operational objectives. It also quantifies the amount of capital we are willing to put at risk to create value.

The table below provides a summary of strategic risks – all ranked as high:

Risk category	Risk	Description	Our response
Insurance	Santam's inability to achieve our premium growth and net underwriting targets	Santam's ability to grow the group at an acceptable rate is probably the single biggest risk we face in terms of creating sustainable shareholder value. Santam's level of management expenses are linked to growth and margin concerns. Expense costs that grow at a higher rate than net premium growth will erode our net underwriting margin.	<ul style="list-style-type: none"> Our annual strategy review is described on page 42 Monthly financial performance reviews measuring actual growth and margins against budget Quarterly performance against strategy reviews Significant management focus on managing expense levels
Insurance	Failing infrastructure and lack of maintenance in South Africa impacting claims	Failure to adequately invest in, upgrade or secure public infrastructure networks, as well as commercial infrastructure and private property, can lead to pressures or breakdowns with system-wide implications – specifically from an insurance perspective.	<ul style="list-style-type: none"> Increased underwriting focus on the impact that failing infrastructure can have on claims experience Through research studies, we have links with the National Disaster Management Centre and the Municipal Infrastructure Support Agency Santam partners with local municipalities to mitigate disaster-related risks which seriously impact infrastructure Our crisis management plan can be applied and adopted for any crisis scenario
Operational	Cyber risk	<p>Any financial loss, business disruption or reputational damage that results from the failure of Santam's information technology (IT) systems contributes to cyber risk.</p> <p>The predominant risk in this respect lies with business not managed in the Sanlam/Santam controlled environment.</p>	<ul style="list-style-type: none"> Sanlam and Santam have a shared service approach to the management of cyber risk. By pooling resources, budgets and skills, the group can mitigate cyber risks with greater levels of efficiency To understand and manage this risk, Santam maintains a cyber resilience framework and crisis management guide to cater for cyber risk scenarios and safeguard the group Santam employees receive cybersecurity awareness training on a continuous basis and processes around the management of privileged accounts are reviewed A cyber crisis simulation was held in 2018 to create further awareness of the realities related to cyber risks and how to manage these "Industry 4.0" emerged as a material matter from the review process detailed on page 35 and will continue to inform our strategy going forward Read more in the IT governance section on page 98
Operational	Skills shortage, including attracting and retaining top talent	<p>There is industry instability regarding human resources and skills sourcing.</p> <p>This risk reflects the importance of managing Santam's human capital and the risk of losing its key people.</p> <p>The talent pool is limited, and the insurance industry competes with other sectors for suitably qualified candidates. The lack of suitable candidates delays the process of transformation.</p>	<ul style="list-style-type: none"> Santam's ability to retain key employees is high Santam invests in training, employee benefits and incentives, and succession planning. We support wider industry initiatives to increase the take-up of professional learning and qualifications. This will have a long-term benefit regarding skilled employees Read more about the right people on page 53

Risk category	Risk	Description	Our response
Insurance, market and operational	Political and social risks, including the impact of land expropriation on economic growth	<p>Economic conditions directly impact our clients' ability or appetite to spend money on risk mitigation.</p> <p>South Africa's low economic growth is exacerbating high unemployment, inequality, and macro-vulnerabilities. Inflation influences consumer spending, which may result in increased cancellations and returned debit orders.</p>	<ul style="list-style-type: none"> – Santam is a committed corporate citizen. See the transformation (page 21), value for our stakeholders (page 25) and P4RR (page 48) sections for more information – Several partnerships with government and industry bodies are in place to assist and address certain concern areas proactively – Diversifying Santam's business outside South Africa mitigates this risk. Santam's ability to extract value from the Saham Finances transaction in Africa remains a key focus area for management
Operational	Implementation of our Pan-African strategy in partnership with SEM	Our ability to operationalise the Pan-African insurance strategy is critical. We will achieve this by developing necessary technical skills and partnerships.	<ul style="list-style-type: none"> – Santam mitigates this risk by fostering a close working relationship with Saham Finances and SEM – Measured growth that takes country-specific risks into account, conservative reinsurance programmes, and local partnerships – Our technical expertise is critical in some areas, combined with specific operational controls around specialist underwriting processes
Market	Exchange rate volatility impact on earnings	International diversification exposes the group to currency volatility and provides a hedge against the rand's devaluation. Investment performance is most significantly impacted by the group's exposure to volatile markets.	<ul style="list-style-type: none"> – We manage our investment portfolio to optimise the return within the agreed risk appetite – Monitoring net foreign currency exposures – Rebalancing assets when necessary – We established a treasury function in 2018 – Hedging foreign currency risks where appropriate
Insurance	Climate risk, including catastrophe events and extreme weather	The Intergovernmental Panel on Climate Change (IPCC) released a report in October 2018 detailing the actions needed to limit global warming to 1.5 °C and the consequences of missing the target. A 2 °C global warming will lead to more heat-related deaths, lower crop yields, more extreme weather events, slower economic growth, increased poverty and increased water stress – all of which may result in uninsurability. This is a long-term risk for the sector.	<ul style="list-style-type: none"> – We have been a member of ClimateWise since 2009 and a founding member of the UN Environment's Principles for Sustainable Insurance since 2012 – The group is considering the recommendations of the Task force for Climate-related Financial Disclosures in consultation with external climate risk experts and internal risk specialists – Find our latest ClimateWise report and the group's climate change position online at www.santam.co.za/investor-relations/integrated-report/environment-sustainability-and-governance/.
Operational	Ability to achieve Santam's transformation targets	Inclusive economic transformation in South Africa requires the industry, and Santam as a leader in the industry, to create action plans to contribute.	<ul style="list-style-type: none"> – Santam engages with stakeholders to develop sustainable targets to benefit vulnerable communities – Read more about our transformation initiatives on page 21
Operational	Reputational damage and brand association risk	<p>The damage to a brand's public standing because of a scandal, disaster or accident can be devastating and long lasting.</p> <p>In today's environment, with the explosion of social media platforms and online review sites, reputation has become vulnerable.</p> <p>Difficult economic conditions and the resultant decline in disposable income increases the risk of internal and external fraud.</p>	<ul style="list-style-type: none"> – Santam is vigilant about fraud detection: robust processes provide updated trends so management is kept abreast of where to expect potential fraud and be proactive in preventing it – Santam's social media monitoring mechanism allows around-the-clock monitoring and timeous, appropriate responses to all social media posts that pose reputational damage to the group or any of our business units

VISION 2020: SUSTAINABILITY PERFORMANCE

Santam acknowledges that business operates in conditions of environmental and social thresholds. Since our group operates within this nested ESG system, we take ESG issues and sustainability seriously. This is illustrated through the integration of material matters into our strategy process, including the review and fine-tuning of our Vision 2020 strategy; and our forward-looking review process towards the 2025 planning horizon, which will conclude during 2019.

REACHING THE INSURED AND UNINSURED MARKETS

Rationale:

Santam develops and implements its emerging market strategy through appropriate channels in the business to support growth and diversification. This includes the development of products to reach the emerging market in alignment with the Financial Services Charter (FSC) targets and criteria.

Capitals of value creation:



Material matters:

- Industry 4.0
- Collaborative consumption
- Risk protection gap
- Emergence of digital ecosystems
- Regional champions going global

Risks:

- Political and social risks, including the impact of land expropriation impacting economic growth
- Implementation of our Pan-African strategy in partnership with SEM
- Ability to achieve Santam's transformation targets
- Reputational and brand association risk
- Climate risk including catastrophic events and extreme weather

SDGs:



Key Initiatives:

- Treating Customers Fairly (TCF): Page 42
- Creating access to products and services: Pages 22, 36–37; 44; 46; 51; 58
- Consumer financial education (CFE): Pages 22–23; 51
- Developing distribution channels: Pages 12; 33; 43; 58

VISION 2020 SUSTAINABILITY FOCUS AREAS

The following section of the report sets out Santam's performance against the Vision 2020 strategic focus areas and metrics.

In the following table we set out how our Vision 2020 sustainability focus areas link to the six capitals of value creation, our new material matters (see pages 35–36), our strategic risks, and the SDGs. For more information on each focus area, visit www.santam.co.za.

RESILIENCE THROUGH SHARED VALUE PARTNERSHIPS

Rationale:

Santam works with local municipalities through the P4RR and focuses on disaster risk management and reduction. Santam also aligns its CSI contributions to its work at municipal level.

Capitals of value creation:



Material matters:

- Ethical leadership or trust deficit
- Risk protection gap
- Increasing climate change risks
- ESG embeddedness

Risks:

- Failing infrastructure and lack of maintenance in South Africa impacting claims
- Political and social risks, including the impact of land expropriation impacting economic growth
- Climate risk including catastrophic events and extreme weather
- Ability to achieve Santam's transformation targets
- Reputational and brand association risk

SDGs:



Key Initiatives:

- Partnerships for Risk and Resilience (P4RR): Pages 22; 33; 39; 48–50
- Corporate Social Investment (CSI) initiatives: Pages 50–51

DEVELOP SUSTAINABLE BUSINESS EFFICIENCIES (INTERNAL AND EXTERNAL)

Rationale:

Santam manages the quality and impact of its own risk pool through addressing pressures on human, social and environmental capital by continuously increasing efficiency, and through the brand promise, *Insurance good and proper*.

Capitals of value creation:



Material matters:

- Industry 4.0
- Workforce for the future
- Collaborative consumption
- Emergence of digital ecosystems
- Regional champions going global

Risks:

- Santam's inability to achieve our premium growth and net underwriting targets
- Cyber risk
- Skills shortage including the ability to attract and retain top talent
- Implementation of our Pan-African strategy in partnership with SEM
- Climate risk including catastrophic events and extreme weather

SDGs:



Key Initiatives:

- Managing the risk pool (ESG aware): Pages 32; 48
- Refining systemic risk models: Pages 32–33; 37
- ESG culture and carbon footprint: Pages 32–34; 36; 37; 97
- Developing with suppliers: Pages 22; 24; 26; 53
- Scarce skills development: Pages 23; 24; 28; 35; 38; 53–54
- Diverse and productive employee base: Pages 11; 20; 53
- Information management and governance: Pages 38; 43–44

RESPONSIBLE INVESTMENT AND SOLVENCY

Rationale:

Santam influences responsible systemic risk responses through vehicles such as the Resilient Investment Fund, the South African SME Fund, enterprise and supplier development, and CSI initiatives. Santam takes solvency management seriously and Santam's investment charter recognises the Principles for Responsible Investment (PRI).

Capitals of value creation:



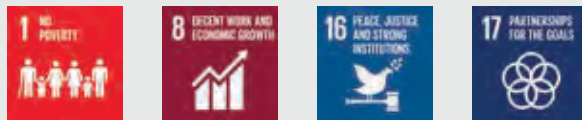
Material matters:

- Ethical leadership or trust deficit
- Increasing regulatory risks
- Regional champions going global
- ESG embeddedness

Risks:

- Santam's inability to achieve our premium growth and net underwriting targets
- Skills shortage including the ability to attract and retain top talent
- Implementation of our Pan-African strategy in partnership with SEM
- Reputational and brand association risk
- Political and social risks, including the impact of land expropriation impacting economic growth
- Exchange rate volatility impact on earnings

SDGs:



Key Initiatives:

- Participation in ESG ratings: Pages 10; 33; 37
- Management of Resilient Investment Fund: Pages 3; 22; 50
- Enterprise development initiatives: Page 22–23; 26
- Socio-economic investments: Pages 22; 50–51
- Solvency and asset management: Pages 75

2018 PERFORMANCE AND PROGRESS AGAINST STRATEGY

Despite the challenging context and competitive market conditions, Santam's leadership is confident of the group's ability to create shared value for its stakeholders.

VISION 2020 FOCUS AREAS

INSURANCE GOOD AND PROPER

Insurance good and proper is our brand promise. Santam's intent is to design, market and deliver products and services in a way that is fair, respects others and adds to the well-being of clients and other stakeholder groups.

Insurance good and proper means:

- We do insurance with integrity
- We do insurance with certainty
- We do insurance with a single-minded focus
- We do insurance with excellence
- We do insurance with stature
- We do insurance properly

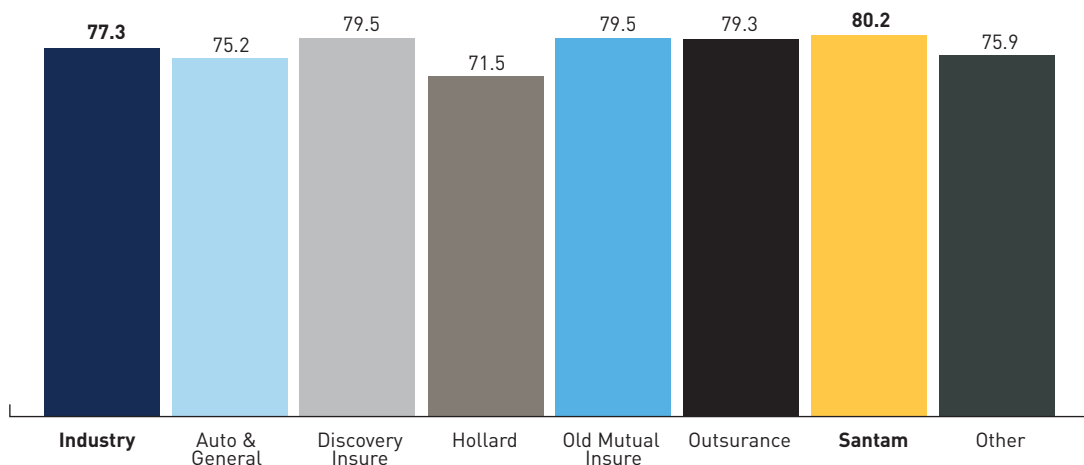
OUR CLIENTS ARE AT THE CORE OF INSURANCE GOOD AND PROPER

Santam prides itself in offering quality and reliable service and treating clients fairly.

The claims experience is a client's opportunity to test Santam's delivery on the brand promise. Client satisfaction is therefore an important measure for our brand.

The principles of TCF are entrenched in our values and philosophy, and embedded in our strategy and culture. TCF is the cornerstone of the brand promise, **Insurance good and proper**. We apply TCF in South Africa and where we have influence in other territories.

How we fared against our peers:



Our pragmatic approach to implementing TCF balances outcomes and fairness with business sustainability and commercial imperatives. Conduct of business committee meetings are held quarterly to monitor implementation and progress, and a TCF dashboard is submitted to the board.

In South Africa, Santam Commercial and Personal measures client satisfaction on three levels:

- Directly with clients after every interaction – from quotation through to the claims process. A benchmarking score of 80% must be achieved on a client satisfaction scale
- A client diagnostic measure of overall satisfaction according to future intent
- The South African customer satisfaction index (SACsi) is an external credible independent measure. SACsi is an independent national benchmark of customer satisfaction relating to the quality of products and services available to household consumers in South Africa

Similarly, MiWay measures client satisfaction at different points of the client life cycle using TCF surveys. MiWay scored 9.8 out of 10 on the Hellopeter Trust Index, a measure of customer satisfaction.

According to the 2017 SACsi results, published in 2018, South African general insurance clients are satisfied with Santam's offerings. Although our SACsi score dropped slightly from 81.3 in 2016 to 80.2 in 2017, we do remain in a leadership position.

The most popular SAcSi metric for measuring a brand's performance is the Net Promoter Score (NPS). NPS gauges the likelihood that clients will recommend a brand to their family and friends, compared to clients who would actively discourage a relationship with the brand. Santam achieved an NPS of 47.1%, the highest in the insurance industry. This score is 17.2% higher than the industry average of 29.9%.

Our strength in the general insurance industry extends across personal and commercial lines. Santam was voted the top South African general insurer in the business category of the 2018 Sunday Times Top Brands Survey for the fifth consecutive year. The independent research survey findings are based on a poll of businesses in South Africa. We were included in the first BrandZ™ Top 30 Most Valuable South African brands ranking (www.brandz.com/charting/59). BrandZ™ is the largest global brand equity platform, covering over 100 000 brands across 45 countries.

Delivering on our brand promise to clients depends on our intermediaries. Santam engages with intermediaries through our Better Business Breakfast sessions in partnership with Risk Africa and also through our intermediary conferences. These are highly rated by intermediaries, who gave us an average score of 9.4 out of 10 for the 2018 conferences.

A further external measure of client satisfaction is the Ombudsman for Short-Term Insurance (OSTI) annual report statistics.

There has been a strong focus on improving complaints resolution based on the OSTI analysis of complaints. These results as below reflect both personal and commercial matters.

Santam:

- Complaints resolved by consensus with client: Santam 14.18% (industry average 15.09%)
- Complaints resolved by OSTI ruling: Santam 1.52% (industry average 3.37%)

MiWay:

- Complaints resolved by consensus with client: 7.72% (industry average 15.09%)
- Complaints resolved by OSTI ruling: 2.57% (industry average 3.37%)

HOW OUR BRAND TEAM DELIVERED ON **INSURANCE GOOD AND PROPER**

Campaigns

In 2018 we consistently communicated our brand promise through several campaigns:

- 100 years of **Insurance good and proper** celebration – We created broad and sustained awareness of Santam's strength over the past 100 years, and built a narrative of a company that continues to adapt and innovate, whilst reinforcing our brand promise of **Insurance good and proper**.
- *Value of the intermediary* – This campaign illustrated the valuable role intermediaries play in delivering our value proposition; especially at a time when many direct insurers question the value of intermediaries
- *"Guaranteed vehicle value insurance" campaign* – This campaign communicated an option available to our clients to obtain cover for a guaranteed pay-out value when their car is written off or stolen.
- *#WhatIdRatherDo* – This was our social media campaign that looked at what people "would rather do" than claim from their insurer. It received a bronze award in the Loeries 2018 digital and interactive category

- *Safety innovation* – In response to shifts in technology and the rise of fintech, this campaign encourages South Africans to put forward fintech or InsurTech ideas that make South Africa safer
- We offered clients 10% additional cover on home contents for the year-end holiday period at no extra cost

Client-centricity

In 2018, Santam established a client excellence board – an executive committee mandated forum. We developed a set of client-centricity principles which were reinforced through the following initiatives:

- We aligned the Santam values with client-centricity principles
- We included client-centricity principles in our performance management goals and provided guidelines to assist employees in setting client-based goals
- Client-centricity principles were included in Santam's Corporate Induction programme
- Client-centricity elements were incorporated into Santam's "yellow moola" employee recognition criteria

Fraud and crime directly undermine the Santam brand. This risk is mitigated by collaborative internal efforts. Santam has an explicit brand risk appetite statement: "The Santam group has limited appetite for transactions, activities and events that could cause damage to the Santam brand. Products and businesses that Santam does not understand must be avoided".

Based on the latest assessment, we comply with this statement.

We regularly identify brand risks and respond with mitigating actions. These are regularly communicated to the Santam executive committee and board. Our established business integrity unit monitors incidents of fraud, corruption and crime. When necessary, this unit communicates reputational risks to the executive for brand.

GROWTH THROUGH INNOVATION AND DIVERSIFICATION

GROWTH THROUGH INNOVATION

Technology and data availability create novel insurance options. These include new products, new channels or new risk assessment methodologies – with the goal of creating products and services that suit the client's needs. Santam's IT capabilities enable us to innovate, and we continually explore state-of-the-art solutions. However, the associated risks in terms of fraud and regulatory complexities can challenge the viability of these offerings.

IT and security are formally governed and defined within the Santam group IT governance charter, Santam group information governance authority charter, and Santam group information security charter. Read more in the governance report on page 88.

The Santam strategic investment committee reserves funds for the creation of IT platforms that will enable growth and innovation in the future. Santam defined the following strategic innovation themes for 2018:

To reduce our legacy footprint while rationalising, simplifying and standardising technologies

The new core underwriting platform project is progressing according to plan, with personal lines now fully deployed and almost 100% migrated to the new platform. For commercial products, more than 90% of on-platform intermediaries have now been deployed for new business, while the migration process is well underway and expected to be completed in 2019. Santam will continue to invest in strategic projects to optimise the use of technology in the group.

To deliver a consistent, digitally enabled client experience across the full policy life cycle through the client's channel of choice, while generating new sources of revenue for Santam

We improved the way that IT works with other parts of the group to create new policies and products.

During 2018, we saw a steady increase in the usage of our digital assets and we have more than 3 500 unique logons to our intermediary portal per day. Per month, approximately 14 000 claims are logged and over 110 000 claim tracking events are done through this portal. We add new features to our digital assets regularly:

- We added straight-through processing – without human intervention – for motor glass claims on the intermediary portal.
- We added biometric authentication to all our mobile applications.
- We launched WhatsApp as an additional communication channel in claims.
- Service request tracking is now included for intermediaries and clients.

By the end of 2018, the MiWay app had 85 000 downloads with 14 000 active monthly users. There were 269 000 visits to the MiWay website, 77% of these by returning clients. Digital claims increased from 13.8% in 2017 to 15.5% in 2018. New features introduced in 2018:

- WeDrive bookings are now available in the app.
- WhatsApp is a new channel of communication for MiHelp.
- Clients are now able to book their own repair assessments on the MiWay app immediately after submitting a claim.
- The app now allows clients to add vehicle rental to their policies.

The Santam claims card is a flexible, client-centric mechanism for settling claims and reduces the risk inherent to the cash settlement of claims. It ensures client-centric optimal claim settlement time. The card is accepted at all VISA merchants in South Africa, with cash-back rewards for risk mitigating behaviour. The functionality of the card mechanism was enhanced with the addition of online shopping functionality at major brand retailers, as well as mobile application and web-based card management functionality.

Santam continues to work with Sanlam to investigate, implement and enable technologies within the Santam group

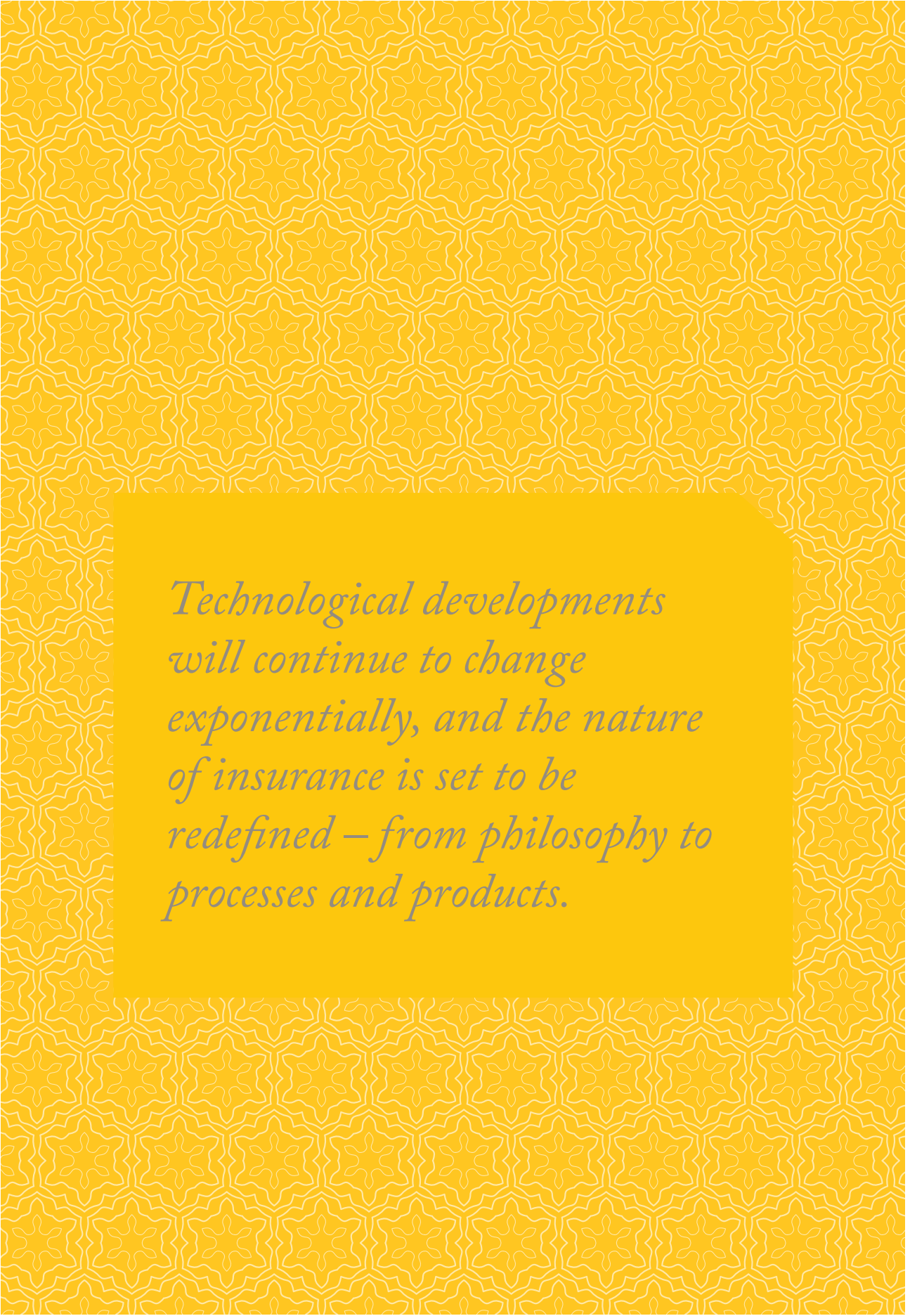
In 2018, Sanlam became an anchor member of international start-up incubator, Plug and Play. As part of the Sanlam Group, Santam can access hundreds of technology start-ups. We engage with several Silicon Valley and local companies in the AI and machine learning space to further our strategy of digitisation, process automation and improved client experience.

The MiWay MiHelp+ emergency alert service completed its pilot phase in 2017 and was made available to all existing and new clients in early 2018. Telematics technology in the client's vehicle sends instant crash alerts, including severity estimates, to our 24/7 MiHelp emergency contact centre. This allows MiHelp agents to automatically dispatch ambulance and assistance services to clients in distress, without them having to contact us. The immediate notification of an accident also speeds up the claims process and reduces the turnaround time on claims. Our MiHelp+ contact centre communicates with clients via WhatsApp, making the identification of incident locations, service provider dispatches, and follow-ups more efficient, and improving the overall client experience.

Santam Specialist developed a real estate development product that offers developers a seamless insurance product from the start of construction to a year after completion.

VUM, SHA and Mirabilis launched their respective intermediary portals in 2018. These allow intermediaries to quote and manage their portfolios online for more commoditised parts of their businesses.

Read about Santam Aviation's involvement in and underwriting of the use of drones in various agricultural applications in the real-life story on page 60.



*Technological developments
will continue to change
exponentially, and the nature
of insurance is set to be
redefined – from philosophy to
processes and products.*

INDUSTRY 4.0: WE'VE COME A LONG WAY; WE HAVE A LONG WAY TO GO

The fourth industrial revolution is transforming entire systems of production, management and governance, and disrupting almost every industry globally. Consumers are ready to embrace technology or new business models to reinvent or reshape existing businesses.

Considering this movement, Santam and Google entered into an agreement in 2017. One of the pillars of the agreement is education and knowledge-sharing. This involved an executive summit in the United States, during which executives from the Santam group spent five days in Silicon Valley.

The executives spent time with Google, Facebook, Guidewire, start-up factory Plug and Play, and a company that creates technology for driverless cars, Autonomous Stuff. Our executives looked at key technology trends that impact our industry and reflected on the impact of self-driving vehicles and how best to partner with start-up businesses to drive digital innovation. The trip enabled strategic thinking about AI and machine learning; and applying these across the Santam value chain. Santam's approach to briefing creative and media agencies has changed to now include Google and Facebook in briefing sessions, who then work closely together to develop a strategy that answers our brief.

"While it's an exciting time to be in digital, we still have a lot to learn. Companies in the United States have a diverse workforce, from millennials to silver surfers. This is, by design, to encourage diversity in thinking, to look at things from a different perspective which helps to create richer outputs. Mobility is also key for the new workforce: working remotely and having the flexibility to move between regional offices. Their HR practices focus on creating an environment that takes the worry out of life, the benefits range from transport to free meals, Wi-Fi, gyms and yoga studios."

– Wesley Cloete, Santam digital marketing manager

GROWTH THROUGH DIVERSIFICATION

Santam is diverse in terms of our employees and other stakeholders, geographies and service offering.

The transformation section on page 21 details how Santam delivers against its imperative to achieve transformation within the company and through inclusive procurement in its value chains.

The group generates 10% of its conventional insurance premiums from outside South Africa and has a strategic goal to grow this contribution significantly through the SEM and Saham Finance Investments, Santam re and Santam Specialist business units. Read more in the Santam Emerging Markets Investments business unit on page 9.

We continue to invest in ways to penetrate new and non-traditional markets. Consumer financial education has been identified as one of the most effective ways in which Santam creates new market opportunities. This requires specific and targeted initiatives and platforms to provide access to and meet the needs of previously underserved individuals and communities. Read more about these initiatives in the transformation section on page 21.

CAPITALS



HUMAN CAPITAL



INTELLECTUAL CAPITAL



SOCIAL AND RELATIONSHIP CAPITAL

STAKEHOLDERS



CLIENTS

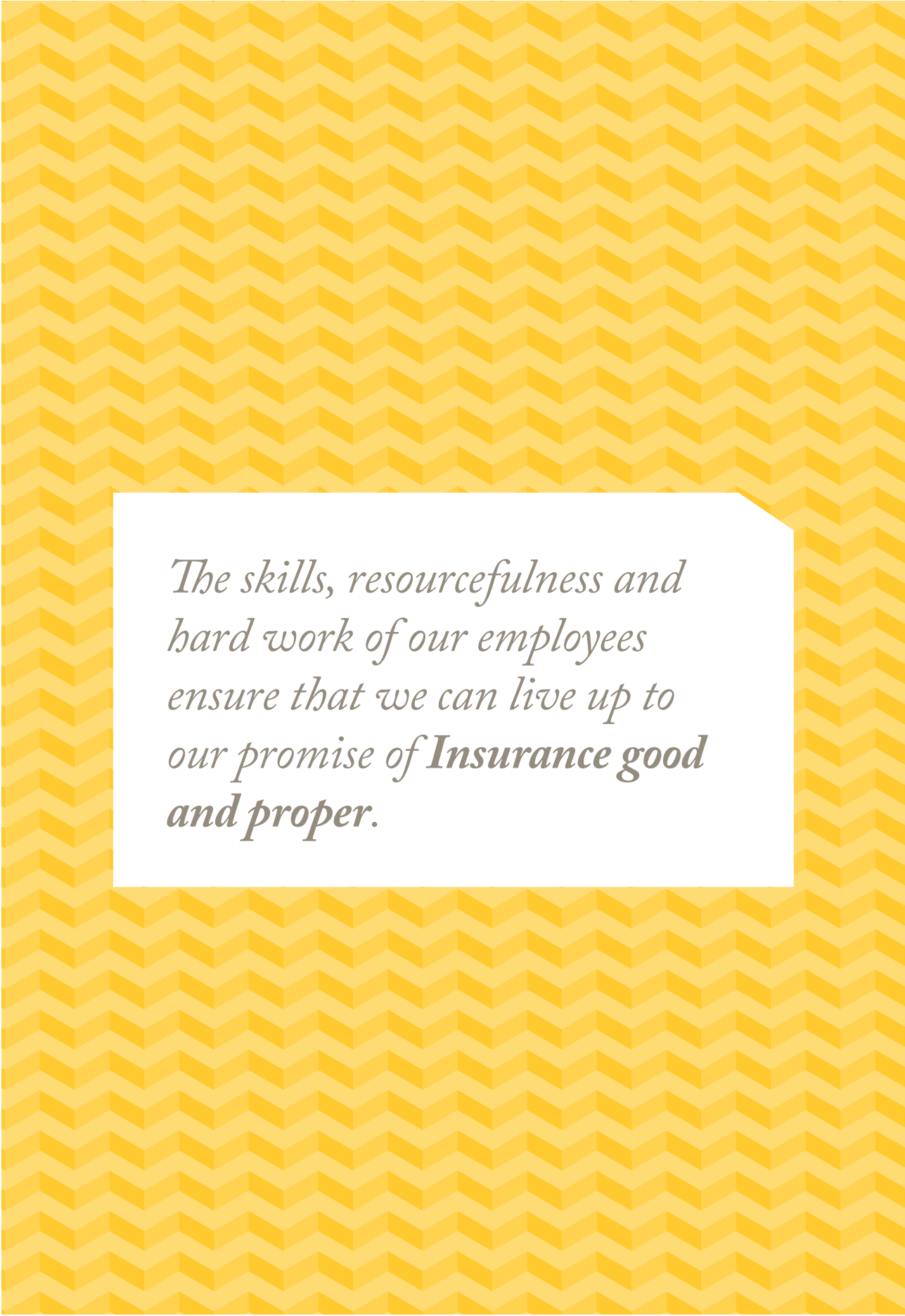


EMPLOYEES



INTERMEDIARIES





*The skills, resourcefulness and hard work of our employees ensure that we can live up to our promise of **Insurance good and proper.***

MANAGE THE RISK POOL

The risk landscape constantly evolves and generates new and complex risks. Santam monitors trends and changes that can materially impact risk profiles and claims patterns. By managing our risk pool, we ensure proactive and sustainable risk management. Risk pooling is integral to the efficient functioning of markets, economies and society.

After the high volume of catastrophe events and commercial fires in 2017, our reinsurance premium rates increased. We subsequently improved our risk survey and underwriting capacity, and tightened our focus on risk selection. The aim was to contain and manage our exposures better and improve risk management practices. This resulted in an immediate and significant saving of at least R200 million on known avoided fire claims this year.

We enhanced our risk-surveying capability by automating processing-related activities and enabling access to geospatial information, allowing surveyors to focus on risk assessment and advice. We apply data analytics to identify clients that pose an excessively high risk to the insurance pool relative to the premium they pay, and align the terms on which they are underwritten. We continue to reward clients for low-risk behaviour and for selecting lower motor repair cost options.

Poor performance in the corporate property market in 2016 and 2017 (and resulting tighter reinsurance terms) led to premium rate increases on certain risks. This strengthened our ability to pay higher reinsurance premiums.

Cyber risk underwriting is disciplined with clear risk exposure limits, and in close partnership with our global reinsurance partners. Santam retains individual and accumulation risk within a clearly defined risk appetite. Where risk modelling is more mature, risk retention can be higher, but where not, we take a cautious view in managing aggregations. The technical skills needed to manage network resilience under various cyber scenarios are advancing at a rapid rate, as is the ability to understand and manage associated risk accumulations.

Santam has a zero-tolerance approach to criminal conduct and we report all cases to the South African Police Service. There was a decrease in the number of cases reported during 2018 compared to the previous year. We assist the SAPS in the investigation and prosecution of cases reported.

Santam has paced entry into international markets according to our ability to acquire underwriting and risk management capabilities in multiple geographies. This is developing as we build up experience, supported by the group's acquisition of underwriting and risk management capabilities in a range of emerging market geographies. The co-investment with Santam into Saham Finances gives Santam access to a Pan-African footprint and local risk knowledge in multiple African geographies. The same applies to the strategic partnerships that we have in India and Malaysia.

P4RR

Resilience is the outcome of a well-developed understanding of risk management. We are in the business of mitigating risk and building resilience in the societies in which we operate. Often the risks we insure for our clients are beyond our direct control – due to events such as hailstorms, floods and fires. To reduce the risk for our group and our clients, we engage with government, municipalities, universities and other stakeholders to initiate projects to better understand and manage these risks.

The objective of P4RR is to strengthen the institutional and participatory development capacity of local municipalities to reduce poverty. We do this by assisting service delivery and providing support to local government infrastructure, economic development, and governance. Municipalities are selected based on vulnerability levels related to government requirements as well as potential impact on Santam in terms of fire, flood and storm surge perils. Since 2012, Santam has invested in municipalities to better respond to the risk of fires and floods. The P4RR programme supports 43 municipalities and is on track to support 53 municipalities by 2020. The following impacts were achieved through P4RR initiatives, investments and interventions in 2018:

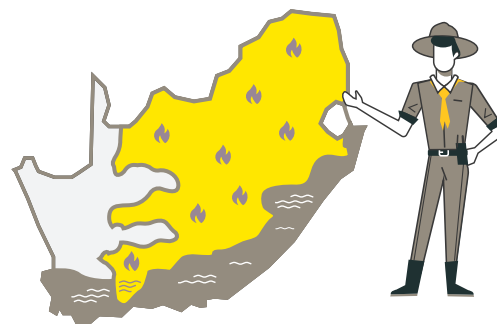
Firefighting equipment donated to municipalities

Santam donated firefighting equipment to capacitate the Namakwa (Northern Cape) and Thabo Mofutsanyana (Free State) district municipalities to deal with fire risks. These donations were in response to a request from the National Disaster Management Centre as part of their Local Government Support Programme.

The donations are aimed at providing poorly equipped fire stations with the necessary equipment to reduce the loss of life and damage to property resulting from fires. Firefighting equipment provided includes fire hoses, communication radios, protective fire suits, breathing apparatus and smoke alarms.

Partnership for Risk and Resilience – Building resilient communities

In South Africa's unique risk landscape, the vulnerable communities face major challenges in dealing with natural disasters. Municipalities are not fully capable of managing the risk of major incidents such as fire and flooding. The Emthunzini Community Trust invests in risk-reducing interventions that are managed by Santam and other willing partners.



1 SANTAM STRATEGY

The right people

Insurance good and proper

Continuously increasing efficiency

Growth through innovation and diversification

Manage the risk pool

2 EMTHUNZINI COMMUNITY TRUST'S MANDATE

- Increase municipal capacity to build resilience in targeted vulnerable communities by:
- Supporting 53 local municipalities
 - Impacting 5 million vulnerable South Africans
 - Partnering for shared value

4 EXPECTED OUTCOMES

- Better-resourced fire stations
- Early warning of fires in informal settlements
- Improved emergency communication
- Coherent firefighting capability
- Positive building compliance behaviour
- Co-ordinated fire industry response
- Pooling of fire-related knowledge and resources
- Improved understanding of flood-risk landscape
- Improved risk-related data

5 EXPECTED IMPACT



REDUCTION IN LOSS OF LIFE AND DAMAGE TO PROPERTY



MORE RESILIENT VULNERABLE COMMUNITIES



REDUCED INSURANCE LOSSES

3 INTERVENTIONS

FIRE

- Training of firefighters
- Provision of firefighting equipment
- Installation of smoke alarms
- Fire-risk assessment
- Supporting commercial building assessments
- Fire resilience round table

FLOOD

- Understanding flood-risk landscape
- Flood mapping
- Flood-risk assessments

OTHER DISASTER RELIEF

- Financial support
- Sponsorships in kind



Firefighter training

In the Sarah Baartman (Eastern Cape) and Sedibeng (Vaal) district municipalities, as well as in metropolitan areas in Gauteng, Santam donated funds towards firefighter training. The training included fire officer, fire instructor, breathing apparatus, confined space entry and rescue and incident command.

Using technology to support improved disaster management decision-making

Santam donated disaster decision support tools, associated smart devices, training and computer applications to the Sarah Baartman and Ehlanzeni (Mpumalanga) district municipalities. These tools improve data management relating to municipal risks and assets, and aid disaster management decisions, which contribute to reduced loss of life and damage to property.

Supporting a national dialogue on fires in the urban-wild interface

After the unprecedented wildfires in Knysna and surrounding areas in 2017, Santam initiated the National Fire Resilience Roundtable. The roundtable consists of 30 stakeholders, including national and provincial disaster management centres – Working on Fire, the Red Cross, private sector companies and NGOs.

Through the roundtable, Santam commissioned R1 million worth of research by Stellenbosch University and the Council for Scientific and Industrial Research into the causes of the fires, the firefighting effort and post-fire recovery. The research report, published in February 2019, highlights potential fire hotspots in South Africa and includes recommendations to improve stakeholder understanding of fire risk, as well as actions to mitigate the increasing risk of fires at the urban-wild interface.

Improving the understanding of risks in municipalities

It is imperative for municipalities to conduct regular risk assessments to better understand their risk profiles and take steps to mitigate risks. Generally, local municipalities spend money obtaining risk assessments from consultants. In 2018, Santam made funds available to build risk assessment capacity and map flood risks within 10 local municipalities.

CSI

Through investing in initiatives that generate social and environmental impact, such as the Resilient Investment Fund, the South African SME Fund, ESD, and CSI initiatives, Santam promotes societal resilience.

CSI initiatives in 2018 included:

Child Art

- The Ibhathathane Project conducted training for creative art teachers in the North West and Gauteng provinces. In 2018, 1 437 teachers were trained in these provinces.
- The 2018 Child Art competition closed at the end of June with over 3 772 entries received from schools across South Africa. The theme of the competition was “When I’m big”. The 13 winning artworks feature on Santam’s 2019 calendar. A further 312 artworks were selected to be featured in an online exhibition, which will go live in the first quarter of 2019.

Collaboration with the National Sea Rescue Institute (NSRI)

The aim of the NSRI Waterwise programme is to educate learners on water safety and help them develop confidence in and around large bodies of water. In 2018, 17 281 learners from the Sarah Baartman municipality and 9 260 learners from the Sedibeng municipality completed the training.

The Santam Employee Volunteerism programme

- Mandela day: 32 organisations nominated by employees received funding of R6 000 each.
- Community heroes: 31 organisations nominated by employees received funding of R12 000 each.

Emerging farmers

Santam's CSI business unit recognises that developing emerging farmers is key to ensuring food security, transformation and creating income-generating opportunities.

In 2018, Consumer Financial Education (CFE) reached 575 black farmers in three provinces. Santam contracted two service providers to offer consumer education to the targeted group of farmers: Farm for Africa in the Eastern Cape and Limpopo; and Buhle Farmers' Academy in Gauteng. Buhle Farmers' Academy and Santam developed a CFE module for 2019 and beyond.

In the agricultural sector, the subsidisation of small-scale farmers by governments, NGOs and other aggregators, makes crop insurance affordable and accessible to previously uninsured farmers. As a member of SAIA, Santam Agri participated in creating a public-private partnership to provide crop insurance solutions to emerging farmers.

Santam Agri specialists support and work closely with underwriting and claims teams in the SEM markets. They jointly underwrite, monitor and conduct loss assessments. They also conduct training and capacity building programmes. This collaboration and practical knowledge exchange ensures that a pool of local experts is retained in these markets.

MiHeart

Through the MiHeart project, MiWay installed and maintained six computer laboratories, catering for over 5 000 learners at schools in townships. In addition, 32 learners benefitted from our "Leaders in the Making" mentorship programme, of whom seven were awarded bursaries.

The Rural Education Access programme (REAP)

To eradicate poverty and empower young people, REAP assists students from rural areas across all South Africa's provinces to access and succeed in tertiary education.

REAP provides information, resources and referrals to grade 11 and 12 learners and calls on state mechanisms such as the National Skills Fund (NSF) and the National Student Financial Aid Scheme (NSFAS).

The Emthunzini BBBEE Community Trust funded 25 students during 2018. The stipend they receive from the Trust is used for meals, books, transport, tuition and accommodation. Comprehensive mentoring, psychosocial support, academic monitoring, and life skills training are also provided to students.

REAP hosts an annual Work Readiness Conference to recognise students who excelled in various categories. The September 2018 event was attended by 30 students, as well as representatives from REAP, Santam and the Trust.

PARTNERING FOR EFFECTIVE DISASTER MANAGEMENT

In 2012, the roofs of nearly 1 000 houses were blown off during heavy rains in the Ehlanzeni district of Mpumalanga, leaving many people without shelter. Disaster managers had to organise blankets, mattresses, and collapsible housing, as well as new identity documents, birth certificates and school books.

Santam experienced large claims because of flooding in this district over subsequent years. As a result, we partnered with the municipality as part of P4RR.

The goal of P4RR is to reduce the loss of life and property resulting from fire or floods. Services include firefighter training, mapping and Geographic Information System (GIS) improvements, sharing disaster risk management knowledge, and a community risk assessment. In collaboration with Ehlanzeni District Municipality, we conducted disaster awareness training sessions with 100 traditional leaders on preventing, mitigating and reducing disasters.

The GIS donated to the Ehlanzeni District Municipality is designed to capture, store, analyse and manage spatial or geographic data to understand flooding patterns and trends. The system requires technical expertise to build and manage disaster management plans. However, in time we realised that the GIS system and accompanying decision support tools were not fully utilised despite the necessary hardware and software being available.

It became clear that P4RR needs to be an ongoing partnership with Ehlanzeni and the other municipalities to develop real, sustainable solutions using our risk assessment and management expertise.

Santam's P4RR project team stepped in to conduct a baseline assessment and help map a way forward. Our engagement resulted in better collaboration between the three departments – GIS, IT and disaster management – which ensure the GIS functions efficiently.

We facilitated discussions between the three departments and organised for them to attend training workshops at the Western Cape Disaster Centre.

Since this intervention, the municipality has decision support tools consisting of new management support tools and smart devices. The three departments regularly have meetings and the success of the project was shared with the different municipalities.

WHAT WAS ACHIEVED USING THE GIS

- Establishing priority areas that are at high risk of flooding
- Developing a proactive flood management model to assist Ehlanzeni District Municipality in managing flood risk
- Developing upstream catchment land rehabilitation initiatives to reduce the flood risk exposure of communities living downstream.

CAPITALS



FINANCIAL CAPITAL



MANUFACTURED CAPITAL



INTELLECTUAL CAPITAL



SOCIAL AND RELATIONSHIP CAPITAL



NATURAL CAPITAL

STAKEHOLDERS



CLIENTS



GOVERNMENT



COMMUNITIES



CONTINUOUSLY INCREASE EFFICIENCY

OPERATIONAL EFFICIENCY

We maintain high standards of operational efficiency to create more robust and sustainable stakeholder outcomes.

Santam's willingness to invest in large, long-term projects to provide data capabilities and agility for future business contexts is delivering the anticipated benefits.

Data and systems support risk management by improving risk assessment, pricing and underwriting processes. Santam continues to invest in big data and predictive analytics. This forms the core of our approach to pricing. These investments improve the group's ability to respond quickly to the market from a product perspective and enable us to interact with clients through a variety of channels.

Predictive analytics has been extended into the realm of machine learning and AI, and these techniques already play a significant role in applying price optimisation techniques. These capabilities were effectively applied to combat fraud, both large-scale and opportunistic.

In 2018 we extended our risk assessment app to include the provision of a record of advice to our intermediaries. This is important for intermediaries to demonstrate they have provided a thorough and value-adding service to our mutual clients. This feature enhanced the use of the app and should encourage a better standard of risk management in our commercial client base.

Several features were added to the MiWay app, including fingerprint authentication, webchat, surveys and videos, assessment bookings and push notifications. We enhanced our hail warning and subsequent hail claim self-service tools. We added an automated call-back feature to help clients save money on airtime.

The individual businesses continuously embark on strategic projects to increase efficiency. In 2018, Santam re-introduced QuicklySign – an electronic signing system that resulted in significant time savings and reduced paper use. Santam's head office in Bellville, Cape Town, partnered with our landlord to drastically reduce the use of potable water.

Santam Specialist introduced several business efficiency initiatives, including document and process management, client and intermediary management systems and finance reporting optimisation in the Niche businesses.

SUPPLY CHAIN EFFICIENCY

Santam's suppliers form an integral part of the claims management process and the group's ability to deliver on its promise to clients. Suppliers provide functional elements including motor body repair, claims assessment, motorglass replacements, consumer electronics, jewellery replacement and a variety of technical specialists.

Procurement and sourcing are centralised for the Sanlam Group, including Santam in the context of a centralised sourcing decentralised call-off model which affords economics of scale as well as flexible buying processes and is governed by a group-wide procurement policy. However, subsidiaries such as MiWay still have the option to manage their own sourcing.

In the interest of building value-based business partnerships, Santam engaged with several vehicle original equipment manufacturers (OEMs) and concluded commercial deals to reduce repair cost on their brands.

We streamlined our ability to on-board suppliers by investing in a software system which includes web based registration, updating supplier and personal details actioning, request for proposals and generating and managing contracts.

COST MANAGEMENT

Santam has a value-based decision framework that directs spend to the most suitable suppliers based on their value offering to the group. This entails an assessment based on quality, service, price and transformation criteria.

We continue to explore initiatives to contain claims costs, as this contributes positively to Santam's loss ratio and supports affordable insurance premiums.

Santam's internal cost management process includes quarterly expense forum meetings, which monitor expense trends and drive cost savings. Our approach considers cost management from policy formulation through to cultural and behavioural drivers.

We believe in constantly making small improvements to deliver long-term optimisation. During 2018 the group faced cost challenges, which are discussed in the chief financial officer's report on page 66.

THE RIGHT PEOPLE

Santam's strategic focus on "the right people" ensures that we have the ideal people in the best positions to deliver on our chosen strategies. We operate in a competitive market where critical skills are limited, and there is competition for those skills.

Through our committed and capable people, and the value they bring to the group, we are well positioned to continue creating value for our stakeholders. Our approach to ensure Santam has the capability required currently, and in the future, is multipronged and includes:

- Targeted external talent acquisition using various recruitment strategies
- Deploying internal talent through promotions, assignments and secondments within Santam and the larger Sanlam Group
- Internal capacity-building through development programmes that grow the talent pipeline in the short, medium and long term
- An external talent pipeline drive via the Strategic Resourcing Plan (SRP) and the Skills Development Academy

In doing so, we continually adjust to provide a diverse employee complement that suits the contexts in which we conduct business, which helps us meet our transformation targets.

Our diversity strategy and policy recognise the need to diversify our workforce and our marketplace. This is in line with South Africa's broader socio-political transformation imperative and supports Santam's internal business strategy to innovate further, shift paradigms and grow multiple streams of talent. Apart from targeting and planning around certain levels of employment equity, Santam seeks to create a more inclusive organisational culture that supports and creates space for employees, regardless of race, gender, ability levels, religious affiliations, sexual orientation or age.

We manage and embrace diversity in its broadest form, and all initiatives are aimed at supporting a diversified and inclusive culture positioned in that context.

REMUNERATION

Through our remuneration policy, we endeavour to monitor and ensure fair remuneration. During 2018, we made changes to our remuneration approach, policy and schemes, which align with the prudential standards issued in terms of the Insurance Act. The revision ensures best practice to aid risk alignment for remuneration. More detail can be found in the remuneration report summary on page 104.

LEARNING AND DEVELOPMENT

Our leadership programmes at junior, middle and senior management levels have a lean towards managing diversity, the ability to influence, cultural intelligence, an understanding of how to manage and lead in different environments, and leading and managing change and innovation across different geographies in collaboration with global partners.

These programmes are designed and facilitated in partnership with external parties and business schools such as the UCT Graduate School of Business and Duke Corporate Education.

Santam has always invested in leadership and technical skills development. In 2018, we chose to partner with top-rated business schools on the content to design leadership programmes tailored to specific leadership capabilities required for a future-fit Santam and informed by the latest insurance industry trends. The three flagship programmes are:

- Future Leaders programme, in partnership with the UCT Graduate School of Business: 38 delegates
- Leadership Excellence programme, in partnership with the UCT Graduate School of Business: 29 delegates
- Senior Leadership programme, in partnership with Duke Corporate Education: 13 delegates.

Our learnership programmes are run through the Skills Development Academy. In 2018, 111 learners who qualified from the previous year's programme were successfully placed in fixed-term contract and permanent positions, representing an 81% placement rate. Currently, 94 learners are undertaking their NQF4 general insurance learnership to be completed by end February 2019.

In 2018, the Skills Development Academy trained 120 young people in scarce and critical skill areas such as actuarial science, underwriting, relationship management and insurance assessment. These and other technical skills are much sought-after and critically low in the financial services sector.

Santam's investment in learning and development has been consistently above 3% of annual payroll. This allows the group to provide a basket of learning and development opportunities ranging from technical insurance skills, academic study aid, formal leadership development, and coaching and mentoring programmes designed to improve employee experience. The learning and development catalogue is available to all employees via our intranet. There is a shift towards online and digital learning platforms offering e-learning, massive open online courses (LinkedIn Learning) and video-based micro-learning.

SUCCESSION PLANNING

The Santam group talent management strategy serves as the framework to identify and develop key talent within the group, with a focus on critical positions and collaborative and effective succession planning. Executives review and discuss talent and succession matters on an ongoing basis and formally once a year.

THE RIGHT PEOPLE

- Santam appointed a new HR executive, Enid Lizamore, in May 2018. She continues the work of the previous executive, Jeanette Modise.
- A review of the HR operating model assessed levels of capability and capacity building, and ensured HR is positioned to effectively support the changing needs of business.

EMPLOYEE WELLNESS

Our employee wellness offering includes physical, emotional, financial and professional health dimensions. The aim is to proactively identify risk areas that are amenable to behavioural change, create awareness, provide support and give opportunities to facilitate change. The following initiatives were completed during 2018:

Physical wellness

- Early and proactively managing health conditions through onsite wellness days at all major Santam offices, onsite health clinics and free pharmacy health screenings. Once employees know their risk factors we proactively encourage active lifestyles through the Santam Wellness programme and other relevant initiatives.
- This year, 217 employees represented Santam at the 2018 Corporate Games. They participated in 10 events and won 78 medals and, as a result, won the overall 2018 Corporate Games. Santam has committed to participation in the 2019 Corporate Games to continue encouraging active lifestyles.

Emotional wellness

- Confidential counselling services are offered through Careways to employees and their immediate households to support those experiencing personal and professional challenges. Up to six free counselling sessions with a qualified professional are offered per incident.
- Santam offers supportive leave for events such as bereavement, birth of a child and serious illness of a close family member.


Financial wellness

- The Santam Wellness and Careways offerings include financial wellness elements.
- We provide disability and income care cover, trauma and spouse's life cover, and the drafting of wills.
- Santam promotes work-life integration through:
 - Flexible work practices like working from home, compressed work weeks and more.
 - The Yell for Yellow service assists employees with personal errands and is available to employees and their direct family members. These services help employees save money, look for products, do research for kids' homework, assist in emergencies and more. This service is fully paid for by Santam.

The Top Employers Institute is an international certification body that recognises organisations achieving world-class standards in their people practices. Companies all over the world go through a certification process that scores and benchmarks their HR practices, processes and technologies against other companies in their industry or geography.

Santam has participated in the Top Employer process for the past three years and was certified as a Top Employer for the third time in a row. This third certification means we have a granular sense of which of our HR practices are best in class and can stand up to what our competitors are doing versus those falling behind the curve.

In this way, the award is not simply a sign of achievement, it also provides an independent, globally benchmarked method of review and quality assurance.



*Santam's strategic focus on
"the right people" ensures that
we have the ideal people in the
best positions to deliver on our
chosen strategies.*





04

EVERY BUSINESS IS OUR BUSINESS.

From corner stores to multistorey corporations, our commercial insurance expertise means we understand and cover the risks associated with every kind of company.

In this section

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CHIEF EXECUTIVE OFFICER'S REPORT

Santam has shown strong underwriting performance in 2018, following a challenging 2017. The group remains in good shape, but shares the collective concern about the global and South African economy, and the challenging conditions under which our current and potential policyholders want to safeguard their assets and businesses.

A MOMENTOUS YEAR

On 1 May 2018, Santam celebrated its 100th anniversary. The celebration was an occasion to meet with all our stakeholders, particularly employees and intermediaries, and to herald the success, resilience and dynamism of our people. It was also an opportunity to reflect on what made us successful for 100 years and what we need to do to ensure another successful 100 years going forward.

During the year we concluded a further investment in Saham Finances, increasing our effective interest from 7% to 10%. The relationship with Saham Finances offers us an opportunity to be part of a truly Pan-African financial services group. It will see Santam playing a significant role in the specialist and reinsurance businesses of Saham Finances.

The reporting period has been one characterised by fewer large commercial property and catastrophe claims events than experienced in 2017 which, from a claims perspective, was the worst in over 100 years.

A combination of tighter underwriting practices in commercial property and a benign claims environment contributed to good underwriting margins, which increased from 6.0% in 2017 to 9.2% in 2018. We saw strong performance in Santam Commercial and Personal. Conversely, some of the Santam Specialist businesses saw higher claims ratios, which led to underperformance relative to historic results. The most notable of these are listeriosis claims in SHA, our liability business. Despite the tough economic conditions in South Africa the group achieved satisfactory growth.

We demonstrated our leading position in the South African general insurance sector with various accolades that include recognition in the 2018 *Sunday Times* Top Brands Survey as a top business insurer and a leading rating in the SAcSI 2017 index for general insurance. Other accolades include certification as Top Employer in South Africa for the third year running and inclusion in the JSE/FTSE Responsible Investment Top 30 Index, which recognises sustainability practices by corporates.

Detailed performance reports for each of the business units in our business portfolio follow from page 7.

CHALLENGES PERSIST

Despite the positives, there have also been challenges. For the first time since 2009, the country slipped into a technical recession. To bolster state revenue, Value Added Tax was increased by 1% to 15%. There has also been a steep rise in fuel prices which, combined with the persistent policy uncertainty, has resulted in low client and business confidence. These macro-economic factors resulted in a tougher growth environment.

Santam acknowledges that, as the leading general insurer in South Africa, it is our responsibility and ongoing challenge to hasten transformation and insurance penetration. We view this responsibility as an opportunity to be a good corporate citizen of the country.

We provide affordable insurance to clients through various distribution channels, invest in consumer financial education to improve potential clients' understanding of the need for insurance, and inform them of available products. Santam invested R249 million (2017: R104 million) in skills development in 2018 and we continue to make progress in meeting our employment equity targets. We also investigate and invest in alternative distribution models that will increase access to our products. For more detail on these and other transformation initiatives, see the transformation section on page 21.

The risk management capabilities of many South African municipalities continue to be of concern. The deterioration of infrastructure and lack of service delivery impacts society's ability to manage risk. We continue to assist municipalities through P4RR and engage with all stakeholders to develop a strategy to improve the resilience of South African municipalities.

OUTLOOK AND APPRECIATION

Although the difficult economic conditions, the competitive environment and an increase in policy lapses impact our ability to grow gross written premium, challenging environments and lower growth scenarios are strong drivers for innovation and efficiency.

2019 will be the final year of our Vision 2020 strategy. We will also use the period to define our new strategy for 2020 and beyond. Our strengths remain our diversified footprint, capital strength, recognised brand, technical expertise and our ability to grow business flows outside South Africa. We will continue to focus on profitable growth, cementing our leadership position in South Africa and exploring the opportunities presented by our emerging markets footprint.

With Santam's increased stake in Saham Finances, increased focus will be placed on African operations and closer working relationships will be fostered between Saham Finances, Santam and SEM.

We must also anticipate and leverage emerging trends related to climate change, urbanisation, new technology and changing client behaviour. Santam has done a lot of work in identifying these trends and researching the impacts of ESG issues on our company and the impacts we have in this regard. Our next strategy cycle will prioritise embedding this knowledge into our core business practices.

Technology plays a major role across the insurance value chain. Client expectations are causing a shift away from traditional means of insurance towards the newer, more evolved methods necessary for keeping pace in a fast-changing, always-on and connected world. Santam takes a measured and long-term approach to technological advancements. During 2019 we will further embrace the value of technology to create better experiences for our clients and intermediaries. Most importantly, we will continue to be there for our clients and business partners when they need us.

Santam remains confident of our future as a company and the future of our country. As South Africans, we have an innate ability to rise to challenges and I therefore do not doubt that with focus, persistence and hard work, we will continue to achieve our objectives.

On behalf of the Santam board and executive committee, I want to thank our employees for their relentless contribution to making our company the success it has become, and our business partners and clients for their loyal support. I would also like to thank the Santam board and management for their wisdom and support during 2018. I am proud of what we have achieved in our centenary year.

Lizé Lambrechts

Chief executive officer



REAL-LIFE STORY

SANTAM AVIATION'S USE OF DRONES

Drones have become more than simple devices to take pictures from the sky. For some they have opened the window to business opportunities. As drones become smaller, easier to use and more affordable, the barrier to entry is lowered and more and more people are using them. In South Africa, this technology has taken off quickly, and it is expected that the adoption rate will accelerate dramatically over the next few years.

Agricultural production has drastically increased in recent years, and studies predict that aggregate agricultural consumption worldwide will increase by 69% from 2010 to 2050.

Agriculture drones increase crop production and monitor crop growth. Using advanced sensors and digital imaging capabilities, farmers can use drones to create a picture of their crops and use the information to improve crop yields and farm efficiency. Additionally, drones can be used to survey the crops. Weekly, daily, or even hourly pictures can show changes in crops over time, enabling the

farmer to improve crop management and production. In response to the growing popularity of drones, Santam Aviation developed an insurance product that provides the full spectrum of cover for drone owners and operators in the private and commercial spaces. Santam is one of the few insurers willing to insure this niche product.

"At Santam, we want to give our drone sector clients peace of mind, knowing that they have the right cover in place." – James Godden, Head of Santam Aviation

CAPITALS



MANUFACTURED CAPITAL



INTELLECTUAL CAPITAL



NATURAL CAPITAL

STAKEHOLDERS



CLIENTS



SUPPLIERS



INTERMEDIARIES



SEM

THE SANTAM BUSINESS PORTFOLIO: OUR PERFORMANCE

SANTAM COMMERCIAL AND PERSONAL

Santam Commercial and Personal achieved significantly improved underwriting margins compared to the previous year. 2018 has been a relatively benign year in terms of claims severity. This is partly a result of the absence of major catastrophe losses.

Increased systemic risk is caused by a decline in compliance and monitoring building regulations, reduced firefighting capacity, decreased water pressure and poor storm water drainage management. As a result, we focused on prevention and management through enhanced survey and underwriting processes, and diligent compliance with risk reduction requirements. This applies particularly to medium to large commercial and corporate clients, where requirements for smoke detection, sprinkler protection, pressurised water tanks and rational building design are stringent.

We saw a turnaround in the profitability of the property portfolio, in part due to an increase of insurance rates in previously unprofitable property sections as well as improved risk mitigation actions.

Our outsourced business channels exceeded profit targets for the third consecutive year. Premium growth was below target, mainly due to economic pressures.

Tough economic conditions impacted small businesses, resulting in negative growth in our lower annual premium segment. On the other hand, our consistent approach to rating and underwriting over time and continued good access to reinsurance markets benefitted us in the higher value segments. We established a dedicated business unit to service and manage commercial business in this segment.

Premium affordability remains a key consideration for consumers. The personal lines conversion rates and requests for quotes declined during the year, resulting in a marginal net loss of policies. However, a conscious effort to improve rate strength, particularly in property, positively impacted conversion.

Santam Direct saw an increase in the “asset ceased to exist” category as well as wider affordability issues. However, we improved our new business loss ratio by making use of detailed data and case analysis.

Santam Namibia faced growth challenges, where negative GDP growth resulted in policy cancellation and clients reviewing items to be insured with the aim to reduce premiums.

In South Africa, legislation relating to policyholder protection rules and binder agreements were introduced and some amended. These amendments impact the operational processes of the business which needs to be aligned with the new requirements. In Namibia, key regulatory impacts include the change of the Namib Re compulsory cession.

SANTAM SPECIALIST

Santam Specialist's net insurance result was below par for the year, largely because of the performance of SHA, who faced high claims activity. Despite these challenges, the niche businesses reported growth in 2018 and Santam Agri retained a 51% market share.

In difficult economic times, businesses look for expense efficiencies and insurance premiums are put under pressure. In 2018, the South African agriculture industry contracted, mainly due to economic pressures. Crop insurance was impacted by the deteriorating financial position of grain farmers, as they often cannot afford the cost of insuring their crops. The transportation and hospitality industries also contracted, while the construction industry showed some growth following an extended period of contraction.

Catastrophic losses decreased year-on-year, however, we did see large claims because of the Listeriosis outbreak early in the year and a few large corporate fire claims.

Reduced property capacity and higher costs were positive for the property market, since rates hardened throughout 2018 with increased focus on risk management improving the long-term sustainability of our property book. Overcapacity in many specialist lines contributed to increased competition and lowered rates.

Outside of South Africa, emerging markets enjoyed strong growth and infrastructure development. However, changes in insurance legislation towards increased localisation of insurance premiums across Africa put pressure on premium revenue into South Africa.

The weakening rand is positive for growth outside South Africa, however, it causes claims pressure in the aviation and travel sectors, where parts and medical claims are priced in US dollar. Similarly, while the increased oil price has a negative economic impact on our clients, it has a positive impact on oil-based economies in Africa such as Angola, creating growth opportunities.

The Alternative Risk Transfer Insurance business reported solid operating results during 2018. Read more about this on page 71 of the CFO report.

The opportunity that Santam's stake in Saham Finances presents in Africa is key to Santam Specialist's growth strategy on the continent. Read more in the section on Santam Emerging Markets Investments on page 9.

MIWAY

MiWay's gross written premium growth was under pressure, impacted by competitive market conditions and the poor economic climate, which resulted in a decrease in premium collections.

As a direct business we incur the cost of acquiring new business upfront, except for intermediary commission paid over the life of the policy. As a result, the increase in premium cancellations negatively impacted MiWay's acquisition cost ratio. MiWay maintained a claims ratio of 55% (2017: 57%) which contributed to a satisfactory underwriting result.

MiWay will continue to refine the MiWay MiHelp+ emergency alert service to unlock more efficiencies during 2019. MiWay also refreshed the brand towards the end of 2018.

SANTAM RE

Santam re continues to contribute to the group's diversification strategy and its ability to create long-term value. It remains an important growth and diversification vehicle for the group.

Santam re's underwriting result deteriorated during 2018, mainly because of worse-than-expected run-off losses and a more prudent underwriting approach to reserving.

Santam re's business is vulnerable to volatility in international markets. In 2018, pricing remained neutral with marginal shifts up and down.

Strategically, we focused on developing our junior underwriters by exposing them to their markets through visits, conferences and engagements with clients. We are working on projects to improve processes and we have improved our financial record keeping.

Santam re will continue to build partnerships with international reinsurers with portfolios of good standing to secure good new business flows from international partner cessions that cover the developed world geographies. This will provide further balance and diversity to the international portfolio.

SANTAM EMERGING MARKETS INVESTMENTS

Performance data for Santam Emerging Markets Investments will be provided in the CFO report on page 71.

In October 2018, Sanlam and Santam acquired the remaining 53.37% of Morocco-based Saham Finances, after regulators in various jurisdictions approved the deal. SEM and Santam now hold an effective interest in Saham Finances of 90% and 10% respectively.

Since its establishment in 1995 as a subsidiary of Saham Group – which also owns health, food and distribution interests – Saham Finances has expanded rapidly.

This combined footprint, with the expertise of SEM, Santam and Saham Finances across life, general and specialist insurance and investment management in Africa, provides significant opportunities for cross-selling and diversification. There is minimal overlap in the footprints of the respective businesses, resulting in a complementary and unparalleled presence across the continent. The acquisition creates a Pan-African financial services group able to offer a full product suite to clients ranging from individuals to corporates.

Our increased effective interest in Saham Finances is underpinned by the opportunity for Santam, in conjunction with SEM and Saham Finances, to use our expertise to play a leading role in managing the combined Saham Finances and Santam specialist business in Africa, and to become a leading Pan-African specialist insurance provider. Santam will play a more meaningful role in the reinsurance businesses of Saham Finances.

Saham Finances' expertise in motor assistance, through Saham Assistance, presents significant business growth opportunities. Further synergies exist across several technology initiatives.

Over time, we will align Santam's economic participation in the other SEM general insurance businesses in Africa, excluding Namibia, from 35% to 10%.



REAL-LIFE STORY

MIWAY CONTACT CENTRE AGENT GOES ABOVE AND BEYOND

In 2017, MiWay client Bridgette Fuller was involved in a serious accident. Her two children were also in the car.

MiWay's MiHelp+ emergency alert system, a car tracking device capable of detecting a serious vehicle impact was installed in her vehicle. The device detected a critical impact and an alert notified the MiWay 24-hour emergency assistance call centre.

MiHelp+ adviser Nkosinathi Bothlokwane did not receive a response when he called Bridgette's phone, so an emergency response team was dispatched to the scene and Nkosinathi called Bridgette's partner to notify him of the accident.

Though injured, the children soon recovered, but Bridgette was in a coma for months. During this time, Nkosinathi continued to call her partner regularly, for over a year, until she recovered.

"Bridgette and I are not client and agent, we're family now." – Nkosinathi Bothlokwane

Number of MiHelp+ emergency alerts activated in 2018: 1 226

CAPITALS



MANUFACTURED CAPITAL



HUMAN CAPITAL



INTELLECTUAL CAPITAL

STAKEHOLDERS



CLIENTS



EMPLOYEES



COMMUNITIES



MEDIA



REAL-LIFE STORY

SAHAM'S 90-MINUTE CLAIMS TURNAROUND

Anyone unlucky enough to suffer a serious car accident will almost certainly claim from their insurance company. However, when clients are involved in so called "fender-benders" they often elect to cover the costs out of pocket. This could be to avoid increased premiums, but is often also because of an unwillingness to suffer the perceived hassle of the claims process for a relatively minor claim.

Saham Finances' six Check Auto Express centres are built on an innovative concept of responsiveness and proximity. They are dedicated to the payment of small material damages of less than US\$2 000. Launched in Morocco in 2009, they offer clients express financial compensation of motor damages, via cash or cheque, in 90 minutes. During 2018, the Check Auto Express centres were digitalised, now allowing clients to have visibility on running orders and reducing the waiting period from 90 to 20 minutes.

The Check Auto Express offer was launched in Côte d'Ivoire and Burkina Faso in 2018 with financial compensation of 72 hours instead of 60 days.

95% satisfied Check Auto Express centre clients.

CAPITALS



MANUFACTURED CAPITAL



INTELLECTUAL CAPITAL



SOCIAL AND RELATIONSHIP CAPITAL

STAKEHOLDERS



CLIENTS



SEM



Saham Finances' expertise in motor assistance, through Saham Assistance, presents significant business growth opportunities.

CHIEF FINANCIAL OFFICER'S REPORT

OVERVIEW

The Santam group reported gross written premium (GWP) growth of 11% (9.5% excluding the impact of the Santam Structured Insurance acquisition in March 2017), and delivered excellent underwriting results under difficult economic circumstances.

The group's conventional insurance book achieved gross written premium growth of 7% and a net underwriting margin of 9.2% (2017: 6.0%), comfortably exceeding the group's target range of 4% to 8%. The Alternative Risk Transfer (ART) insurance segment grew gross written premium by 40% and reported operating results of R96 million (2017: R84 million). The Sanlam Emerging Markets (SEM) general insurance businesses delivered acceptable operating results.

Net investment income attributable to shareholders, inclusive of investment return on insurance funds of R1 105 million

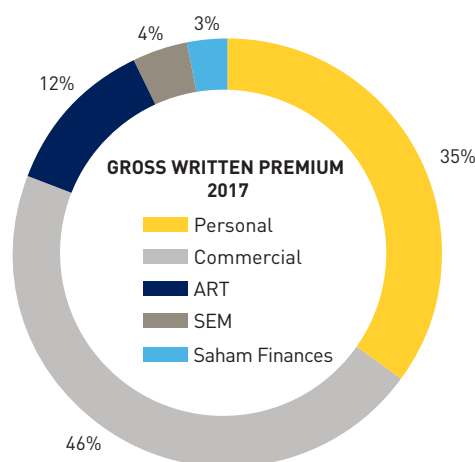
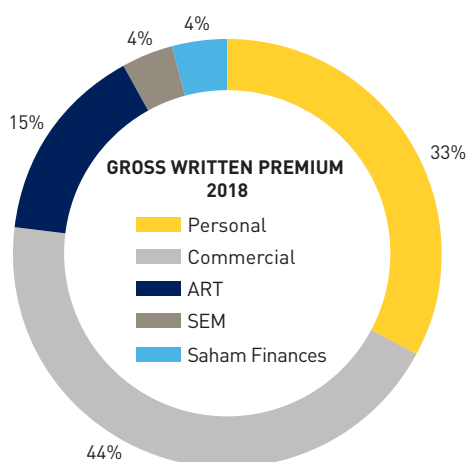
(2017: R1 012 million) was reported. Gains on foreign exchange differences of R376 million (2017: loss of R116 million) was the key contributor to the improved performance. The 2017 investment income included the release of the foreign currency translation reserve of R175 million relating to the unwinding of the Santam International investment.

Cash generated from operations increased to R5.5 billion (2017: R3.3 billion), positively impacted by the improved claims experience.

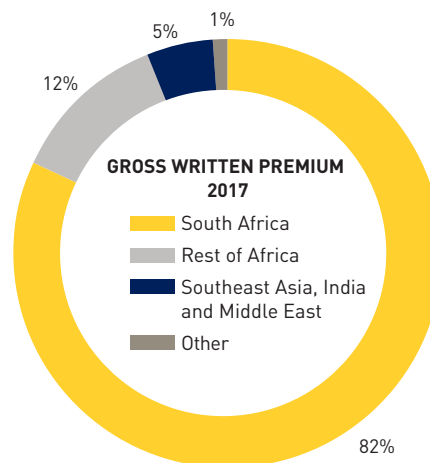
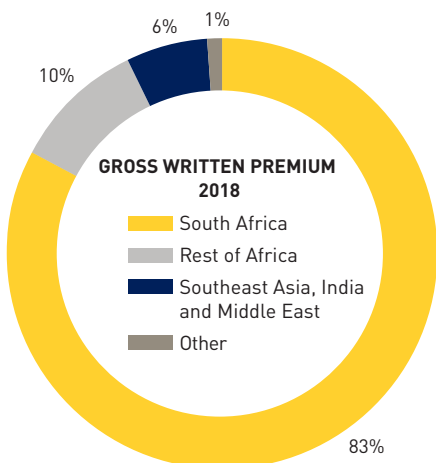
The key drivers of the 47% increase in headline earnings per share from 1 425 cps in 2017 to 2 099 cps in 2018 was the significant improvement in the underwriting and investment results.

A return on capital of 31.8% was achieved. The economic capital coverage ratio was 159% – slightly above the midpoint of the target range of 130% to 170%.

LINE OF BUSINESS DIVERSIFICATION



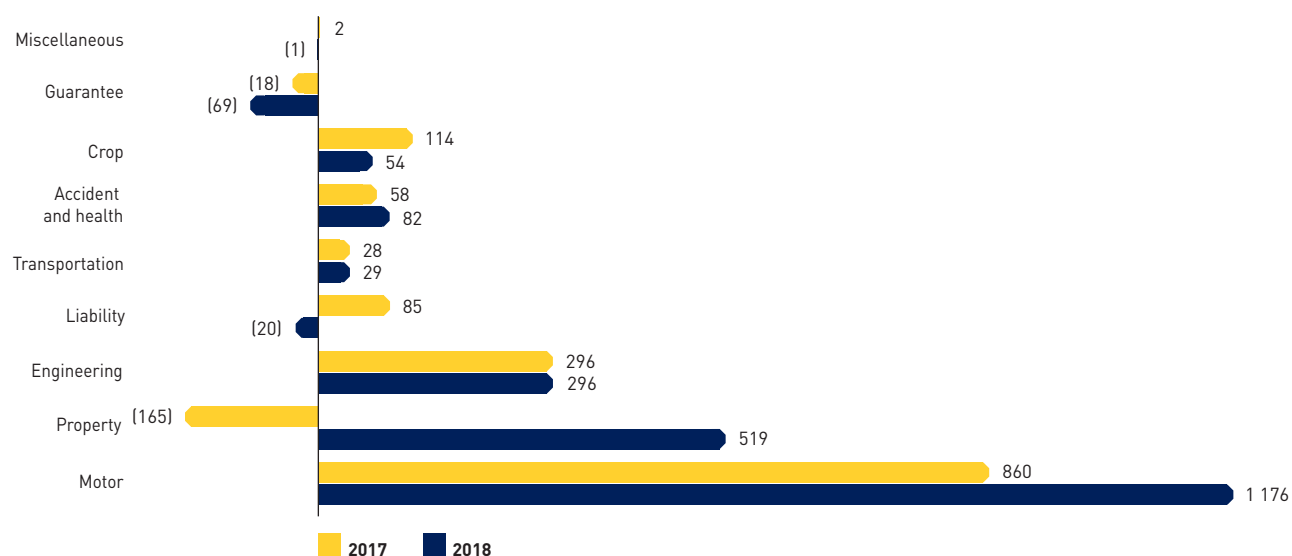
GEOGRAPHIC DIVERSIFICATION



CONVENTIONAL INSURANCE GROSS WRITTEN PREMIUM PER INSURANCE CLASS (R MILLION)



CONVENTIONAL INSURANCE NET UNDERWRITING SURPLUS PER INSURANCE CLASS (R MILLION)



FINANCIAL RESULTS

A summary set of financial statements for 2018, prepared in accordance with IAS 34, is included in this 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.

Read more about the key financial statistics in the seven-year review on page 146.

INSURANCE RESULTS

CONVENTIONAL INSURANCE

NET INSURANCE RESULT

	2018 R million	% of NEP	2017 R million	% of NEP	2018/2017 %	5-year average %	10-year average %
Gross written premium	27 711		25 853		7	8.3	8.5
Net earned premium	22 371	100.0	20 893	100.0	7	100.0	100.0
Net claims incurred	13 499	60.4	13 753	65.9	(2)	63.1	65.1
Net acquisition cost	6 806	30.4	5 880	28.1	16	28.8	28.1
Net underwriting result	2 066	9.2	1 260	6.0	64	8.1	6.8
Investment return on insurance funds	532	2.4	584	2.8	(9)	2.6	2.6
Net insurance result	2 598	11.6	1 844	8.8	41	10.7	9.4
Combined ratio		90.8		94.0		91.9	93.2

The conventional insurance business reported a net underwriting margin of 9.2% compared to the 6.0% reported in 2017. The underwriting results in the current period benefitted from the absence of significant catastrophe claims in contrast to the severe catastrophe events experienced in 2017. Fewer large commercial fire claims were also reported during this period, following improved risk management actions.

Gross written premium growth

Conventional insurance reported satisfactory growth of 7%. The intermediated personal and commercial lines business and MiWay experienced growth pressure in the difficult economic conditions, while strong growth was achieved in the specialist business and Santam re.

Gross written premium growth from the rest of Africa was strained. Santam Namibia reported a contraction in GWP of 7% in a low-growth competitive market. Specialist business benefitted from a one-off construction project in 2017, which did not reoccur in 2018. Santam re, on the other hand, achieved strong growth in Southeast Asia, India and the Middle East through selective participations in these markets. The net effect was a 5% increase in premiums from outside of South Africa written on the Santam Ltd and Santam Namibia Ltd licenses (2018: R3 367 million; 2017: R3 200 million).

The property class reported growth of 11% on the back of strong growth in the corporate property business following lower reinsurance capacity available in the market. Crop insurance gross written premiums contracted by 12% following lower take-up of crop insurance in the 2018/2019 crop year.

The motor class grew by 6%, with MiWay reporting 8% growth (gross written premium of R2 496 million; 2017: R2 319 million). MiWay reversed the slowdown in growth reported during the first half of the year with a strong performance during the second half of the year following focused management actions. The commercial and personal lines intermediated business experienced a slowdown in growth of the motor book in competitive low-growth market conditions.

The liability class continued to experience significant competitive pressure and focused on improved profitability, resulting in growth of only 2% reported during the period. The engineering class also reported low gross written premium growth of 3%, reflecting the impact of fewer large construction projects and the uncertainties impacting the construction sector.

The accident and health class reported growth of 11%, mainly driven by excellent growth in the travel insurance business. The transportation class reported gross written premium growth of 1% following Santam's continued focus on profitability. The growth in the guarantee class was positively impacted by the acquisition of the Sanlam Structured Insurance credit guarantee business.

Underwriting result

The property class reported a significant turnaround from the R165 million net underwriting loss reported in 2017 to R519 million net underwriting profit in 2018 following the absence of significant catastrophe claims, as well as fewer large commercial fire claims. The underwriting results were positively impacted by the underwriting actions implemented since the second half of 2017.

The motor class reported strong underwriting performance in both the intermediated and direct distribution channels. MiWay reported good results with a claims ratio of 55.2% (2017: 56.9%) and reported an underwriting profit of R334 million (2017: R317 million).

The engineering class of business achieved excellent underwriting results with limited claims activity during the period, while the guarantee class of business was negatively impacted by the poor economic environment in South Africa. A number of large claims, including product recall claims relating to the listeriosis outbreak, reduced the underwriting results of the liability class. Estimate adjustments on previously reported claims further contributed to a net underwriting loss of R20 million for the liability class (2017: net underwriting profit of R85 million).

The crop insurance business reported strong underwriting results, although lower than the excellent results reported in the comparative period. Santam re was negatively impacted by claims activity and increased claim provisions relating to previous periods on the foreign book of business.

Following the significant losses incurred by the global and South African reinsurance market during 2017, Santam's deductible per catastrophe event increased to R150 million (2017: R100 million) for the 2018 financial year. It also resulted in increased reinsurance rates.

The net acquisition cost ratio of 30.4% increased from 28.1% in 2017. The management expense ratio increased from 16.0% in 2017 to 18.1% in 2018, mainly due to increased variable incentive costs in 2018, increased direct acquisition costs to support growth initiatives at MiWay, as well as additional underwriting risk management costs incurred to improve the loss ratio across all business lines. A further driver of increased cost was a provision raised to account for the liquidity concerns at a third-party premium-collection agency that went into voluntary curatorship in September 2018. The impact of the increased incentive costs and one-off items added 1% to the management expense ratio in 2018.

Strategic project costs, included as part of management expenses, amounted to 1% of the net earned premium (2017: 0.8%). These costs mainly relate to the continued development of a new core underwriting, administration and product management platform for the Santam intermediated business, compliance projects, data enhancement and future digital solutions.

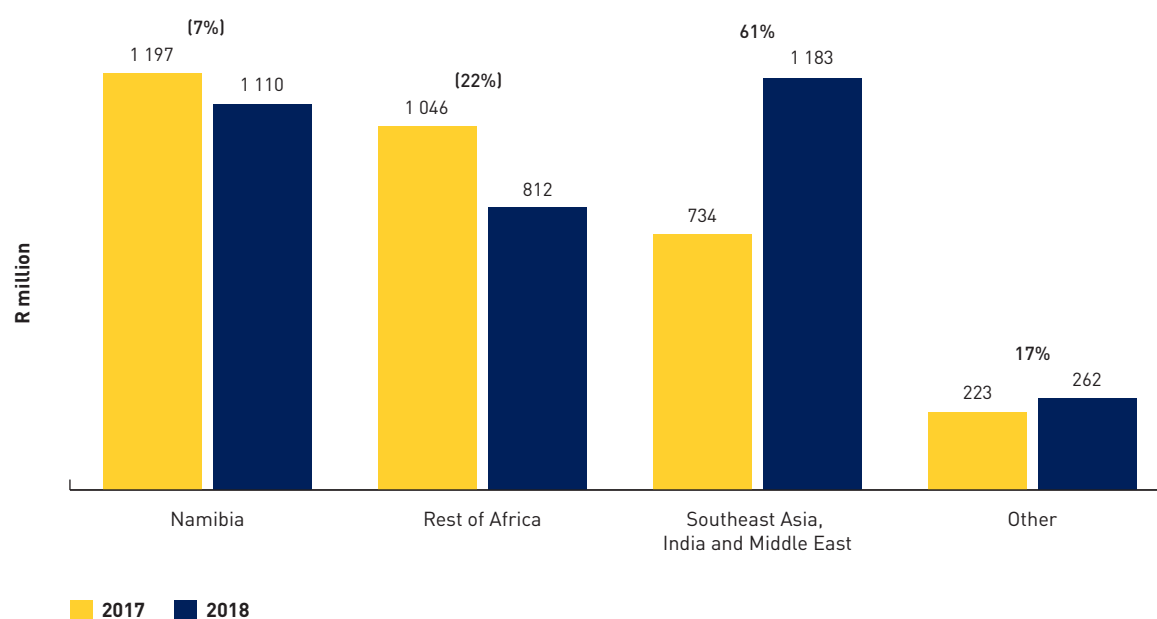
The new core underwriting platform project is progressing according to plan, with personal lines now fully deployed and almost 100% migrated to the new platform. For commercial products, more than 90% of on-platform intermediaries have now been deployed for new business, while the migration process is well underway and expected to be completed in 2019. Santam will continue to invest in strategic projects to optimise the use of technology in the group.

The net commission ratio was 12.4% compared to 12.1% in 2017.

Investment return on insurance funds

The investment return on insurance funds was negatively impacted by lower returns on the investment portfolios backing the insurance funds following lower interest rates compared to 2017.

CONVENTIONAL INSURANCE GROSS WRITTEN PREMIUM FROM OUTSIDE SA

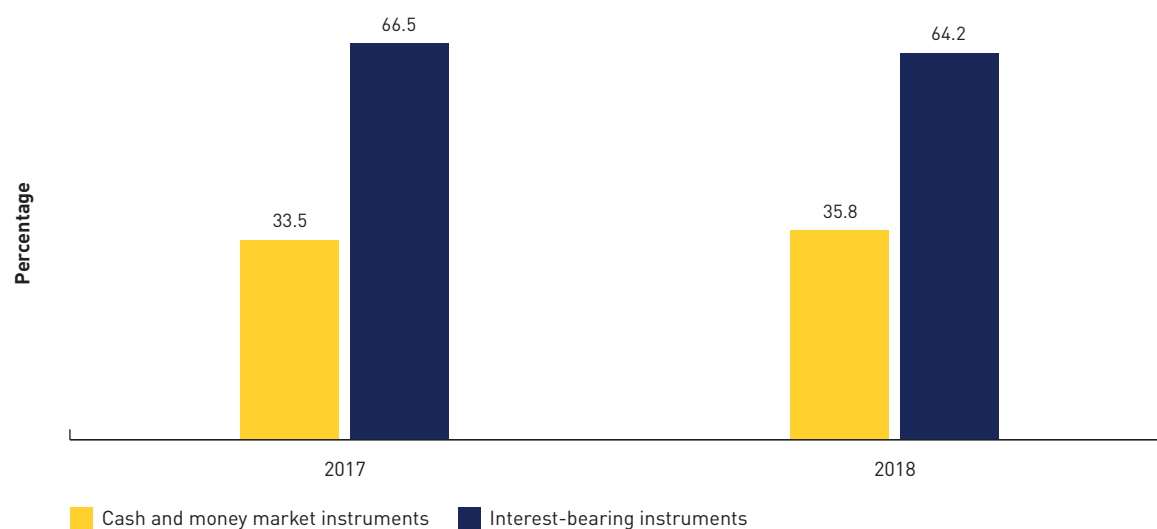


Excludes Santam's share of the gross written premium derived from its investments in the SEM GI and Saham Finances businesses.

"Other" includes Santam re participations, which mainly originated in Europe.

ASSETS BACKING NET INSURANCE FUNDS %

The assets backing the net insurance funds were invested as follows:



Currency mix of assets backing net insurance funds % (Conventional Insurance)			2018 R million	2017 R million
Cash and other short-term interest-bearing instruments	Rand		5 973	5 320
	US dollar		1 357	1 177
	Euro		335	99
	Other currencies		214	382
Total			7 879	6 978

ALTERNATIVE RISK TRANSFER INSURANCE (ART) OPERATING RESULT

	2018 R million	2017 R million	2018/ 2017 %
Gross written premium	5 398	3 867	40
Net insurance result	96	84	
Investment income	67	33	
Income from associates	-	3	
Profit before tax	163	120	

The 2017 reporting period included the results of Santam Structured Insurance for nine months following the acquisition of the business in March 2017. The ART business reported growth of 40% (26% on a like-for-like basis) with gross written premiums of R5 398 million (2017: R3 867 million). Centriq reported excellent growth of 46%. Santam Structured Insurance also reported good growth over the comparative period.

The ART business reported solid operating results of R96 million (2017: R84 million).

SANLAM EMERGING MARKETS (SEM) GENERAL INSURANCE BUSINESSES SAHAM FINANCES HELD THROUGH SAN JV Analysis of 100% of Saham Finances' operating result before taxation and minorities

The table below provides an analysis of the Saham Finances' earnings on a 100% basis for both years, which eliminates the distortion caused by changes in shareholding.

Saham Finances 100%	2018 R million	2017 R million
Gross written premium	16 569	15 975
Net earned premium (NEP)	13 843	12 723
Net claims incurred	9 448	8 537
Net acquisition costs	4 099	3 861
Net underwriting result	296	325
Investment return on insurance funds	951	1 734
Non-insurance earnings	52	116
Operating result before taxation and minorities	1 299	2 175
Taxation and non-controlling interest	(609)	(1 078)
Operating result after taxation and non-controlling interest	690	1 097
Net investment income	172	110
Finance costs	(160)	(76)
Attributable earnings	702	1 131
Foreign currency translation differences	(124)	151
Total comprehensive income for the year	578	1 282

Effective 9 October 2018, SEM and Santam, through SAN JV, acquired the remaining minority interest in Saham Finances via a subscription for new shares for US\$1 045 million (R15.4 billion). Santam's share of the purchase price, including transaction costs, was US\$64 million (R957 million), before applying hedge accounting. Hedge accounting resulted in R46 million of foreign currency gains accounted for as part of the investment in SAN JV. This transaction increased Santam's effective interest in Saham Finances from 7% to 10%.

Analysis of 100% of Saham Finances' normalised comprehensive income

Saham Finances 100%	2018 R million	2017 R million
Comprehensive income	578	1 282
Operational adjustments	68	-
Prior year tax adjustment	49	-
Post-acquisition incentives	28	-
Profit on disposal of subsidiary	(80)	-
Net reduction in funding cost post acquisition	71	-
Investment market volatility	387	(271)
Marked-to-market adjustments – return on insurance funds	86	(371)
Marked-to-market adjustments – net investment return	123	251
One-off currency gains and losses	178	(115)
Normalised comprehensive income	1 033	1 011

Santam's effective interest in Saham Finances for the 2017 and 2018 financial years was as follows:

	Group	SEM	Santam
1/1/2017 – 30/4/2017	30%	22.5%	7.5%
1/5/2017 – 31/12/2017	46.6%	39.63%	6.97%
1/1/2018 – 30/9/2018	46.6%	39.63%	6.97%
1/10/2018 – 31/12/2018	100%	90%	10%

Santam's share of the net underwriting results of Saham Finances for the year amounted to R79 million (2017: R4 million loss). Given the changes in Santam's shareholding in SAN JV (Saham Finances) during 2017 and 2018, the financial results of 100% of Saham Finances for 2017 and 2018 are analysed below to ensure like-for-like comparison.

Gross written premiums increased by 4% (8% in local currency) to R16.6 billion (2017: R16 billion). The net underwriting profit decreased by 9% to R296 million, with life insurance earnings decreasing by 7% due to investments in growth, and general insurance earnings being in line with 2017.

The general insurance businesses achieved a net underwriting margin of 4.1% (2017: 5.6%). The following items impacted on the general insurance results:

- One-off incentives of R28 million were paid to staff as part of the post-acquisition integration process.
- Angola's loss declined from R40 million in 2017 to R29 million in 2018. An improvement in claims experience was partially offset by a higher cost base. Exchange rate weakness contributed to higher expense inflation.
- Lebanon also experienced a better claims environment, resulting in an increase of 107% in underwriting profit.
- The other regions recorded lower earnings from direct insurance, primarily due to pressure on premium growth in Côte d'Ivoire.
- Reinsurance profit increased by 11% from R232 million in 2017 to R257 million in 2018.

Investment return earned on insurance funds declined by 45% to R951 million (2017: R1 734 million). The underlying portfolios included legacy equity exposures, which benefitted from positive investment market returns in 2017, while most markets declined in 2018. The difference in relative market performance contributed more than R700 million to the decline. The strategic asset allocation of these portfolios will be reassessed as part of the planned capital management activities.

The lower investment return earned on insurance funds resulted in the operating profit after taxation and non-controlling interest to decrease to R690 million (2017: R1 097million) and the comprehensive income recognised to R578 million (2017: R1 282 million). Relative investment market returns and a number of one-off items impacted on the Saham Finances earnings for 2018. Adjusting for these one-off operational items of R68 million and the impact of investment market volatility of R387 million (2017: negative adjustment of R271 million), the normalised comprehensive income for Saham Finances was R1 033 million (2017: R1 011 million).

Santam will be actively involved in 2019 to grow the Pan-African specialist and reinsurance markets.

OTHER SEM GENERAL INSURANCE BUSINESSES (SEM PARTICIPATIONS)

Analysis of Santam's share of net insurance result of SEM General Insurance businesses (excluding Saham Finances)

	2018 R million	% of NEP	2017 R million	% of NEP	2018/2017 %
Gross written premium	1 265		1 267		–
Net earned premium (NEP)	923	100.0	881	100.0	5
Net claims incurred	679	73.6	723	82.1	(6)
Net acquisition costs	297	32.2	266	30.2	12
Net underwriting result	(53)	(5.7)	(108)	(12.3)	(51)
Investment return on insurance funds	183	19.8	234	26.6	(22)
Net insurance result	130	14.1	126	14.3	3

The Sanlam Emerging Markets general insurance business portfolio includes investments in Pacific & Orient Insurance Co. Berhad (P&O) in Malaysia, Shriram General Insurance Company Ltd (SGI) in India and a further 12 general insurance businesses throughout Africa, which are held in conjunction with SEM, excluding South Africa and Namibia.

Santam's share of the gross written premium of these businesses remained in line with 2017 (4% growth on a comparative basis, after the 2017 sale of the EIC business).

SGI in India had a solid year, with the net insurance result growing by 13% in local currency, attributable to an improvement in the underwriting margin.

P&O in Malaysia benefitted from a more diversified book of business, which contributed to an improvement in the claims experience. The net insurance result increased by 6% in local currency.

The Sanlam Group entered into an agreement, in June 2017, to dispose of its various interests in the Enterprise Group in Ghana. In terms of the co-investment arrangement with SEM, Santam, which had an interest of 14% in Enterprise Insurance Company (EIC), disposed of its interest in EIC with a carrying value of R68 million for R105 million.

SEM INVESTMENT HOLDINGS

	Incorporated in	Carrying value 2017 R million	Changes in exchange rate	Changes in valuation	Carrying value 2018 R million
Pacific & Orient	Malaysia	187	26	–	213
Shriram General Insurance	India	676	50	120	846
Other SEM investment holdings	Africa	226	28	10	264
Total investment		1 089	104	130	1 323

In terms of IFRS, Santam accounts for these investments as fair value through income financial instruments; the changes in market value are included in the statement of comprehensive income.

INVESTMENT RESULTS

INVESTMENT INCOME

Listed equities achieved a negative return of 11% for the year ended 31 December 2018, relative to the SWIX benchmark (60% SWIX and 40% Capped SWIX) which delivered a negative return of 11.9%.

The Santam group's interest exposure is managed in enhanced cash and active income portfolios. The interest portfolios performed in line with or exceeded their STeFI-related benchmarks.

Exchange rate volatility due to the weakening of the rand in 2018 compared to December 2017 resulted in a foreign exchange gain

of R480 million (2017: foreign currency loss of R173 million), inclusive of the currency movements on Santam's interest in SEM's general insurance businesses in Africa, India and Southeast Asia.

Santam used the opportunity to lock in some of the foreign currency gains on R500 million worth of exposure against the US dollar. A foreign currency collar was entered into on 10 September 2018 at a spot rate of 15.125 ZAR against the US dollar. As at 31 December 2018, the instruments valuation amounted to R24.8 million. The collar expired in two equal tranches on 4 January and 7 January 2019 and realised a total profit of R36.5 million.

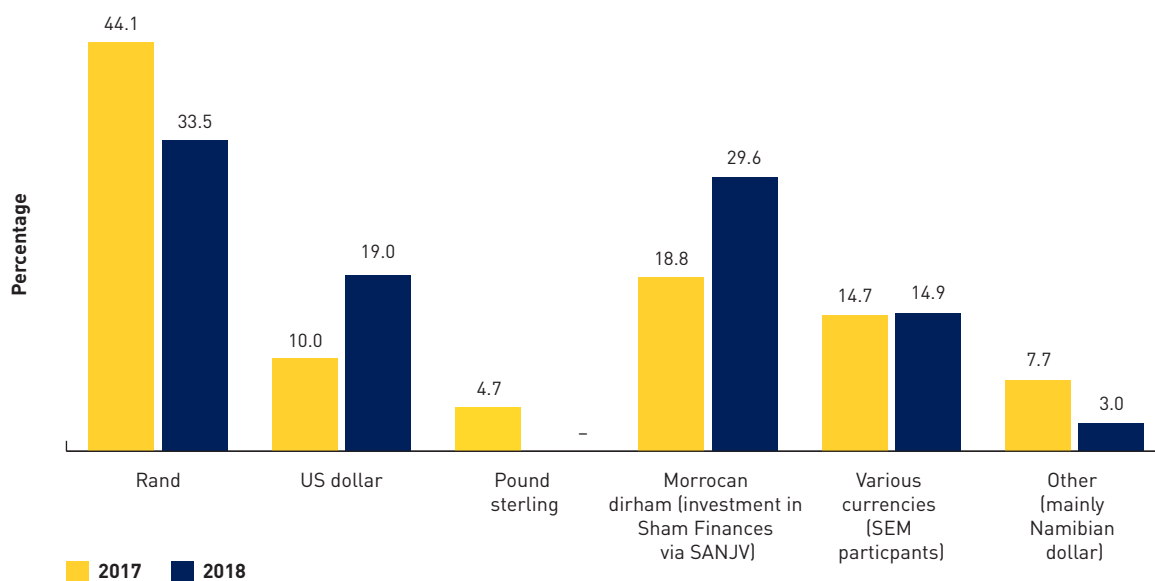
Exchange rate information for the key currencies impacting the results were:

Currency	Closing rate 2018	Closing rate 2017	Average rate 2018
US dollar	14.39	12.34	13.17
Pound sterling	18.32	16.61	17.60
Indian rupee	0.21	0.19	0.19
Moroccan dirham	1.51	1.32	1.42
Malaysian ringgit	3.49	3.07	3.28

Positive fair value movements (excluding the impact of currency movements) of R130 million (2017: R121 million) in Santam's interest in SEM's general insurance businesses in Africa, India and Southeast Asia contributed to the improved investment performance. The main driver of the fair value movements was an increase in the value of SGI of R120 million, which was mainly attributed to improved loss ratios.

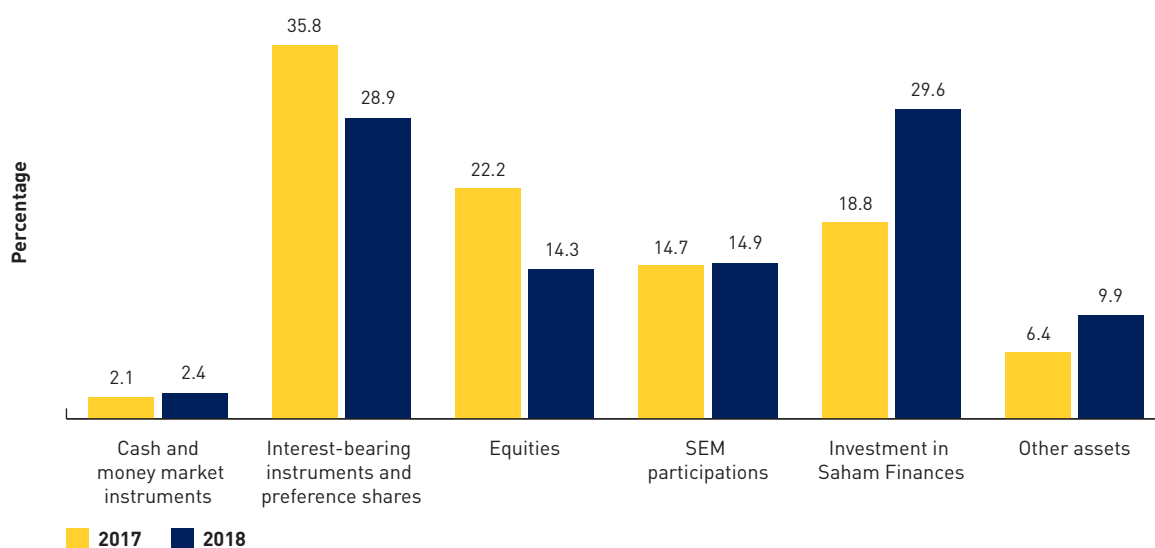
Net earnings from associated companies of R291 million (2017: R110 million) included R266 million (including profit on deemed disposal of associate of R164 million) from Saham Finances. The other key contributor to earnings from associated companies was Western Group Holdings Ltd.

SHAREHOLDER FUNDS CURRENCY MIX¹



¹ Includes foreign-denominated assets, as well as assets with foreign currency exposure.

SHAREHOLDER FUNDS ASSET MIX



INVESTMENT APPROACH

Santam follows a policy of managing its investment portfolios in a diversified manner. 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 sufficient liquid funds are available to meet Santam's insurance liabilities, subordinated debt obligations are adequately covered by matching interest-bearing instruments, and shareholders' funds are not unduly exposed to investment risk.

Foreign currency assets are also held to back foreign currency insurance business conducted by Santam, thus managing the currency risk.

As at 31 December 2018, funds to the value of R2.4 billion (2017: R2.2 billion) were invested in foreign currency bank accounts and global fixed income portfolios. These funds provide backing for insurance liabilities and capital relating to the business written in foreign currency.

Investment management is mostly outsourced to Sanlam Investment Management, an external fund manager with predetermined mandates, whose performance is measured against a combination of benchmarks, inter alia, SWIX- and STeFI-related benchmarks. The overall performance of the fund managers 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 responsible investment policies and procedures.

CAPITAL MANAGEMENT AND SOLVENCY

CAPITAL MANAGEMENT PHILOSOPHY

Santam's capital management philosophy is to maximise the return on shareholders' capital within an appropriate risk appetite framework. The aim is to increase shareholder wealth by actively managing the following:

- The amount and sources of capital in the business. This is linked to internal economic capital requirements, as well as regulatory capital requirements in terms of the solvency assessment and management regime (SAM).
- The allocation of capital to business units or new business ventures/acquisitions.
- The amount and type of risk the company is willing to assume in the pursuit of value creation.
- The reinsurance programme and asset allocation that will optimise economic capital requirements.

Santam targeted a threshold return on capital hurdle rate of 24% in 2018. Capital is allocated to the various businesses in the group and the returns on these businesses are measured against the threshold hurdle rate.

DISCRETIONARY CAPITAL AND SOLVENCY LEVEL

Santam's board of directors targets an economic capital coverage ratio of between 130% and 170%. In addition, the regulatory capital coverage ratio must exceed predefined threshold levels.

The group economic capital requirement at 31 December 2018, based on the internal model, amounted to R6.9 billion (2017: R6 billion), or an economic capital coverage ratio of 159%. Excess capital is maintained for the following reasons:

- to make an allowance for model risk based on the complexity of the underlying business;
- to maintain a margin over the current regulatory capital requirements;
- to maintain Santam's insurer financial strength credit ratings; and
- to fund business growth and allow for any corporate actions.

We remain committed to efficient capital management.

REGULATORY SOLVENCY AND CAPITAL REQUIREMENTS

One of the most important regulatory developments is the SAM regime implemented by the Prudential Authority in the second half of 2018. SAM adopts the principles of the Solvency II, adapted to specific South African circumstances where necessary.

Santam operates an internal capital model in line with best practice to assist management with capital management, risk quantification and decision-making.

Santam submitted a partial internal model to the Prudential Authority for approval in the second half of 2018. Santam's intention is to use this model for regulatory capital calculation purposes. A decision on approval from the Prudential Authority is expected in the first half of 2019.

DIVIDENDS

The company paid an interim dividend of 363 cents per share, which was 8% higher than the 336 cents per share in 2017. Santam declared a final dividend of 665 cents per share for 2018 (2017: 616 cents per share), resulting in a total dividend of 1 028 cents per share for the year (2017: 952 cents per share). This represents an increase of 8%.

Santam's dividend policy 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, regulatory capital requirements and potential investment opportunities.

Hennie Nel

Chief financial officer

THE SPECIALIST IN SPECIALIST INSURANCE.

We know that specialised businesses require unique insurance solutions and are proud to provide the highest level of expertise across a vast range of industries.





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- 104 Remuneration report summary

CHAIRMAN'S REPORT

In 2018 I returned to Santam as chairman after five years. I would like to extend a word of thanks to our outgoing chairman, Grant Gelink, who enabled a seamless transition. Although there has been much turmoil in Santam's external environment over this time, our resilience has safeguarded the group in trying conditions. Santam remains cash generative and financially strong, and delivers competitive returns for shareholders.

The key board focus areas for the 2018 financial year were to:

- grow the top line through innovation and diversification
- effectively manage the risk pool
- attract, develop and retain the right people in Santam
- be efficient in everything the group does
- be a responsible corporate citizen in South Africa
- deliver on the brand promise of **Insurance good and proper**

A specific highlight was the increase in shareholding in Saham Finances and improved collaboration with them regarding specialist business in Africa.

Various regulatory changes over the past year affected Santam and will continue to impact the group. Under the Twin Peaks model, two regulators were established. The Prudential Authority (PA) is charged with maintaining the stability of the financial system and the Financial Sector Conduct Authority (FSCA) is responsible for market conduct and consumer protection. This approach is designed to address weaknesses in the other models commonly used to regulate the financial services sector. Santam engages constructively with both regulators.

We continue to drive the South African transformation agenda across our value chain. There are improvements year-on-year that strengthen the transformation of our business and society. We acknowledge that gender and race diversity at board level and throughout the business must be a priority. It is imperative that we drive initiatives to increase diversity.

To remain relevant amid rapidly shifting technologies and changing client expectations, Santam will need to apply fintech solutions to appropriate areas of the business. We have a rich store of data which, if mined properly, will give us a strong competitive advantage. We are already positioning ourselves with our new policy administration system.

Our role as a general insurer is to mitigate risk and build communities that are resilient in the face of unexpected catastrophes. Through strategic partnerships and improved products, we can help our clients and communities mitigate risks in small as well as large ways every day, while at the same time strengthening our company. Santam's partnerships with local municipalities through P4RR are ground-breaking examples of how to achieve this.

Governance at Santam extends beyond compliance to improve strategic performance and ultimately enhance value for our stakeholders. The board promotes and supports high and ethical standards of corporate governance and endorses the principles of King IV™. Santam is also guided by the ESG concerns included in the FTSE/JSE Responsible Investment Index review. During the year under review, we believe that the King IV™ principles were entrenched in the internal controls, policies and procedures governing corporate conduct of the group.

As the industry market leader in South Africa, Santam has a responsibility to our stakeholders and the broader industry to uphold the brand promise of **Insurance good and proper**. While we cannot predict what will happen in the South African political arena, or in any of the emerging markets where we operate, we can maintain the strong ethical culture that has always been part of Santam.

Thank you to the management team for its leadership during a challenging year. Senior management remained stable, which helped governance enormously. I remain confident that the executive management team will consistently drive our business strategy, not only to achieve satisfactory results, but also to create value in the long run for all our stakeholders.

Vusi Khanyile

Chairman of the board

CHANGES TO THE EXECUTIVE COMMITTEE AND BOARD

- Two executive committee appointments were made this year. Enid Lizamore was appointed as the executive head of human resources and Asher Grevler as chief risk officer. The board is impressed with the quality of their engagement and welcomes them to the leadership team. In May 2018, Jeanette Modise resigned as executive head of human resources. The board thanks her for her valuable contribution during her tenure.
- In January 2018, Yegs Ramiah resigned from the board. Yegs served on the board since December 2011. The board thanks her for her valuable contribution over the period of her tenure.
- On 23 April 2018, Vusi Khanyile was appointed as independent non-executive director of the board and Junior Ngulube as non-executive director. On 30 June, Grant Gelink resigned as chairman and non-executive director of the Santam board. The board thanks him for his significant contribution during his tenure. On 1 July 2018, Vusi Khanyile was appointed as chairman.

Governance at Santam extends beyond compliance to improve strategic performance and ultimately enhance value for our stakeholders.

Board of directors

AT 27 FEBRUARY 2019





- 1 Lizé Lambrechts
- 2 Junior Ngulube
- 3 Vusi Khanyile
- 4 Gugu Mtetwa
- 5 Hennie Nel
- 6 Ian Kirk
- 7 Dawn Marole
- 8 Machiel Reyneke
- 9 Themba Gamedze
- 10 Preston Speckmann
- 11 Bruce Campbell
- 12 Heinie Werth
- 13 Masood Allie



BOARD PROFILES

AT 27 FEBRUARY 2019

VP KHANYILE (68)

Independent non-executive chairman

BComm (Hons) (Birmingham), Hon PhD

Appointed to the board on 23 April 2018

Executive chairman of Thebe Investment Corporation (Pty) Ltd. Director of Sun International (Pty) Ltd, Thebe Foundation, WWF South Africa, WeGrow Farming Enterprises (Pty) Ltd and Main Street Holdings.

B CAMPBELL (68)

Independent non-executive director

BA, MBL, ACII & FCII (UK)

Appointed 4 October 2010

Director of NicozDiamond Insurance Ltd (Zimbabwe). Previous managing director of Mutual & Federal Insurance Holdings Ltd and previous group chief executive officer of Alexander Forbes.

BTPKM GAMEDZE (60)

Non-executive director

BA (Hons), MSc, FASSA

Appointed 16 October 2006

Director of ALTe Technologies (Pty) Ltd, Santam Structured Insurance group of companies, trustee of the Government Employees Pension Fund and trustee of the Emthunzini BBBEE Community Trust. Past president of the Actuarial Society of South Africa.

IM KIRK (60)

Non-executive director

FCA (Ireland), CA(SA), HDip BDP (Wits)

Appointed 14 June 2007

Chief executive officer of Sanlam Ltd and Sanlam Life Insurance Ltd. Previous chief executive officer of Santam Ltd from 2007 to 2014. Director of Sanlam Capital Markets (Pty) Ltd, Sanlam Emerging Markets (Pty) Ltd, Sanlam Investment Holdings (Pty) Ltd, Shriram Capital Ltd, AfroCentric Investment Corp Ltd and chairman of Association for Savings & Investment South Africa.

JJ NGULUBE (61)

Non-executive director

BSc (Hons) (Agric) (Zimbabwe), MSc (Agric) (Penn State),

Dip Financial Management

Appointed 23 April 2018

Chief executive officer of Sanlam Emerging Markets (Pty) Ltd. Previous chief executive officer of Sanlam Corporate cluster and previous chief executive officer of Munich Reinsurance Company of Africa Limited.

L LAMBRECHTS (55)

Chief executive officer

BSc (Hons), FIA (1992), EDP (Manchester)

Appointed 1 January 2015

Director of Stalker Hutchison Admiral (Pty) Ltd, Centriq group of companies, MiWay group of companies, Emerald Risk Transfer (Pty) Ltd, Santam Structured Insurance group of companies, Saham Finances S.A., SAN JV and chairperson of SAIA.

MLD MAROLE (58)

Independent non-executive director

BComm, Dip Tertiary Education, MBA

Appointed 13 December 2011

Director of MTN Group Ltd, Mobile Telephone Networks Holdings (Pty) Ltd, MTN International (Pty) Ltd, South African Post Office SOC Ltd, Richards Bay Minerals (Pty) Ltd and Development Bank of Southern Africa. Trustee of the Emthunzini BBBEE Community Trust.

NV MTETWA (39)

Independent non-executive director

CA(SA)

Appointed 8 February 2017

Previous managing executive of finance at Vodacom South Africa. Served as management committee member and partner at PricewaterhouseCoopers. Independent non-executive director and audit committee chair of the Development Bank of Southern Africa. Independent non-executive director of Aviation Co-ordination Services (Pty) Ltd. Chairperson of Sasfin Bank Audit Committee. Non-executive director of Sasfin Holdings, Italtile and Equites Property Fund. Non-executive director and audit and finance committee chair of Land Bank.

HD NEL (50)**Chief financial officer, executive director**

CA(SA)

Appointed 17 September 2012

Director of Centriq group of companies, MiWay group of companies, Santam Structured Insurance group of companies, Santam Specialist Underwriting Managers, Swanvest 120 (Pty) Ltd, Brolink (Pty) Ltd, Sanlam Emerging Markets (Pty) Ltd, First Bank Nigeria General Insurance Ltd, Guardian National Insurance Company Ltd, Indwe Broker Holdings Ltd and Santam Namibia Ltd.

MJ REYNEKE (60)**Independent non-executive director**

CA(SA)

Appointed 26 August 2003

Director of African Rainbow Capital (Pty) Ltd, Ubuntu-Botho Investment Holdings (Pty) Ltd, UBI General Partners (Pty) Ltd and Uyanda STI Careers (Pty) Ltd.

PE SPECKMANN (62)**Independent non-executive director**

CA(SA)

Appointed 8 February 2017

Director of MiWay group of companies, Centriq group of companies, BrightRock group of companies, African Rainbow Life Ltd, Sanlam Developing Markets Ltd, Sanlam Investments Ltd, Safrican Insurance Company Ltd and Impala Platinum Holdings Ltd. Previous group financial director of MMI Holdings group. Former roles include senior finance positions at Old Mutual, Pepkor Group, Seagram SA and audit partner at PricewaterhouseCoopers.

HC WERTH (55)**Non-executive director**

CA(SA), MBA, EDP (Manchester)

Appointed 13 September 2016

Finance director of Sanlam Ltd and director of Sanlam Life Insurance Ltd, Sanlam Emerging Markets (Pty) Ltd and Genbel Securities Ltd, Sanlam Capital Markets Ltd and Sanlam Investment Holdings Ltd. Former chief executive officer of Sanlam Emerging Markets (Pty) Ltd from 2005 to 2016.

M ALLIE (43)**Company secretary**

BA, LLB

Appointed as company secretary on 1 February 2011

Admitted attorney with experience in corporate and commercial law, litigation and corporate governance. Former roles include company secretary of Oceana Group Ltd and Group Legal and Regulatory Affairs Manager of Parmalat SA (Pty) Ltd.

Executive management

AT 27 FEBRUARY 2019



From left to right

Asher Grevler

Ebrahim Asmal

Lizé Lambrechts

Temba Mvusi

John Melville

Hennie Nel

Chief risk officer

Executive head: Group Sourcing & Transformation

Chief executive officer

Executive head: Market Development

Chief underwriting officer

Chief financial officer



Mokaedi Dilotsotlhe
Edward Gibbens
Quinten Matthew
Kevin Wright
Enid Lizamore
René Otto

Chief marketing officer
 Executive head: Commercial & Personal
 Executive head: Specialist Business
 Executive head: Operations & IT
 Executive head: Human Resources
 CEO: MiWay

EXECUTIVE PROFILES

AT 27 FEBRUARY 2019

LIZÉ LAMBRECHTS

Chief executive officer

BSc (Hons), FIA (1992), EDP (Manchester)

Appointed in 2015

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 group meets or exceeds its targets, thereby growing profitability and sustainability over the medium to long term.

HENNIE NEL

Chief financial officer

CA(SA)

Appointed in 2012

Responsible for financial reporting, corporate finance, shareholder investments (including SEM strategic investments), internal audit and corporate legal services. Executive responsibility for the Alternative Risk Transfer portfolio from 1 January 2019.

EBRAHIM ASMAL

Executive head of Group Sourcing & Transformation

Appointed 2009 (appointed to executive management in 2012)

Responsible for group sourcing and facilities, leveraging the group's procurement spending power and scale to manage efficiency in the supply chain as well as enabling operational excellence, developing suppliers, driving opportunities related to new initiatives and developing enterprises. Drives group-wide transformation to ensure sustainability by setting targets and ensuring that the group meets its BEE responsibilities.

MOKAEDI DILOTSOTLHE

Chief marketing officer

BComm (Hons), MBA

Appointed in 2016

Responsible for the overall management and reputation of the Santam brand, including corporate communication, client care and implementing strategic marketing initiatives to support the distribution channels. Manages group CSI. Ensures the Santam brand is well positioned across all target market segments.

EDWARD GIBBENS

Executive head of Santam Commercial & Personal

AIISA, BComm, MBA, AMP (Insead)

Appointed in 1992 (appointed to executive management in 2005)

Responsible for growing gross premium income and underwriting profit through the company's commercial and personal lines distribution channels under the Santam brand, manages the efforts of business partners and distribution employees, analyses the competitive environment and develops future strategies to strengthen the company's competitive position.

ASHER GREVLER

Chief risk officer

BBusSc, FIA, FASSA, CERA

Appointed in 2004 (appointed to executive management in August 2018)

Responsible for enterprise risk management, financial risk management, business integrity and forensics, and the internal capital model.

ENID LIZAMORE

Executive head of Human Resources

BA, Postgrad Dip Human Resource Management

Appointed in 2018

Responsible for HR Business partnering, talent acquisition, learning and development, talent management, employee relations, employment equity and total rewards.

QUINTEN MATTHEW

Executive head of Specialist Business

FIISA

Appointed in 2003 (appointed to executive management in 2010)

Responsible for developing and expanding the specialist underwriting manager model, niche segments, affinity markets and specialist insurance; provides strategic input to each business; promotes growth and profit objectives; focuses on growing individual businesses by advancing entrepreneurship and specialist skills through partnerships, building on the synergy and support of Santam and expands SEM partner business and Saham specialist capabilities. Also responsible for the Alternative Risk Transfer portfolio up to December 2018.

JOHN MELVILLE

Chief underwriting officer, executive head of Reinsurance

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

Appointed in 2010

Responsible for the underwriting function (including strategy and pricing), product solutions, actuarial services (including rating), 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 and provide technical support to SEM partner businesses. Also responsible for the SEM international business portfolio (excluding specialist business) from 1 January 2019.

TEMBA MVUSI

Executive head of Market Development

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

Appointed in 2008

Responsible for strategic stakeholder relations; provides strategic input into developing and growing the company in new markets and explores new intermediary opportunities in unserved markets.

RENÉ OTTO

Chief executive officer of MiWay

BLC LLB, LLM, Admitted Advocate of the High Court

Appointed 2007 (appointed to executive management in 2012)

Responsible for executing strategic plans and financial performance of MiWay as founding head and current chief executive officer.

KEVIN WRIGHT

Executive head of Operations & IT

BComm, Fellow of the South African Institute of Chartered Secretaries and Administrators, FCIS

Appointed in 2014

Responsible for client services, ensures the efficiency of policy administration and the operation of sales and administration contact centres, bolsters the business strategy by leveraging information technology and business change and oversees the building of systems capabilities to enhance Santam's agility and operational effectiveness.

GOVERNANCE STATEMENT OF COMMITMENT

Santam's board of directors provides ethical and effective leadership through high standards of governance, ethical values and business integrity, while recognising the company's responsibility to conduct its affairs with responsibility and fairness, safeguarding the interests of all stakeholders. The board views governance as being key to the long-term success of Santam and is ultimately responsible for ensuring that corporate governance standards are set and implemented throughout the group. Santam regularly reviews its governance structures and processes to reflect best practice and to facilitate effective leadership, corporate citizenship and sustainability, thereby supporting the group's business strategy.

Santam welcomed the introduction of King IV™ and its emphasis on driving the four governance outcomes of ethical culture, good performance, effective control and legitimacy. The board is satisfied that Santam has applied the requisite King IV™ principles during 2018. Sound corporate governance structures and processes are pivotal to delivering sustainable value in the interest of Santam's stakeholders. The group's corporate governance practices are reviewed on a regular basis to ensure alignment with internal developments and ongoing adherence to regulation and the principles of good governance. The company conducted a maturity self-assessment of its practices compared to the King IV™ recommended practices in 2017 and focused on embedding the principles and addressing the improvement areas during 2018. The process of implementing the King IV™ principles has been rolled out to subsidiaries, joint ventures and associated companies. The board has revised the group governance policy during 2018 and continues to focus on the application of this policy.

Details of Santam's application and explanation of the King IV™ principles are available on the company website. In instances where the company has elected not to apply certain recommended practices, the rationale is explained in the relevant sections of the report. Only the salient points of the board charter and the terms of reference of the board committees have been included in this report. The complete documents are available on the company website.

The board is cognisant of the regulatory environment that governs the business landscape. The board is of the opinion that Santam has complied with the JSE Listings Requirements and Companies Act, 71 of 2008, as amended, during 2018.

GOVERNANCE APPROACH

Santam's commitment to good governance is formalised in its charters, policies and operating procedures. Governance processes are regularly reviewed to take the evolving regulatory environment and best practice into account. The board's committees fulfil key roles in the application of good corporate governance at Santam.

Santam is responsible for conducting its affairs with prudence and safeguarding the interests of all its stakeholders. The board considers the legitimate and reasonable needs, interests and expectations of all material stakeholders in the execution of its duties in the best interests of the company over the longer term. The board assumes responsibility for the governance of stakeholder relationships, formalised through a policy that was approved in February 2018, articulating the direction these relationships should take. The policy further assists in monitoring the effectiveness of Santam's stakeholder management.

For 2019, additional focus will be placed on the management of stakeholder risk and on enhancing mechanisms for engagement with stakeholders. The responsibility for the implementation and execution of effective stakeholder relationship management has been delegated to management, and the board exercises ongoing oversight.

The group's stakeholder universe, engagement focus areas and channels are provided in detail in the integrated report from page 26.

The board is responsible for setting the direction on the ethical standards, strategy and operations of Santam. The group's approach is further formalised in its business integrity policy. Appropriate structures and forums have been established to help govern the management of ethics and fraud. Santam has established a Business Integrity, Compliance and Forensics department to assist with the governance relating to ethics, compliance, insurance crime and corruption. Santam's ethics management committee is also responsible for monitoring the implementation of the various policies and effectiveness of the mechanisms to manage ethics in the organisation.

Santam advocates zero tolerance towards fraud and corruption. Employees are made aware of the latest trends in fraud and crime, locally and internationally, through internal communications. The company's code of ethics prescribes strict compliance by all employees with relevant legal requirements and regulations that apply to their areas of work. The code of ethics also regulates conflicts of interest and key ethical risks in the company.

Santam's policy on business ethics is available at www.santam.co.za. Read more about Santam's fraud reporting details under the administration section on page 152.

Directors are entitled to seek independent professional advice at the company's expense (after consultation with the chief executive officer and the chairman of the board), as and when required, in fulfilling their duties. No directors exercised this right during the period under review.

BOARD AND COMMITTEES

The board is responsible for directing, administering and controlling the affairs of the company in a transparent, fair and responsible manner. 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 that the company conducts its activities according to best practice.

The board is accountable for, inter alia:

- determining Santam's overall objectives, approving strategic plans to achieve the objectives, steering the direction for the realisation of the group's core purposes through its strategy, monitoring operational performance, ensuring effective risk management and internal controls, and monitoring legislative, regulatory and governance requirements;
- allocating major roles and responsibilities according to the company's delegation of authority framework;
- ensuring that there are clear and formal procedures in key areas so that regulators and auditors can readily review decisions and actions, both internally and externally;
- overseeing the issuance of reports to comply with legal requirements and to meet the legitimate and reasonable information needs of material stakeholders; and
- conducting business in accordance with Santam's code of ethics.



The board has delegated specific functions to committees to assist it in meeting its oversight responsibilities. This ensures that the activities of the company are managed in a manner consistent with the ethical leadership and values of Santam. The roles and responsibilities of each board committee are set out in terms of reference that are reviewed annually by the board. The directors confirm that the committees have functioned in accordance with these terms of reference during the year.

All the committees are chaired by independent non-executive directors, except the human resources and remuneration committee, which is chaired by Ian Kirk, a non-executive director who is not independent. Ian Kirk is the group chief executive of the controlling shareholder, Sanlam. The board supports this chairmanship despite Ian Kirk's non-independence, given his knowledge of the Sanlam Group, his commercial experience and the necessity to align the group's remuneration approach with the group business strategy.

Appointments to the board are formal and transparent and are a matter for the board of directors as a whole, assisted by the

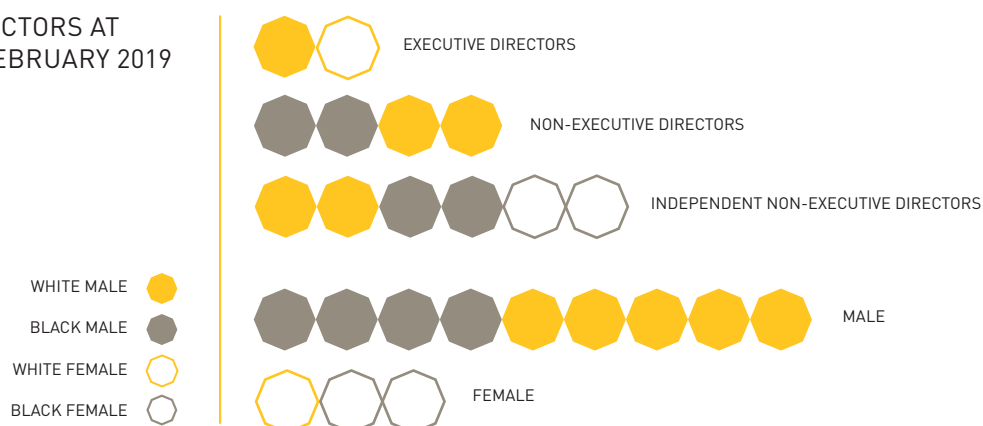
nominations committee, as required by section 3.84 of the JSE Listings Requirements. Directors are appointed subject to re-election by the shareholders at the company's annual general meeting (AGM) and to the Companies Act provisions relating to their removal.

The board charter depicts a clear balance of power and division of responsibilities and authority at board level. This guarantees an appropriate balance of power and authority and ensures that no individual director has unfettered powers of decision-making or influence over the board.

The chairman, who is an independent non-executive director, is principally responsible for the effective operation of the board. There is a clear division of authority between the various roles within the company's corporate governance structure. The responsibilities of the chairman and the chief executive officer have been clearly defined and are separate, with Vusi Khanyile and Lizé Lambrechts holding these positions respectively.

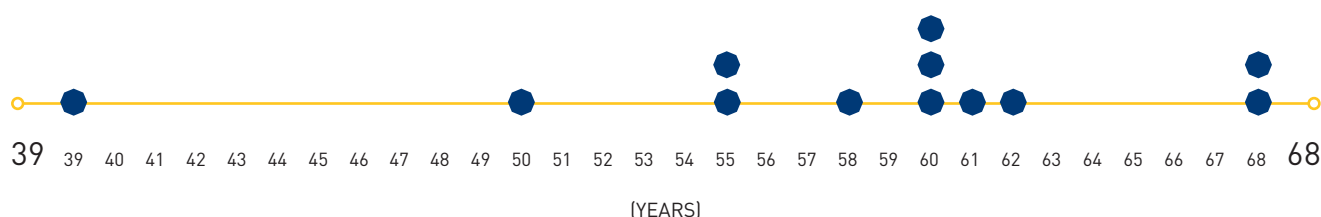
The chairman's role is documented in the board charter.

DIRECTORS AT 27 FEBRUARY 2019



DIVERSITY OF AGE

● BOARD MEMBERS



THE SANTAM BOARD AT 27 FEBRUARY 2019

Name	Executive	Non-executive	Independent non-executive
B Campbell			*
NV Mtetwa			*
BTPKM Gamedze		*	
VP Khanyile (chairman)			*
IM Kirk		*	
L Lambrechts	*		
MLD Marole			*
HD Nel	*		
PE Speckmann			*
JJ Ngulube		*	
MJ Reyneke			*
HC Werth		*	

BOARD CHARTER

The board's responsibility to ensure best practice in company conduct is entrenched in the board charter, which is reviewed annually in adherence with the principles of good governance. The charter delineates the powers of the board to achieve an appropriate balance of power and authority. The board charter underwent a substantial review during the previous calendar year to align with King IV™ and to place additional emphasis on the board's ethical responsibility for effective governance and risk management. The 2018 review of the charter primarily entailed the refinement of the responsibilities of the directors in order to align the charter with the Insurance Act, 18 of 2017, and the Prudential Standards.

The board charter sets out, among other things, 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 (MOI);
- the Companies Act, as amended;
- the JSE Listings Requirements;
- King IV™; and
- the Insurance Act.

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

The board charter prescribes that directors should behave in the best interest of the company and take special care to avoid any conflict between their own and the company's interest. All board members are required to declare any potential conflicts of interest between their obligations to the company and their personal interests. In the event that a potential conflict of interest arises, an affected director is required to recuse him- or herself accordingly from the part of the meeting in which the matter in which he/she has an interest

is discussed. Directors are required to submit a declaration of all financial, economic and other interests at least annually, or whenever there are significant changes. The board charter also describes the board's responsibility for the governance of ethics and notes that the board should set the direction for the approach to ethics. The board is therefore responsible for approving codes of conduct and ethics policies that articulate its direction on organisational ethics.

The board receives regular reports from the social, ethics and sustainability committee.

The board is also responsible for determining the direction of responsible corporate citizenship within the company. The board has delegated the monitoring of the company's corporate citizenship to the social, ethics and sustainability committee.

During 2018, the board considered and approved the increase of Santam's effective interest in Saham Finances, the budget for 2019 and the company strategy as formulated and developed by management. The financial objectives, performance targets and required return on capital and levels of risk tolerance were reviewed. Material issues relating to the execution of the strategy were considered. The board approved the interim and year-end financial results and the 2018 integrated report. The board also approved the appointment of the new directors.

In 2019, the focus will be on the group strategy for the years 2020 to 2025.

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 charter is available online at www.santam.co.za.

SALIENT FEATURES OF THE BOARD CHARTER

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

The MOI sets out the powers of the board of directors, while the Companies Act and the delegation of authority document govern the exercise of these powers.

The matters reserved for the board include:

- Approval of:
 - the company's vision and values;
 - the company's strategic objectives, business plans, annual budget, dividend policy and the monitoring of the company's performance against set objectives;
 - all dividends;
 - the integrated report and annual financial statements;
 - circulars to shareowners, including notices of shareholder meetings; and
 - financial risk management and capital policies, including funding and the issue of ordinary shares and loan capital; capital expenditure, acquisitions, joint ventures and disposals above the limits set out in the delegation of authority document and the MOI; and significant changes in accounting policy.
- Recommendation of changes to the MOI of the company, the remuneration of directors and the remuneration policy to shareholders for approval.
- Composition of the board committees, election of a chairman of the board, and approval of the appointment of the chief executive officer, executive directors and the company secretary.
- Monitoring of and reporting on sustainability management.
- Ultimate responsibility for IT governance.

The board is satisfied that it has discharged its duties and obligations as contained in its charter during the reporting period.

RESPONSIBILITY AND ACCOUNTABILITY DELEGATION OF AUTHORITY

The company's delegation of authority provides an approval framework to ensure that the company is optimally managed within a decentralised management environment. The board delegates the power to run the day-to-day affairs of the group 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 its delegated authorities annually.

CHAIRMAN

The chairman, Vusi Khanyile, provides overall objective leadership to the board of directors. The chairman's primary function is to preside over meetings of directors and shareholders, to enable the smooth functioning of the board and to oversee the dissemination of timely and accurate information to allow the directors to perform their duties effectively. The chairman is an independent non-executive director. The board has opted not to appoint a lead independent director because the chairman of the board is independent.

CHIEF EXECUTIVE OFFICER

The chief executive officer, Lizé Lambrechts, reports to the board and is responsible for managing the execution of the strategy as approved by the board. Board authority conferred on management is delegated through the chief executive officer in terms of approved authority levels.

The chief executive officer is contracted as a full-time, permanent employee for employment contracting purposes. As a standard element of these contracts, a restraint of trade (12 months) is included, which Santam has the discretion to enforce depending on the circumstances.

The notice period is three months' written notice. Bonus payments and the vesting of long-term incentives that are in place at the time of the termination of service are subject to the rules of the relevant scheme with some discretion being allowed to the HRRC.

As with all executive committee members, a succession plan is in place for the chief executive officer.

Lizé Lambrechts is the chairperson of SAIA. Details of the boards she serves on are contained on page 82.

EXECUTIVE AND NON-EXECUTIVE DIRECTORS

Hennie Nel serves as Santam's full-time executive financial director.

All 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 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 committees report on their activities to the board every quarter and the minutes of the committee meetings are provided to all board members. Notwithstanding the delegation of functions to the committees, the board remains ultimately accountable for the proper fulfilment of these functions, except for the statutory functions of the audit committee relating to the appointment, fees and terms of engagement of the external auditor.

COMPANY SECRETARY

The 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 company secretary.

The company secretary plays a pivotal role in the company's corporate governance and ensures that, in accordance with the pertinent regulations, the proceedings and affairs of the board, the company itself and, where appropriate, shareholders, are administered properly. The company secretary monitors directors' dealings in securities to ensure adherence to the policy governing directors' dealings in securities. The company secretary attends all board and committee meetings and is responsible for director training and induction, as well as the annual board evaluation process. The company secretary also acts as secretary for the committees of the board.

In terms of the JSE Listings Requirements, the board is required to consider and satisfy itself, on an annual basis, regarding the competence, qualifications and experience of the company secretary. The board conducted a formal evaluation of the company secretary during 2018 and is satisfied that he has the necessary competence, qualifications and experience to carry out the required responsibilities of his position. The company secretary is a full-time employee and has been involved as a Company Secretary of JSE-listed companies since 2009. The company secretary is not a director of any group company and the board is satisfied that an arm's-length relationship has been maintained between the company secretary and the board. The directors are satisfied that the company secretary provides a central source of guidance and advice to the board and within the company on matters of good governance.

Read more about the company secretary's qualifications in the profile on page 83.

BOARD COMPOSITION AND MIX

As at 27 February 2019, the board comprised 12 directors, of whom two are executive directors. Of the 10 non-executive directors, six are independent. On 23 April 2018, Vusi Khanyile and Junior Ngulube were appointed to the board.

Yegs Ramiah resigned from the board on 5 January 2018 because she left the employ of Sanlam. Grant Gelink resigned from the board on 30 June 2018 to focus on his other board appointments.

The non-executive directors on the Santam board can all influence decision-making. These directors bring a diverse range of skills and experience to the board and provide insight at and add value to board meetings. It is their responsibility to exercise their judgement 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.

The independent non-executive directors have a standing closed-session agenda item at every board meeting to deliberate any issues they wish to discuss with the chairman or the chief executive officer and/or any other directors.

The board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The nominations committee ensures that the board's composition reflects demographic and gender diversity and contains the appropriate mix of skills and experience. When appointing directors, the board considers its needs in terms of skills, experience, diversity, size and demographics. A formal, transparent board nomination process is described in a policy that details procedures for appointment to the board. This policy was reviewed in November 2018. The company supports the principles and aims of appropriate gender and race diversity at board level. The board also revised its policy on gender and race representation during November 2018.

In terms of this policy, if there is a vacancy on the board or if an additional board appointment is required, the board will consider making an appointment that will attain and maintain the level of race and gender diversity that is considered appropriate at the time. Aspects that will be considered include the skills, expertise, experience and background required to fill such a position, the availability of suitable candidates and the development potential of candidates. The board will also consider any additional requirements that may be necessary to ensure a suitable mix of skills and experience on the board and its committees to best serve the interests of the company and its stakeholders. The board duly considered employment equity and gender diversity requirements when making the board appointments during 2018. The board currently meets its race target and will strive to achieve its gender target with future board appointments.

Based on the recommendation from the nominations committee, the board considers the nomination of new directors for appointment – or re-appointment in the case of existing directors – and makes recommendations to shareholders. Directors do not have a fixed term of appointment. In accordance with the company's MOI, a third of the non-executive directors must retire at the AGM annually. Non-executive directors are subject to retirement, by rotation, every three years. In line with company policy, executive directors retire on the third anniversary of their appointment or re-election to the board. The details regarding the directors standing for re-election at the next AGM are contained in the company's notice of the AGM.

Directors appointed by the board after the AGM are required to retire at the following AGM and stand for election by shareholders.

Shareholders have the opportunity to nominate a director. Five other shareholders must second the nomination. An abridged CV of the nominated director is sent with the notice of the AGM. Therefore, the company's shareholders have the opportunity to participate continually in the election and re-election process of directors.

At the AGM, shareholders vote by a single resolution to determine whether the director will be appointed. The appointment of non-executive directors is formalised by a letter of appointment between the company and the non-executive director.

BOARD EVALUATION AND TRAINING

The board reviews the range of skills, experience and effectiveness of its directors annually. This is done using a formal evaluation process developed according to the recommendations of King IV™.

The nominations committee considers the results of the evaluation and makes recommendations to the board, as appropriate.

A formal, externally facilitated evaluation process is conducted at least every two years. The evaluation for 2018 was facilitated by Deloitte and included an effectiveness assessment of the board collectively and an appraisal of the board committees and the chairman. The evaluation found no significant matters or material concerns in respect of the board and board committee's performance. The results indicated that the board was functioning effectively, the core board processes were working well, and the board was well balanced. The directors believe that board meetings were well organised and efficiently run and all relevant aspects of the company's business were dealt with by the board and its committees. A need to increase the board's collective understanding of information technology and digitisation was identified. The board had previously identified the optimisation of the meeting pre-reading material as an improvement area. This aspect was found to have been sufficiently addressed.

The nominations committee conducted an informal review of the individual directors in February 2019, and no concerns were noted. The results of the evaluation were shared and discussed with the board. The board is satisfied with the performance of its members. The performance of all directors standing for election at the AGM in May 2019 has been considered by the board, and their re-election is supported.

An ongoing director development programme focuses on existing board members and aims to create an evolving understanding of the business, governance and the compliance environment in which it operates. The director development programme includes regular training updates and information sessions. New directors complete a formal induction programme designed to meet the individual needs and circumstances of each director. Directors receive appropriate training, reading material and guidance on their duties and responsibilities, Santam's business environment and sustainability issues relevant to the business.

DEALING IN SECURITIES

In accordance with the JSE Listings Requirements, Santam has adopted a policy that sets out the procedure directors have to follow before they, or any of their associates, deal in the company's securities.

Directors and the company secretary must obtain prior written authorisation from the chairman to deal in the company's securities. The company secretary retains a record of all such share dealings and approvals. Senior management and designated employees 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, and require written approval from the chief executive officer to deal in Santam shares at all times.

SUSTAINABILITY MATTERS

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

Read more about Santam's material matters and key future drivers from page 35 of the integrated report and in the social, ethics and sustainability committee report on page 97.

COMPLIANCE

Santam's compliance philosophy encapsulates integrity, fair dealing, accountability, objectivity, independence, good governance, transparency and collaboration. The company acknowledges the importance of compliance with its legal, regulatory and ethical obligations and that this affects its operations and accountability to all stakeholders. The Santam group compliance function adopts a risk-based approach that takes into account the nature, scale and complexity of business while enforcing good governance, efficiency and effectiveness.

The group has given substantial focus to legislative compliance during the year, such as preparing for the regulatory changes in relation to the Insurance Act and the Prudential Standards relating to the governance of insurers. In addition, key focus areas included implementation of the new Policyholder Protection Rules (PPR), which ensure fair outcomes to customers; binder regulations and premium collection processes; and legislation that creates new opportunities for existing insurers and provides for licensed micro-insurance products. Efforts to enhance the compliance risk management processes have continued. The business has also been preparing for regulatory changes in relation to the Protection of Personal Information Act, 4 of 2013.

Owing to the regulatory environment within which it operates, Santam has a dedicated group compliance function in place, responsible for implementing the group compliance framework. The compliance function identifies legislation applicable to the group, informs the business of pertinent regulatory requirements (and amendments), analyses the impact of these requirements on business operations, facilitates the introduction of controls and monitors compliance. For increased efficiency and effectiveness, the compliance function collaborates with other risk assurance providers on certain matters and works closely with other entities within the group. In implementing the compliance framework, a risk-based approach is adopted. Santam also complies with mandatory industry codes.

Read more in the risk management report on page 99.

Santam has a compliance framework that involves preparing and maintaining inventories of material laws and regulations, implementing policies based on these laws and establishing procedures to supervise compliance and mitigate risks. The risk committee monitors the effectiveness of the compliance function on a regular basis.

BOARD AND COMMITTEE MEETINGS

The board met five times at scheduled meetings in 2018. These included quarterly meetings and an annual strategy meeting in August to approve the strategic direction of the group.

Details of attendance at board and committee meetings were as follows:

	Board	Audit committee	Risk committee	Human resources and remuneration committee	Nominations committee	Investment committee	Social, ethics and sustainability committee
NUMBER OF MEETINGS HELD DURING 2018	5	4	4	4	4	4	3
B Campbell	5 (100%)	4 (100%)	4 (100%)	–	–	–	3 (100%)
PE Speckmann	5 (100%)	4 (100%)	4 (100%)	–	–	–	–
VP Khanyile ²	4 (100%)	–	–	2 (100%)	2 (100%)	–	–
BTPKM Gamedze	5 (100%)	–	3 (75%)	–	–	–	3 (100%)
GG Gelink ¹	1 (50%)	2 (100%)	2 (100%)	1 (50%)	1 (50%)	1 (50%)	–
IM Kirk	5 (100%)	–	–	4 (100%)	4 (100%)	–	–
L Lambrechts	5 (100%)	–	4 (100%)	–	–	3 (75%)	–
MLD Marole	5 (100%)	–	–	4 (100%)	4 (100%)	–	3 (100%)
NV Mtetwa	4 (80%)	3 (75%)	3 (75%)	–	–	3 (100%)	–
HD Nel	5 (100%)	–	4 (100%)	–	–	4 (100%)	–
JJ Ngulube ³	3 (75%)	–	–	–	–	–	1 (100%)
MJ Reyneke	5 (100%)	4 (100%)	4 (100%)	–	–	4 (100%)	–
HC Werth	5 (100%)	–	4 (100%)	–	–	3 (75%)	–

¹ Grant Gelink resigned as chairman and non-executive director of the board on 30 June 2018.

² Vusi Khanyile was appointed as independent non-executive director of the board on 23 April 2018, and as chairman on 1 July 2018.

³ Junior Ngulube was appointed as non-executive director on 23 April 2018.

BOARD COMMITTEES

RISK COMMITTEE

The risk committee is chaired by Machiel Reyneke, an independent non-executive director. The committee, supported by the chief risk officer, assists the board in fulfilling its governance from a risk and control perspective and in executing its compliance and risk management responsibilities. The committee is responsible for identifying, evaluating and effectively managing all significant risks. It must also provide adequate oversight of Santam's own risk and solvency assessment and internal model processes.

Compliance with relevant laws and regulations is integral to Santam's risk management process and is monitored on a continuous basis. The committee operates in terms of a formal charter approved by the Santam board.

The functions of the risk committee include assisting the board to:

- implement an effective policy and plan for risk management that enhances the company's ability to achieve its strategic objectives;
- continuously monitor, maintain and improve the maturity and effectiveness of the risk management processes;
- monitor and review the overall risk profile, including the significant risks Santam faces, and see that the response addressing these key risks is appropriately defined and resolved by management;
- disclose risk in a comprehensive, timely and relevant manner; and
- monitor the effectiveness of compliance management and address the outcomes.

The committee met four times during the year. Key areas of focus during 2018 included monitoring Santam's internal risk model and capital status, monitoring adherence to the company's risk appetite and reviewing the measures adopted by management to address the key risks facing the organisation, including IT security, financial risk and compliance management. Future areas of focus for the committee include data security, pending new legislation and governance. Details of attendance at meetings by committee members are provided in the table above. Representatives of the external auditors, internal auditors, financial risk management, enterprise risk management, compliance and the chief risk officer attend committee meetings.

The risk committee is satisfied that it has fulfilled its responsibility in terms of its charter. The committee is satisfied with the adequacy of governance, compliance and risk management structures and processes in place at Santam. The effectiveness of the compliance function is monitored both by the risk committee to whom the compliance function reports and by internal audit, which acts as an independent assurance provider. Where any improvements are identified, the compliance function incorporates them in the annual compliance plan, which is approved by the risk committee.

The committee also assessed the performance and expertise of the chief risk officer, the head of compliance, the head of financial risk management and the head of enterprise risk management and found the performance and expertise to be appropriate.

No penalties, fines or sanctions were imposed during 2018.

Read more in the risk management report from page 99.

AUDIT COMMITTEE

Preston Speckmann, an independent non-executive director, was appointed as chairperson of the audit committee on 1 August 2018. Machiel Reyneke chaired the committee prior to 1 August. The committee is constituted as a statutory committee of Santam with respect to its duties in terms of the Companies Act, and as a committee of the Santam board with respect to all other duties assigned to it by the board. The committee is responsible for, among other things, the company's sound financial standing and effective internal financial controls and processes. The committee reviews the overall quality and integrity of financial and integrated reporting disclosures.

The Santam audit committee also acts as the audit committee of the MiWay group of companies, the Centriq group of companies and the Santam Structured Insurance group of companies.

In terms of its charter, the audit committee must consist of a minimum of three independent directors and is appointed by shareholders at the AGM. At 31 December 2018, the committee consisted of four non-executive directors, all of whom are independent. Its primary function, in addition to those required by the Companies Act, is to help the board oversee financial matters. The committee operates by formal charter and an annual work plan approved by the board.

The qualifications of the audit committee members are provided in the profiles from page 82. The profiles of the audit committee members recommended for re-election at the 2019 AGM are contained in the notice of the AGM.

The functions of the audit committee include:

- Overseeing integrated reporting
- Reviewing and recommending for approval by the board the annual financial statements, the interim reports, preliminary or provisional result announcements, the integrated report, any other intended release of price-sensitive information and prospectuses, trading statements and similar documents
- Reviewing and recommending the disclosure of sustainability issues in the integrated report for approval by the board to ensure that it is reliable, does not conflict with the financial information and provides a balanced view
- Overseeing the effectiveness of Santam's assurance functions and services
- Recommending to the board the engagement of an external assurance provider on material sustainability issues, if relevant
- Reviewing accounting policies and practices and considering any significant changes to 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 of 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 and ensuring that the appointment of the auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors
- Defining a policy for non-audit services to be rendered by the external auditor to the company or a related company and pre-approving the contracts for non-audit services to be rendered by the external auditor
- Assisting the board in carrying out its IT responsibilities

During the year under review, the audit committee evaluated the performance and independence of the external auditors. It confirmed the independence of the auditors from the organisation and recommended the appointment of the external auditors and audit partner at the company's AGM in 2019.

The committee also considered and determined the external auditors' fees and terms of engagement. A policy and controls are in place to address the provision of non-audit services by the external auditor.

During the year under review, non-audit services conducted by PwC included forensics services for the subsidiary entities, governance and risk management reviews, conduct assurance and tax compliance services. The total fees for non-audit services conducted by the external auditor amounted to R2 million. PwC and its predecessors have served as the company's auditors for 90 years. The current audit partner was appointed as the designated partner in 2015 and will rotate according to statutory requirements.

In considering the 2018 annual financial statements, significant matters considered by the committee included reviewing key judgements and the valuation of unlisted investments. The committee considered reports prepared by management to assess whether the issues had been addressed appropriately. The committee considered the relevant audit quality indicators, including the audit firm's system of quality control. It noted that PwC was subject to a review of its quality-control practices in terms of the International Standard on Quality Control by the IRBA. No legal or disciplinary proceedings have been concluded against the firm in the past seven years. The proposed individual audit partner for the year ending 31 December 2019, Zuhdi Abrahams, is a JSE-accredited auditor and does not appear on the JSE's list of disqualified auditors. No matters in terms of paragraph 22 of the JSE Listings Requirements exist that may preclude Mr Abrahams from accepting the appointment as individual auditor.

The committee was satisfied with the quality of the audit conducted.

As per JSE Listings Requirement 3.84, the audit committee considered the expertise and experience of the executive financial director during November 2018. The committee is satisfied that the appropriate level of expertise and experience to manage the responsibilities of that position have been met, as required by the JSE. The audit committee is also satisfied with the finance function's expertise and adequacy of resources. The committee is satisfied that adequate financial reporting procedures exist and that they are functioning well.

The external and internal auditors attend committee meetings and have unrestricted access to the committee and its chairman. This ensures that their independence is in no way impaired. The external and internal auditors have the opportunity to address the audit committee at each meeting without the presence of management.

The internal audit function is provided in-house. Its scope and functions are covered in the internal audit section of this report. The committee is satisfied with the effectiveness of the head of internal audit and with the arrangements for internal audit. The committee believes that the design and implementation of the internal financial controls is effective.

Audit committee members are encouraged to keep up to date with developments that affect their required skill set. The audit committee has considered factors and risks that may affect the integrity of the Santam integrated report and has reviewed the disclosure of sustainability issues in the report to verify 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 committee met four times during the financial year. Details of attendance of meetings are provided on page 94. The audit committee is satisfied that it has fulfilled its responsibility during the year in terms of its charter. The committee believes it has complied with its legal and regulatory responsibilities for the year. The committee reviewed the company's integrated report and recommended it to the board for approval.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

The human resources and remuneration committee (HRRC) is chaired by Ian Kirk. The committee comprises only non-executive directors, the majority of whom are independent. The chief executive officer and certain members of management attend committee meetings by invitation, but excuse themselves at the appropriate times.

Read more about the committee members' qualifications in the profiles from page 82.

During 2018, the committee comprised three non-executive directors.

The HRRC is responsible for and has the authority to consider and make recommendations on the following, among other things:

- Determining and approving the general remuneration policy that must be tabled at each AGM for a non-binding advisory vote by shareholders
- Preparing an annual remuneration report
- Developing the remuneration strategy for executive directors and members of the executive committee
- Developing short-term incentive plans for board approval by setting annual targets, monitoring progress towards targets and reviewing the incentive plans regularly to ensure that a strong link with performance is maintained
- Developing long-term incentive schemes for board approval, setting individual and group performance hurdles and guidelines for annual allocations, and performing regular reviews of the structure of the schemes
- Developing, monitoring and testing appropriate performance drivers for both short-term and long-term incentives
- Managing the contracts of employment of executive directors and executive committee members to ensure that their terms are compliant with the principles of good practice
- Considering the individual remuneration packages for executive directors and executive committee members, including incentive schemes and increases, to ascertain that they are appropriate;
- Considering the remuneration of non-executive directors of the board and its committees and making proposals to the board for final approval by shareholders at the AGM
- Planning for succession
- Managing human-capital imperatives

Read more about Santam's remuneration approach, policy and implementation in the remuneration report online at www.santam.co.za.

The HRRC met four times during the year. Details of attendance at meetings are provided on page 94. The HRRC is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year. The company's remuneration policy and implementation report were tabled at the AGM in 2018 for shareholders to make a non-binding advisory vote and to enable the shareholders to express their views on the remuneration policies adopted and their implementation.

In terms of the remuneration policy, if either the remuneration policy or the implementation report was voted against by 25% of the voting rights exercised at the AGM, the board will start an engagement process to ascertain the reasons for the dissenting votes and will address reasonable objections and concerns raised appropriately. At the 2018 AGM, 89.8% of the voting rights exercised voted in favour of the remuneration policy and the engagement process was not formally required. The chairman of the HRRC and members of the management team nevertheless conducted an engagement process to discuss improvement areas regarding the group's remuneration disclosure practices.

During 2018, the HRRC considered the following matters:

- Benchmarking remuneration levels and practices with local comparator groups for employees, executives and non-executive directors
- Monitoring people-related metrics, such as head count, employee turnover and transformation
- Recruiting and appointing executive employees
- Contracting deliverables of the executive directors
- Monitoring the talent management strategy and succession planning
- Identifying people-related risks and taking measures to mitigate these risks
- Reviewing Santam's short-term incentive plan
- Monitoring actions taken regarding Fit and Proper Requirements;
- Monitoring and approving short-term incentives (performance bonuses) and long-term incentives
- Monitoring BBBEE transformation scorecard progress
- Revising remuneration policy and practices to comply with the Prudential Standards
- Liaising with stakeholders regarding remuneration-related queries

NOMINATIONS COMMITTEE

The nominations committee is chaired by Vusi Khanyile, the chairman of the board. In terms of its charter, the committee considers board effectiveness and succession planning and recommends candidates for board vacancies based on skill, experience and the need to ensure diversity and balance in the composition of the board. The committee comprises only non-executive directors. The chief executive officer attends committee meetings by invitation.

Read more about the committee members' qualifications in the profiles from page 82.

The committee met four times during the year. Details of attendance at meetings are provided on page 94. The committee considered and applied the policy on board race and gender diversity when shortlisting and nominating new directors to the board. As part of the process of reviewing the composition of the board, the committee considered the benefits of all aspects of diversity. The committee also conducted a process to review the board and its committees. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the period under review.

SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE

The group's social, ethics and sustainability committee is chaired by Dawn Marole, an independent director. The committee is constituted in terms of the Companies Act and has an independent role. The committee assists the board in monitoring the group's activities in terms of legislation, organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relations and transformation. The committee also assists the board in effectively integrating the sustainability strategy and objectives into the business. The committee, in addition to performing the function for Santam Ltd, fulfils the role of the social and ethics committee for all Santam's South African subsidiaries that have the requisite public-interest score.

The committee comprised four suitably skilled and experienced directors during 2018 and is chaired by an independent non-executive director. All members of the committee are non-executive directors. Read more about the committee members' qualifications in the profiles from page 82.

The committee is supported in its tasks by members of the executive committee and senior management. According to its terms of reference, the committee meets formally at least twice per year or as required for the effective performance of its duties. The committee met three times during 2018. Details of attendance of meetings are provided on page 94.

The responsibilities of the committee are as follows:

- Monitoring Santam's activities relating to social and economic development, BBBEE and employment equity;
- Monitoring good corporate citizenship, including the promotion of equality, corporate social responsibility, ethical behaviour and environmental impact;
- Monitoring changes in empowerment charters and codes;
- Monitoring functions required in terms of the Companies Act and its regulations;
- Actively managing the material matters that affect the sustainability of the company;
- Minimising the risk associated with social, economic and environmental impact, including stakeholder activism and government regulation;
- Aligning the business with legislative requirements, such as King IV™, BBBEE and other applicable legislation;
- Adding value by monitoring and guiding management on:
 - Developing and retaining a sustained client base
 - Developing solutions to accommodate change – inclusive of societal and environmental change
 - Developing and retaining a sustained supplier base
 - Having appropriate human-capital processes and systems in place
 - Having a transformed business
- Cultivating an ethical culture and combating/curbing economic crime effectively;
- Applying environmental impact management and practices
- Maintaining a sustained intermediary base;
- Extending influence to the benefit of society;
- Applying responsible investment practices

The mandate of the committee also includes monitoring the impact of the group's conduct on its customers since the conduct of the organisation has both a direct and an indirect relationship to the group's sustainability. The committee is therefore responsible for reviewing and monitoring strategic decisions that have an impact on clients and ensuring that the conduct of the organisation results in fair outcomes for customers.

During the period under review, the committee reviewed the strategy, plans and progress made to achieve Santam's transformation targets as well as the report compiled by the company's appointed BBBEE verification agency.

The committee also monitored Santam's sustainability performance regarding the FTSE/JSE Responsible Investment Index. The committee is mindful of the role of insurance in sustainable development and engaged with management to spearhead the successful integration of ESG/sustainability issues with Santam's broader strategies. During 2018, the committee focused on the expansion of the P4RR programme and considered issues related to TCF and environmental risks.

The committee considered the stakeholder relations policy and strategy in February 2018, which was approved by the Santam board. The committee assessed the effectiveness of the company's stakeholder management by considering the reports from management on stakeholder activities. The committee evaluated and recommended various actions to address the issues. In 2019 the committee plans to focus on access to financial services, consumer education and enterprise development.

Together with the audit committee, the committee reviewed the sustainability disclosures contained in the integrated report and recommended it to the board for approval.

The social, ethics and sustainability committee is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year. In the execution of its duties, the committee reviewed ethics, sustainability, stakeholder relations, human resources and CSI reports submitted by management, among other things. The committee members believe that the group is addressing the issues the committee is required to monitor in terms of the Companies Act.

INVESTMENT COMMITTEE

The investment committee is chaired by Gugu Mtetwa, an independent non-executive director. The committee comprises two executive directors, one non-executive director and two independent non-executive directors. The committee meets to evaluate and monitor the investment portfolio (excluding strategic investments), as well as the performance of investment managers. These meetings comprise quarterly feedback sessions with investment analysts and four formal investment committee meetings a year. The investment committee guides the board on the mandates of investment managers, and makes recommendations about the company's investment philosophy. The investment committee charter reflects the company's intention regarding responsible investment.

The committee assists the board in practising responsible investment that promotes good governance and the creation of value by the companies in which Santam invests. The investment committee sets the direction for responsible investing. The outsourced service providers are required to report on their application of the responsible investment principles incorporated in the Santam Group Investment Policy, and the committee is tasked with reviewing these reports.

The committee assists the board in holding the outsourced investment service providers accountable for complying with the responsible investment principles incorporated in the Santam Group Investment Policy. To achieve this, the committee requests reports from the outsourced service providers about their compliance with these principles. The committee also ensures that the outsourced service providers are engaged by means of a formal mandate that gives effect to the Santam Responsible Investment Policy.

The committee met four times during the financial year. Its terms of reference were reviewed in November 2018. Details of attendance of meetings are provided on page 94 and details of committee members' qualifications from page 82. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

AD HOC BOARD COMMITTEES

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. In November 2018, an ad hoc committee comprising four non-executive directors was convened to evaluate the details of a potential corporate transaction before the transaction was recommended to the board for approval.

OTHER COMMITTEES

INDEPENDENT COMMITTEE

The independent committee of the board consists of all the independent directors and convenes on an ad hoc basis to consider board matters pertaining to related parties. This committee makes recommendations to the board for approval. The independent committee convened twice during the year under review to consider related-party transactions.

EXECUTIVE COMMITTEE

Executive management and the board work closely together to determine the strategic objectives of the group. The board delegates authority to the chief executive officer and the group executive committee for the implementation of the strategy and the ongoing management of the business. The chief executive officer, assisted by the executive committee, is mandated by the board, through the company's delegation of authority, to deal with the day-to-day running of the company's affairs. The chief executive officer chairs the executive committee, which comprises the executive management of all the significant business units of the company. It meets and deals with all matters relating to:

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

The board regularly reviews the levels of delegated authority to the chief executive officer.

IT GOVERNANCE

Santam considers information to be a strategic asset. Our IT systems provide the platform on which the group does business and, combined with technology and data, constitute a source of future business opportunities. IT and digital technology represent a growing source of competitive advantage to enhance our intellectual capital.

We rely on standardised processes and controls to extract and exploit information for decision-making and to maintain data quality at an acceptable level. IT governance drives accountability, responsibility and the effective management of business information across the group.

A key strategic focus for the group is to continuously mature information and cybersecurity processes, and develop and implement business application platforms that will enable Santam to:

- deliver products more speedily;
- reduce exposure resulting from incorrect risk calculations;
- protect Santam and customer data;
- move closer to our partners and clients through different user experience platforms; and
- reduce the overall operational cost of contact centres.

The Santam board is responsible for technology (including digital) and information governance and acknowledges that these aspects are critical to the group. The governance of technology and information is defined in the Santam group IT governance charter, the Santam Information Governance Authority (SIGA) charter and the information security charter. Appropriate steering committees exist for each area.

The IT governance charter

The Santam board manages the execution of IT governance through the IT governance charter, which describes the IT governance principles, mechanisms and responsibilities to be applied within Santam and its subsidiaries, associates, partnerships and joint ventures.

The charter sets out the responsibilities of the board relating to the governance of technology; the recognition of the fiduciary duties of the board members of subsidiary companies and business entities; IT governance principles for the group; the recognition of Santam Group IT in the Santam governance model; and the various bodies that govern IT in the Santam group. These bodies include:

- Boards of directors
- Business unit CEOs
- Audit and risk committees
- Executive management structures
- IT management committees
- Strategic IT investment structures
- Information and IT security governance structures

The SIGA charter

The SIGA charter sets out the ownership and governance principles of information within the Santam group. To this end it has as its core purpose effective information management and governance to constantly enhance the value and quality of information and to direct the use of data and information.

Information governance and management are the responsibility of the board and heads of departments, or their designated representatives (data stewards). This warrants a carefully designed system of information governance and management by SIGA to guarantee optimal attention of key stakeholders and role players.

SIGA reports to the risk and audit committees through the SIGA chairperson (Santam chief information officer). The SIGA chairperson will also report progress to the Santam executive committee.

The information security charter

The information security charter expands on the IT governance charter by describing the governance of information security.

This charter sets out the various information security principles, governing bodies and role players responsible for providing the board with a clear and understandable view of the state of information security and resultant risks within the group.

The information security committee (chaired by the group chief information officer) is responsible for adherence to the information security charter and the implementation of an information security management system to protect Santam's technology and information assets.

IT management and reporting

The charters are implemented through quarterly reporting to the audit and risk committees and the board, which covers all Santam subsidiaries, associates, partnerships and joint ventures. To monitor IT risks and the effective control of IT and information within the group, the board mandates the executive team to implement the IT governance framework. IT governance is managed on a day-to-day basis at a business unit level.

Quarterly reporting to the audit and risk committees includes the appetite of the respective business units for specific strategic, technical, operational and information risks, as well as updates on governance framework implementation, access governance and vulnerability management.

The Santam board delegates the prioritisation and approval of major IT investments to the strategic investment steering committee, which consists of Santam executives. This steering committee ensures that projects follow the governance framework, oversees the execution of the project life cycle and assesses the value delivered to the organisation.

IT governance in 2018

During the year under review, our IT governance focus areas were to:

- develop a detailed information governance framework; and
- monitor and manage cyber risk.

The following steps were taken to raise awareness of and manage cyber risk in Santam:

- The findings of the cyber risk assessments conducted on all core Santam commercial and personal applications and infrastructure during 2017 were used as drivers of the information security strategy.
- Santam employees received cybersecurity-awareness training.
- Processes concerning the management of privileged accounts were reviewed.
- An annual cyber crisis simulation was held with Santam intermediaries to create awareness of the realities related to cyber risks and the management of those risks.

Compliance

Binder regulations and policyholder protection rules are existing compliance requirements. No new digital compliance or legal requirements are expected in 2019. However, we await the application of the Protection of Personal Information Act (POPIA). This Act mandates the implementation of controls to protect personal information in all its forms in Santam and its subsidiaries. The implementation of these controls has been divided into phases that deal with accidental loss of information (phase 1) and malicious leakage of information (phase 2). Initiatives on phase 1 were completed during 2018 and phase 2 is currently underway.

RISK MANAGEMENT REPORT

Santam's board recognises and acknowledges that it is accountable for the establishment and maintenance of an effective risk management system, including the system of internal control.

The board is of the opinion that the risk processes at Santam are effective in continuously identifying and evaluating risks and in ensuring that these risks are managed in line with the business strategy and within the board-approved risk appetite.

RISK MANAGEMENT, INTERNAL CONTROL AND COMPLIANCE PROCESSES

INTERNAL CONTROL

As part of the overall management of risk, Santam's management has implemented a system of internal control. The system provides the board with reasonable assurance that the business is operated consistently within:

- the strategy as determined by the board;
- the business objectives;
- the policies and processes; and
- the laws and regulations that apply to the group.

The internal control system aims to detect and prevent any significant risk from materialising and to mitigate any adverse consequences that may arise.

The board is supported by the control functions within Santam, which include the internal audit, enterprise and risk management and actuarial and compliance functions. A chief risk officer was appointed in 2018. The functions are reviewed regularly, as agreed with the board of directors. A number of business units have quality-assurance functions in place that continuously identify specific control weaknesses that need to be addressed. Both the risk and audit units work closely with these functions to ensure that appropriate controls are in place.

SYSTEM OF INTERNAL CONTROL

The board is ultimately responsible for and reviews the effectiveness of the group's system of internal control, which includes internal financial controls. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The board confirms that the process for identifying, evaluating and managing the significant risks faced by the group is ongoing. This process has been in place for the year under review and up to the date of approval of the integrated report, and is regularly reviewed by the board. The board reviewed and approved the Group Internal Control Policy during the year under review.

In addition to designing and operating suitable internal controls, management is responsible for identifying and evaluating significant risks that apply to their areas of business. These risks are assessed continually.

A control process of self-assessment and hierarchical reporting has been established, which generates a documented and auditable trail of accountability. These procedures are relevant across group operations. They provide for successive assurances to be given at increasingly higher levels of management and, finally, to the board.

This process is facilitated by Enterprise Risk Management and Group Internal Audit that, together, also provide a degree of assurance about the operationality and validity of the system of internal control. Planned corrective actions are monitored independently for timely completion.

INTERNAL FINANCIAL CONTROLS

The board has confirmed that effective systems of internal control and risk management are being maintained. During the year there were no breakdowns in the functioning of the internal financial control systems that had a material impact on the Santam Ltd group annual financial statements.

The board is satisfied that the annual financial statements fairly present the financial position, changes in equity, results of operations and cash flows for the group in accordance with IFRS, and that these statements are supported by reasonable and prudent judgements that have been applied consistently.

INTERNAL ASSURANCE PROVIDERS

The main internal independent assurance provider in Santam is the internal audit unit. Through the audit committee, internal audit provides objective and independent assurance to management and the board of Santam about risk management, control and governance processes. Internal audit is governed by an internal audit charter, which is approved by Santam's audit committee and reviewed annually. The charter defines the purpose, authority and responsibility of the function.

The head of internal audit provides a report at each audit committee meeting, including an annual written assessment of its scope and findings. The head of internal audit also reports to the chairman of the audit committee, with administrative reporting to the chief financial officer and unrestricted access to the chief executive officer and/or any other member of the executive management.

The Santam group's approach to the governance of its group operations is detailed in the board-approved Santam Group Governance Policy. In the policy, it is acknowledged that the Santam group, at any time, holds material equity investments (in terms of the level of shareholding and/or the value of the investment) in a number of entities, either through statutory (legal) entities or other corporate or business arrangements. Internal audit has developed an audit strategy for each category of entity.

Internal audit plans ensure that all entities are adequately considered in the audit plan based on their size, complexity and risk profile, as well as the nature of the investment and specific legal entity governance requirements.

The annual internal audit plan is reviewed regularly so that it remains relevant and responsive to changes in the operating environment.

The Santam audit committee approves the internal audit plan for the group. Detailed audit plans for subsidiaries with separate licences are approved by their respective finance and risk committees.

Internal audit proactively reviews its practices and resources for adequacy and appropriateness, to meet the increasingly demanding corporate governance and regulatory environment, including the requirements of King IV™ and other applicable regulatory requirements. The head of the internal audit control function was appointed at group level and was outsourced to MiWay Insurance Ltd, Centriq Insurance Ltd, Centriq Life Insurance Ltd, Santam Structured Life Ltd, Santam Structured Insurance Ltd, Santam Structured Reinsurance Ltd PCC and Santam Financial Services Ltd DAC.

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 avoid duplication of effort, there is regular communication with internal audit to understand the scope of work and the results of its audits. Santam has a formal pre-approval policy on the use of external auditors for non-audit services.

The policy provides guidelines for dealing with audit, audit-related, tax and other non-audit services that may be provided by the independent auditor to Santam and its entities. It also sets out the services that may not be performed by the auditor. 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 million. This includes R1.1 million for assurance-related services, R0.3 million for regulatory-related services and R0.7 million for other 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 to address 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 and control functions – for example, the quality-assurance functions in the distribution, claims and underwriting business units, and the heads of risk management, actuarial and compliance control functions.

RISK MANAGEMENT

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

The board also regularly reviews the risk management, internal control and compliance systems for effectiveness. While the board is responsible for the overall governance of risk, it is assisted by the risk committee in discharging this responsibility. Risk management is an important component of operational governance owing to the risks the group is exposed to through its business model.

The Santam board has adopted the three-lines-of-defence model for managing material risks. This model defines the roles, responsibilities and accountabilities for managing, reporting and escalating risks and other matters throughout the group. The model incorporates the oversight, management and assurance of risk management, essentially giving three independent views of risk. This approach ensures that risk management is embedded in the culture and daily activities of business units, and provides assurance to the board and executive committee that risks are managed effectively.

The group operates within a federated business model environment. In terms of this philosophy, the Santam board sets tight principles that need to be applied throughout the group clusters and businesses. These requirements include adopting the group enterprise risk management (ERM) policies and frameworks. The business clusters take responsibility for all operational and risk-related matters on a business level within the limits set by the risk appetite, policies and frameworks. Risk management is an integral part of the strategic planning processes, which include decision-making and execution of the strategy.

The risk appetite process is key to the integrated strategic planning process and the continued monitoring of operations. The risk appetite is agreed and set at board level, indicating the overall limits and boundaries for the execution of strategic goals, operational activities and the parameters for implementation of liquidity risk, market risk, credit risk, reinsurance and insurance risks and operational risks.

Appetite statements are aligned with the strategy and together provide direction for decision-making and execution in terms of the amount of risk management can take. The statements are a combination of quantitative and qualitative measures to provide clear guidance from a top-down perspective as to how much risk the board is willing to take. These group statements are cascaded into the various business clusters, licensed entities and material subsidiaries.

The various boards of the subsidiary companies are responsible for their respective risk appetites, which need to remain within the overall group appetite.

The relevant board committees and forums monitor specific risks, while overall oversight and review are provided by the risk committee.

Risk appetite remains a key tool for the review and measurement of the extent to which risks are managed. Risk appetites are in place for the main strategic business units. Risk reports are discussed quarterly by the various committees and boards, and ultimately feed into the overall group risk appetite, which is discussed and reviewed by the Santam risk committee.

The diagram below generically depicts the flow of risk management information from the individual businesses to the Santam Ltd board.



CHIEF RISK OFFICER

Asher Grevler was appointed as the chief risk officer (CRO) for the Santam group on 1 August 2018. The CRO has an independent line of accountability to the Santam board through the Santam board's risk committee.

This is a new role at Santam that recognises the importance of co-ordinating enterprise risk management responsibilities for the Santam group at an executive level.

The primary function of this role is to aid the board in its implementation, review and approval of the enterprise-wide risk governance framework, which includes Santam's risk culture, risk appetite, risk limits and corresponding capital or liquidity needs. This role is supported by the other internal control functions that exist within the Santam group.

In compliance with the Insurance Act of 2017, the heads of the internal audit, ERM and compliance control functions remain intact at group level, and these roles are outsourced to MiWay, Centriq and Santam Structured Insurance (SSI). The heads of risk and compliance control functions at a group level are supported by relevant functional teams at MiWay, Centriq and SSI and via various "risk custodians" within the business units to ensure adequate on-the-ground expertise and knowledge of the business. The risk management and compliance policies form part of the group's governance framework and encompass the totality of its strategies, policies and procedures for identifying, measuring, monitoring, managing and reporting all material risks to which the group may be exposed.

The head of the actuarial function remains intact at group level. The head of actuarial function for MiWay is outsourced to the Santam group. The head of the actuarial function at Centriq is employed internally at the insurer and the head of the actuarial function for SSI is outsourced to an external consultant.

Alignment between risk management and other assurance providers, including internal and external audit, compliance and quality-assurance functions, remains a key part of the ERM plan.

The combined assurance framework brings role players together to review and update significant risks and establish potential assurance or oversight gaps, which are escalated to the audit committee. The key risks are also jointly assessed by the various assurance providers as input into planning priorities for 2018. Risks and key themes have been identified to ensure that an effective and efficient approach is adopted to provide the relevant stakeholders with assurance over these key risks and risk themes.

In line with the annual strategy review cycle, ERM conducts an analysis of the group's top inherent risks. Research, review and analyses, one-on-one interviews, risk indicators, surveys, loss-event management as well as group workshops and interviews with the executive committee, management and various operational teams are techniques applied to gather the necessary information. The process includes "deep dives" and discussion of new and emerging risks. A number of external risk reports are reviewed to identify and assess any relevant risks. Santam is a member of the Corporate Executive Board/Gartner which produces quarterly updates on new and emerging risks identified across multiple industries and geographies.

A recent "deep dive" included an analysis of the impact of the water crisis in the Western Cape on both insurance and operational business. Continuity plans and plans for head office facilities were reviewed and accordingly updated. Plans have been put in place to maintain the functioning of the building should water supply be disrupted.

From an operational risk perspective, a "deep dive" was performed on the placing of facultative reinsurance given the potential exposure when reinsurance is not appropriately placed. The review highlighted some control issues that were addressed by management, thereby reducing the potential exposure across the group. The risk is closely monitored to make sure controls are adequate and effective.

The main inherent risk themes to emerge from the review included political, social and economy-related risks. Other risks included the risk of a further sovereign downgrade, increase in the severity and frequency of extreme weather events (e.g. floods, drought) and sourcing of specialist skills. The risk concerning radical transformation of the financial services industry has increased due to the perceived slow progress made. Santam already has very strict recruitment targets in place but supplier development has been identified as a focus area. Plans are being developed to ensure that appropriate spend is directed to relevant suppliers. The risk profile of the group shifted from listed to non-listed investments to support the international growth strategy. The growth and diversification strategy introduced new risks to the overall risk profile and resulted in a review of the liquidity risk appetite.

A number of common risks were identified by various businesses and were included in the overall group risk profile, such as cyber risks and challenges with profitability and growth in some areas. Other areas highlighted the risk of being able to continuously innovate and remain relevant as a key challenge.

The increase in cyberattacks internationally highlighted the potential exposure of companies to brand and reputational risks.

It has also become more challenging and complex to mitigate the impact of corruption on business. Vigilance is necessary to avoid dealing with people or organisations associated with corruption or with specific parties assumed to be corrupt.

The Sanlam Group is currently in the implementation phase of a new risk management system. The software implementation process will continue into 2019 and will be rolled out to all the Santam businesses per agreed timelines.

Read more about Santam's strategic risks in the chief executive officer's report on page 58.

RISK DISCLOSURE

The integrated ERM process is mature and is applied consistently throughout the group. Based on independent reviews and maturity assessments presented to the risk committee, the board is satisfied that the integrated ERM programme is adequate in identifying current and emerging risks and ensuring that these risks are managed appropriately.

COMPLIANCE

The group operates in a highly regulated environment owing to the nature of its financial services operations. Long-term sustainability is inextricably linked to compliance with all applicable regulations and a productive relationship with the regulators who grant operating licences to the group's businesses.

Regulatory compliance is therefore an important operational governance focus area:

- The Santam board is ultimately responsible for regulatory compliance.
- The responsibilities of the risk committees include the monitoring of regulatory compliance within the relevant entities.
- Quarterly reports to these committees and the Santam board include updates on regulatory developments, augmented by regular training sessions to keep members of the board and these committees abreast of all legislation applicable to the group.
- Quarterly reporting also includes compliance reports that provide information on the group's overall regulatory

compliance, any significant breaches detected by the group and business unit compliance functions. The terms of reference of cluster and business unit level boards and risk forums similarly include monitoring of regulatory compliance.

- Compliance functions with dedicated compliance officers are established at both group and licensed entity level. The terms of reference for these functions focus specifically on regulatory compliance.
- Changes in South African regulations are monitored by the group compliance function.

The compliance functions are actively involved in commenting on proposed regulatory changes directly and through industry bodies. These functions are also responsible for coordinating the implementation of new regulations across affected businesses. Similar functions operate within the group's operations outside South Africa. The scope of the centralised regulatory unit is being extended to include non-South African businesses. Regulatory compliance remains the responsibility of business management.

Read more about the regulatory environment in which the group operates in the chief executive officer's report on page 58.

BUSINESS CONTINUITY

A key operational risk that spans Santam's business is the potential impact of a major disaster and/or disruption. The group has responded to this threat by continually improving the 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, specifically the prioritisation of business recovery plans. In 2018, integrated disaster recovery and business recovery tests were conducted at Santam's off-site premises. The tests were successful and the learnings have been incorporated into business recovery plans.

Santam's crisis management plans received a major structural update about the various businesses in the group. The geographical locations of key business functions and the possibility of cyber events were incorporated into the plans.

REMUNERATION REPORT SUMMARY

REMUNERATION GOVERNANCE APPROACH

The Santam board is responsible for the governance of remuneration. The board appreciates that appropriate remuneration for executive directors, members of the executive committee and other employees is linked to the attraction, development and retention of top-level talent and human capital within the group.

Santam's remuneration philosophy and policy support the group strategy by incentivising the behaviour required to meet and exceed predetermined strategic goals.

In setting up the reward structures, cognisance is taken of prevailing economic conditions as well as local and international governance principles. Steps are taken to ensure alignment with comparator groups, international best practice and the applicable regulatory and governance requirements in each of the countries in which Santam operates, most notably King IV™ and Prudential Standards.

While compliance with the Santam remuneration policy is primarily targeted at Santam Ltd, the group encourages the application of sound remuneration practices in subsidiary companies and those businesses where it does not hold a controlling interest.

THE GROUP HUMAN RESOURCES AND REMUNERATION COMMITTEE (HRRC)

The HRRC is mandated by the board to ensure Santam remunerates fairly, responsibly and transparently.

The HRRC has the prerogative to make all remuneration decisions it deems appropriate and may propose amendments to any part of the remuneration policy as necessitated by changing circumstances.

Its activities include approving the guidelines and philosophy to be applied in formulating mandates for all bonus and long-term incentive schemes, and setting remuneration packages of Santam executive directors, the group executive committee and the Santam heads of control functions (actuarial control, internal audit, compliance, and risk management), relative to industry benchmarks. The HRRC also makes recommendations to the board regarding the fees of Santam non-executive directors.

SANTAM'S REMUNERATION PHILOSOPHY AND POLICY

PHILOSOPHY

To meet Santam's strategic objectives given the current economic climate, changes in the regulatory requirements and the ongoing skills shortage, it is essential that adequate measures are in place to attract and retain the required skills.

The group's remuneration philosophy is positioned to reward exceptional performance and to maintain that performance over time. Santam's remuneration philosophy aims to:

- inform stakeholders of Santam's approach to rewarding its employees;
- identify those aspects of the reward philosophy that are prescribed and to which all businesses should adhere;
- provide a general framework for all the other elements of the reward philosophy;
- offer guidelines for short and long-term incentive and retention processes; and
- offer general guidelines about how the businesses should apply discretion in their own internal remuneration allocation and distribution.

The principle of management discretion, regarding individual employees, is central to the remuneration philosophy since all rewards are based on merit.

The board also recognises certain differences between group subsidiaries and allows the businesses relative autonomy in positioning themselves to attract, retain and reward their employees appropriately. In this regard, there are some areas where the dictates of good corporate governance, the protection of shareholder interests and those of the Santam brand require full disclosure, motivation and approval by human resources committees, either at group or business unit level.

POLICY

The overarching principles and design of the remuneration policy are consistent across the group, support the remuneration philosophy and ensure good corporate governance.

Santam applies a total reward strategy for its employees, as far as practical. This offering comprises remuneration (which includes cash remuneration, short-term incentives and long-term incentives), benefits (retirement funds, group life, etc.), learning and development, an attractive working environment, and a range of lifestyle benefits. The primary objectives of Santam's remuneration policy are to:

- attract, motivate, reward and retain key talent;
- promote the group's strategic objectives, within its risk appetite;
- promote positive outcomes across the capitals which the group uses or affects; and
- promote an ethical culture and behaviour that are consistent with our values and which encourage responsible corporate citizenship.

DESIGN PRINCIPLES

In applying Santam's remuneration philosophy and implementing the policy, the following principles are followed:

- **Pay for performance:** Individual performance, as well as the achievement of the group's strategic objectives.
- **Competitiveness:** Remuneration package levels should enable Santam to attract and retain talented employees to ensure the performance and growth of the group.

SHAREHOLDER VOTING

The group's remuneration policy and the implementation thereof are subject to a non-binding advisory vote at the AGM of Santam Ltd. At the 2018 AGM, the result of the voting was as follows:

	For	Against	Abstained
2018 Remuneration policy	89.80%	10.20%	0%
2018 Implementation report	86.84%	13.16%	0%

Read more about Santam's remuneration approach, the structure of the remuneration policy and the implementation thereof in the remuneration report online at www.santam.co.za.

- **Leverage and alignment:** Reward for individual employees is aligned with, and influenced by:
 - the interests of Santam shareholders;
 - the performance of the group;
 - the performance of any region, business unit or support function; and
 - the employee's own performance contribution.
- **Consistency and fairness:** The reward philosophy strives to be both consistent and transparent. Where there is differentiation between employees performing similar work, the differentiation is fair, rational and explainable. Unfair differentiation is unacceptable.
- **Attraction and retention:** Remuneration practices are a key instrument in attracting and retaining the required talent to meet the group's objectives and ensure sustainability over the long term.
- **Long-term incentive share participation:** Where available, high performing employees are encouraged to share the success of the group through share participation. This establishes a link between personal efforts and the group's success.
- **Best practice:** Reward packages and practices reflect local and international best practice.
- **Communication:** The remuneration philosophy, policy and practices, as well as the processes to determine individual pay levels, are transparent and communicated effectively to all employees.
- **Benchmarking:** Accurate benchmarking relies on up-to-date market data and trend information from reputable sources.
- **Malus and clawback:** Where defined trigger events take place, provision is made for redress against remuneration through either malus (pre-vesting forfeiture) or clawback (post-vesting forfeiture).





06

FROM DAIRY COWS TO CROP DUSTERS, WE COVER IT ALL.

We understand the challenges farmers face.
Rain or shine, we work as hard as they do to protect
their crops and assets by providing agriculture
insurance tailored for every kind of risk.

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APPROVAL OF SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF SANTAM LTD

RESPONSIBILITY FOR AND APPROVAL OF THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The board of Santam Ltd accepts responsibility for the integrity, objectivity and reliability of the group and company financial statements of Santam Ltd. Adequate accounting records have been maintained. The board endorses the principle of transparency in financial reporting. The responsibility for the preparation and presentation of the financial statements has been delegated to management.

The responsibility of the external 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 breakdowns in the functioning of the internal control systems during the year that had a material impact on the financial results. The board is satisfied that the summary consolidated financial statements fairly present the financial position, the results of the operations and cash flows in accordance with relevant accounting policies, based on International Financial Reporting Standards (IFRS).

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

The financial statements were authorised for issue and publication by the board and signed on their behalf by:



VP Khanyile
Chairman



L Lambrechts
Chief executive officer
27 February 2019

PREPARATION AND PRESENTATION OF SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The preparation of the summary consolidated financial statements was supervised by the chief financial officer of Santam Ltd, Hennie Nel. The full set of annual financial statements are published on our website, or can be requested from the company secretary.

SECRETARIAL CERTIFICATION

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

Company secretary

27 February 2019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SANTAM LTD

OPINION

The summary consolidated financial statements of Santam Ltd, set out on pages 112 to 140, which comprise the summary consolidated statement of financial position as at 31 December 2018, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Santam Ltd for the year ended 31 December 2018.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the JSE Limited's (JSE) requirements for summary financial statements, as set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 27 February 2019. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the JSE's requirements for summary financial statements, set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.



PricewaterhouseCoopers Inc

Director: Zuhdi Abrahams

Registered auditor

Cape Town

27 February 2019

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Audited at 31 December 2018 R million	Restated Audited at 31 December 2017 R million
	Notes		
ASSETS			
Intangible assets		885	841
Property and equipment		142	135
Investment in associates and joint ventures		2 927	1 789
Strategic investment – unquoted SEM target shares	2, 6	1 323	1 089
Deferred income tax		155	91
Deposit with cell owners		191	174
Cell owners' and policyholders' interest		13	10
Financial assets at fair value through income	6	22 454	19 178
Reinsurance assets	7	6 487	5 824
Deferred acquisition costs		619	537
Loans and receivables including insurance receivables	6	6 274	5 253
Income tax assets		10	17
Cash and cash equivalents		3 618	4 321
Total assets		45 098	39 259
EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital		103	103
Treasury shares		(467)	(470)
Other reserves		(90)	(214)
Distributable reserves		9 311	7 999
		8 857	7 418
Non-controlling interest		508	506
Total equity		9 365	7 924
LIABILITIES			
Deferred income tax		81	87
Cell owners' and policyholders' interest		3 343	3 227
Reinsurance liability relating to cell owners		191	174
Financial liabilities at fair value through income			
Debt securities	6	2 072	2 056
Investment contracts	6	1 528	1 703
Derivatives	6	4	–
Financial liabilities at amortised cost			
Repo liability	6	759	531
Collateral guarantee contracts	6	158	130
Insurance liabilities	7	20 662	17 848
Deferred reinsurance acquisition revenue		487	326
Provisions for other liabilities and charges		162	106
Trade and other payables including insurance payables	6	5 922	4 953
Current income tax liabilities		364	194
Total liabilities		35 733	31 335
Total shareholders' equity and liabilities		45 098	39 259

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Audited Year ended 31 December 2018 R million	Audited Year ended 31 December 2017 R million	Change
Gross written premium		33 109	29 720	11%
Less: reinsurance written premium		9 041	8 027	
Net written premium		24 068	21 693	11%
Less: change in unearned premium				
Gross amount		2 019	648	
Reinsurers' share		(763)	(285)	
Net insurance premium revenue		22 812	21 330	7%
Interest income on amortised cost instruments	9	91	136	
Interest income on fair value through income instruments	9	2 205	1 184	
Other investment income	9	523	15	
Income from reinsurance contracts ceded		1 889	1 794	
Net (losses)/gains on financial assets and liabilities at fair value through income	9	(1 136)	427	
Investment income and fair value losses on financial assets held for sale	9	–	175	
Other income		246	127	
Net income		26 630	25 188	6%
Insurance claims and loss adjustment expenses		18 442	20 466	
Insurance claims and loss adjustment expenses recovered from reinsurers		(4 615)	(6 400)	
Net insurance benefits and claims		13 827	14 066	(2%)
Expenses for the acquisition of insurance contracts		4 524	4 218	
Expenses for marketing and administration		4 465	3 652	
Expenses for investment-related activities		67	67	
Amortisation and impairment of intangible assets		69	71	
Impairment of loans		5	–	
Investment return allocated to cell owners and structured insurance products		179	563	
Total expenses		23 136	22 637	2%
Results of operating activities		3 494	2 551	37%
Finance costs		(331)	(295)	
Net income from associates and joint ventures		291	110	
Profit on sale of associates	11	40	5	
(Loss)/gain on dilution of associate	11	(88)	18	
Reclassification of foreign currency translation reserve on dilution of associate	11	19	(90)	
Impairment of associates		(12)	(3)	
Income tax recovered from cell owners and structured insurance products	10	106	–	
Profit before tax		3 519	2 296	
Tax expense allocated to shareholders	10	(884)	(489)	
Tax expense allocated to cell owners and structured insurance products		(106)	–	
Total tax expense		(990)	(489)	
Profit for the year		2 529	1 807	40%
Other comprehensive income, net of tax				
Items that may subsequently be reclassified to income:				
Currency translation differences		–	(3)	
Release of translation differences on financial assets held for sale		–	(175)	
Share of associates' currency translation differences		143	(41)	
Reclassification of foreign currency translation reserve on dilution of associate		(19)	90	
Hedging reserve release		(46)	6	
Hedging reserve movement		46	–	
Total comprehensive income for the year		2 653	1 684	58%
Profit attributable to:				
– equity holders of the company		2 427	1 667	46%
– non-controlling interest		102	140	
		2 529	1 807	
Total comprehensive income attributable to:				
– equity holders of the company		2 551	1 544	65%
– non-controlling interest		102	140	
		2 653	1 684	
Earnings attributable to equity shareholders				
Earnings per share (cents)	12			
Basic earnings per share		2 198	1 511	45%
Diluted earnings per share		2 182	1 496	46%

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company				Total R million	Non- controlling interest R million	Total R million
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million			
Balance as at 1 January 2017	103	(472)	(41)	7 286	6 876	469	7 345
Profit for the year	-	-	-	1 667	1 667	140	1 807
Other comprehensive income:							
Currency translation differences	-	-	(3)	-	(3)	-	(3)
Release of translation differences on financial assets held for sale			(175)		(175)		(175)
Share of associates' currency translation differences	-	-	(41)	-	(41)	-	(41)
Reclassification of foreign currency translation reserve on dilution of associate			90		90		90
Hedging reserve release	-	-	6	-	6	-	6
Total comprehensive income for the year ended 31 December 2017	-	-	(123)	1 667	1 544	140	1 684
Issue of treasury shares in terms of share option schemes	-	78	-	(78)	-	-	-
Purchase of treasury shares	-	(76)	-	-	(76)	-	(76)
Transfer to reserves	-	-	(50)	50	-	-	-
Share-based payment costs	-	-	-	77	77	-	77
Dividends paid	-	-	-	(1 003)	(1 003)	(103)	(1 106)
Balance as at 31 December 2017	103	(470)	(214)	7 999	7 418	506	7 924
Profit for the year	-	-	-	2 427	2 427	102	2 529
Other comprehensive income:							
Share of associates' currency translation differences	-	-	143	-	143	-	143
Reclassification of foreign currency translation reserve on dilution of associate	-	-	(19)	-	(19)	-	(19)
Hedging reserve release			(46)		(46)		(46)
Hedging reserve movement	-	-	46	-	46	-	46
Total comprehensive income for the year ended 31 December 2018	-	-	124	2 427	2 551	102	2 653
Issue of treasury shares in terms of share option schemes	-	94	-	(94)	-	-	-
Purchase of treasury shares	-	(91)	-	-	(91)	-	(91)
Share-based payment costs	-	-	-	65	65	-	65
Dividends paid	-	-	-	(1 086)	(1 086)	(100)	(1 186)
Balance as at 31 December 2018	103	(467)	(90)	9 311	8 857	508	9 365

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

		Audited Year ended 31 December 2018	Restated ¹ Audited Year ended 31 December 2017
	Notes	R million	R million
Cash flows from operating activities			
Cash generated from operations		5 461	3 289
Interest paid		(322)	(252)
Income tax paid		(785)	(543)
Acquisition of financial assets		(19 025)	(18 482)
Proceeds from sale of financial assets		15 807	17 229
Net cash from operating activities		1 136	1 241
Cash flows from investing activities			
Acquisition of financial assets		(909)	(1 840)
Proceeds from sale of financial assets		1 166	2 825
Settlement of zero cost collar		–	(58)
Acquisition of subsidiaries, net of cash acquired	11	(86)	852
Purchases of equipment		(62)	(68)
Purchases of intangible assets		(27)	(27)
Proceeds from sale of equipment and intangible assets		3	3
Acquisition of associates and joint ventures	11	(923)	(152)
Capitalisation of associates	11	(15)	(23)
Proceeds from sale of associates	11	168	23
Net cash (used in)/from investing activities		(685)	1 535
Cash flows from financing activities			
Purchase of treasury shares		(91)	(76)
Proceeds from issue of unsecured subordinated callable notes		–	1 000
Redemption of unsecured subordinated callable notes		–	(1 000)
Decrease in investment contract liabilities ²		–	(32)
Decrease in collateral guarantee contracts ²		–	(1)
Dividends paid to company's shareholders		(1 086)	(1 003)
Dividends paid to non-controlling interest		(100)	(103)
Decrease in cell owners' and policyholders' interest ²		–	(51)
Net cash used in financing activities		(1 277)	(1 266)
Net (decrease)/increase in cash and cash equivalents		(826)	1 510
Cash and cash equivalents at beginning of year		4 321	2 887
Exchange gains/(losses) on cash and cash equivalents		123	(76)
Cash and cash equivalents at end of year		3 618	4 321

¹ Refer to note 14 for detail.

² Cash flows relating to investment contract liabilities, collateral guarantee contracts and cell owners' and policyholders' interest have previously been included as part of financing activities in the statement of cash flows. As a result of the acquisition of SSL, management has reassessed the classification of these cash flows and determined that these cash flows relate to operating activities. This change in classification has been applied prospectively, as these cash flows were previously considered immaterial.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE for summary financial statements, and the requirements of the Companies Act applicable to summary financial statements. The JSE requires summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

2. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for those referred to below:

The following changes were made to the annual financial statements in the current year:

- Change in accounting policy to present the statement of financial position in order of liquidity (refer to note 14.1). Doing away with the current/non-current distinction resulted in the aggregation of some line items, but in total, no changes were made to the amounts previously presented, except for the strategic investment in unquoted SEM target shares now separately disclosed.
- Reclassification of some investment portfolios from investment activities to operating activities in the statement of cash flows (refer to note 14.2).
- Recognition of the repo liability, as well as underlying financial assets, relating to a repurchase agreement entered into by the SSI group (refer to note 14.3).
- A new note, note 16, was added to provide information on cellholder/policyholder vs shareholder statements of financial position and statements of comprehensive income.
- The tax on cell owners and structured insurance products has been separately disclosed in the statement of comprehensive income in the current year, as with the acquisition of SSI in 2017, the tax on cell owners and structured insurance products became more significant. In the prior period, this tax was disclosed as part of tax expense.
- Cash flows relating to investment contract liabilities, collateral guarantee contracts and cell and policyholders' interest have previously been included as part of financing activities in the statement of cash flows. As a result of the acquisition of SSI, management has reassessed the classification of these cash flows and determined that these cash flows relate to operating activities. This change in classification has been applied prospectively, as these cash flows were previously considered immaterial.

The following new IFRSs and/or IFRICs were effective for the first time from 1 January 2018:

- Amendment to IFRS 2 – Classification and measurement of share-based payment transactions
- Amendments to IFRS 4 – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*
- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- Amendment to IAS 40 – *Investment Property*
- Annual improvements 2014-16 cycle
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

STANDARDS EFFECTIVE IN 2018

No material impact on the summary consolidated financial statements was identified.

IFRS 9 FINANCIAL INSTRUMENTS

Specifically regarding IFRS 9, the assessment of the impact of implementation included the following:

Classification and measurement – financial assets

- Debt instruments, previously measured as designated at FVPL (fair value through profit and loss), are now measured as mandatorily at FVPL under IFRS 9. A key input in the assessment of the classification of debt instruments held was the business model applied to manage the financial assets. Financial assets that are held to sell and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVPL because they are neither held to collect contractual cash flows nor held to collect contractual cash flows and to sell.
- Loans and receivables, previously measured at amortised cost, continue to be measured at amortised cost under IFRS 9 as the business model is hold to collect and their cash flows solely represent payments of principle and interest.
- Equity instruments, previously measured at FVPL, are also measured at FVPL under IFRS 9. Management has not taken the irrevocable election to present changes through FVOCI (fair value through other comprehensive income) for equities not held for trading.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

Classification – financial liabilities

- Debt securities issued by Santam are measured at FVPL under IFRS 9 as these instruments are managed at fair value in terms of the related business model. The amount of changes in fair value attributable to changes in own credit risk of these liabilities were considered immaterial.
- Investment contract liabilities predominantly consist of unit-linked contracts, where the value of the liability is directly derived from the performance of the related assets. Based on the principle of eliminating an accounting mismatch in the financial statements, investment contracts are designated to be measured at FVPL.

Hedge accounting

The group has elected to apply IFRS 9 for hedge accounting.

Impairment of financial assets

The majority of financial assets in the Santam group are measured at FVPL. All insurance and reinsurance receivables are recognised and measured in terms of IFRS 4 *Insurance Contracts* and the group has not amended its policies for the measurement of IFRS 4. The insurance and reinsurance receivables are therefore excluded from the scope of IFRS 9's expected credit loss (ECL) impairment. The most significant class of financial asset subject to an ECL impairment is loans and receivables. Applying the expected credit loss model to loans and receivables at amortised cost did not result in material additional provisions for impairment.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 *Revenue from Contracts with Customers* introduces a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 does not apply to insurance contracts within the scope of IFRS 4 *Insurance Contracts*. Based on management's assessment, the impact on the net results was not material.

STANDARDS NOT YET EFFECTIVE IN 2018

The group did not early adopt any of the standards not yet effective. Of the standards that are not yet effective, management expects IFRS 17 and IFRS 16 to have a future impact on the group and company.

IFRS 16 LEASES

IFRS 16 *Leases* (effective 1 January 2019) addresses the establishment of principles for the recognition, measurement, presentation and disclosure of all lease arrangements within the scope of the standard. Under the new standard, an asset (the right to use the leased item) and the liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The group plans to apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. As at the reporting date, the group has non-cancellable operating lease commitments of R1 795 million. However, the group is in the process to determine to what extent these commitments will result in recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

IFRS 17 INSURANCE CONTRACTS

IFRS 17 *Insurance Contracts* (effective 1 January 2022) addresses the establishment of principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. This is to effect a measurement model for insurance liabilities relating to policyholder contracts, as well as related accounting treatments. The implementation of IFRS 17 will have different financial and operational implications for each entity that adopts the standard. It is, however, expected that fundamental changes will be required in the following areas:

- Liability measurement
- Data requirements
- Operations and the underlying systems
- Management reporting

The group is currently facilitating a programme to review the impact of the implementation and to ensure a seamless transition.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

3. ESTIMATES

The preparation of summary consolidated 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 summary consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated annual financial statements for the year ended 31 December 2018. There have been no changes since 31 December 2017.

4. RISK MANAGEMENT

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

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

The summary consolidated financial statements do not include all risk management information and disclosures required in the annual financial statements and should be read in conjunction with the group's annual financial statements for the year ended 31 December 2018.

There have been no material changes to the risk management policies since 31 December 2017.

5. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the chief executive officer, supported by the group executive committee.

The group conducts mainly insurance and investment activities.

INSURANCE ACTIVITIES:

The group presents its insurance results in the following segments:

- Conventional insurance business written on insurance licences controlled by the group, consisting of Santam Commercial and Personal, Santam Specialist (niche business and agriculture), credit insurance written by Santam Structured Insurance (SSI), Santam re and MiWay;
- Alternative risk transfer insurance business written on the insurance licences of Centriq and SSI; and
- Santam's share of the insurance results of the Sanlam Emerging Markets (SEM) general insurance businesses, including SAN JV (Saham Finances).

Conventional insurance is further analysed by insurance class. Operating segments are aggregated based on quantitative and/or qualitative significance. The performance of insurance activities is based on gross written premium as a measure of growth, with operating result as measure of profitability.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (continued)

Growth is measured for SEM General Insurance businesses based on the gross written premium generated by the underlying businesses. With regard to the SEM and SAN JV (Saham Finances) insurance business, this information is considered to be a reallocation of fair value movements recognised on the SEM target shares as well as equity-accounted earnings on the investments in associates and joint ventures. It is also included as reconciling items in order to reconcile to the consolidated statement of comprehensive income. Overall profitability is measured based on net investment income and fair value movements from SEM target share investments and net income from associates for the investment in SAN JV.

Insurance business denominated in foreign currencies is covered by foreign denominated bank accounts and investment portfolios. Foreign exchange movements on underwriting activities are therefore offset against the foreign exchange movements recognised on the bank accounts and investment portfolios.

INVESTMENT ACTIVITIES:

Investment activities are all investment-related activities undertaken by the group, excluding investment returns on insurance funds. Due to the nature of the activities conducted, investment activities are considered to be one operating segment. Investment activities are measured based on net investment income.

Given the nature of the operations, there is no single external client that provides 10% or more of the group's revenues.

The investment return on insurance funds is calculated based on the day-weighted effective return realised by the group on the assets held to cover the group's net insurance working capital requirements.

The Santam BEE transaction costs are unrelated to the core underwriting and investment performance of the group. Therefore, these costs are disclosed as unallocated activities.

Santam Ltd is domiciled in South Africa. Geographical analysis of the gross written premium and non-current assets and liabilities is based on the countries in which the business is underwritten or managed. Non-current assets comprise goodwill and intangible assets, property and equipment, investments in associates and joint ventures and SEM target shares.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (continued)

5.1 FOR THE YEAR ENDED 31 DECEMBER 2018

Business activity	Insurance			
	Conventional R million	Alternative risk R million	Santam's share of SEM R million	Total R million
Revenue	27 711	5 398	2 547	35 656
Net earned premium	22 371	441	1 994	24 806
Net claims incurred	13 499	328	1 354	15 181
Net commission	2 764	(129)	161	2 796
Management expenses (excluding BEE costs) ¹	4 042	211	453	4 706
Net underwriting result	2 066	31	26	2 123
Investment return on insurance funds	532	65	257	854
Net insurance result	2 598	96	283	2 977
Other income ²	187	59	4	250
Other expenses ²	(189)	(59)	–	(248)
Operating result before non-controlling interest and tax	2 596	96	287	2 979
Reallocation of operating result ³	–	–	(287)	(287)
Investment income net of investment-related fees	–	179	234	413
Investment return allocated to cell owners and structured insurance products	–	(179)	–	(179)
Finance costs	–	–	–	–
Income from associates and joint ventures including profit on sale and impairment	–	–	266	266
Loss on dilution of associate	–	–	(88)	(88)
Reclassification of foreign currency translation reserve on dilution of associate	–	–	19	19
Santam BEE costs	–	–	–	–
Amortisation and impairment of intangible assets ¹	(23)	(1)	–	(24)
Impairment of loans	(5)	–	–	(5)
Income tax recovered from cell owners and structured insurance products	–	106	–	106
Profit before tax	2 568	201	431	3 200

¹ Amortisation of computer software included as part of management expenses. Santam's share of the costs to manage the SEM portfolio of R36 million has been included in management expenses.

² Includes other operating income and expenses not related to underwriting results.

³ Reconciling items consist of the reallocation of net operating results relating to the underlying investments of the SEM target shares and SAN JV (Saham Finances) for management reporting purposes.

FOR THE YEAR ENDED 31 DECEMBER 2017

Business activity	Insurance			
	Conventional R million	Alternative risk R million	Santam's share of SEM R million	Total R million
Revenue	25 853	3 867	2 382	32 102
Net earned premium	20 893	437	1 790	23 120
Net claims incurred	13 753	313	1 344	15 410
Net commission	2 526	(102)	125	2 549
Management expenses (excluding BEE costs) ¹	3 354	206	433	3 993
Net underwriting result	1 260	20	(112)	1 168
Investment return on insurance funds	584	64	356	1 004
Net insurance result	1 844	84	244	2 172
Other income ²	84	43	–	127
Other expenses ²	(86)	(43)	–	(129)
Operating result before non-controlling interest and tax	1 842	84	244	2 170
Reallocation of operating result ³	–	–	(244)	(244)
Investment income net of investment-related fees	–	563	84	647
Investment return allocated to cell owners and structured insurance products	–	(563)	–	(563)
Finance costs	–	–	–	–
Income from associates and joint ventures including profit on sale and impairment	–	–	65	65
Gain on dilution of associate	–	–	18	18
Reclassification of foreign currency translation reserve on dilution of associate	–	–	(90)	(90)
Santam BEE costs	–	–	–	–
Amortisation and impairment of intangible assets ¹	(31)	–	–	(31)
Profit before tax	1 811	84	77	1 972

¹ Amortisation of computer software included as part of management expenses. Santam's share of the costs to manage the SEM portfolio of R33 million has been included in management expenses.

² Includes other operating income and expenses not related to underwriting results.

³ Reconciling items consist of the reallocation of net insurance results relating to the underlying investments of the SEM target shares and SAN JV (Saham Finances) for management reporting purposes.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

Investment R million	Total R million	Reconciling and unallocated R million	IFRS Total R million
725	36 381	(3 272)	33 109
-	24 806	[1 994]	22 812
-	15 181	[1 354]	13 827
-	2 796	[161]	2 635
-	4 706	[453]	4 253
-	2 123	(26)	2 097
-	854	(257)	597
-	2 977	(283)	2 694
-	250	(4)	246
-	(248)	-	(248)
-	2 979	(287)	2 692
-	(287)	287	-
605	1 018	-	1 018
-	(179)	-	(179)
(331)	(331)	-	(331)
53	319	-	319
-	(88)	-	(88)
-	19	-	19
-	-	(8)	(8)
-	(24)	-	(24)
-	(5)	-	(5)
-	106	-	106
327	3 527	(8)	3 519

Investment R million	Total R million	Reconciling and unallocated R million	IFRS total R million
689	32 791	(3 071)	29 720
-	23 120	[1 790]	21 330
-	15 410	[1 344]	14 066
-	2 549	[125]	2 424
-	3 993	[433]	3 560
-	1 168	112	1 280
-	1 004	(356)	648
-	2 172	(244)	1 928
-	127	-	127
-	(129)	-	(129)
-	2 170	(244)	1 926
-	(244)	244	-
575	1 222	-	1 222
-	(563)	-	(563)
(295)	(295)	-	(295)
47	112	-	112
-	18	-	18
-	(90)	-	(90)
-	-	(3)	(3)
-	(31)	-	(31)
327	2 299	(3)	2 296

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (continued)

5.2 FOR THE YEAR ENDED 31 DECEMBER 2018

ADDITIONAL INFORMATION ON INSURANCE ACTIVITIES

The group's conventional insurance activities are spread over various classes of general insurance.

	Gross written premium R million	Underwriting result R million
Accident and health	535	82
Crop	729	54
Engineering	1 335	296
Guarantee	301	(69)
Liability	1 250	(20)
Miscellaneous	8	(1)
Motor	12 801	1 176
Property	10 031	519
Transportation	721	29
Total	27 711	2 066
Comprising:		
Commercial insurance	15 809	920
Personal insurance	11 902	1 146
Total	27 711	2 066

	R million
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ADDITIONAL INFORMATION ON INVESTMENT ACTIVITIES

The group's return on investment-related activities can be analysed as follows:

Investment income	895
Net losses on financial assets and liabilities at fair value through income	(223)
Income from associates and joint ventures	53
Investment-related revenue	725
Expenses for investment-related activities	(67)
Finance costs	(331)
Net total investment-related transactions	327

For detailed analysis of investment activities, refer to notes 6 and 9.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (continued)

5.2 FOR THE YEAR ENDED 31 DECEMBER 2017

ADDITIONAL INFORMATION ON INSURANCE ACTIVITIES

The group's conventional insurance activities are spread over various classes of general insurance.

	Gross written premium R million	Underwriting result R million
Accident and health	482	58
Crop	829	114
Engineering	1 290	296
Guarantee	182	(18)
Liability	1 227	85
Miscellaneous	4	2
Motor	12 125	860
Property	9 000	(165)
Transportation	714	28
Total	25 853	1 260
Comprising:		
Commercial insurance	14 589	513
Personal insurance	11 264	747
Total	25 853	1 260

	R million
ADDITIONAL INFORMATION ON INVESTMENT ACTIVITIES	
The group's return on investment-related activities can be analysed as follows:	
Investment income	557
Net gains on financial assets and liabilities at fair value through income	85
Income from associates including profit on sale	47
Investment-related revenue	689
Expenses for investment-related activities	(67)
Finance costs	(295)
Net total investment-related transactions	327

For detailed analysis of investment activities, refer to notes 6 and 9.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (continued)

5.2 FOR THE YEAR ENDED 31 DECEMBER 2018

ADDITIONAL INFORMATION ON SANTAM'S SHARE OF SEM

The group's return on Santam's share of SEM activities can be analysed as follows:

	SEM R million	SAN JV (Saham Finances) ³ R million	Total R million
Revenue	1 265	1 282	2 547
Net earned premium	923	1 071	1 994
Net claims incurred	679	675	1 354
Net commission	49	112	161
Management expenses (excluding BEE costs)	248	205	453
Net underwriting result	(53)	79	26
Investment return on insurance funds	183	74	257
Net insurance result	130	153	283
Other income	–	4	4
Operating result before non-controlling interest and tax²	130	157	287
Reallocation of operating result ¹	(130)	(157)	(287)
Investment income net of investment-related fees	234	–	234
Income from associates and joint ventures	–	266	266
Loss on dilution of associate	–	(88)	(88)
Reclassification of foreign currency translation reserve on dilution of associate	–	19	19
Profit before tax	234	197	431

¹ Reconciling items consist of the reallocation of net operating results relating to the underlying investments of the SEM target shares and SAN JV (Saham Finances) for management reporting purposes.

² Santam's share of SAN JV's non-controlling interest and tax of R47 million resulted in net results of R49 million.

³ Santam held an effective interest of 7% until 9 October 2018, after which the effective interest increased to 10%. Refer to note 11.

FOR THE YEAR ENDED 31 DECEMBER 2017

ADDITIONAL INFORMATION ON SANTAM'S SHARE OF SEM

The group's return on Santam's share of SEM activities can be analysed as follows:

	SEM R million	SAN JV (Saham Finances) ³ R million	Total R million
Revenue	1 267	1 115	2 382
Net earned premium	881	909	1 790
Net claims incurred	723	621	1 344
Net commission	30	95	125
Management expenses (excluding BEE costs)	236	197	433
Net underwriting result	(108)	(4)	(112)
Investment return on insurance funds	234	122	356
Net insurance result/operating result before non-controlling interest and tax²	126	118	244
Reallocation of operating result ¹	(126)	(118)	(244)
Investment income net of investment-related fees	84	–	84
Income from associates and joint ventures	–	65	65
Gain on dilution of associate	–	18	18
Reclassification of foreign currency translation reserve on dilution of associate	–	(90)	(90)
Profit before tax	84	(7)	77

¹ Reconciling items consist of the reallocation of net insurance results relating to the underlying investments of the SEM target shares and SAN JV (Saham Finances) for management reporting purposes.

² Santam's share of SAN JV's non-controlling interest and tax of R30 million resulted in net results of R32 million.

³ Santam held an effective interest of 7.5%, until 10 May 2017, after which the effective interest decreased to 7%.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (continued)

5.3 GEOGRAPHICAL ANALYSIS

	Gross written premium		Non-current assets	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	R million	R million	R million	R million
South Africa	29 742	26 520	1 109	1 125
Rest of Africa ¹	3 684	3 810	3 109	1 967
Southeast Asia, India and Middle East	1 969	1 549	1 059	886
Other	261	223	–	–
	35 656	32 102	5 277	3 978
Reconciling items ²	(2 547)	(2 382)	–	–
Group total	33 109	29 720	5 277	3 978

¹ Includes gross written premium relating to Namibia of R1 110 million (Dec 2017: R1 197 million).

² Reconciling items relate to the underlying investments included in SEM and SAN JV (Saham Finances) activities for management reporting purposes.

5.4 ANALYSIS OF SAN JV (SAHAM)'S RESULTS

The Saham Finances contribution was impacted by corporate activity in 2018 and 2017. The tables included in this note provide an analysis of the Saham Finances earnings on a 100% basis for both years, which eliminates the distortion caused by changes in shareholding. Santam's share of the net underwriting results for the year amounted to R79 million (2017: R4 million loss).

Saham Finances net result from financial services for the year ended 31 December 2018 (100%)

	2018	2017
	R million	R million
Gross written premiums	16 569	15 975
Net earned premiums	13 843	12 723
Net claims incurred	(9 448)	(8 537)
Net commission	(1 454)	(1 289)
Management expenses	(2 645)	(2 572)
Net underwriting result	296	325
Investment return on insurance funds	951	1 734
Non-insurance earnings	52	116
Operating result before taxation and non-controlling interest	1 299	2 175
Taxation and non-controlling interest	(609)	(1 078)
Operating result after taxation and non-controlling interest	690	1 097
Net investment income	172	110
Finance costs	(160)	(76)
Attributable earnings	702	1 131
Foreign currency translation differences	(124)	151
Total comprehensive income for the year	578	1 282

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (continued)

5.4 ANALYSIS OF SAN JV (SAHAM)'S RESULTS (continued)

Analysis of SAN JV's (Saham)'s gross written premium (100%)

	Life insurance		General insurance		Reinsurance		Total	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	R million	R million	R million	R million	R million	R million	R million	R million
Morocco	1 481	1 420	6 708	6 000	–	–	8 189	7 420
Lebanon	736	680	791	871	–	–	1 527	1 551
Mauritius (Saham Re)	–	–	–	–	1 108	1 061	1 108	1 061
Ivory Coast	585	547	1 251	1 220	–	–	1 836	1 767
Angola	35	42	968	1 415	–	–	1 003	1 457
Other	462	363	2 335	2 246	1 305	1 267	4 102	3 876
Consolidation adjustment	(23)	(30)	(145)	(164)	(1 028)	(963)	(1 196)	(1 157)
	3 276	3 022	11 908	11 588	1 385	1 365	16 569	15 975

Analysis of SAN JV (Saham)'s underwriting results (100%)

	Life insurance		General insurance		Reinsurance		Total	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	R million	R million	R million	R million	R million	R million	R million	R million
Morocco	(135)	(191)	439	488	–	–	304	297
Lebanon	(117)	(78)	58	28	–	–	(59)	(50)
Mauritius (Saham Re)	–	–	–	–	311	289	311	289
Ivory Coast	(111)	(72)	77	100	–	–	(34)	28
Angola	1	18	(29)	(40)	–	–	(28)	(22)
Other	(86)	(96)	(58)	(64)	(54)	(57)	(198)	(217)
	(448)	(419)	487	512	257	232	296	325

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL ASSETS AND LIABILITIES

	Audited at 31 December 2018 R million	Audited at 31 December 2017 R million
The group's financial assets are summarised below by measurement category.		
Financial assets		
Strategic investment – unquoted SEM target shares	1 323	1 089
Financial assets at fair value through income (restated, please refer to note 14)	22 454	19 178
Loans and receivables	6 274	5 253
Receivables arising from insurance and reinsurance contracts	5 168	4 279
Loans and receivables excluding insurance receivables	1 106	974
	30 051	25 520
Expected to be realised after 12 months	17 400	18 085
Expected to be realised within 12 months	12 651	7 435
Financial liabilities		
Financial liabilities at fair value through income	3 604	3 759
Financial liabilities at amortised cost (restated, please refer to note 14)	917	661
Trade and other payables	5 921	4 953
	10 442	9 373
Expected to be realised after 12 months	3 508	3 614
Expected to be realised within 12 months	6 934	5 759

Financial instruments measured at fair value on a recurring basis

The table below analyses financial instruments, carried at fair value through income, by valuation method. There were no significant changes in the valuation methods applied since 31 December 2017. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Input other than quoted prices included within level 1 that is observable for the asset or liability, either directly (that is, by prices) or indirectly (that is, derived from prices). The fair value of level 2 instruments are determined as follows:
 - Quoted equity securities are valued using quoted prices with the main assumption that quoted prices might require adjustments due to an inactive market.
 - Unquoted equity securities are valued using the discounted cash flow (DCF) or net asset value method based on market input.
 - Quoted debt securities are valued using yield of benchmark bond, DCF benchmarked against similar instruments with the same issuer, price quotations of JSE interest rate market or issue price of external valuations based on market input.
 - Unquoted debt securities are valued using DCF, real interest rates, benchmark yield plus fixed spread or deposit rates based on market input.
 - Quoted unitised investments with underlying equity securities are valued using quoted prices with the main assumption that quoted prices might require adjustments due to an inactive market.
 - Quoted unitised investments with underlying debt securities are valued using DCF, external valuations and published price quotations on the JSE equity and interest rate market or external valuations that are based on published market input with the main assumptions being market input, uplifted with inflation.
 - Derivatives are valued using the Black-Scholes model, net present value of estimated floating costs less the performance of the underlying index over contract term, DCF (using fixed contract rates and market-related variable rates adjusted for credit risk, credit default swap premiums, offset between strike price and market projected forward value, yield curve of similar market-traded instruments) with the main assumptions being market input, credit spreads and contract inputs.
- Level 3: Input for the asset or liability that is not based on observable data (that is, unobservable input).

There were no significant transfers between level 1 and level 2 during the current or prior year.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL ASSETS AND LIABILITIES (continued)

Audited at 31 December 2018	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Financial assets at fair value through income				
Equity securities				
Quoted				
Listed	2 377	–	–	2 377
Irredeemable preference shares	1	–	–	1
Unquoted	–	28	1 390	1 418
Total equity securities	2 378	28	1 390	3 796
Debt securities				
Quoted				
Government and other bonds	–	4 750	–	4 750
Collateralised securities	–	370	–	370
Money market instruments more than one year	–	3 344	–	3 344
Unquoted				
Government and other bonds	–	292	–	292
Money market instruments more than one year	–	5 025	–	5 025
Redeemable preference shares	–	70	61	131
Total debt securities	–	13 851	61	13 912
Unitised investments				
Quoted				
Underlying equity securities	–	615	–	615
Underlying debt securities	–	2 501	–	2 501
Total unitised investments	–	3 116	–	3 116
Derivative instruments				
Interest rate swaps ¹	–	–	–	–
Foreign currency collar	–	25	–	25
Total derivative instruments	–	25	–	25
Short-term money market instruments	–	2 928	–	2 928
Total financial assets at fair value through income	2 378	19 948	1 451	23 777
¹ Carrying value as at 31 December 2018 is less than R1 million.				
Financial liabilities at fair value through income				
Debt securities	–	2 072	–	2 072
Investment contracts	–	1 528	–	1 528
Derivative instruments				
Exchange traded futures	–	4	–	4
Total derivative instruments	–	4	–	4
Total financial liabilities at fair value through income	–	3 604	–	3 604

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL ASSETS AND LIABILITIES (continued)

Audited at 31 December 2017	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Financial assets at fair value through income				
Equity securities				
Quoted				
Listed	2 086	9	–	2 095
Irredeemable preference shares	2	–	–	2
Unquoted	–	36	1 143	1 179
Total equity securities	2 088	45	1 143	3 276
Debt securities				
Quoted				
Government and other bonds (restated, please refer to note 14)	–	4 307	–	4 307
Collateralised securities	–	541	–	541
Money market instruments more than one year	–	4 094	–	4 094
Unquoted				
Government and other bonds	–	184	–	184
Money market instruments more than one year	–	3 367	–	3 367
Redeemable preference shares	–	157	25	182
Total debt securities	–	12 650	25	12 675
Unitised investments				
Quoted				
Underlying equity securities	–	1 765	–	1 765
Underlying debt securities	–	369	–	369
Total unitised investments	–	2 134	–	2 134
Derivative instruments				
Exchange traded futures	–	8	–	8
Interest rate swaps ¹	–	–	–	–
Total derivative instruments	–	8	–	8
Short-term money market instruments	–	2 174	–	2 174
Total financial assets at fair value through income	2 088	17 011	1 168	20 267

¹ Carrying value as at 31 December 2017 is less than R1 million.

Financial liabilities at fair value through income

Debt securities	–	2 056	–	2 056
Investment contracts	–	1 703	–	1 703
Total financial liabilities at fair value through income	–	3 759	–	3 759

The following table presents the changes in level 3 instruments:

	Equity securities R million	Debt securities R million	Derivatives R million	Total R million
31 December 2018				
Opening balance	1 143	25	–	1 168
Acquisitions	12	36	–	48
Gains recognised in profit or loss	235	–	–	235
Closing balance	1 390	61	–	1 451
31 December 2017				
Opening balance	1 181	29	–	1 210
Acquisitions	2	–	–	2
Business combination	–	(4)	–	(4)
Disposals	(106)	–	–	(106)
Settlements	–	–	58	58
Gains/(losses) recognised in profit or loss	66	–	(58)	8
Closing balance	1 143	25	–	1 168

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL ASSETS AND LIABILITIES (continued)

The unquoted equity instruments recognised as level 3 instruments consist mainly of the participation target shares issued by Sanlam Emerging Markets (Pty) Ltd (SEM). The Sanlam Group entered into agreements in June 2017 to dispose of its various interests in the Enterprise Group in Ghana. In terms of the co-investment arrangement with SEM, Santam, which had an economic interest of 14% in Enterprise Insurance Company Ltd (EIC), disposed of its interest in EIC for R105 million.

Of the R235 million gain (Dec 2017: R66 million gain) recognised on equity securities, a R234 million gain (Dec 2017: R65 million gain) relates to the SEM target shares, of which R104 million (Dec 2017: R57 million loss) relates to foreign exchange gains, and R130 million to an increase (Dec 2017: R122 million) in fair value in local currency terms. A key driver of the fair value movements of Santam's share of the SEM investment portfolio was:

- An increase in the value of Shriram General Insurance Company Ltd of R120 million, in local currency terms, was mainly attributed to an improved underwriting margin.

The fair value of the SEM target shares is determined using predominantly discounted cash flow (DCF) models, with the remainder valued at or within close proximity of the latest available net asset value of the underlying company. The most significant assumptions used in these DCF models are the discount rate, exchange rate and net insurance margin expectations. Should the discount rates increase or decrease by 10%, the cumulative value of the most significant target shares (SGI and P&O) valued by way of DCF models would decrease by R146 million (Dec 2017: R140 million) or increase by R229 million (Dec 2017: R211 million), respectively. If the relative foreign exchange rates increase or decrease by 10%, the cumulative fair values will increase or decrease by R106 million (Dec 2017: R86 million). Should the net insurance margin profile (projected over a period of 10 years) increase or decrease by 10%, the cumulative fair values will increase by R81 million (Dec 2017: R93 million) or decrease by R82 million (Dec 2017: R93 million), respectively. The remaining target shares are mostly impacted by changes in exchange rates.

At 31 December 2018, the group had exchange traded futures with an exposure value of R459 million (Dec 2017: R235 million). The group also had interest rate derivative assets as part of the international bond portfolio with a gross exposure asset and liability at 31 December 2018 of R38 million (Dec 2017: R33 million) and R38 million (Dec 2017: R33 million) respectively.

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 was 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) would have applied. Both tranches were, however, redeemed on 15 September 2017, resulting in the realisation of the initial discount of R45 million.

During April 2016, the company issued additional unsecured subordinated callable notes to the value of R1 billion in two equal tranches of fixed and floating rate notes. The effective rate for the floating rate notes represents the three-month JIBAR plus 245 basis points, while the rate for the fixed rate notes amounted to 11.77%. The floating rate notes have an optional redemption date of 12 April 2021 with a final maturity date of 12 April 2026, and the fixed rate notes have an optional redemption date of 12 April 2023 with a final maturity date of 12 April 2028.

During June 2017, the company issued additional unsecured subordinated callable floating rate notes to the value of R1 billion in anticipation of the redemption of the R1 billion subordinated debt issued in 2007. The effective interest rate for the floating rate notes represents the three-month JIBAR plus 210 basis points. The notes have an optional redemption date of 27 June 2022 with a final maturity date of 27 June 2027.

Per the conditions set by the Prudential Authority, Santam is required to maintain liquid assets equal to the value of the callable notes until maturity. The callable notes are therefore measured at fair value to minimise undue volatility in the statement of comprehensive income. The fair value of the fixed rate notes is calculated using the yield provided by BESA and adding accrued interest. The fair value of the floating rate notes is calculated using the price provided by BESA and adding accrued interest.

On 31 July 2017, a zero cost collar structure on equities to the value of R1.2 billion was entered into based on the SWIX 40, providing full downside protection from the implementation level of 10 972, with upside participation (excluding dividends) of 2.2%. The structure matured on 21 December 2017 (resulting in a realised loss of R58 million) and was not renewed.

On 10 September 2018 Santam entered into a foreign currency collar against the US dollar. As at 31 December, the instrument's valuation amounted to R24.8 million. The collar expired in two equal tranches on 4 January 2019 and 7 January 2019 and realised a total profit of R36.5 million.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

7. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	Audited at 31 December 2018 R million	Audited at 31 December 2017 R million
Gross insurance liabilities		
Long-term insurance contracts		
– claims reported and loss adjustment expenses	32	75
– claims incurred but not reported	41	62
General insurance contracts		
– claims reported and loss adjustment expenses	8 465	8 273
– claims incurred but not reported	2 868	2 310
– unearned premiums	9 256	7 128
Total gross insurance liabilities	20 662	17 848
Expected to be settled after 12 months	2 339	1 789
Expected to be settled within 12 months	18 323	16 059
Recoverable from reinsurers		
Long-term insurance contracts		
– claims reported and loss adjustment expenses	14	18
– claims incurred but not reported	10	15
General insurance contracts		
– claims reported and loss adjustment expenses	4 138	3 918
– claims incurred but not reported	667	496
– unearned premiums	1 658	1 377
Total reinsurers' share of insurance liabilities	6 487	5 824
Expected to be realised after 12 months	505	202
Expected to be realised within 12 months	5 982	5 622
Net insurance liabilities		
Long-term insurance contracts		
– claims reported and loss adjustment expenses	18	57
– claims incurred but not reported	31	47
General insurance contracts		
– claims reported and loss adjustment expenses	4 327	4 355
– claims incurred but not reported	2 201	1 814
– unearned premiums	7 598	5 751
Total net insurance liabilities	14 175	12 024

8. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale relates to the winding up of the Santam International group. The winding up also resulted in the release of the foreign currency translation reserve relating to the investment of R175 million in the prior year (refer to note 9).

	Audited at 31 December 2018 R million	Audited at 31 December 2017 R million
Assets that are classified as held for sale		
Financial assets at fair value through income		
Opening balance	–	8
Settlements	–	(8)
Closing balance	–	–

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

9. INVESTMENT INCOME AND NET (LOSSES)/GAINS ON FINANCIAL ASSETS AND LIABILITIES

	Audited Year ended 31 December 2018 R million	Audited Year ended 31 December 2017 R million
Investment income	2 819	1 335
Interest income derived from:	2 296	1 320
Financial assets measured at amortised cost	91	136
Financial assets mandatorily measured at fair value through income	2 205	1 184
Other investment income	523	15
Dividend income	147	131
Foreign exchange differences	376	(116)
Net (losses)/gains on financial assets and liabilities at fair value through income		
Net fair value (losses)/gains on financial assets mandatorily at fair value through income	(1 171)	370
Net realised gains on financial assets excluding derivative instruments	377	121
Net fair value (losses)/gains on financial assets excluding derivative instruments	(1 571)	283
Net realised/fair value gains/(losses) on derivative instruments	23	(34)
Net fair value gains/(losses) on financial liabilities designated as at fair value through income	35	57
Net fair value (losses)/gains on debt securities	(16)	19
Net realised losses on debt securities	-	(45)
Net realised gains on investment contracts	51	83
Investment income and net losses on financial assets held for sale ¹	-	175
Foreign exchange differences	-	175
	1 683	1 937

¹ The release of the foreign currency translation reserve of R175 million for the group related to Santam International.

10. INCOME TAX

Normal taxation

Current year	980	535
Prior year	(3)	32
Recovered from cell owners ¹	-	(80)
Other taxes	12	-
Foreign taxation – current year	71	88
Total income taxation for the year	1 060	575

Deferred taxation

Current year	(70)	(34)
Prior year	-	(52)
Total deferred taxation for the year	(70)	(86)

Total taxation as per statement of comprehensive income

Income tax recovered from cell owners and structured insurance products ¹	(106)	-
Total tax expense attributable to shareholders	884	489

Profit before taxation per statement of comprehensive income	3 519	2 296
Adjustment for income tax recovered from cell owners and structured insurance products ¹	(106)	-
Total profit before tax attributable to shareholders	3 413	2 296

¹ As part of the alternative risk transfer business, the Santam group incurs taxation on behalf of cell owners and policyholders of certain structured insurance products which are fully recovered from these parties. With the acquisition of SSL in the 2017 financial year, the tax on cell owners and structured insurance products is more significant. As a result, the tax on cell owners and structured insurance products in the current year has been separately disclosed in the financial statements. In the prior year, this tax was disclosed as part of tax expense.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX (continued)

	Audited Year ended 31 December 2018 R million	Audited Year ended 31 December 2017 R million
Reconciliation of taxation rate (%)		
Normal South African taxation rate	28.0	28.0
Adjusted for:		
Disallowable expenses	0.1	0.3
Foreign tax differential	0.8	0.4
Exempt income	(0.8)	(2.4)
Investment results	0.1	(1.1)
Income from associates and joint ventures	(1.8)	(1.5)
Exempt foreign currency translation	–	(1.0)
Previous years' overprovision	(0.1)	(0.8)
Non-current assets held for sale and discontinued operations	–	(0.4)
Other permanent differences	(0.8)	(0.4)
Other taxes	0.4	0.2
Net reduction	(2.1)	(6.7)
Effective rate attributable to shareholders (%)	25.9	21.3

11. CORPORATE TRANSACTIONS

2018

Acquisitions

SAN JV (RF) (Pty) Ltd

Effective 9 October 2018, SEM and Santam, through its investment in SAN JV (RF) (Pty) Ltd (SAN JV), acquired a further 53.3% interest in Saham Finances for US\$1 045 million. Santam's share of the purchase price, including transaction costs, was US\$64 million (R957 million), before applying hedge accounting. Santam's interest in SAN JV therefore diluted to 10% (previously 15%) due to limited participation in this transaction. As part of this transaction, a cash flow hedge was implemented to cover Santam's foreign currency exposure by designating US dollar-denominated cash balances to the transaction. The impact of this was that foreign currency gains of R46 million recognised on the designated cash balances since implementation date were not recognised in the statement of comprehensive income, but were accounted for as part of the investment in SAN JV. As a result of the dilution, R19 million of the foreign currency translation reserve relating to SAN JV was released to profit or loss. A loss on dilution of R88 million was also recognised.

Professional Provident Society Short-term Insurance Company Ltd (PST)

During March, June and September 2018, pro rata recapitalisations took place in terms of which Santam injected a further total of R15 million into the company.

Ctrl Investment Holdings (Pty) Ltd

On 30 November 2018, Santam subscribed for a 25% equity stake in Ctrl Investment Holdings (Pty) Ltd for an amount of R12.5 million.

Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd Group

During November 2018, the Santam group acquired a shareholding of 100% in Snyman en Van der Vyver Finansiële Dienste (Pty) Ltd for R90 million in cash. Due to the limited time available to perform a purchase price allocation, a provisional allocation to goodwill was recorded based on the IFRS historical cost values. Per IFRS 3 requirements, a detailed valuation and allocation will be performed within 12 months of the purchase.

	R million
Details of the assets and liabilities acquired (based on provisional purchase price allocation) are as follows:	
Property, equipment and intangible assets	1
Loans and receivables including insurance receivables	3
Cash and cash equivalents	4
Deferred income tax	1
Provisions for other liabilities and charges	(3)
Trade and other payables including insurance payables	(2)
Current income tax liabilities	(3)
Net asset value acquired	1
Goodwill	89
Purchase consideration paid	90

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

11. CORPORATE TRANSACTIONS (continued)

2018

Disposals

Professional Provident Society Short-term Insurance Company Ltd (PST)

During December 2018, the group sold its 49% shareholding in Professional Provident Society Short-term Insurance Company Ltd for R114 million. The net profit realised was R40 million and capital gains tax of R3 million was recognised.

Western Group Holdings Ltd

On 31 October 2018, Santam restructured its investment in the Western Group. Santam effectively sold its 40% shareholding in Western Group Holdings Ltd and received a cash component of R54 million as well as 40% shareholding of R215 million in Western National Insurance Ltd. An immaterial profit was recognised on the disposal. Santam Ltd recognised capital gains tax of R10 million.

2017

Acquisitions

Santam Structured Insurance (Pty) Ltd

During March 2017, the Santam group acquired a shareholding of 100% in RMB-SI Investments (Pty) Ltd (now Santam Structured Insurance (Pty) Ltd (SSI)) for R193 million in cash. Key SSI management obtained a 10% economic participation interest in SSI at acquisition date for R20 million. The 10% participatory interest is included as a liability under provisions.

	R million
Details of the assets and liabilities acquired are as follows:	
Property and equipment	15
Investment in associates and joint ventures	17
Financial assets at fair value through income (restated, please refer to note 14)	4 845
Reinsurance assets	391
Deferred acquisition costs	9
Loans and receivables including insurance receivables	519
Cash and cash equivalents	1 045
Deferred income tax	(86)
Cell owners' and policyholders' interest	(1 849)
Financial liabilities at fair value through income	(1 551)
Financial liabilities at amortised cost (restated, please refer to note 14)	(504)
Insurance liabilities	(2 242)
Deferred reinsurance acquisition revenue	(2)
Provisions for other liabilities and charges	(30)
Trade and other payables including insurance payables	(350)
Current income tax liabilities	(14)
Net asset value acquired	213
Long-term incentive provision	(20)
Purchase consideration paid	193

SAN JV (RF) (Pty) Ltd

Effective 10 May 2017, SEM and Santam, through its investment in SAN JV (RF) (Pty) Ltd (SAN JV), acquired a further 16.6% interest in Saham Finances via a subscription for new shares for US\$351 million. Santam's share of the purchase price, including transaction costs, was US\$11 million (R152 million). Santam's interest in SAN JV therefore diluted to 15% (previously 25%). As a result of the dilution, R90 million of the foreign currency translation reserve relating to SAN JV was released to profit or loss. An R18 million gain on dilution was also recognised.

Professional Provident Society Short-term Insurance Company Ltd (PST)

During March, June, September and December 2017, pro rata recapitalisations took place in terms of which Santam injected a further total of R23 million into the company.

Disposals

Paladin Underwriting Managers (Pty) Ltd

During January 2017, the group sold its 40% shareholding in Paladin Underwriting Managers (Pty) Ltd for R23 million. The net profit realised was R5 million and capital gains tax of R2 million was recognised.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

12. EARNINGS PER SHARE

	Audited Year ended 31 December 2018	Audited Year ended 31 December 2017
Basic earnings per share		
Profit attributable to the company's equity holders (R million)	2 427	1 667
Weighted average number of ordinary shares in issue (million)	110.41	110.30
Earnings per share (cents)	2 198	1 511
Diluted earnings per share		
Profit attributable to the company's equity holders (R million)	2 427	1 667
Weighted average number of ordinary shares in issue (million)	110.41	110.30
Adjusted for share options	0.82	1.13
Weighted average number of ordinary shares for diluted earnings per share (million)	111.23	111.43
Diluted basic earnings per share (cents)	2 182	1 496
Headline earnings per share		
Profit attributable to the company's equity holders (R million)	2 427	1 667
Adjusted for:		
Impairment of goodwill and other intangible assets	–	8
Impairment of associates and joint ventures	12	3
Reclassification of foreign currency translation reserve on dilution of associate	(19)	90
Loss/(gain) on dilution of associate	88	(18)
Profit on sale of associates	(40)	(5)
Tax charge on profit on sale of associates	13	2
Share of associates' profit on deemed disposal of associate	(164)	–
Foreign currency translation reserve reclassified to profit and loss	–	(175)
Headline earnings (R million)	2 317	1 572
Weighted average number of ordinary shares in issue (million)	110.41	110.30
Headline earnings per share (cents)	2 099	1 425
Diluted headline earnings per share		
Headline earnings (R million)	2 317	1 572
Weighted average number of ordinary shares for diluted headline earnings per share (million)	111.23	111.43
Diluted headline earnings per share (cents)	2 084	1 411
13. DIVIDEND PER SHARE		
Dividend per share (cents)	1 028	952

14. CHANGES IN PRESENTATION AND RESTATEMENTS

14.1 CURRENT/NON-CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION

Items on the statement of financial position have been reordered to reflect in the order of the least liquid to most liquid for assets and liabilities, as allowed under IAS 1 *Presentation of Financial Statements* paragraph 60 to 63 in order to enable comparison to other industry participants. Doing away with the current/non-current distinction resulted in the aggregation of some line items, but in total, no changes were made to the amounts previously presented, except for investments in unquoted SEM target shares now separately disclosed. The "within 12 months"/"after 12 months" split is disclosed in each note to the financial statements, where it is of relevance.

14.2 RESTATEMENT OF THE STATEMENT OF CASH FLOWS

As part of management's consideration of the impact of IFRS 9 on the classification and measurement of financial assets, the way in which the investment portfolios are managed and how actively they are traded was assessed. As a result of this assessment, it was concluded that it is more appropriate to classify the cash flows relating to the investment portfolios as part of operating activities rather than investing activities. The acquisition of and proceeds from sales relating to strategic investments, equity portfolios and portfolios backing subordinated debt will remain as part of investing activities as these portfolios are not considered part of the operations of the business. Comparative numbers have been restated.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

14. CHANGES IN PRESENTATION AND RESTATEMENTS (continued)

14.2 RESTATEMENT OF THE STATEMENT OF CASH FLOWS (continued)

The table below shows the impact of the change:

	Previously reported 31 December 2017 R million	Restatement 31 December 2017 R million	Restated 31 December 2017 R million
Net cash from operating activities			
– Acquisition of financial assets	–	(18 482)	(18 482)
– Proceeds from sale of financial assets	–	17 229	17 229
Net cash (used in)/from investing activities			
– Acquisition of financial assets	(20 322)	18 482	(1 840)
– Proceeds from sale of financial assets	20 054	(17 229)	2 825
Net impact	(268)	–	(268)

14.3 RESTATEMENT OF REPO LIABILITY

The SSI group entered into a repurchase agreement in August 2016. In prior years the underlying financial assets (bonds) were derecognised and only a liability or asset to the extent of any differential between the value of the bonds and the repurchase liability was recognised. On reconsideration of the transaction, it was determined that the risks and rewards relating to the bond assets had not sufficiently transferred. The 31 December 2017 comparatives have been restated to recognise the underlying financial assets (R531 million) as well as repurchase liability. As SSI only became part of the group on 1 March 2017, there was no impact on the 1 January 2017 opening balances presented. It had no impact on the statement of comprehensive income or earnings per share.

	Previously reported 31 December 2017 R million	Restatement 31 December 2017 R million	Restated 31 December 2017 R million
Financial assets at fair value through income	18 647	531	19 178
Financial liabilities at amortised cost			
Repo liability	–	(531)	(531)
Net impact	18 647	–	18 647

15. 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.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

16. ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS

This note provides information on cellholder/policyholder versus shareholder statement of financial position and statement of comprehensive income. Cellholder/policyholder activities relates mainly to alternative risk transfer insurance business written on the insurance licences of Centriq and SSL.

16.1 ANALYSIS OF POLICYHOLDER/SHAREHOLDER STATEMENT OF FINANCIAL POSITION

	Group total 2018 R million	Shareholder 2018 R million	Policyholder/ cellholder 2018 R million
Assets			
Intangible assets	885	885	–
Property and equipment	142	142	–
Investment in associates and joint ventures	2 927	2 927	–
Strategic investment – unquoted SEM target shares	1 323	1 323	–
Deferred income tax	155	152	3
Deposit with cell owner	191	–	191
Cell owners' and policyholders' interest	13	–	13
Financial assets at fair value through income	22 454	12 567	9 887
Reinsurance assets	6 487	6 032	455
Deferred acquisition costs	619	580	39
Loans and receivables including insurance receivables	6 274	4 407	1 867
Current income tax assets	10	10	–
Cash and cash equivalents	3 618	2 573	1 045
Total assets	45 098	31 598	13 500
Equity			
Capital and reserves attributable to the company's equity holders			
Share capital	103	103	–
Treasury shares	(467)	(467)	–
Other reserves	(90)	(90)	–
Distributable reserves	9 311	9 311	–
	8 857	8 857	–
Non-controlling interest	508	508	–
Total equity	9 365	9 365	–
Liabilities			
Deferred income tax	81	87	(6)
Cell owners' and policyholders' interest	3 343	–	3 343
Reinsurance liability relating to cell owners	191	–	191
Financial liabilities at fair value through income			
Debt securities	2 072	2 072	–
Investment contracts	1 528	–	1 528
Derivatives	4	4	–
Financial liabilities at amortised cost			
Repo liability	759	–	759
Collateral guarantee contracts	158	–	158
Insurance liabilities	20 662	14 041	6 621
Deferred reinsurance acquisition revenue	487	389	98
Provisions for other liabilities and charges	162	162	–
Trade and other payables including insurance payables	5 922	5 155	767
Current income tax liabilities	364	323	41
Total liabilities	35 733	22 233	13 500
Total shareholders' equity and liabilities	45 098	31 598	13 500

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

16. ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS (continued)

16.1 ANALYSIS OF POLICYHOLDER/SHAREHOLDER STATEMENT OF FINANCIAL POSITION (continued)

	Group 2017 R million	Shareholder 2017 R million	Policyholder/ cellholder 2017 R million
Assets			
Intangible assets	841	841	–
Property and equipment	135	135	–
Investment in associates and joint ventures	1 789	1 789	–
Strategic investment – unquoted SEM target shares	1 089	1 089	–
Deferred income tax	91	80	11
Deposit with cell owner	174	–	174
Cell owners' and policyholders' interest	10	–	10
Financial assets at fair value through income	19 178	10 518	8 660
Reinsurance assets	5 824	5 489	335
Deferred acquisition costs	537	509	28
Loans and receivables including insurance receivables	5 253	4 007	1 246
Current income tax assets	17	17	–
Cash and cash equivalents	4 321	3 374	947
Total assets	39 259	27 848	11 411
Equity			
Capital and reserves attributable to the company's equity holders			
Share capital	103	103	–
Treasury shares	(470)	(470)	–
Other reserves	(214)	(214)	–
Distributable reserves	7 999	7 999	–
	7 418	7 418	–
Non-controlling interest	506	506	–
Total equity	7 924	7 924	–
Liabilities			
Deferred income tax	87	93	(6)
Cell owners' and policyholders' interest	3 227	–	3 227
Reinsurance liability relating to cell owners	174	–	174
Financial liabilities at fair value through income			
Debt securities	2 056	2 056	–
Investment contracts	1 703	–	1 703
Financial liabilities at amortised cost			
Repo liability	531	–	531
Collateral guarantee contracts	130	–	130
Insurance liabilities	17 848	13 105	4 743
Deferred reinsurance acquisition revenue	326	300	26
Provisions for other liabilities and charges	106	106	–
Trade and other payables including insurance payables	4 953	4 079	874
Current income tax liabilities	194	185	9
Total liabilities	31 335	19 924	11 411
Total shareholders' equity and liabilities	39 259	27 848	11 411

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

16. ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS (continued)

16.2 ANALYSIS OF POLICYHOLDER/SHAREHOLDER STATEMENT OF COMPREHENSIVE INCOME


	Group 2018 R million	Shareholder 2018 R million	Policyholder/ cellholder 2018 R million
Gross written premium	33 109	28 149	4 960
Less: reinsurance written premium	9 041	5 614	3 427
Net written premium	24 068	22 535	1 533
Less: change in unearned premium			
Gross amount	2 019	208	1 811
Reinsurers' share	(763)	(195)	(568)
Net insurance premium revenue	22 812	22 522	290
Interest income on amortised cost instruments	91	91	–
Interest income on fair value through income instruments	2 205	970	1 235
Other investment income	523	432	91
Income from reinsurance contracts ceded	1 889	1 493	396
Net losses on financial assets and liabilities at fair value through income	(1 136)	(30)	(1 106)
Other income	246	246	–
Net income	26 630	25 724	906
Insurance claims and loss adjustment expenses	18 442	16 883	1 559
Insurance claims and loss adjustment expenses recovered from reinsurers	(4 615)	(3 348)	(1 267)
Net insurance benefits and claims	13 827	13 535	292
Expenses for the acquisition of insurance contracts	4 524	4 155	369
Expenses for marketing and administration	4 465	4 440	25
Expenses for investment-related activities	67	67	–
Amortisation and impairment of intangible assets	69	69	–
Impairment of loans	5	5	–
Investment return allocated to cell owners and structured insurance products	179	–	179
Expenses	23 136	22 271	865
Results of operating activities	3 494	3 453	41
Finance costs	(331)	(290)	(41)
Net income from associates and joint ventures	291	291	–
Profit on sale of associates	40	40	–
Loss on dilution of associate	(88)	(88)	–
Reclassification of foreign currency translation reserve on dilution of associate	19	19	–
Impairment of associate	(12)	(12)	–
Income tax recovered from cell owners and structured insurance products	106	–	106
Profit before tax	3 519	3 413	106
Income tax expense	(990)	(884)	(106)
Profit for the year	2 529	2 529	–

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

16. ANALYSIS OF POLICYHOLDER/SHAREHOLDER FINANCIAL POSITION AND RESULTS (continued)

16.2 ANALYSIS OF POLICYHOLDER/SHAREHOLDER STATEMENT OF COMPREHENSIVE INCOME (continued)

	Group 2017 R million	Shareholder 2017 R million	Policyholder/ cellholder 2017 R million
Gross written premium	29 720	26 404	3 316
Less: reinsurance written premium	8 027	5 363	2 664
Net written premium	21 693	21 041	652
Less: change in unearned premium			
Gross amount	648	170	478
Reinsurers' share	(285)	(161)	(124)
Net insurance premium revenue	21 330	21 032	298
Interest income on amortised cost instruments	136	136	–
Interest income on fair value through income instruments	1 184	840	344
Other investment income	15	(14)	29
Income from reinsurance contracts ceded	1 794	1 591	203
Net gains on financial assets and liabilities at fair value through income	427	237	190
Investment income and fair value losses on financial assets held for sale	175	175	–
Other income	127	127	–
Net income	25 188	24 124	1 064
Insurance claims and loss adjustment expenses	20 466	18 677	1 789
Insurance claims and loss adjustment expenses recovered from reinsurers	(6 400)	(4 882)	(1 518)
Net insurance benefits and claims	14 066	13 795	271
Expenses for the acquisition of insurance contracts	4 218	4 017	201
Expenses for marketing and administration	3 652	3 623	29
Expenses for investment-related activities	67	67	–
Amortisation and impairment of intangible assets	71	71	–
Investment return allocated to cell owners and structured insurance products	563	–	563
Expenses	22 637	21 573	1 064
Results of operating activities	2 551	2 551	–
Finance costs	(295)	(295)	–
Net income from associates and joint ventures	110	110	–
Profit on sale of associates	5	5	–
Gain on dilution of associate	18	18	–
Reclassification of foreign currency translation reserve on dilution of associate	(90)	(90)	–
Impairment of associate	(3)	(3)	–
Profit before tax	2 296	2 296	–
Income tax expense	(489)	(489)	–
Profit for the year	1 807	1 807	–



*Good and proper through
diversity: Diversity leads
to resilience and superior
performance over time.*



07

WE SPEAK OUR CLIENTS' LANGUAGE.

At Santam, we're proud that we speak Arabic as well as we speak Sotho. And we speak shipping, livestock and small business too. We know computer code, a little slang and even some emoji. Because understanding what our clients need is how we deliver ***Insurance good and proper***. And that's the same in anyone's language.



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ABOUT THIS REPORT

The report provides information targeted at Santam's providers of financial capital, although the interests of other stakeholders were also considered in determining what is material and appropriate to include.

Except for the acquisition of a further 3% interest in Saham Finances through SAN JV, the content remains comparable to the 2017 report in terms of the entities covered, the measurement methods applied, and the time frames used for financial and non-financial data. The only material event that may impact comparability is the acquisition mentioned above and details can be found in the chief financial officer's report.

CONTENT ASSURANCE

Santam's 2018 integrated report is the result of combined material input from business units reporting on their activities and achievements. PricewaterhouseCoopers Inc (PwC) provided assurance of the summarised consolidated annual financial

statements. PwC reviewed our annual ClimateWise report as part of the ClimateWise assurance process and Ernst & Young (EY) provided assurance on carbon emission data through Santam's participation in the Carbon Disclosure Project (CDP). Data relating to BBBEE was verified by AQRate.

Non-financial indicators were reviewed by an internal process that includes approval by the executive committee and the board.

REPORTING SUITE

- This integrated report, including summarised consolidated annual financial statements
- The full consolidated annual financial statements are available at www.santam.co.za
- Notice and proxy of the AGM
- The full remuneration report is available on www.santam.co.za
- Details regarding Santam's sustainability and ESG-related disclosures, indicators and downloads are available at www.santam.co.za, including the Santam BBBEE certificate

Santam creates value and stability for all our stakeholders by contributing to a robust, inclusive and responsible general insurance industry.

SEVEN-YEAR REVIEW

			7-year compound growth %/average	2018	2017	2016	2015	2014	2013	2012
PERFORMANCE PER ORDINARY SHARE										
<i>(cents per share)</i>										
Headline earnings		13.2		2 099	1 425	1 086	1 844	1 446	1 033	995
Dividends				1 028	952	881	816	742	675	640
Special dividends				–	–	800	–	–	–	–
Net asset value				8 479	6 722	6 237	7 338	6 115	5 360	4 840
INSURANCE ACTIVITIES										
Net claims paid and provided (%)	Avg	64.9		60.6	65.9	65.1	62.1	63.1	69.3	68.3
Cost of acquisition (%)	Avg	28.4		30.2	28.0	28.5	28.3	28.2	27.9	27.7
Net commission paid (%)	Avg	11.7		11.6	11.4	12.0	10.8	10.9	12.7	13.0
Management expenses(%)	Avg	16.7		18.6	16.7	16.5	17.5	17.3	15.2	14.7
Combined ratio (%)	Avg	93.3		90.8	94.0	93.6	90.4	91.3	97.2	96.0
Underwriting result (%)	Avg	6.7		9.2	6.0	6.4	9.6	8.7	2.8	4.0
Earned premium (%)				100.0	100.0	100.0	100.0	100.0	100.0	100.0
INVESTMENT ACTIVITIES										
Interest and dividends net of asset management fees				2 421	1 148	889	1 041	683	635	722
Net loss on financial assets and liabilities at fair value through income				(1 136)	261	42	235	286	449	480
RETURN AND PRODUCTIVITY										
Earnings expressed as % of average shareholders' funds (%)	Avg	24.0		31.8	23.6	15.9	32.5	24.7	20.0	19.3
Pre-tax return on total assets (%)	Avg	8.0		7.8	5.9	6.3	12.1	9.0	6.5	8.6
Effective tax rate (%)	Avg	26.8		25.9	21.3	28.2	26.9	28.4	20.4	36.7
Gross premium per employee (R'000)*				4 586	4 316	4 088	4 154	4 020	3 913	3 680
* Alternative Risk Transfer premiums excluded.										
SOLVENCY AND LIQUIDITY										
Dividend cover (times)	Avg	2.3		2.1	1.9	1.4	2.9	2.1	1.5	3.9
Economic capital coverage ratio (%)				159.0	158.0	155.0	177.0	–	–	–

	7-year compound growth %/average	2018	2017	2016	2015	2014	2013	2012
OTHER STATISTICS								
Number of permanent employees	6 043	5 990	5 749	5 313	5 163	4 779	4 696	
Staff composition [% of black employees]	71.4	69.9	67.6	62.9	60.8	59.9	59.8	
Number of shareholders	6 815	5 879	6 414	5 859	5 268	5 530	5 565	
Corporate social investment spend [% of NPAT]**	0.6	0.8	0.9	0.8	0.8	1.2	1.5	
** dti codes from 2009 to 2012; Financial Services Sector Charter 2013								
SANTAM SHARE PERFORMANCE AND RELATED INDICATORS								
Market price per share (cents)								
Closing	29 644	26 704	23 400	18 950	21 500	18 628	19 025	
Highest	32 500	28 250	24 997	24 500	22 000	19 074	20 112	
Lowest	29 207	23 115	17 350	16 750	19 700	18 291	13 950	
Market capitalisation (R million)	32 743	29 471	25 799	20 868	24 647	21 306	21 651	
Santam share price index***	3 853	3 461	3 020	2 427	2 767	2 384	2 437	
FTSE – JSE financial index***	1 194	1 387	1 193	1 183	1 184	953	821	
Closing price/earnings (times)	14.1	18.7	21.5	10.3	14.9	18.0	19.1	
Closing price/equity per share (times)	3.5	4.0	3.8	2.6	3.5	3.5	3.9	
Closing dividend yield (%)	3.5	3.3	3.8	4.3	3.5	3.6	5.5	
Number of shares issued (million)	110.5	110.4	110.3	110.1	114.6	114.4	113.8	
Number of shares traded (million)	16.1	13.6	19.6	25.8	8.6	13.4	12.1	
Number of shares traded as a % of total number of shares in issue	14.6	12.3	17.7	23.4	7.5	11.7	10.6	
Value of shares traded (R million)	4 937.3	3 385.9	4 325.4	5 597.4	1 651.2	2 538.8	2 018.6	
*** Base year 1992								

Restatement for 2009 relates to a income tax adjustment.

	7-year compound growth %/average	2018	2017	2016	2015	2014	2013	2012
STATEMENTS OF COMPREHENSIVE INCOME								
Gross premium income	9.3	33 109	29 720	25 909	24 319	22 710	20 631	19 386
Net premium income	7.2	24 068	21 693	19 772	18 884	17 635	16 900	15 822
Underwriting result	22.4	2 097	1 280	1 268	1 779	1 494	477	623
Investment return on insurance funds		597	648	619	499	425	374	415
Net insurance result		2 694	1 928	1 887	2 278	1 919	851	1 038
Investment income and associated companies		862	402	(2)	1 258	601	752	827
BEE Costs		(8)	(3)	(9)	(71)	(82)	(30)	(57)
Amortisation of intangible asset/impairment of goodwill/impairment of loans		(29)	(31)	(21)	(93)	(111)	(100)	(108)
Income before taxation		3 519	2 296	1 855	3 372	2 327	1 473	1 700
Taxation		990	489	524	908	660	300	624
Non-controlling interest		102	140	119	116	88	53	49
Net income attributable to equity holders	15.4	2 427	1 667	1 212	2 348	1 579	1 120	1 027

	7-year compound growth %/average	2018	Restated 2017	2016	2015	2014	2013	2012
STATEMENTS OF FINANCIAL POSITION								
Property and equipment		142	135	106	90	117	95	99
Intangible assets		885	841	885	827	1 086	1 072	990
Deferred tax asset		155	91	105	140	161	188	221
Investments in associates and joint ventures		2 927	1 789	1 536	252	355	318	261
Deposit with cell owners and cell owners' and policyholders' interest		204	184	163	187	–	–	–
Strategic investment and financial assets	14.5	23 777	20 267	14 799	14 740	13 634	12 757	10 538
Reinsurance assets and deferred acquisition costs		7 106	6 361	4 958	4 203	3 963	2 713	2 095
Loans and other receivables and cash		9 902	9 591	6 716	6 878	5 440	5 058	5 533
Non-current assets held for sale		–	–	8	541	428	415	–
Total assets		45 098	39 259	29 276	27 858	25 184	22 616	19 737
Shareholders' funds	8.9	9 365	7 924	7 345	8 547	7 440	6 532	5 617
Financial liabilities and cell owners' and policyholders' interest		7 864	7 647	3 422	2 249	2 329	2 252	2 030
Insurance liabilities and deferred acquisition revenue		21 149	18 174	13 869	12 944	12 274	10 862	9 805
Trade and other payables and tax		6 720	5 514	4 640	4 118	3 141	2 970	2 285
Total equity and liabilities		45 098	38 259	29 276	27 858	25 184	22 616	19 737

	7-year compound growth %/average	2018	Restated 2017	2016	2015	2014	2013	2012
STATEMENTS OF CASH FLOW								
Cash generated from operating activities after finance costs and investment activities	(2.6)	1 921	1 784	2 010	3 546	2 350	1 498	2 256
Income tax paid		(785)	(543)	(681)	(1 002)	(420)	(221)	(521)
Net cash from operating activities		1 136	1 241	1 329	2 544	1 930	1 277	1 735
Cash generated/(utilised) in investment activities		260	930	245	(696)	(781)	(945)	935
Net (acquisition)/disposal of associated companies		(923)	(152)	(1467)	(2)	–	(25)	(6)
Acquisition of business/subsidiaries		(86)	852	70	–	(28)	(105)	–
Cash (disposed through sale)/acquired through acquisition of subsidiary		–	–	208	(183)	3	15	–
BBBEE staff trust acquired		–	–	–	132	–	–	–
Cash utilised in additions to property and equipment and intangible assets		(89)	(95)	(108)	(124)	(167)	(106)	(93)
(Acquisition)/disposal of book of business		–	–	–	–	–	(9)	(81)
Proceeds from sale of associated companies		168	23	–	625	–	–	–
Capitalisation of associated companies		(15)	(23)	(10)	(28)	(16)	–	–
Cash proceeds from unwinding of non-current assets held for sale		–	–	509	–	–	–	–
Net cash (used in)/from investing activities		(685)	1 535	(553)	(276)	(989)	(1175)	755
Purchase of treasury shares		(91)	(76)	(98)	–	(37)	–	–
Repurchase of shares		–	–	–	(801)	–	–	–
Proceeds from issuance of target shares		–	–	–	–	–	277	–
Increase in debt securities		–	–	1 000	–	–	–	–
(Decrease)/increase in investment contract liabilities		–	(32)	31	(35)	(21)	29	(17)
(Decrease)/increase in collateral guarantee contracts		–	(1)	12	11	6	7	(39)
Dividends paid		(1 186)	(1 106)	(1 922)	(951)	(853)	(782)	(1 674)
(Decrease)/increase in cell owners' interest		–	(51)	(114)	16	110	111	90
Net cash used in financing activities		(1 277)	(1 266)	(1 091)	(1 760)	(795)	(358)	(1 640)
Net (decrease)/increase in cash and cash equivalents		(826)	1 510	(315)	508	146	(256)	850
Cash and cash equivalents at beginning of year		4 321	2 887	3 349	2 561	2 343	2 471	1 598
Exchange gains/(losses) on cash and cash equivalents		123	(76)	(147)	280	72	128	23
Cash and cash equivalents at end of year		3 618	4 321	2 887	3 349	2 561	2 343	2 471

GLOSSARY

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 premiums and referred to as the acquisition cost ratio.
AI	Artificial intelligence
Alternative risk transfer (ART)	The use of techniques other than traditional insurance and reinsurance to provide risk-bearing entities with coverage or protection.
ASISA	Association for Savings and Investment South Africa
BBBEE	Broad-Based Black Economic Empowerment
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	Fire, earthquake, windstorm, explosion and other similar events that result in substantial losses.
Cell captive insurer	An insurer that is structured with separate independent cells. The assets and liabilities of the cells are ring-fenced. Profits and losses from business introduced by the cell owner to the insurer are attributable to the cell owner.
CFE	Consumer financial education
Change management	A systematic approach to dealing with rapid change.
Churn rate	The proportion of policyholders who leave an insurer during a given period.
Claim	A demand to the insurer for indemnification for a loss incurred from an insured peril.
Claims incurred	Claims cost for an accounting period are made up of: <ul style="list-style-type: none"> – claims paid for the period, including claims handling expenses; and – outstanding claims at the end of the current accounting period, including IBNR less outstanding claims at the end of the preceding accounting period, including IBNR.
Claims incurred but not reported (IBNR)	Claims resulting from events that have taken place, but of which the insurer has not received notices or reports of loss. An estimate is made of the amount of these claims based on previous experience.
Claims ratios	Ratios expressing the relationship between claims and premiums. The net claims ratio expresses claims net of recoveries from reinsurers as a percentage of premiums net of premiums ceded to reinsurance. The gross claims ratio reflects the position before reinsurance is considered. Also referred to as loss ratios.
CoGTA	Department of Cooperative Governance and Traditional Affairs
CRISA	Code for Responsible Investing in South Africa
CSI	Corporate Social Investment
Deferred acquisition costs	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.
ECB	European Central Bank
Economic capital coverage ratio	The economic capital coverage ratio is equal to the available capital resources, comprising shareholder's funds and subordinated debt, divided by the solvency capital requirement as determined by Santam's internal model.
ERM	Enterprise Risk Management
ESD	Enterprise Supplier Development
ESG	Environmental, social and governance factors.
FTSE	Financial Times Stock Exchange (as in FTSE Russell the ESG ratings agency)
FIA	Financial Intermediaries Association of Southern Africa
FSB	Financial Services Board
Financial Sector Charter (FSC)	The FSC is a transformation policy based on the terms of the Broad-Based Black Economic Empowerment Act, 53 of 2003, to promote social and economic integration and access to the financial services sector.
Financial Sector Conduct Authority (FSCA)	The regulator responsible for market conduct and consumer protection under Twin Peaks.
GDPR	General Data Protection Regulation
General/short-term insurance	Defined in the Short-term Insurance Act as providing benefits under short-term policies, which means agricultural insurance, 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.
GIS	Geographic Information System

Gross written premium (GWP)	Premium that 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 adjustments to premiums from prior years. Also defined as premium written and received but before deduction of reinsurance ceded.
Intermediary	A person who negotiates contracts of insurance or reinsurance with the insurer or reinsurer on behalf of the insured or reinsured.
IoT	Internet of Things
JSE	Johannesburg Stock Exchange
Net earned premium (NEP)	A pro-rated amount of paid-in-advance premiums that now belongs to the insurer.
Net insurance result (NIR)	The sum of insurance loadings, underwriting results and reinsurance results, net of commissions paid to distribution partners.
Net written premium (NWP)	Gross premium written or received on all business less return premium and premium ceded to reinsurers.
NGO	Non-governmental organisation
NSRI	National Sea Rescue Institute
OSTI	Ombudsman for Short-Term Insurance
P2P	Peer to peer
P4RR	Partnerships for risk and resilience
Prudential Authority (PA)	The regulator charged with maintaining the stability of the financial system under Twin Peaks.
PSI	Principles for Sustainable Insurance
RDR	Retail Distribution Review
REAP	Rural Education Access programme
Reinsurance	A form of insurance cover for insurance companies where an insurance company transfers a portion of its risks to the reinsurer.
Reinsurance premium	The premium paid by the ceding company to the reinsurer in consideration for the liability assumed by the reinsurer.
RI Fund	Resilient Investment Fund
SAcsi	South African customer satisfaction index
SAIA	South African Insurance Association
SALGA	South African Local Government Association
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.
SAMBRA	South African Motor Body Repairers Association
SANTACO	South African National Taxi Council
SARB	South African Reserve Bank
SDGs	United Nations Sustainable Development Goals
SEM	Sanlam Emerging Markets
SHA	Stalker Hutchinson Admiral
SMME	Small, medium and micro enterprises
Solvency Assessment and Management (SAM)	The project launched by the FSB to develop a new solvency regime for the South African long-term and general insurance industries to be in line with international standards and specifically the Solvency II initiative in Europe.
SSI	Santam Structured Insurance
Sustainable insurance	A strategic approach by which all activities in the insurance value chain are performed in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with ESG issues.
TIC	Travel Insurance Consultants
Treating Customers Fairly (TCF)	An outcomes-based regulatory and supervisory approach designed to ensure that specific, clearly articulated fairness outcomes for financial services consumers are delivered by regulated financial firms.
Underwriting	The process of examining, accepting, or rejecting insurance risks, and classifying or segmenting those selected, to charge the proper premium for each.
UMAs	Underwriting management agencies
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.
UNEP FI	United Nations Environment Programme Finance Initiative
VUM	Vulindlela Underwriting Managers
WEF	World Economic Forum

ADMINISTRATION

NON-EXECUTIVE DIRECTORS

VP Khanyile, B Campbell, BTPKM Gamedze, IM Kirk, MLD Marole,
NV Mtetwa, JJ Ngulube, MJ Reyneke, PE Speckmann, HC Werth

EXECUTIVE DIRECTORS

L Lambrechts (chief executive officer), HD Nel (chief financial officer)

SPONSOR

Investec Bank Ltd

TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd,
70 Marshall Street, Rosebank Towers, 15 Biermann Avenue,
Rosebank 2196, South Africa
Tel: 011 370 5000
Fax: 011 688 7721
www.computershare.com

COMPANY SECRETARY

M Allie

SANTAM HEAD OFFICE 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
A2X share code: SNT

REPORT FRAUD

Fraudline (South Africa): 0860 600 767
Fraudline (Namibia): 0800 002 020
Fraudline SMS: 31640
BBM PIN: 25CAFCE7
WhatsApp: 076 921 3347
Email: forensic.services@santam.co.za

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The Santam logo, featuring a stylized umbrella icon above the word "Santam" in a bold, sans-serif font.

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A large, diagonal graphic element on the left side of the page, consisting of a series of nested, overlapping chevrons in yellow and grey.

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