INTEGRATED REPORT 2016

OUR STORY IN 2016

Our promise to deliver ***Insurance good and proper*** was tested by the worsening claims environment this year, compounded by financial market volatility, low domestic growth, limited consumer disposable income, growing competition, soft premium rates, higher auto repair and related costs, and increasing claims associated with systemic risk.

What emerged, was the confirmation that what matters most to you, our stakeholders, matters most to us. This was endorsed by business conversations about the future, wide engagement through partnerships and feedback from our clients.

We share some of these real experiences with you in this report. Seven stories highlight what mattered most to you:

1. Subsistence farmers struggle to become financially astute commercial farmers, who can manage their risks and access markets and funding. We have found ways to help.
2. A 10-year old has her first experience of theft, the insurance claims process and the relief of being able to replace her phone.
3. Collaboration is taking city infrastructure development in Africa to the next level – where insurance partners and city officials create proactive solutions together.
4. Fires are devastating for shack owners: smoke alarms offer a solution for vulnerable communities that form part of Santam's Risk and Resilience programme.
5. When a client is in a dangerous situation, we are sometimes in a position to offer more than just telephone support.
6. Many low-income households are battling with debt, but find help and learn to manage with the assistance of agencies that are supported by the Santam Resilience Investment (SRI) Fund.
7. We tackle cyber and safety issues creatively through a new campaign and a blockchain hackathon.

These examples illustrate how we operate in an ever-changing world and how client needs evolve over time. For Santam, this means that we have to provide protection and the opportunity for people to access the cover that they need for the things that matter to them, wherever they are. It is also what ***Insurance good and proper*** means: we make it our business to understand what clients value, and know that different things are important to different people.

Please share your experience of reading this report via one of the following channels:

FOLLOW US ON:

A FEW TIPS FOR READERS OF THIS REPORT

- There is a glossary of insurance and financial terms on page 132.
- The assurance process and elements are explained on page 5.
- The disclaimer related to forward-looking statements is on page 5.
- Santam's full set of reporting elements can be found on page 5.
- Santam's performance over the long term (seven years), according to key performance indicators, is set out on page 130.

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

CONTENTS

INSURANCE GOOD AND PROPER IS ABOUT PEOPLE.

Clients trust us to protect what is important to them and to put them at the centre of what we do. The qualities we value most within our business are humanity and integrity. We strive to see beyond the facts in front of us and care about the human behind them. Our employees are our most valuable human capital assets. It's with their skills, resourcefulness and hard work that we can live up to our promise of insurance good and proper. We make it our business to help drive the economy, growth and development in Africa and internationally, as well as create jobs and develop infrastructure. This is insurance that invests in people and the environments they work and live in. It is one of the reasons why we are South Africa's leading general insurer and have also been certified a Top Employer in South Africa in 2017.

ABOUT THIS REPORT

TARGET AUDIENCE AND CONTENT

Santam Ltd (Santam or the group) is a South African company listed on the JSE since 1964 under the insurance (non-life) sector. The company was founded in 1918 and its headquarters are in Cape Town, South Africa. This integrated report reviews the financial year for the 12 months ended 31 December 2016 and covers general insurance and investment operations in South Africa and Namibia, as well as investments in emerging market insurance companies through Sanlam Emerging Markets in the rest of Africa, India and Southeast Asia.

The report provides information targeted at Santam's providers of financial capital. The interest of other stakeholders was also considered in determining what is material and appropriate to include. The development of content was further informed by the scenario process and outcomes described from page 14. The process provided a robust view of what matters most – those elements that are material for the creation of value. Accordingly, the structure of this report was adapted, with the further inclusion of real-life stories that highlight how the six capitals of value creation (as described by the International Integrated Reporting Council's <IR> Framework), the group's strategy and risk management efforts created value in specific circumstances. Refer to page 11 for information about the six capitals. The content remains comparable to the 2015 report in terms of the entities covered, the measurement methods applied and time frames used for financial and non-financial data.

The following events can impact comparability and should be kept in mind when reading the report:

The acquisition of a 30% interest by SAN JV (Pty) Ltd (SAN JV) in Saham Finances SA (Saham Finances) was completed during the first quarter of 2016. Saham Finances is the insurance arm of the Saham Group. Santam and Sanlam Emerging Markets (SEM) hold 25% and 75% of the shareholding in SAN JV, respectively. Santam's effective interest in Saham Finances is 7.5%.

A further economic interest of 8% in Shriram General Insurance Co Ltd (SGI) was acquired during the second half of 2016.

In this report, all references to Santam refer to the group. The Santam branded business units (Santam Commercial and Personal, Santam Specialist, MiWay and Santam re) and subsidiaries are mentioned by name when discussed.

This report includes summary consolidated financial statements. Cross-references to notes in this report refer to the full set of the annual financial statements, available on www.santam.co.za.

The Santam broad-based black economic empowerment (BBBEE) certificate is available on the website.

APPROVAL OF THIS REPORT

The 2016 integrated report was reviewed by the audit and the social, ethics and sustainability committees. The reviewed report was recommended to the board and final approval was granted on 1 March 2017. On this basis, the board is satisfied that the report 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.

NAVIGATION

The following icons are applied throughout the report to improve usability and show the integration between the relevant elements of the report.

THIS ICON IS USED TO REFER TO THE SANTAM WEBSITE: WWW.SANTAM.CO.ZA.

THIS ICON IS USED FOR CROSS-REFERENCES IN THE REPORT.

SCOPE AND BOUNDARY

REPORTING FRAMEWORKS, GUIDELINES AND STANDARDS

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

- King III Report on Governance for South Africa, 2009 (King III)
- International Financial Reporting Standards (IFRS)
- The Companies Act, 71 of 2008, as amended
- JSE Listings Requirements
- International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework

CONTENT ASSURANCE

Santam's 2016 integrated report is the result of combined material input from all the different business units reporting on their activities and achievements for the year. PricewaterhouseCoopers Inc provided assurance of the summary consolidated financial statements included in this report. Data relating to BBBEE was verified by AQRate.

Non-financial indicators were reviewed by an internal process that includes approval by the executive committee.

FORWARD-LOOKING STATEMENTS

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

Forward-looking statements involve inherent risks and uncertainties and, if one or more of these risks materialise, or should the underlying assumptions prove incorrect, actual results may differ from those that were anticipated. Forward-looking statements apply only as of the date on which they are made, and Santam does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

REPORTING ELEMENTS

The elements of Santam's full reporting suite can be accessed through the following channels:

Reporting element	Printed documents	Santam website	Target audience
2016 integrated report with summary consolidated financial statements	✓	✓	Providers of financial capital
Full annual financial statements	✓	✓	Providers of financial capital
Notice and proxy of the annual general meeting	✓	✓	Shareholders
Sustainability-related information and downloads	✗	✓	All stakeholders

KNOWING WHAT MATTERS MOST TO OUR CLIENTS COMES WITH EXPERIENCE.

We have been offering personal insurance for almost 100 years. Over this time, we made it our business to understand what is most important to our clients and the risks they face. That is how, whatever our clients value most, we give them the peace of mind that they are covered by South Africa's largest general insurer. An insurer that is there for them 24/7 and able to put them back in the same position they were before any loss occurred, while also paying out more claims than any other insurer.

THE ROLE OF INSURANCE IN SOCIETY

- Massive fire burns stored oil, buildings and eight cars
- National syndicate linked to more than 100 cars hijacked in Eastern Cape
- Armed robbery at boating dealership in Gauteng
- Burglars clean out three houses in one street
- Heavy flooding in Lagos destroys roads and bridges

These headlines can mean financial ruin for businesses, families or individuals. If any one of them had to absorb the cost and trauma on their own, even a small incident could set them back for years. Most of these real examples also have a systemic impact beyond the primary incident, placing a drain on national and local governments, small businesses in the area or vulnerable communities.

An event does not have to be big to cause harm – small, recurring natural disasters that continually damage critical public infrastructure, housing and the means of production are just as detrimental.

Risk management is society's way of handling man-made and natural accidents and disasters, so that people and their activities can better deal with events that are an inevitable part of life. Much can be done by individuals, business and governments to manage risk, but a portion always remains – and it is this exposure that the insurance sector takes on: the risks that are transferred or "insured" against.

The main role of insurance is to pool risk and ensure that consumers or businesses are left in the same financial position that they were in before the incident that led to them lodging a claim with their insurer. Unfortunately, the high rate of underinsurance or risk protection gaps means that many households and entrepreneurs have to take on most of or all the financial risk incurred when it comes to unexpected losses.

Insurance penetration in emerging markets remains low. According to a new Swiss Re sigma study, insurance penetration in 21 frontier markets in sub-Saharan Africa, Latin America, the Commonwealth of Independent States and Asia is at a rate of less than 1.5%. This is echoed in the 2016 ClimateWise report, Investing for Resilience, which highlights the emergence of a protection gap as societal exposure to climate risk increases while insurance penetration declines.

Furthermore, as the disposable income of consumers continues to shrink on the back of rising inflation and higher interest rates, insurance is often an early option to trim expenses. Unexpected financial events or problems are usually not budgeted for, forcing reliance on credit to survive or meet monthly financial commitments. Being insured means not having to incur unnecessary debt. This frees up income that can go towards savings and investments, which in turn contributes to sustainable economic growth and a healthier society.

A CRITICAL ELEMENT OF THE FINANCIAL SERVICES SYSTEM

An economy requires a functioning and stable financial system to work effectively. The European Central Bank (ECB) defines financial stability as a condition where the financial 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, and stability – previously associated with the banking sector – is now dependent on a wider network of players, including insurance companies. Therefore, the financial services system is highly regulated.

Within this system, the insurance sector acts as a conduit for households and businesses to transfer risks to entities that are better suited to handle them. Risk managers and carriers are in the best position to prevent and share risk, thereby enabling society to function, innovate and initiate projects that would otherwise be less feasible, and contributing to economic growth and sustainability.

THE INSURANCE BUSINESS MODEL

General insurance companies have two main sources of revenue: premiums and investment income on insurance funds from insurance activities, and investment returns on shareholder investments. Insurance income is generated by upfront premiums. Insurers therefore have strong operating cash flow without requiring alternative funding. Insurance activities typically include the following elements:

- UNDERWRITING AND PRICING OF RISKS BASED ON UNDERSTANDING AND ASSESSMENT
- 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 that they require and the trust they have in the insurer or brand. Complex commercial or specialist insurance options further depend on advisory input from an intermediary.

The policy is priced by using several modelling techniques to predict client behaviour. For example, analytics 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, which takes the form of excess payment for the client in the case of a claim.

When the client suffers an insured loss, they lodge a claim and the insurer, which has agreed to shoulder the majority of the risk, pays out the claim to reimburse the client.

Initiating a claim is often called the "moment of truth" in an insurer's relationship with a client. A positive claims experience ensures client loyalty and persistency, whereas a negative experience can cause far-reaching reputational damage for the insurer, including penalties.

Insurance fraud occurs in a variety of forms: from slightly exaggerated claims to deliberately causing accidents or damage. Submitting a false claim is a crime and results in higher premiums as it impacts the analytic ratings, which ultimately affect affordability for all clients.

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 the policies that they underwrite.

Therefore, underwriting is the key determinant of an insurance company's profitability. Underwriting is the process of evaluating and pricing the risk that each prospective client poses. A good underwriting process will allow the insurance company to optimise the balance between a policy premium and potential claims against the policy.

Reinsurance – as a form of insurance cover for insurance companies – is an insurance company's safety net: it reduces the volatility of their results due to large claims and helps balance available capital.

For the business model to function, an insurer needs a sophisticated administration system, a reliable network of suppliers, and access to specialised skills, such as actuarial and underwriting.

SANTAM'S CONTRIBUTION TO INSURANCE

Santam creates value by contributing to a robust, inclusive and responsible general insurance industry that offers stakeholders value and stability – in all the markets where it operates. This supports sustainable social, environmental and economic development.

Santam considers all six capitals to be able to effectively manage the size, quality and diversity of the risk pool in which the group operates. Long-term sustainability relies on the group's ability to manage systemic risk through partnerships, to diversify its geographic footprint, product and service offering, and to improve operating efficiency. The group's diversified portfolio of business with good growth prospects is backed by a healthy financial position and a supportive majority shareholder. Santam is also committed to consumer financial education and increasing access to insurance for emerging and uninsured communities and individuals.

Santam's commitment to its clients is captured in the brand promise: ***Insurance good and proper***. The group's strategy is defined by focus areas that are continuously refined to entrench the group's competitiveness and resilience, and to deliver ongoing sustainable and positive performance.

SIX CAPITAL INPUTS, OUTPUTS AND OUTCOMES

Insurance companies have the potential to positively impact all six capitals – the stocks of value that are affected or transformed by business activities and outputs. This is possible given insurers' ability to indirectly influence socio-economic activities through underwriting practices, claims management and risk products. Increasing insurance penetration and reducing the risk protection gap benefits society in any market where an insurer operates.

FINANCIAL

Financial capital is generated through gross written premiums, an increased underwriting margin and investment returns, and conserved through efficiency initiatives. It funds business activities – including acquisitions and investment in technology, which generate more financial capital over the long term – and is distributed in the case of claims, as dividends or group expenses, such as the payment of salaries. It is also applied to improved socio economic conditions, thereby making it a sustainably available capital.

Read the real-life story on page 31 to see how this capital can be transformed and regenerated.

MANUFACTURED

Manufactured capital relates to infrastructure used by insurance companies and the physical assets of clients that are insured. To operate, insurers use buildings and systems, with a growing footprint as they expand into new territories. Insurance companies also provide insurance cover for manufactured capital and invest funds in infrastructure development projects. Insurers are therefore highly invested in the landscape in which they operate, as it constitutes a large portion of the risk pool. Insurance companies' influence on spatial, green design and the development of capabilities such as geocoding, can assist in protecting and maintaining this capital.

Read more about how the sustainability of manufactured capital is ensured through initiatives such as Dar es Salaam on page 33 or the Partnerships for Risk and Resilience on page 50.

HUMAN

Human capital takes the form of employees who work for insurance companies, intermediaries and supply chain partners. This capital depends on the availability of appropriate skills, and efforts by the industry to invest in, expand and transfer skills. Multinational groups are in a strong position to transfer skills through board memberships, secondments and group-wide training initiatives. Santam's commitment to human capital growth is evident from its focus on improving employee diversity, developing supply chain preferential partners and collaborating with industry associations, such as the Financial Intermediaries Association of Southern Africa (FIA) and the South African Insurance Association (SAIA) to develop a black broker base for the industry.

Read more about human capital development in "The right people" on page 53, as well as in "Transformation highlights" on page 100.

INTELLECTUAL

Intellectual capital takes the form of industry-specific expertise and know-how and is changing with the expansion of the direct business model and other forms of technology-driven change. Regulatory requirements direct the use of this capital in terms of 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.

Read more about the safety campaign and Santam 24-hour Blockchain Hackathon initiative on page 37.

SOCIAL AND RELATIONSHIP

Insurance companies rely on relationships of trust to deliver on the promises made through their branded marketing activities. Instances of fraud or dissatisfaction destroy this capital to the detriment of the entire industry, while transformation to meet the needs of every market context expands this capital. This includes introducing more people to the benefits of insurance through financial literacy and other social investment initiatives. An insurance company's value network of intermediaries and suppliers is an essential element of the business model.

Read more in the real-life story on page 33 and the section on ***Insurance good and proper*** on page 47.

NATURAL

Although insurance companies use relatively low levels of natural capital in their direct business activities, they impact the use, transformation and destruction of this capital through their investment activities and the risks that they insure. Climate risk, ecological degradation and natural disasters can have a significant impact on the financial capital of insurance companies. They rely on systemic risk management for mitigation.

Read more about proactive ways in which to manage natural disasters in the real-life story about Dar es Salaam on page 33.

WE KNOW WHAT IS IMPORTANT FOR BUSINESS.

Running a business, large or small, requires hard work and the right partnerships. Our commercial expertise enables us to truly understand the risks a business faces and helps us ensure the correct insurance cover. That is one of the reasons 86 of the top 100 JSE-listed companies trust us to protect their businesses.

MATERIAL MATTERS AND KEY FUTURE DRIVERS

Santam set ambitious targets for the group in Vision 2020: being the leading general insurer in selected emerging markets. To achieve this, and in the process of approving the group strategy, the board acknowledged that the business is exposed to a dynamic and shifting environment, locally and internationally, with much disruption being forecast for the insurance sector over the next decade.

While the board has to consider financial priorities, such as Santam's ongoing solvency position, it also deliberates on early warning indicators that may affect the future viability of the business. This includes evaluating the implications arising from interaction between the various financial and non-financial factors, as Santam has to be able to respond with agility to emerging challenges and opportunities.

As part of the annual strategy review for 2016, Santam's executive team initiated a cross-group Insurance 2025 future-sketch scenario process to inquire into the fundamental shifts at play in the world and the group's target market. The overarching framing question of the exercise was: Insurance 2025: What is driving our future? The approach ensured that the business formed a systemic, business-portfolio-based and longer-term view of resource allocation.

> The Insurance 2025 future-sketch scenarios enabled Santam to identify those matters that are most material for stakeholders – and therefore material for the group to continue creating value in the longer term.

MEGATRENDS SHAPING FUTURE WORLDS

The following megatrends – those transformative, global forces that define the future world with a far-reaching impact on businesses, societies, economies, cultures and personal lives – were used as contextualising input into the scenario conversations.

- VOLATILE ECONOMIC ENVIRONMENT
- FEAR AND UNCERTAINTY IMPACTING DECISION-MAKING
- THE FOOD-ENERGY-WATER NEXUS
- COLLABORATION, SHARING AND PLATFORMS BECOMING THE NORM
- URBAN MOVEMENT: (UN)PLANNED CHANGING FACES OF CITIES
- GOVERNANCE: A CRISIS OF TRUST
- THE NEW AFRICAN/ASIAN CONSUMER

VOLATILE ECONOMIC ENVIRONMENT

LOCAL CONTEXT

South Africa is facing a depressed economic outlook with evidence of declining levels of business confidence, an uncertain political environment, growing incidence of violent activism and low GDP growth. Further social challenges include pay disparities, strikes and continued inequality.

GLOBAL CONTEXT

The projection for global growth remains modest with continued episodes of global asset market volatility, some loss of growth momentum in the advanced economies, and continuing headwinds for emerging market economies and lower-income countries.

Global non-life sector growth is expected to weaken due to moderate economic activity and soft pricing, mainly in developed markets. The outlook for emerging markets is mixed. Emerging Asia is forecast to grow robustly, mainly driven by China because of government support for insurance. Further backing will come from rate hikes in motor third-party liability (MTPL) insurance in India, and infrastructure investments in other Asian markets. However, detariffication of motor in China and Malaysia could offset some of the positive momentum in the region. Non-life premiums in Africa, the Middle East and Central Asia is expected to continue to grow, but at a lower rate.

FEAR AND UNCERTAINTY IMPACTING DECISION-MAKING

Volatility has become an inherent feature of the international financial system. Massive inflows of private capital into emerging markets are frequently followed by sudden reversals. In many emerging countries, government revenue from earnings on exports has also fallen – especially for economies reliant on commodities – while deposit growth in banking systems has waned.

Credit rating agencies are playing a critical role in channelling reliable, objective and transparent information, which forms the basis of investors' decisions regarding where to invest and the pricing of their investments.

THE FOOD-ENERGY-WATER NEXUS

With 2016 confirmed as the hottest year on record globally, major parts of the world are experiencing droughts, water scarcity or floods and rising sea levels, which are disrupting ecosystems and leading to more extreme weather events. The drought fuelled by El Niño (likely worsened by climate change) affected prices of goods and overall food security in the short and medium term.

COLLABORATION, SHARING AND PLATFORMS BECOMING THE NORM

The fourth industrial revolution is disrupting almost every industry in every country, transforming entire systems of production, management and governance. This is creating a peer economy of sharing, collaborative consumption and commercial peer-to-peer mutualisation systems. These platforms allow consumers to engage in monetised exchanges through peer-to-peer-based services or temporary access to goods.

URBAN MOVEMENT: (UN)PLANNED CHANGING FACES OF CITIES

The world, including sub-Saharan Africa, is undergoing the largest wave of urban growth in history. While today's cities are designed around the automobile, there is a shift in the demand for public transportation options, parking spaces and pedestrian traffic. Cities will increasingly use water and climate change as drivers for development to create the best conditions for future generations. Smart cities will use digital technologies to enhance performance and well-being, to reduce costs and resource consumption, and to engage more effectively and actively with citizens.

GOVERNANCE: A CRISIS OF TRUST

One of the emerging global risks is a crisis of trust in institutions. Citizens increasingly distrust public institutions, particularly governments, large corporations, banks and multinationals – and the traditional media. This is partly the result of rising inequality, a sense of disenfranchisement and rising job insecurity, driving a growing alienation between the elite and middle class. On the other hand, institutions face an increasing level of scrutiny in the form of increasing regulation.

This is resulting in an increasing need for businesses to act more responsibly, ethically, transparently and be more stakeholder orientated.

THE NEW AFRICAN/ASIAN CONSUMER

60% of the global population lives in Asia and 16% in Africa, with the current Asian median age at 29 and the comparative African age at about 18.6 years. Africa's young population is expected to drive consumption and economic growth in the coming decades.

Africans are exceptionally optimistic about their future as they become busier, healthier and more informed. Due to growth in internet penetration and travel, Africans are more connected to global trends than ever. Spending patterns are changing with a growing middle class in Africa and Asia: more people are buying technology goods and cars, and spending money on holidays, providing more insurance options and demand.

THE SANTAM SCENARIO DEVELOPMENT PROCESS

At the core of the process was a two-day workshop, which involved a wide range of stakeholders, including Santam and Sanlam employees from a wide variety of business units, suppliers, service providers, academic institutions, as well as public institutions and industry associations. The participants were selected to be diverse and represent a range of insights relevant to the contexts, territories and market spaces for Santam – including external experts and young millennials as conversation catalysts and to represent broader perspectives.

Workshop participants developed future sketches by considering the impact of megatrends, economic context, value networks and the role of fintech (new and often disruptive technology and innovation start-ups) in shaping financial services, including insurance, for defined contexts.

The outcome of the process enabled the board and executive management to understand the fundamental shifts at play in the world and in the group's competitive target markets. It also served to prioritise the broader material stakeholder issues the group must respond to for long-term sustainable value creation.

MATERIAL FACTORS SHAPING THE FUTURE INSURANCE CONTEXT

The following table presents those drivers that the participants in the Santam Insurance 2025 workshop identified as material in shaping the future insurance business context. The material factors described below offer a high-level view that will be considered in strategic planning for the future:

MATERIAL DRIVERS	FACTORS SHAPING THE FUTURE INSURANCE CONTEXT
ECONOMIC GROWTH – OR THE LACK THEREOF	Economic growth, or the lack thereof, will continue to shape the future insurance context, with questionable returns, unequal, variable and volatile capital returns, particularly in emerging markets, driving the mobility and flow of global capital in search of yields. Consequences of this for insurance clients include unemployment, rising cost of living and consequent decreases in disposable income. For entrepreneurs, this can bring more opportunities and success. Levels of underwriting will be impacted by the extent of economic factors increasing or decreasing.
TECHNOLOGY AND THE RISE OF FINTECH	Technological developments will continue to change exponentially and fundamentally reshape and transform every aspect of the future business context. Aspects of technology that are driving change include increasing connectivity of people to the "connected world", increased connectedness of things (Internet of things), the massive growth in data about people and things, the increased ability to extract relevant business information from this data and the speed of information flow. Aspects of the business context that are increasingly being impacted by these changes include more informed and empowered clients, with changing expectations related to products, services and providers. Technology will facilitate self-organising and empowered communities, thereby shifting roles and relationships between stakeholders. Insurance companies are likely to respond by adapting their business models and distribution capabilities to ensure innovative offerings and higher efficiency expectations. The nature of insurance is set to be redefined – from philosophy to processes and products.
WHAT AND HOW: CLIENTS AND MARKETS	Virtually every aspect of what matters to future consumers is in transition. Some aspects are likely to cause dramatic change, including shifts in consumers' value systems, expectations related to access, accessibility, speed and geographic availability – all impacting future preferred channels of interaction. Consumer populations are expected to experience demographic polarities: ageing and becoming younger, leading to lifestyle changes and an increasing variety of lifestyles. With the nature of needs shaped by global mobility and decreased ownership of personal goods, insurance companies will have to be flexible: offering on-demand risk insurance while managing fluid risk profiles within a context of increasing urbanisation. Insurance products, underwriting and the nature of risks will have to change alongside distribution and service delivery offers.

MATERIAL DRIVERS	FACTORS SHAPING THE FUTURE INSURANCE CONTEXT
ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISK PROFILES	ESG risks are increasing and will show an accelerated impact on the risk universe. Fundamental drivers include population growth, urbanisation, increased interconnectedness in societies, business and infrastructure, global climate risk, energy, water and food shortages, and failed or failing levels of governments. The changing risk profiles will include lower predictability of the nature and magnitude of risks, while taking into account the increasing interconnectedness of risks. Knock-on effects may include secondary impacts on infrastructure and business, potentially leading to dysfunctional and overwhelmed urban governments. Insurance products and the nature of risks underwritten will change, with a direct effect on underwriting philosophy, approach and processes.
POLITICAL AND REGULATORY INTERFACES	A combination of changing political agendas and regulatory regimes will continue shaping the future insurance environment. This includes drivers such as national protectionism and social objectives, combined with consumer protection demands. Aspects of insurance that will continue to be informed by this include the potentially reduced ease of doing business and requirements for client data protection and usage. This is likely to increase the cost and complexity of doing business.
A NEW INSURANCE VALUE CHAIN	Changes in the insurance value chain will continue to accelerate adjustments to all aspects of the business model. The underlying drivers include technology developments, fintech and increasing competition in response to mass customisation and omnichannel opportunities. The globalisation of risk and risk capital is likely to be one of the outcomes. This will result in changing underwriting and distribution models, and accelerated disintermediation, combined with collaboration opportunities with alternative or new players in the value chain. Insurers are likely to have to increase their size by expanding either scope or scale.
BUSINESS BECOMING SOCIAL ECOSYSTEMS	Collaboration and the forming of partnerships around various components of the value chain will change business, with increased partnerships with government(s) and cooperation with communities and consumer groupings. Relationships will be impacted, leading to new forms of competition.
DISRUPTIVE COMPETITION	The variety and sources of competition will increasingly blur traditional boundaries, reshape products, distribution and underwriting. Supplementary change factors include technology and fintech developments, and the globalisation of risk and capital markets. The need for new business volumes to drive premium growth and to diversify the risk pool will result in a blurring between insurance and reinsurance, in addition to alternative approaches to fulfilling insurance needs, e.g. self-insurance, insurance by product suppliers and community-based risk support schemes. Insurers' approach to risk management, underwriting, insurance products and distribution will have to change.
COMPLEXITY RULES	Increasing complexity will result from clients', business's and governments' changing technology, lifestyle and risk profiles. Factors driving increased complexity include globalisation of business with the concomitant requirement to operate in different territories. Clients' expectations for speed and convenience will drive insurance on demand, speed and universality of access. Aspects of insurance businesses that will be impacted include business models, the product range, design and development philosophy, underwriting approach and philosophy, with new demands placed on management and technical expertise. This will require employees and suppliers to be more flexible, open to change, and able to innovate and think differently.

SANTAM'S STRATEGIC RESPONSE

Santam strives to maximise socio-economic welfare, enhance stakeholders' sustainability and build a more resilient world through the provision of risk solutions in selected emerging markets, while delivering on its brand promise of ***Insurance good and proper***.

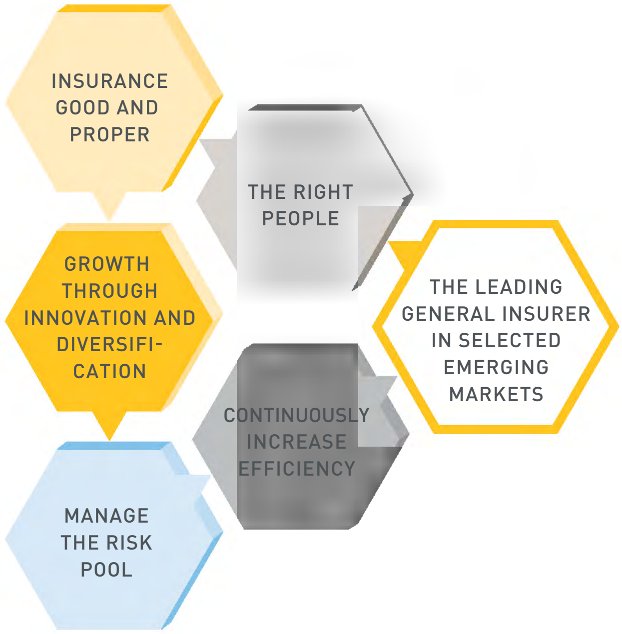
The group follows a regular and robust strategic review process – with the addition of a scenario development initiative this year. The strategy development process focuses on material imperatives and is designed to:

- identify the material contextual drivers of the ESG systems that the business portfolio is embedded in;
- sense the changes in the competitive environment that are relevant;
- identify the strategic variables that the group has to manage for present and future success;
- make clear and informed choices about what the group will and will not do; and
- review and establish strategic imperatives and performance criteria at group and business unit level.

The group determines the strategic focus areas and targets. Each business unit then takes responsibility for its own strategic process, focusing on implementation through go-to-market strategies and projects, operational implications and resource allocations. A dashboard tracks strategic implementation against key metrics and is shared with the board on a quarterly basis.

The annual budget and business planning cycle ensures that the group takes a systemic, portfolio-based and long-term view of resource allocation, cultural and behavioural elements and strategic initiatives. The aim is to ensure the effective setting of and delivery on the strategy and targets.

Santam's Vision 2020 strategy was tested against the future contexts and continued to provide appropriate and relevant focus for the group. The following five focus areas were retained for the group to be able to create value by being the leading general insurer in selected emerging markets:



Vision 2020 recognises that progression relies on adherence to the Santam Way, the creation of stakeholder value, long-term sustainability, reducing systemic risk and fulfilling Santam's socio-economic responsibility.

The Santam Way defines the culture that is embedded throughout the group. Although some of the business units and subsidiaries have formulated their own values and codes, these are fully aligned with the group values of integrity, passion, humanity, innovation and excellence.

READ MORE ABOUT PROGRESS PER STRATEGIC FOCUS AREA IN THE LEADERSHIP REPORT FROM PAGE 47.

SUSTAINABILITY FOCUS AREAS

The Santam sustainability framework is continually reviewed and refined with the social, ethics and sustainability committee providing regular oversight. Key initiatives have been identified with accountabilities allocated to relevant executives.

SUSTAINABILITY FOCUS AREA	RATIONALE	KEY INITIATIVES	READ MORE
REACHING THE INSURED AND UNINSURED MARKETS	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.	Treating Customers Fairly (TFC)	Page 48
		Offering value-added services	Page 100
		Creating access to products and services	Page 100
		Developing distribution channels	Page 100
RESILIENCE THROUGH SHARED VALUE PARTNERSHIPS	Santam works with local municipalities through the Partnerships for Risk and Resilience programme, focusing on disaster risk management and reduction.	Partnerships for Risk and Resilience	Page 50
		Products and value-added services that integrate ESG	Page 51
		Contributing to safety and security in communities	Page 51
DEVELOP SUSTAINABLE BUSINESS EFFICIENCIES (INTERNAL AND EXTERNAL)	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***.	ESG-informed underwriting rules	Page 51
		Refining systemic risk models	Page 51
		ESG culture and carbon footprint	Page 5
		Developing with suppliers	Page 52
		Scarce skills development	Page 54
		Diverse, productive employee base	Page 53
		Information management and governance	Page 52
RESPONSIBLE INVESTMENT AND SOLVENCY	Santam influences responsible systemic risk responses through vehicles such as the SRI Fund, the South African SME fund, enterprise and supplier development and corporate social investment (CSI) initiatives.	SRI Fund Management	Page 36
		Enterprise development initiatives	Page 52
		Socio-economic investments	Page 51
		Solvency and asset management	Page 64

OUR STRENGTH LIES IN OUR PARTNERSHIPS.

Our intermediaries are a crucial link to our clients, and remain the cornerstone of our business. That is why we nurture the future success of intermediaries by offering them tools, support and advice to help them deliver insurance good and proper.

GROUP AT A GLANCE

KEY FACTS

	2016	2015
Gross written premium (GWP)	R25.9 billion	R24.3 billion
GWP earned outside South Africa	R2.5 billion	R2.4 billion
South African market share	> 22%	> 22%
International investments through SEM and SAN JV	31 countries	13 countries
Net claims ratio	65.1%	62.1%
Headline earnings per share	1 086 cents	1 844 cents
Number of group employees	5 749	5 313
Santam group BBBEE level**	2	3
Santam black ownership percentage	28.7%	28.8%
Global credit rating	AAA(ZA) claims paying ability	AAA(ZA) claims paying ability
Standard & Poor's rating*	BBB international rating zaAAA national scale	BBB+ international rating zaAAA national scale rating
Value of claims incurred	R12.9 billion	R11.5 billion
Socio-economic development spend as % of net profit after tax**	0.95%	0.84%

* *Santam's credit rating is capped by the sovereign rating. Santam's indicative standalone credit profile, before taking into account the sovereign risk adjustment, remained unchanged at "A-".*
** *Based on Santam Ltd and its South African subsidiaries.*

KEY INDICATORS

	Achieved in 2016	Long-term goal
Return on capital	15.9%	2016: > 24%
Gross written premium growth (including cell insurance)	7%	Real GDP growth
Gross written premium growth (excluding cell insurance)	6%	
Acquisition cost ratio	28.5%	27%
Underwriting margin	6.4%	4% – 8% through the cycles
Investment return on insurance funds	3.1%	2.5% of NEP through the cycles
Economic capital coverage ratio	155%	130% – 170%

GDP = gross domestic product
NEP = net earned premium

THIS IS THE SANTAM GROUP

Santam is a multinational general insurance group that writes insurance business in South African and Namibia and has investments and clients in a further 31 countries. It is the leading general insurer in South Africa with a market share of more than 22%. The group provides a diversified range of general insurance products and services through a network of 2 700 intermediaries and direct channels. The group boasts more than 1 million policyholders, ranging from individuals to commercial and specialist business owners and institutions in South Africa.

The group derives revenue from insurance activities and investments. Insurance activities include commercial and personal insurance and alternative risk cover. The performance of insurance activities is based on gross written premium as a measure of growth, with net underwriting result as a measure of profitability.

The group consists of the Santam branded business units (Santam Commercial and Personal, Santam Specialist and Santam re) and wholly-owned subsidiaries – MiWay (direct insurer), Centriq (cell captive insurer) and Brolink (an independently managed insurance administration business). A number of specialist underwriting managers are included within Santam Specialist.

The group also participates in investments and partnerships in emerging markets in Africa, India and Southeast Asia through collaboration with SEM.

Santam holds an effective 7.5% stake in the Moroccan-based Saham Finances via its 25% shareholding in SAN JV with SEM, which significantly expands the Santam footprint across the African continent. The group's other significant associates constitute its 40% interest in Western Group Holdings (personal and commercial insurer). The group also holds a 49% interest in start-up general insurer Professional Provident Society Short-term Insurance Company Ltd (PST) and a 24% interest in Indwe (an independently managed insurance intermediary business).

The Santam business units set out in the accompanying diagram are responsible for implementing their business strategies and plans to contribute collectively to the value creation of the group. The Santam group governance policy stipulates the manner in which each business unit undertakes its business and how this is agreed between the parties and approved by the relevant boards. Over and above this, shareholder and/or binder holder agreements form the contractual basis whereby outsourced underwriting activities are governed.

A core "tight" principle that applies throughout the group is that Santam does not underwrite business that is not well understood. The business units share various group governance and support functions for consistency and efficiency.

Santam is a subsidiary of South African financial services group, Sanlam, which holds 61.5% of Santam's shares.

THE SANTAM BUSINESS PORTFOLIO

SANTAM COMMERCIAL AND PERSONAL

The multichannel general insurance business in South Africa and Namibia
- Intermediated
- Strategic partnerships
- Direct

SANTAM SPECIALIST

The specialist insurance business portfolio in Africa, India and Southeast Asia
- Agri
- Niche
- Centriq

MIWAY

The direct insurance business in South Africa
- Personal
- Business
- Life

SANTAM RE

The reinsurance business in South Africa and international markets
- Group
- Non-group

SANTAM EMERGING MARKETS INVESTMENTS

Investments in emerging markets
- Africa
- India
- Southeast Asia

OPERATIONAL PROFILES

SANTAM COMMERCIAL AND PERSONAL

For commercial insurance, Santam offers a business portfolio in South Africa and Namibia that serves small to large enterprises by providing commercial insurance solutions that suit the needs of entrepreneurs and businesses. For personal insurance, Santam offers a multiproduct and multichannel distribution portfolio that 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 also offers an independent administration capability through Brolink.

Santam Commercial and Personal Lines distribution channels include:
- National and independent intermediaries
- Direct contact centre
- Outsourced portfolio administrators
- Referral business
- Affinity business
- Sanlam agency network

SANTAM SPECIALIST

The Santam Specialist business 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 bespoke underwriting, which demonstrates an understanding of this unique claims environment, to meet and exceed client expectations. The Santam Specialist business unit includes:

Underwriting managers and niche business units:
- ***Associated Marine Underwriting*** is a leading marine underwriter covering cargo, hull and liabilities.
- ***Corporate Sure Underwriting Managers (C-Sure) rebranded as Santam Real Estate*** was created exclusively for residential and commercial sectional title and share block properties, and designed to give intermediaries and clients comprehensive and innovative insurance solutions.
- ***Emerald Risk Transfer*** provides property insurance solutions for large industrial and corporate businesses in South Africa and developing markets.
- ***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 in South Africa and other developing markets.
- ***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, offering comprehensive cover to transport contractors.
- ***Stalker Hutchinson Admiral (SHA)*** provides insurance against broad-form liability, bankers blanket, cyber and computer crime, directors' and officers' liability, professional indemnity for traditional and emerging professions, as well as personal accident, kidnap and ransom, and motor fleet insurance.
- ***Travel Insurance Consultants (TIC)*** is South Africa's largest travel insurance provider that offers specialised travel insurance solutions, including emergency medical, loss of money or baggage, 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 has recently entered the small, medium and micro-enterprises (SMME) market to expand the relationship off the taxi base to include other assets and motor vehicles in emerging markets.

Centriq is a specialist cell captive insurer that focuses on alternative risk transfer, underwriting management and affinity insurance sectors.

Santam Agriculture is the leading crop insurer in South Africa, focusing on named peril insurance and multiperil crop insurance.

MIWAY

MiWay is a direct insurer in the group, underwriting predominantly personal lines general insurance business, with a business insurance product that was launched in 2014. MiWay supports Santam's strategy of growth through diversification and enables it to coexist well with and complement the intermediary business model within the group. MiWay launched a broker-direct model in May 2015.

Current services include:

- General insurance (motor, home owners and household contents)
- Motor warranty
- Credit life
- Accidental death and disability
- Other value-added products
- Business insurance
- Life insurance (underwritten by Sanlam Life Insurance Ltd)

SANTAM RE

Santam re is a wholesale reinsurance service provider for the Santam/Sanlam group general insurance businesses and independent general insurers in South Africa, Africa, India and Asia, including China and South Korea. Santam re operates on the Santam general insurance licence and enables the group to optimise the size, quality and diversity of its overall risk pool, relative to its capital resources and risk appetite.

SANTAM EMERGING MARKETS INVESTMENTS

Through its partnership with SEM, Santam has economic participation in 13 countries in Africa, India and Southeast Asia. SEM's shareholding in Saham Finances, through its shareholding in SAN JV, expanded this to North, East and West Africa, and the Middle East, with Saham Finances operating in 26 countries. Santam acts as the general insurance technical partner for SEM. The international diversification strategy is enabled by Santam re and Santam Specialist. This forms part of the group's multichannel and multi-territory strategy through different business units.

READ MORE ABOUT THE PERFORMANCE OF EACH BUSINESS UNIT IN THE LEADERSHIP REPORT FROM PAGE 40 AND THE FINANCIAL REVIEW FROM PAGE 58.

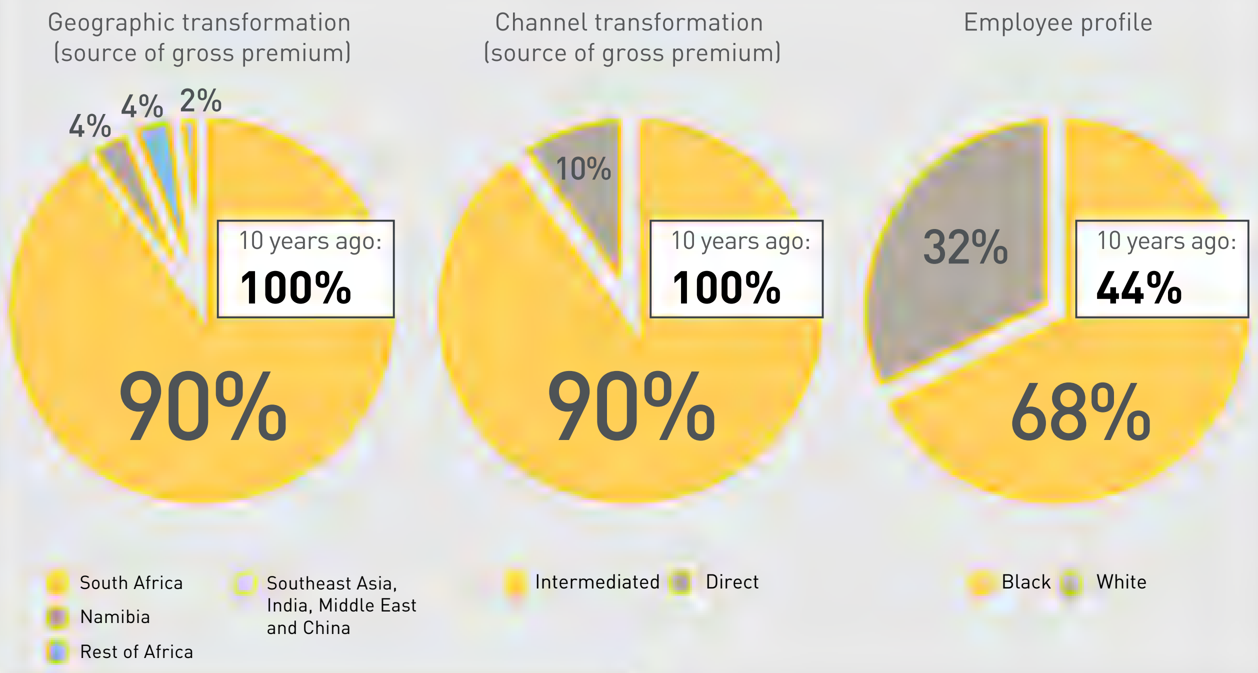
CLASSES OF GENERAL INSURANCE PRODUCTS

Santam Commercial and Personal	Santam Specialist	MiWay	Santam re
Accident	Accident and health	Life	Accident
Aviation	Alternative risk transfer	Motor	Engineering
Engineering	Aviation	Property	Guarantee
Guarantee	Crop		Liability
Liability	Engineering		Marine
Marine	Guarantee		Motor
Motor	Liability		Property
Property	Life		Santam re writes proportional and non-proportional reinsurance on marine and non-marine classes.
	Livestock and game		
	Marine		
	Motor		
	Property		

Santam Emerging Markets Investments provides technical support in all classes to all investment partners.

SANTAM'S SUSTAINABLE COMPETITIVE ADVANTAGES

10-YEAR TRANSFORMATION AND DIVERSIFICATION INDICATORS



R1.5 billion
invested in technology enablers over the past 10 years to replace legacy systems and position Santam for multinational growth

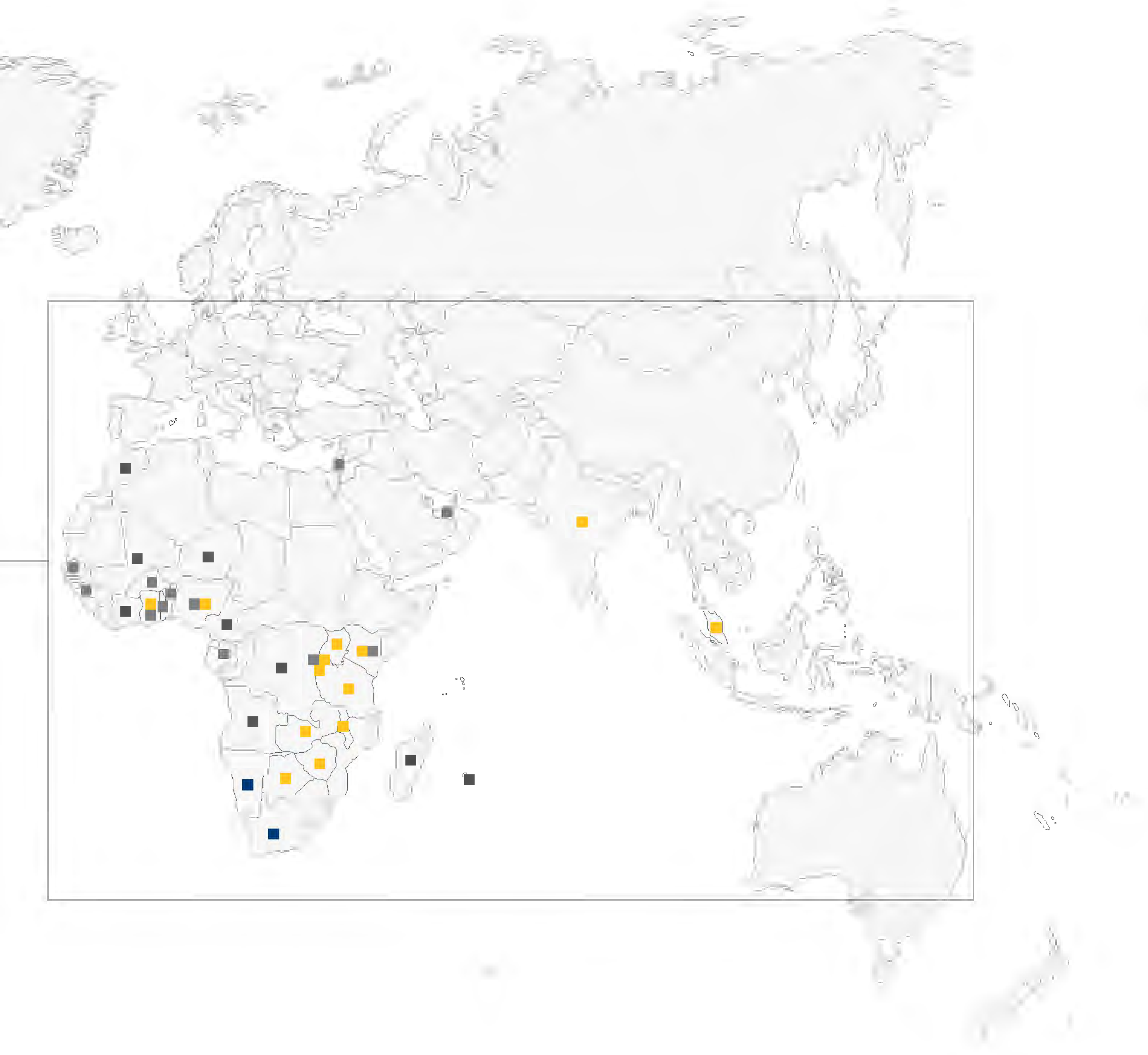
"We will continue to focus on transformation of our employees and suppliers."
– Lizé Lambrechts

Note: The above represents Santam group (excluding SEM and SAN JV investments).

COMPETITIVENESS	Santam's geographical footprint, scale, brand strength, business diversity and distribution networks put the group in a strong competitive position in South Africa, where it has a market share in excess of 22%. The group also benefits from the diversity of its product offering and multiple channel capabilities (including a growing direct channel market share), which have contributed to sustained underwriting surpluses despite challenging operating conditions. It currently insures 86 of the top 100 companies listed on the JSE and has a network of more than 2 700 intermediaries. Through its partnership with SEM, it offers intermediaries access to insurance licences across the African continent, India and Malaysia.
CONSISTENCY	Santam has been able to achieve underwriting profits consistently, while adapting its business model to the prevailing market conditions and risks. Since its establishment in 1918, the group has diversified its portfolio, focusing on profitability rather than only on increasing market share. The group has enjoyed the benefit of a strong, stable and strategically aligned core shareholder in Sanlam. Santam continues to be recognised in the market: it was again voted the leading general insurer in South Africa by the intermediary community in the Personal Insurance category at the Financial Intermediaries Association (FIA) of Southern Africa's annual Insurer of the Year awards in 2016. Consumers recognise the brand through the South African Consumer Satisfaction Index, the Sunday Times Top Brands Survey and Top Employer certification.
COMPETENCE	Santam has a world-class scientific underwriting capability supported by a strong and experienced management team. Its pool of specialist insurance skills and knowledge is evident in the success of its specialist business, which offers a complex range of insurance cover. Due to its integrated systems and processes, the group is also able to deal proactively with and benefit from regulatory changes, which can constitute high barriers of entry into the industry for new players. Santam's competence includes its ability to maintain and grow a large and complex network of intermediaries, suppliers and business partners. Santam has a stringent capital management framework underpinned by an internally developed, risk-based capital model and embedded enterprise risk management (ERM) framework, which is integrated into strategic decision-making and capital allocation.
GROWTH OPPORTUNITIES	Santam has a strong international diversification capability through its partnership with SEM, and through Santam re and Santam Specialist. This gained further traction in Africa following the SAN JV (Saham Finances) transaction. A new agreement was also concluded with Munich Re of Africa for certain Santam businesses to use its AA- S&P credit rating from 1 January 2017. MiWay attracts new and previously uninsured policyholders through its new online life and business insurance offerings in South Africa. Acquisitive growth opportunities in the local market are limited due to Santam's dominant position, but organic growth remains a focus area, driven by Santam's well-established intermediary network, integration opportunities with Sanlam's distribution network and development of the Santam direct distribution channel.
RETURNS	Efficient capital management and a stable dividend policy have enabled Santam to deliver consistent returns. An average return on capital of 23.6% has been achieved over the last 10 years and 22.5% over the last five years. Ordinary dividend per share compound growth of 8.9% has been achieved over the last 10 years and four special dividends have been paid. The unwinding of the BBBEE scheme in 2015 created a combined value of R1.1 billion for participants. The business is highly cash generative and investment performance has a solid track record.
THE SANTAM BRAND	Santam is associated with brands such as MiWay, Centriq, the specialist underwriting managers' brands and several niche business unit brands. These other brands are well regarded and acknowledge the importance of being associated with the Santam brand – which is internationally known – when doing business on the continent. The Santam brand remains the most recognised and awarded among the group brands, all of which embrace the ethos around Santam's brand positioning, ***Insurance good and proper***, which emphasises responsible and ethical insurance.
SUSTAINABLE AND RESPONSIBLE	Santam plays a leading and active role amid global insurance players by setting the tone in South Africa and selected emerging markets through participation in ClimateWise and PSI initiatives. Santam's integrated approach to managing long-term sustainability through improved management of systemic risk ensures alignment with the strategic drivers of the business. Santam's sustainability journey focuses on: – reaching the insured and uninsured markets; – resilience through shared value partnerships; – responsible investment and solvency; and – developing sustainable business efficiencies (internal and external).

GEOGRAPHIC ANALYSIS OF INVESTMENTS

> "Santam has a strong competitive position, mainly stemming from its favourable brand and reputation, dominant position in the South African market, and an operating performance that we consider to be better than its peers ... It remains the market leader and we believe Santam can draw on its positive brand differentiation relative to peers to help shape the South African market." – S&P Global, RatingsDirect, May 2016



KEY STAKEHOLDERS

Santam shares a business, socio-economic and ecological landscape with a range of stakeholders in South Africa and in the markets where it has investments. During many years of formal and informal engagement, the group has structured its engagement according to eight main stakeholder groupings:

- CLIENTS
- SHAREHOLDERS
- EMPLOYEES
- SUPPLIERS/BUSINESS PARTNERS
- INDUSTRY REGULATORS
- INDUSTRY NETWORKS
- GOVERNMENT
- COMMUNITIES

Relationships are critical for Santam to be able to play a positive role in society. Santam's approach to stakeholder engagement therefore aims to build and maintain quality business relationships with all material stakeholders. Through effective dialogue and collaboration, the group aims to create a more resilient and sustainable business environment in support of its long-term strategy.

SANTAM REAL LIFE STORIES

The following seven stories, collected during the course of the year, provide insight into real-life situations that illustrate the value of insurance in the lives of our policyholders and stakeholders. Santam was able to provide direct or indirect options for support with positives outcomes. These stories tested the group's ability to deliver on the brand promise of ***Insurance good and proper***, and ensured that Santam's products and services met the requirements of what matters most to stakeholders.

FROM EMERGING TO COMMERCIAL FARMERS

It is not an easy time to be a farmer in South Africa. Besides changing weather patterns, the crippling drought, labour costs and unrest, crop disease, declining competitiveness in global markets and limited resources are all putting strain on South Africa's shrinking agricultural sector.

One of the sector's challenges is to convert subsistence farming into commercial farming, thereby empowering emerging farmers to become profitable and sustainable. A recent Santam training programme, involving close to 800 emerging farmers from villages and rural towns across the country, contributed to imparting necessary financial and business skills to the farmers.

"The training has really assisted me in managing my small farming enterprise," says William Mmakola, an emerging farmer from the Tsimanyane Village in Limpopo and a member of the Willpot Young Farmers Cooperative. "The practical lessons I learnt are now helping me to set and manage my business plans and do financial projections. I have already drawn up a worksheet to manage the turnover earned from the cultivation of fresh produce," he says.

Klass Ridane, from Mpumalanga, shares Mmakola's sentiment and says the training provided him with useful information that is helping him manage the financial duties in his small farming operation. "The training has given me a lot of practical tips and ideas on how to run the business better and to motivate our workers as we start planting our winter crops."

"I wish the rest of our community had the opportunity to attend the training as I learnt so much," says Mapule Emily Moggi from Brilliant Farming Corporation in Gauteng. "It is something many people can benefit from and it will help us to be better farmers."

Gerhard Diedericks, head of Santam Agriculture, explains that the insurer recognises agriculture as key to the future health of the South African economy, and thus embarked on this training campaign, the first of its kind in the industry. "Santam is committed to assisting emerging farmers, as they are vital to the long-term sustainability of the agriculture sector. While significant challenges face all farmers, small and emerging farmers require even more support. They may not always have the necessary skills and support to bounce back when fate steps in."

Farmers were given face-to-face financial skills training, information on risk management, and ongoing mentorship and support. Participants were sourced through Santam's relationship with agricultural bodies such as the African Farmers' Association of South Africa (AFASA), the National Emergent Red Meat Producers' Organisation (NERPO) and existing Santam clients.

Santam's emerging farmer training programme forms part of a broader consumer financial education strategy initiated by the insurer aimed at community upliftment and promoting access to financial services. It is done in support of government's drive to combat the challenges of poverty, unemployment and inequality, but with the understanding that emerging markets have specific needs.

INSURING A NEXT-GENERATION CLIENT

Dear Santam

Good morning my name is Angelica Bottari. I am 10 years old. We had a car break-in in Cape Town where they stole my phone, jacket and earphones. Thank you for replacing my stolen items so fast.

Kind regards

A future client
Angelica Bottari

This was the letter received by Santam Claims from the 10-year-old daughter of a happy Johannesburg client in July 2016. Angelica had come to Cape Town on holiday with her family and, while they were having lunch in a restaurant in the Bo-Kaap, her possessions were stolen out of their rental car.

"We parked the car and, as always, I told Angelica to put her cellphone away. She left it on the car seat and covered it with her new K-Way jacket. When we got back to the car, the back window had been smashed and her jacket, earphones and cellphone were all gone. She started crying and, even after we flew back to Johannesburg the next day, she was inconsolable," says her mom, Carol Bottari.

Carol, who runs her own insurance brokerage firm, submitted an insurance claim with Santam and, within a few days, Angelica's new replacement phone, earphones and jacket had been delivered to her.

"I use my phone mainly to play games, watch YouTube, take photos and have WhatsApp convos with my friends. I was very impressed at how quickly Santam replaced everything and so happy to have a phone again," says Angelica, who turned 10 last December.

As the daughter of an insurance broker, Angelica is already familiar with the concept of insurance and wanted to say "thank you" to the Santam employee who helped her, "Just like a thank you letter to Santa."

Santam Claims did extensive work this year to map the customer's journey. This required that employees put themselves into the shoes of the client, and recognise how they impact the client's experience at every point in the process. The team shifted the expectation that "the client should follow up" to a proactive, client-centric approach. Below are examples of client feedback:

From a policyholder:
I wish to highlight to you both the excellent and speedy service I received with regard to my cellphone claim. I accidentally dropped my phone yesterday late afternoon; lodged the claim and was about to go and get a damage report done today. However, Nafisa called and said that Santam is prepared to have my phone replaced and she set the process in motion. She has sourced a phone already and it is at present available for collection. Thank you, Nafisa! You are really an ambassador for the Santam brand of ***Insurance good and proper*** *with your commitment to outstanding service delivery.*

From an intermediary:
Thank you very much for your assistance with this difficult matter. Thank you for keeping on following up and giving feedback. Thank you for keeping on referring the matter and obtaining assistance, and for keeping calm and professional. That is really providing good client service.

From a policyholder:
Just wished to notify you of the extremely efficient service we received from one of your listed plumbers as well as your efficient call centre lady. I called in Friday afternoon Oct 14th at wits' end, with problems relating to our apartment geyser. I was truly impressed by their quick, efficient and professional service. I honestly assumed because it was a Friday afternoon call to your call centre, my geyser will only get attended to the Monday after the weekend and we would have to somehow make do, or seek alternate arrangements. I was truly and honestly impressed at how quickly the matter was attended to.

DAR ES SALAAM CITY MANAGEMENT LEARNS ABOUT RISK AND RESILIENCE IN INFRASTRUCTURE DEVELOPMENT

Billions of dollars are flowing into Africa to meet the growing infrastructure needs of the continent. However, with this massive investment comes the responsibility to create and build sustainably. This raises the question as to whether the stakeholders involved in individual projects are mindful of the broader risks and impacts, especially over the longer term. This entails the eventual asset management once the project is completed and handed over to asset owners.

The port city of Dar es Salaam in Tanzania faces two challenges. The first is that, as one of the fastest growing economies in Africa with limited financial resources, the city has to invest in public infrastructure, which carries a number of risks, not least of which is flooding on a near-annual basis. The second challenge is that global financial institutions providing capital for large infrastructure projects typically only seek insurance cover towards the end of the process. Unfortunately, often at a late stage in the process, some unavoidable risks are typically already embedded in the project.

Building on lessons learnt from the United Nations Environment Programme Finance Initiative's (UNEF FI) Principles for Sustainable Insurance (PSI) Global Resilience Project (GRP), it was felt that there would be benefit in considering risk management proactively – before projects are contracted and in a non-competitive space, where city managers could engage with insurance professionals.

Santam initiated a process in 2014 to explore how the general insurance industry in the region might best engage with infrastructure decision-makers in Africa, for example city engineers and planners. Sustainable city infrastructure is a critical element to enhance protection and readiness against possible disaster events such as fires and floods. Under the banner of "African Infrastructure Risk and Resilience", a series of conversations and workshops took place through 2015 and 2016. These involved representatives from Santam and Sanlam, including various experts in sustainable infrastructure, finance and investment.

The research included a two-day intensive workshop in Dar es Salaam in October 2016, with members of the insurance sector and Dar es Salaam city officials. The workshop was declared a breakthrough in mutual understanding, opening up a range of opportunities for future learning and collaboration for both sides. What emerged, aside from a lengthy list of collaborative actions various participants committed to, was a mutually agreed "decision pathway" describing the logical necessary steps a city government must take if it is to attain genuinely resilient, sustainable infrastructure. The city officials said they found this – and the discussions leading up to the workshop – exceptionally helpful, as they had never considered decision-making from a proactive risk management perspective before.

A key outcome of the intervention was the request for insurers to demonstrate the cost/benefit at city level for risk protection and sensible regulation. The initiative pioneered a methodology of motivating city management to engage with the insurance sector, which will be shared globally. It was founded in a partnership approach and included Marsh, Munich Re, Sanlam, Santam, Global Infrastructure Basel, ClimateWise and PSI representatives. A research paper, documenting learnings, will be published via ClimateWise early in 2017 to share important proactive risk management insights with other cities and insurance sector players.

Santam's has a presence in the Tanzanian market via the SEM partnership.

SMOKE ALARMS HELP PREVENT SHACK FIRES

Ivy Malopi and Novunga Shadrack lost everything when their wooden house in the Simile informal settlement in Thaba Chweu, in Sabie outside Mbombela, burnt down in the early hours of the morning. Fortunately, they were visiting friends and no one was home. With the help of family, friends and the local municipality, the couple has since managed to build a new wooden home.

It is estimated that more than 8 000 people are left homeless each year as a result of shack fires. Between 2009 and 2012, about 5 000 informal settlement fires were reported. Many lose their valuable possessions, but even more tragic is the trauma suffered by families and communities – and the loss of life during such events.

Over the last two years, 8 600 structural fires and 9 018 veld fires have occurred in Thaba Chweu local municipality. Seven people lost their lives in these incidents.

Ivy and Novunga were some of the first beneficiaries of smoke alarms sponsored by Santam for 1 000 homes in informal settlements in their district. The project, launched on the International Day for Disaster Risk Reduction, aims to raise awareness about practical interventions, such as identifying high-risk areas and the appropriate responses that can be factored into disaster management and planning to reduce the risks on the ground.

The alarm system has proven to detect smoke in less than 15 seconds. This will help raise the alarm of a fire danger quickly, lessen the level of smoke inhalation and, in doing so, save lives. The battery-operated smoke alarm, with a lifespan of 10 years, increases exponentially the chances of surviving a fire.

Santam has partnered with the Ehlanzeni District Municipality and Chubb Fire & Security to roll out this project in Thaba Chweu. The project forms part of Santam's active work with municipalities through the Partnership for Risk and Resilience programme to identify risks such as fire and flooding.

Since establishing the partnership in 2012, Santam has invested more than R5.4 million, helping the original 24 municipalities respond more appropriately and timeously to the risk of fire and flood. The programme has been expanded to assist 53 local municipalities in disaster-prone, high-risk areas over the next five years.

According to Councillor J Sidell, executive mayor of the Ehlanzeni District Municipality, they face increasing levels of disasters, ranging from severe heatwaves to drought, forest and structural fires, hail and thunderstorms and floods. These natural and man-made disasters affect mostly the poor and people living in vulnerable areas, such as informal settlements, rural communities and floodplains.

"We are immensely grateful to Santam for their continuous support to our disaster management efforts in our district. Through this smoke detector project, we are able to make a significant impact and hopefully save lives in the process. Thank you for your partnership and for the example you set as a responsible corporate citizen," Councillor Sidell said.

MIWAY CUSTOMER'S SAFETY IS PERSONALLY PRIORITISED BY CALL CENTRE AGENT

When first-time driver, Lehlogonolo Selathla's car broke down one night in Johannesburg, she knew that her best bet was to contact her insurer, MiWay, to arrange for tow truck assistance. However, it was already past 7 p.m., and as she pulled off to the side of the R101 to Centurion, she realised that she was not in the safest area.

"My Renault Clio had a mechanical failure and I still had the learner sign on the back window, plus the area I was in was not well lit at all. When I called MiWay for help, I got through to Tshepiso Thole, who talked me through the process and stayed on the line with me for a while," she recalls.

However, once Tshepiso had arranged for the tow truck assistance and hung up, Lehlogonolo noticed that several cars driving past were flashing their lights at her. She looked around and saw a group of men were approaching her car.

"I was panicking by now, but managed to somehow get the car started and while I was doing that, Tshepiso called back to check on me. He could hear that I was panicking and advised me to get to the nearest garage or well-lit area and he stayed on the phone with me. The garage was less than 500 m away, so I managed to get there," she says.

Less than 10 minutes later, she was a bit wary when a young man approached her, but his first words were: "Hi, I'm Tshepiso from MiWay. You sounded scared on the phone, so my friend and I will wait with you until the tow truck arrives."

And so they did. The young MiWay call centre agent, whose call from Lehlogonolo was his last for that shift, did not stop to think twice. He simply got into his car and drove out to assist a client he had never met or spoken to before that day.

Tshepiso says it was actually his first month on the MiWay emergency helpline.

"When we got there, you could see the relief on her face. That kind of expression from a client helps you realise what you are actually doing to help people. At MiWay, our clients are not just clients, but they are people that we value. When you assist someone with passion and they thank you, it brings a smile to your heart. To me, this job is not just about rendering a service, but is about helping another person," he says.

In a bid to improve customer service and reduce response times, MiWay Insurance took its 24-hour emergency call centre in-house in July 2016, helping the insurer to ensure that clients receive the appropriate levels of service, and they can easily monitor the progress of each incident to a successful resolution.

Greta Goosen, head of Client Services at MiWay, says that the new call centre was developed over a two-month period, with a "soft launch" two weeks prior to the official launch.

"The 'soft launch' allowed us to iron out any challenges before the system went live, thus reducing any impact on our clients. Our reason for bringing the call centre in-house was to improve the service we offer to clients at a critical time for them – when they experience a crisis – so it was important that our clients receive world-class assistance from the onset," she says. "Thanks to the hard work of the entire team, the project has already been a huge success."

A FAMILY USES DEBT CONSOLIDATION TO KEEP THEIR HOME

Overindebtedness has become one of the biggest problems facing South Africans today as salaries fail to keep pace with inflation. Fortunately, debt consolidation and a good financial plan can help. Ghadija Lawrence of Mitchells Plain was in financial trouble a few years ago. As the cost of living continued to rise, the combined income that she and her husband were bringing home was not enough to make ends meet. Desperate, they took out credit, but then found themselves in a cycle of debt. Ghadija already had two defaults on loans from African Bank and her husband was under administration.

With three children to support, Ghadija and her husband were in danger of losing the home they had lived in for 15 years. When Ghadija's sister heard an advert for Mattfin Money Matters on a Christian radio station, it sounded like the answer to their problems.

Mattfin Money Matters provides a service to overindebted consumers that own property and still have at least 70% equity in the property. Graham Sinclair, chief executive of Mattfin Money Matters explains that Mattfin steps in and helps clients by settling their debt via funds that are placed in an attorney's trust account. The SRI Fund is one of the funders that supports Mattfin in assisting overindebted consumers. To date, Mattfin has managed to help 38 families using this funding, working towards a scenario where they are no longer overindebted and can use their money to build their assets instead.

Mattfin negotiates reduced settlements with the client's creditors and the client pays back a single loan at a lower interest rate than that of a credit card or personal loan. Once all the debts have been settled, Mattfin helps the client by contacting the credit bureaus and updating their credit records.

"Once the client has a healthy credit record again, we help them apply for a new home loan on their property, which then gets transferred back into their name," Sinclair says.

Ghadija calls the management at Mattfin her angels and says she is so much more relaxed now, knowing that her household finances are under control and she no longer has to worry about debt collectors.

"From beginning to end, Mattfin helped us through the whole process. It took us six months to a year to get out of debt. Mattfin helped us find a sustainable solution, where we were able to pay off our debt and, at the same time, have money to live on each month," she says.

She has also reaped the benefits of Mattfin's follow-up consumer financial education programme, which ensures that rehabilitated clients do not fall into the debt trap again.

The SRI Fund targets investments based on Santam's ESG needs or focus, including investments into companies or organisations with the intention to generate social and environmental impact while generating a sustainable financial return. Ghadija's family is an example of the way in which the fund enables stability, financial literacy and, ultimately, grows the assets of a family that will soon be in a position to insure these – with a positive impact on future generations.

INNOVATIVE PLATFORMS TO INSPIRE ENTREPRENEURS

In a world where technology is constantly evolving and blockchain threatens to disrupt conventional financial systems, there is huge scope for entrepreneurs to step forward with solutions that address the needs of the future.

Ntsako Mgiba is one such individual. He visited his aunt in the township of Emalahleni last July, and was disturbed when her home and five other houses in the same street were burgled on the same night. The criminals got away with R50 000 worth of goods from one home alone. Although the police were notified, it took them three hours to get to the scene, by which time the criminals were long gone.

Mgiba brainstormed with his friends, Ntandoyenkosi Shezi and Kabir Prema at college, and the three came up with the idea of Jonga, which means "we are watching".

Shezi says the sad reality is that modern security systems are very expensive and come with hefty maintenance costs.

"The average household income in township communities is around R3 200, so it is unrealistic to get such expensive systems into the townships. The situation is exacerbated because neighbours often aren't aware of what is going on until it is too late and police response times are ridiculously slow," he says.

Jonga is a low-cost alert system "dedicated to getting communities connected and getting them protected". It involves the use of a motion sensor in the home that sends a signal to an app if a perimeter is breached. The app in turn alerts the residents and neighbours, who can then take action to secure the property. The overall cost of the system was estimated at R800 for the motion sensor and the app, with plans to roll it out to the public in February 2017.

Jonga was subsequently selected as a finalist in the Santam Safety Ideas campaign in 2016. The recognition inspired Shezi, who wants to become an entrepreneur when he graduates.

"I believe in the future of Africa, so I would love to be at the forefront of developing ideas and establishing companies that will change our continent. I also believe that job creation will only happen in South Africa when there are more entrepreneurs," he says.

Santam believes the programme creates a platform for improving people's lives and protecting their livelihood, one idea at a time.

Entrants had to submit a short video entry online outlining their idea and register online to secure a slot to pitch their idea. Finalists were chosen based on the originality, applicability, market attractiveness, and estimated length of time to take the product to market.

Prototypes and high-level business plans were developed for the 10 best concepts during an intensive 14-week LaunchLab Knowledge Acceleration Programme. The programme underlines Santam's commitment to keeping South Africans safe while providing ***Insurance good and proper***.

Another young South African who benefitted from an innovative initiative by Santam was Jonathan Jardim, a software developer for SilverBridge, who participated in the Santam 24-hour Blockchain Hackathon in September 2016. Insurance fraud in South Africa amounts to a staggering R3.6 billion per year. This results in huge losses for insurers, and negatively affects consumers. The problem is experienced industry-wide and to date no effective solutions have been found.

"SilverBridge had been investigating the new world of cryptocurrencies and blockchain, and when we heard about the Santam Hackathon, we decided it would be an awesome opportunity to learn more about this new technology.

This was a whole new experience as it was the first hackathon I participated in. Obviously, the biggest challenge is trying to stay awake for over 30 hours, as it is very difficult to concentrate when you are beyond exhausted. With regard to the actual problems that I needed to solve, I think they got them spot on. These problems were not so specific that you were tied down, but they were broad enough to allow out-of-the-box thinking, but not so broad that people went completely off topic. A difficult part was coming up with an initial solution, but once I had this, and I started bouncing ideas off the professionals that were there, it became a simple process," Jardim says.

More than 80 hackers participated, including entrepreneurs, software geeks, website developers and blockchain enthusiasts. The hackers used blockchain and other technologies to identify solutions to four challenges, predetermined by Santam, with the ultimate goal of combating insurance fraud.

For Santam, the hackathon served to explore how crowdsourcing and innovative technology solutions can be used to reduce or even remove fraud from the general insurance industry. Innovative use of blockchain can, for example, create smart contracts, secure payments and enable the tracking of insured assets.


SEM

WE GROW THROUGH DIVERSIFICATION.

Our partnership with Sanlam Emerging Markets (SEM) is part of our international diversification strategy. We support SEM through our specialised general insurance, ensuring that, no matter what the business requires, it is delivered with the highest level of expertise. The partnership enables us to have economic participation in 31 countries in Africa, India, Southeast Asia and China.

LEADERSHIP REPORT

Santam's performance returned to normal following an exceptional 2015. The impact of soft pricing and intensifying competition was evident across the group, but particularly in the Santam Specialist businesses. Claims costs and frequencies in Santam Commercial and Personal, Santam Specialist and MiWay increased, with the weakened rand putting pressure on the profitability of most of these businesses. The higher procurement costs on imported motor parts negatively impacted the motor books. 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.

Last year, mild weather conditions and strong investment returns worked in our favour. This year, the group absorbed more significant claims, including catastrophe hail events in Gauteng and North West in January, a few large commercial property claims and flash flooding in Gauteng in November.

Investment income was significantly negatively impacted by foreign exchange losses, following the relevant strengthening of the rand since December 2015, and the negative performance of the SEM investment portfolio.

These factors are mostly out of our control. However, Santam's almost 100 years' experience through cycles and catastrophe events has equipped the management team to be able to manage and mitigate challenges effectively. We significantly reduced claims' impact through reinsurance and continued to manage costs downward through efficiency initiatives.

SALIENT FEATURES OF 2016

- The group made the following acquisitions:
  - A further economic stake of 8% in SGI through SEM at a purchase price of R251 million, taking our full stake to 15%
  - The completion of the acquisition of a 7.5% interest in Saham Finances for R1.4 billion, through a 25% shareholding in SAN JV
  - A further R49 million participatory investment in SEM general insurance businesses in Botswana and Zimbabwe
  - The purchase of a 49% shareholding in PST for R55 million in cash in March 2016. During November 2016, a pro rata recapitalisation took place in terms of which Santam injected a further R10 million into the company
  - The acquisition of the Absa Intermediated Commercial Lines Business from Absa Insurance Company Ltd for R13.2 million in cash, including contingent payments estimated at R28 million
- We received approval from the Financial Services Board (FSB) to launch a formal internal model approval process in preparation for the risk-based solvency assessment and management (SAM) regulatory regime that will soon be implemented in South Africa
- The group successfully issued R1 billion of subordinated debt
- Santam was certified as a Top Employer for 2017
- A new agreement was concluded with Munich Re of Africa for certain Santam businesses to use its AA- S&P credit rating from 1 January 2017
- Santam made a R2 million commitment to the new South African SME fund, an additional R30 million allocation to the ASISA enterprise and supplier development fund, R228 000 to the Agri Securitas Trust Fund and a R2 million donation to the National Drought Disaster Relief Fund
- A further R36 million capital contribution to SORAS Assurances Générales Ltd (SORAS), our investment with SEM in Rwanda, following the uncovering of financial irregularities
- The board declared a special interim dividend of 800 cents, with the dividend for the year at 881 cents – up 8% on 2015
- The acquisition of 100% of the issued share capital of RMB-SI, a specialised insurance business, is still pending, subject to the fulfilment of certain conditions precedent
- The acquisition of a further 16.6% interest in Saham Finances via SAN JV by SEM and Santam for a total subscription consideration of US$329 million plus transaction costs. The subscription consideration includes Santam's contribution of US$7.35 million plus transaction costs. The transaction is still pending, subject to regulatory approval

2016 PERFORMANCE

Santam achieved gross premium growth of 7% (2015: 7%) on the back of a diversified geographic presence and product offering. Following the SAN JV (Saham Finances) transaction, which was effective during the first quarter of 2016, we have started exploring opportunities to expand and diversify into further new territories.

The net underwriting margin at 6.4% was lower than the exceptional 9.6% of 2015, but still within the group's target range over the long term of 4% to 8%.

The impact of soft pricing and intensifying competition are being felt across the group, but particularly in the Specialist businesses. Claims impact and frequencies in Santam Commercial and Personal and MiWay increased, with the weaker rand putting pressure on the profitability of most of these businesses. The higher procurement costs on imported motor parts negatively impacted the motor books.

SANTAM COMMERCIAL AND PERSONAL

Sustained performance of Santam Commercial and Personal relies on understanding and meeting clients' changing needs. This was evidenced by good growth delivered by Santam Direct, which was launched in response to client behaviour shifts. Despite the growth in this segment, Santam Commercial and Personal continues to rely on strong relationships with intermediaries as the foundation of its business model.

The tied agent initiative with Sanlam is progressing particularly well. Competitive pressures and the impact of the weak economic environment were the key drivers for the lower-than-expected growth rates in the rest of the business unit.

Underwriting results for Santam Commercial and Personal were negatively impacted by a higher number of catastrophe events compared to 2015. These included hailstorms in Johannesburg and the North West Province in January, and severe storms in KwaZulu-Natal and Gauteng in July and again in November, resulting in extensive flood damage. This was exacerbated by a number of large property claims due to fire losses.

Claim frequencies increased by 11.9% this year. The average cost per claim increased by 8.1%. Cost containment efforts were challenged by a volatile exchange rate leading to rising prices of motor repairs, an increase in fees and settlement amounts, more catastrophe claims and capacity constraints due to higher levels of claims incidents.

Progress with the roll-out of the new administration platform, combined with the new system ability to develop innovative products and offerings, will drive future growth and efficiency.

SANTAM SPECIALIST

Santam Specialist has a leadership position across most segments in which it does business and leverages this position across the Santam distribution channels and specialist intermediaries. The business unit continues to diversify and grow its footprint outside South Africa. 19% (2015: 18%) of the niche business's gross written premium was earned beyond South Africa this year.

Soft market conditions and increased local and international competition continued to strain growth and profitability for Santam Specialist. The business unit's underwriting results were negatively impacted by large property claims in Emerald and lower premium growth in Mirabilis.

The complexity of some of these claims tested the robustness of the business unit's relationships with intermediaries, with positive outcomes and recognition of the quality of service on both sides.

Centriq showed solid growth and profit well ahead of 2015, positively impacted by investment performance. Centriq continues to hold a material share of the cell captive market, with a business model that is difficult to replicate – positioning it as strategically important to the group.

Santam Specialist's acquisition costs increased due to higher gross commission paid on business from outside South Africa, lower reinsurance profit commission and pressure on premium growth.

The crop portfolio was under pressure due to the continued drought across the region, but delivered a positive underwriting margin. Santam crop delivered a net underwriting result of R69 million (2015: R131 million). Santam Specialist continues to explore opportunities to expand its crop insurance footprint and product offering, especially in central and eastern Africa.

Despite challenging business conditions, the business still delivered good returns and will benefit from the agreement with Munich Re of Africa for certain Santam Specialist underwriting managers to use its AA- S&P credit rating from 1 January 2017.

MIWAY

MiWay's direct client relationships, enabled by an effective digital platform and strong brand, continue driving sustained growth. The business unit reported a gross written premium of R2.1 billion (2015: R1.8 billion), which is 19% higher than last year and an 8% contribution to the group's GWP (2015: 7%).

The business unit delivered strong growth on the back of new business offerings that were launched in the past few years, including direct life and business insurance. Growth was supported by good cost management, which impacted the underwriting margin positively.

As a result of an increase in the cost of motor parts, which followed the weakening of the rand in 2015 and the impact of new business growth, MiWay reported a claims ratio of 63.6%, up from 60.9% in 2015.

The acquisition cost ratio reduced to 28.7% (2015: 29.8%). MiWay ended 2016 with 278 000 clients (2015: 242 000) (excluding value-added products) and 1 551 employees (2015: 1 311).

An in-depth rerating process evaluated pricing against risk exposure and resulted in increases in selected areas. Although this had a short-term impact on conversion rates, it will result in an improved loss ratio and ensure profitable growth going forward.

SANTAM RE

Santam re continues to contribute to the group's diversification strategy and the ability to create long-term value. The business unit delivered higher-than-expected growth at an acceptable underwriting margin.

Progress in exploring combined initiatives with Saham Finances included shared training and facilitation agreements in various territories to enhance reinsurance business flows to the Saham Finances.

Santam re remains the main vehicle for group reinsurance optimisation. It continues to build partnerships with international reinsurers with portfolios of good standing and has been able to secure good new business flows from international partner cessions.

The business unit increased its business intelligence capability and is now able to automate and access rich sources of management information. This will enable it to identify improvement opportunities and further encourage future cross-selling in the group.

SANTAM EMERGING MARKETS INVESTMENTS

Santam continues to provide comprehensive technical support to SEM business partnerships. This includes product, pricing, underwriting and reinsurance input and resulted, for example, in tenders won in India. Negotiations on a bancassurance distribution agreement for general insurance products in Africa have been successfully concluded.

A lowlight for the year was the identification of financial misstatements related to pre-acquisition periods at SORAS in Rwanda. Immediate corrective action was taken and the Santam manager of operational finance was seconded to Rwanda for a four-month period to assist with the implementation of improved controls for the business.

The Pacific & Orient Insurance Co. Berhad (P&O) business in Malaysia experienced lower premium growth due to competitive market conditions. There is a significant focus on expanding the current P&O product offering, and growth reported in the non-motor business line was positive.

SEM businesses in Tanzania and Uganda performed well, with SGI in India experiencing higher-than-anticipated volumes for all product lines. Operations in Kenya, Malawi and Zambia were under pressure.

Santam and SEM respectively holds 25% and 75% of the shareholding in SAN JV, which acquired a 30% interest in Saham Finances during the first quarter of 2016.

Saham Finances results for the nine months to September 2016 fell somewhat short of expectation. The results were negatively impacted by the economic conditions prevailing in Angola and Syria. Furthermore, the decline in oil prices impacted activities in Nigeria, Ghana and Gabon. The notable strengthening of the Moroccan dirham against the Nigerian naira and the Angolan kwanza further depressed results. This was partly offset by strong performance from Saham Assurance Morocco, still contributing the bulk of premiums and earnings for Saham Finances.

The group takes a long-term view of the SEM partner businesses and will continue investing in technical support capacity, despite slower growth than anticipated.

MULTIPLE WAYS OF MANAGING RISKS

Santam's risk approach takes many forms. This year, we conducted a risk assessment survey, which involved 188 participants, assessing 20 risks across operational, financial and strategic risk categories. Ethics and compliance risks received the lowest risk rating scores. The highest velocity risks included extreme weather events (e.g. floods, drought) and financial health/economic uncertainty (including risk of downgrade). This means that they can be expected to occur in a short time frame with high impact.

The group and business units each have a detailed risk appetite policy with criteria that consider financial and non-financial risk categories. All this indicates how much risk Santam is willing to take in the pursuit of achieving its strategic and operational objectives, and quantifies the amount of capital the group is willing to put at risk in the pursuit of value creation.

When a risk event occurs – despite mitigating and preventative measures – constructive action is taken. An example was the financial irregularities identified at SORAS in Rwanda relating to prior financial years. Corrective measures were immediately taken to address these irregularities.

The risk table below provides a summary of strategic risks – all rated as high-ranking – and indicates where these have increased in probability and severity in the past year:

STRATEGIC RISKS	DESCRIPTION AND SANTAM RESPONSE	TREND
DELIVERY ON GROWTH TARGETS THROUGH MULTIPLE DISTRIBUTION CHANNELS	Growth outside South Africa remains a key strategic focus, while maintaining our local leadership position. Country-specific initiatives between SEM, Santam Specialist and Santam re include increasing business visibility, quote volumes and sales capability, while managing acquisition cost. We continue to explore acquisition opportunities that can add to our product offering and generate profitable premiums.	↑
OUTSIDE-IN FACTORS: POLITICAL, ECONOMIC, SOCIAL AND COUNTRY RISK (INCLUDING THE RISK OF A SOVEREIGN DOWNGRADE)	South Africa's low growth is exacerbating already high unemployment, inequality, and macro vulnerabilities. Inflation will impact consumer spending, which may result in an increase in cancellations and return debits. Investing in other regions allows the group to better manage its South African exposure. The agreement with Munich Re of Africa to use their AA- international credit rating should support growth strategies for Santam Specialist and Santam re businesses.	↑
RISKS ASSOCIATED WITH INTERNATIONAL DIVERSIFICATION	Santam is expanding in multiple territories through SEM, the Santam re and Santam Specialist businesses. This diversification introduces additional operational risks, specifically in the underwriting process and through reliance on intermediaries within these territories. Technical support is critical in some areas, combined with specific operational controls around underwriting processes.	↑
INVESTMENT PERFORMANCE	Investment performance is most significantly impacted by the group's exposure to volatile investment markets. The group actively manages its investment portfolio to optimise the investment return within the agreed risk appetite. Appropriate rebalancing of investment assets is managed with the payment of ordinary and special dividends.	→
REALISING BENEFITS IN DEVELOPMENT OF A NEW CORE UNDERWRITING, ADMINISTRATION AND PRODUCT MANAGEMENT PLATFORM	The business has to migrate to new operational environment and technology platform without compromising stability to optimise efficiency. The Santam Commercial and Personal business unit is currently undergoing such an implementation, which is tightly managed and monitored by formal project and oversight structures. Potential delays in the further deployment and migration might result from capacity constraints, complexity and competing business priorities. Progress and risks are monitored at board level, given the size of the investment. Good progress and high confidence levels highlight the overall downward trend of this risk over time. Management remains confident about the delivery of this project.	→

STRATEGIC RISKS	DESCRIPTION AND SANTAM RESPONSE	TREND
INNOVATION/NEW THINKING TO INCREASE EFFICIENCY/ PRODUCTIVITY AND REDUCE COST BASE IN MEDIUM TERM	The ability to create strategic agility, considering the potential future business contexts facing insurers, will be critical for Santam to remain competitive. The fourth industrial revolution is disrupting almost every aspect of business, transforming entire systems of production, management and governance. This is creating a peer economy of sharing, collaborative consumption and commercial peer-to-peer mutualisation systems. It will also result in greater availability of data, which can allow for more effective pricing and risk underwriting, given access to the appropriate skills and analytical capability.	Δ
REGULATORY REFORM CHANGES, UNCERTAINTY AND IMPACT	Regulatory change remains at the top of the agenda for the financial services industry. Delays in the implementation of SAM and Retail Distribution Review (RDR) continue to have cost and efficiency impacts which are managed as effectively as possible.	↑
CYBER SECURITY	Any financial loss, business disruption or reputational damage that results from the failure of Santam's information technology (IT) systems contributes to cyber risk. To understand and manage this risk, a cyber-resilience framework and risk assessment was concluded to identify the necessary process and toolkit to safeguard the group. A cyber-crisis learning intervention also contributed to an update of the Santam crisis management guide to cater for cyber scenarios. Read more about the Santam hackathon on page 37.	↑

Risk movement indicators:

↑ Risk has increased → Risk has remained the same Δ New risk

READ MORE ABOUT OUR RISK MANAGEMENT APPROACH IN THE RISK REPORT ON PAGE 88.

TRANSFORMING FOR GROWTH IN SOUTH AFRICA

Santam's approach to business transformation is directly aligned to the vision and the brand promise of ***Insurance good and proper***.

We understand the value of diversity and an inclusive approach to drive superior and sustainable business results. Santam's progress in transforming the business – and contributing to transformation in the industry and the economy – has created significant value for our stakeholders.

For the South African businesses, BBBEE remains a key priority. A new, focused transformation strategy was adopted to ensure delivery on the following objectives:

- Driving high-impact transformation initiatives for business and societal value
- Creating a diverse and inclusive culture
- Driving transformation through innovation
- Leading transformation compliance

We have developed specific initiatives and actions for each objective, with the executive team taking responsibility for the implementation, monitoring and evaluation of the transformation agenda across the group.

Salient transformation features for 2016 include:

- Diversifying our supplier network by investing a further R30 million into the ASISA Edge Growth fund (a total of R40 million to date) to create access to loan funding for new and small BBBEE suppliers in the sector
- 11 of the 19 participating suppliers in the Sanlam Santam Enterprise Development Programme in partnership with ASISA are Santam-specific suppliers
- Improvement in the mechanisms used to grow our footprint into the South African entry-level market include the establishment of "Lemon" (lateral emerging market opportunity network) to provide the different business units with a formal platform to share, explore and identify strategies and actions to create access to and for this market. These include, for example, Santam Agri, Santam Direct and VUM, and provide a central reporting facility for targets set on consumer financial education initiatives, activation and impact
- Santam achieved a level 2 BBBEE status based on the new FSC requirements. The group has been able to retain its ownership score after the unwinding of the BBBEE scheme in 2015
- Finding and developing a viable and affordable offering for the lower market segments in South Africa remains challenging. R8.3 million was invested in consumer financial education across business channels and more than 129 000 policies were sold as access products in South Africa through 75% FSC-approved products

READ MORE ABOUT OUR PROGRESS WITH CONSUMER FINANCIAL EDUCATION INITIATIVES IN THE STORY ON PAGE 36 AND TRANSFORMATION IN THE REPORT ON PAGE 98.

RESPONSIBLE COLLABORATION

We continue to expand our collaboration with Sanlam where it makes sense for us to do so. This includes, for example, our support of Sanlam's group chief executive, Ian Kirk, who represented the wider group in recent engagements with government and inter-ministerial teams to develop solutions for South African job creation, economic stability and growth.

Where Santam enters into transactions with Sanlam through SEM Investments, these are governed and at arm's length, with specific involvement of Santam's independent directors.

Collaboration with Sanlam further entails participation in the governance roll-out through SEM. Following the fraud uncovered in Rwanda, there is even more focus on ensuring that all subsidiary boards and partners subscribe to the group's ethics, anti-bribery and anti-corruption policies. We have also done further work in developing risk appetites in collaboration with the management teams in different territories – all to prevent future reputational damage.

Collaboration between Santam, the Department of Cooperative Governance and Traditional Affairs and the Emthunzini Broad-based Black Economic Empowerment Community Trust has resulted in an acceleration of the Partnership for Risk and Resilience programme, which will now be extended from five to 53 local municipalities over the next five years.

READ MORE ABOUT THE IMPACTS OF THIS PARTNERSHIP ON PAGE 50.

OUTLOOK

We focus on the future to ensure that our board and management teams are attuned to what might happen – and how quickly things are changing. Agility will be our most important capability when considering future business contexts. This will also enable us to respond to what matters most to our stakeholders, as we recognise that this matters most to us.

South African trading conditions remain competitive in a low-growth economic environment, which translates into almost no growth of insurable assets for the insurance industry.

The group's focus remains on profitable growth in South Africa and to increase its international diversification through the Santam Specialist business and Santam re. Santam continues to focus strategically on supporting the development of the SEM general insurance businesses in emerging markets by allocating appropriate technical resources. In South Africa, focus areas include developing Santam's full multichannel capability and MiWay's business insurance and broker-direct offerings, and the MiWay Life insurance initiative with Sanlam Life.

We continue to focus on the optimisation of the claims and procurement value chains to increase efficiency and counter the impact of the weakening rand. The group will also maintain its focus on cost-efficiencies to improve the management expense ratio over the medium term.

The investment market is likely to remain uncertain. The higher-interest-rate environment will result in increased interest income for the group but higher volatility is expected on interest-bearing instruments. The increased exposure to non-rand-denominated business further increases foreign exchange volatility.

With our new transformation strategy for the South African business units contracted and firmly on track, we expect improvements to become visible and measurable as we create a diverse workforce, intermediary and supplier base, enable access for non-traditional markets to products and services and make further impactful investments into communities.

APPRECIATION

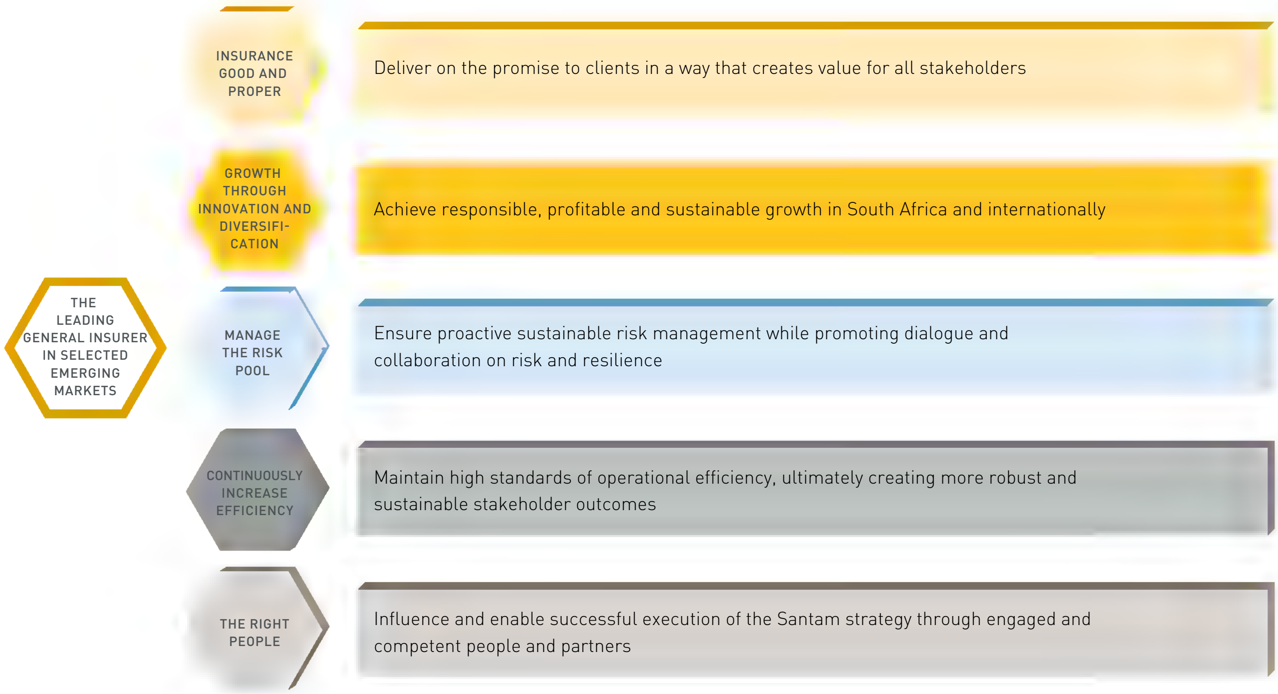
Many people contributed to the good management and stability at Santam in a challenging year. We recognise the efforts of our employees, intermediaries and old and new business partners. We also thank the board for their support and ability to steer the group on its journey towards our vision for 2020. The executive management team has again proven their tenacity and commitment to the group, industry and all its stakeholders. We are confident in the ability of our people to create opportunities in the face of a challenging 2017.

Grant Gelink
Chairman

Lizé Lambrechts
Chief executive officer

STRATEGY REVIEW

The five focus areas of the Santam strategy remain relevant to all group entities and territories. However, the implementation emphasis is at different levels of maturity in different areas of the business. A group dashboard tracks operational progress on a quarterly basis, and continuously evolves to include reporting from new territories, acquisitions or ventures. The strategy report below is still weighted towards the South African business units, and provides examples of how the strategic focus areas are being implemented across the group.



INSURANCE GOOD AND PROPER

Santam's products and services continue to be designed, marketed and delivered in a way that is fair, respects others and adds to the well-being of clients and broader stakeholder groups. However, ***Insurance good and proper*** goes beyond products and services to include Santam's commitment to:

- building a successful and sustainable business in Africa;
- actively contributing to transformation and economic development in South Africa and Africa through successful community partnerships, investments and sustainable business initiatives; and
- progressively improving the social and economic well-being of its stakeholders and customers by reducing risk when it comes to insuring the needs of its customers.

A CLIENT-CENTRIC GROWTH CULTURE

The claims experience is a policyholder's opportunity to test Santam's delivery on the brand promise of ***Insurance good and proper***. Therefore, client satisfaction is an important measure for the brand.

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
- An external credible independent measure called the South African Customer Satisfaction Index (SAcsi)

SAcsi is an independent national benchmark of customer satisfaction of the quality of products and services available to household consumers in South Africa. According to the 2016 SAcsi results, Santam retained its leadership position in the short-term insurance industry, increasing its client satisfaction score from 77.3 to 80.0. The survey indicated that the competitive practice of lowering premiums by cutting out intermediaries, is no longer carrying favour from customers, as reflected in a marked drop in expectations, perceived quality and perceived value.

A further external measure of client satisfaction is the Ombudsman for Short-Term Insurance (OSTI) annual report statistics. The 2016 report (relating to 2015 data) indicated that Santam received the highest share of claims (FSB statistics) in the industry at 12.11% due to its leading market position, whereas its share of OSTI claims were only 7.29%. In 30% of the finalised OSTI cases against Santam, the policyholder received some benefit, just slightly above an industry average of 27%. This means that 70% of claims (71% in 2015) were awarded in favour of Santam.

3.05% of ombudsman claims related to MiWay claims and 86.2% (2015: 77.4%) were upheld in favour of MiWay.

MiWay measures client satisfaction for nine touchpoints, based on TCF principles. The nine elements include feedback on premium changes, new policy activation, quotations not accepted, emergency assistance, claims experience and retention. In the past year, the business unit received highest monthly scores from clients who activated new policies or went through the retention process, which indicates a high understanding of the product, related service and their experience of the take-on/retention process. Lowest scores were measured in the dispute and complaints categories, where small samples are dominated by clients who are not satisfied with the outcome of their complaint. A dedicated team focuses on improving these clients' experiences.

Santam won the Financial Intermediaries Association of Southern Africa's (FIA) Short-Term Insurer of the Year: Personal Lines award for the sixth time since 2007. The FIA awards are one of the most comprehensive total industry broker satisfaction benchmarks produced in South Africa. It awards insurers that provide the best support to the country's financial advisers and insurance brokers.

These accolades strengthen the credibility in the ***Insurance good and proper*** proposition.

SUPPORTING THE SANTAM BRAND PROMISE

As part of strengthening the ***Insurance good and proper*** positioning and driving innovation, Santam launched a safety ideas initiative this year. The campaign invited submission of safety ideas and concepts for the public with the winning concepts going through an incubation process for further development into prototypes to further stand the chance of being turned into viable businesses. This initiative strengthens our association with safety and risk management creates opportunities for enterprise development and investment, and ultimately supports Santam's commitment to manage the risk pool and reducing systemic risk.

A further initiative to entrench the brand promise related to Santam suppliers: training was undertaken with 32 motor body repairers on Santam's code of ethics, the Business Integrity policy and preventative measures for reducing the risk of misconduct within their own businesses. They were also encouraged to participate in International Fraud Awareness Week.

Santam's internal Staff Reporting Initiative celebrates 10 years of reporting. It provides employees with a platform for safe reporting of misconduct through a range of whistle-blowing channels, including an internal fraud line, hotlines (in South Africa and Namibia), SMS, WhatsApp and e-mail facilities. Whistle-blowers are ensured of being protected as they are able to make disclosures in a safe and confidential environment. The initiative dealt with 4 000 reports, reported 1 150 criminal cases and secured 300 convictions over the 10-year period. Leads originated from employees, suppliers, intermediaries and policyholders.

The risk of fraud and crime, which directly undermines the brand promise, is further mitigated by collaborative internal efforts. An example of this is the newly established Business Integrity Forum, which was set up to enable easy transfer and sharing of information between Santam subsidiaries. These efforts are all aligned to protect the Santam brand and reputation.

READ MORE ABOUT ETHICS RISK MANAGEMENT ON PAGE 77.

Santam also recently joined the Coalition for the promotion of Ethical Operations (the CEO initiative) showing support to promoting ethical business and good governance in the sub-Saharan African region. Due to its presence in the region through SEM, Santam is in a position to share best practices to reduce corruption, to promote training for SMEs and engage in collaborative action.

READ MORE ABOUT SANTAM'S INITIATIVES TO ALIGN ETHICAL CULTURES AND LEADERSHIP IN "THE RIGHT PEOPLE" ON PAGE 53.

TREATING CUSTOMERS FAIRLY

Santam is committed to embedding the principles of Treating Customers Fairly (TCF) into its strategy and culture as the cornerstone of the brand promise, ***Insurance good and proper***. A pragmatic approach is applied for TCF implementation, balancing outcomes and fairness with business sustainability and commercial imperatives.

Quarterly TCF forum meetings are held to monitor implementation and progress, with a TCF dashboard part of scheduled input to the board.

The focus this year was on maturing the TCF management information. This included improving complaints data reporting and developing product risk assessment matrices. The need for more product training for intermediaries was identified as a focus area going forward.

GROWTH THROUGH INNOVATION AND DIVERSIFICATION

Santam is the largest South African insurer and the most diversified among its peers. The group currently generates 10% of its premiums from outside of South Africa and has a strategic goal to grow this contribution significantly through the Santam Emerging Markets Investments, Santam re and Santam Specialist business units.

GEOGRAPHIC DIVERSIFICATION

The group has a presence in 31 countries following recent acquisitions. Growth in South Africa remains challenging due to economic conditions and Santam's leading market position, which limits acquisition opportunities. The group's main growth options are international.

FIND THE DETAIL OF CURRENT GEOGRAPHIES ON PAGE 28 AND READ MORE ABOUT ACQUISITIONS IN THE LEADERSHIP REPORT FROM PAGE 40.

GROWTH THROUGH INNOVATION

Technology and the availability of data create many novel insurance options, such as pay-as-you-go packages. Although Santam continuously explores innovative solutions, the associated risks in terms of fraud and regulatory complexities, challenge the viability of these offerings.

Telematics as a way to measure various aspects of vehicle location and driver behaviour, continue to be a value add option for motor insurance. However, given the fact that South Africa's safety and security considerations – related to theft and hijacking – remain a priority, the cost does not yet justify perceived benefits for policyholders. Nevertheless, Santam offers an approved vehicle recovery or telematics system which can help clients limit their exposure to vehicle accidents and thereby reduce insurance premiums.

Santam and Sanlam created a tied agency model in 2015 to contribute to the group's multichannel strategy and proactively respond to the pending RDR legislation. This new distribution channel will restrict agents to a range of Santam, Santam Specialist and MiWay products, in exchange for a more favourable remuneration structure. Early adopters were provided with incentives, which resulted in significant new business.

Santam's direct business is a further element of channel diversification and is performing to expectation. The focus remains on understanding the market, customer experience and expectations, and finding best practices to meet these proactively.

GROWTH THROUGH NEW MARKET SEGMENTS

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 and to meet the needs of previously underserved individuals and communities.

These initiatives transfer knowledge and skills to potential clients by creating an understanding of insurance products and services. This enables Santam's potential client target market to make informed decisions about their finances and lifestyle. For example, we targeted individuals through the Twelve Apostles Church in Christ (TACC) CE Awareness campaign, as well as through small enterprise and business education. Another example is Santam Specialist partnering with The Box Shop, a recently established retail outlet and business incubator situated within the Vilakazi Street precinct of Soweto. The business embarked on a pilot programme to set up a learning hub, providing specialist consumer financial education for entrepreneurs. The focus is on interactive teaching, covering concepts such as the basics of financial planning, business budgeting, insurance do's and don'ts and the risks faced by entrepreneurs. As at the end of 2016, 426 entrepreneurs were trained.

READ MORE ABOUT SANTAM'S EMERGING FARMER EDUCATION INITIATIVE ON PAGE 31.

The development of a value proposition for the lower-income market remains challenging. This will receive attention in the next financial year.

MANAGE THE RISK POOL

Through managing our risk pool, we ensure proactive sustainable risk management while we diversify.

Risk pooling is integral to the efficient functioning of markets, economies and society. As the risk landscape evolves, spawning new and complex risks, Santam continuously monitors trends and changes that can materially impact risk profiles and claims patterns.

Santam's approach encompasses end-to-end risk management, and includes assisting policyholders in managing their own risks better – often through incentives linked to proactive measures.

An example of responsive product development was the inclusion of extended cover for solar panel installations. As more individuals, business and farmers started securing independent power sourcing options as a more reliable and cost-effective option, Santam recognised that these installations are also susceptible to theft or weather damage. In the agricultural sector, in particular, this can take the form of critical power generation for farm equipment or machinery such as windmills or water pumps or to the main farm buildings as a source of additional power or heat.

Santam is the only South African insurer with a scientific experimental farm that conducts accurate, in-depth hail simulation research on crops to ensure accurate damage assessments. The research entails specific analyses of crop damage at different growth stages that are unique to South Africa's climate, soil and cultivars. The research results enable us to differentiate between new varieties introduced in the past few years in terms of recovery potential following physical damage from weather events. More accurate damage assessments also assist the group in adjusting risk rating levels more accurately.

BUILDING PARTNERSHIPS FOR RISK AND RESILIENCE

We remain mindful of the challenges South Africa faces that require strong partnerships to meet the sustainable development goals and make the National Development Plan (NDP) a reality. Santam has heeded the call to improve the resilience of communities and continues to secure significant successes with our holistic, shared risk management partnerships with a wide range of stakeholders, including business, land owners and local government. Our Partnership for Risk and Resilience, previously known as Business-Adopt-a-Municipality (BAAM), continues to gain momentum.

Partnerships are key to reduce risk on the ground. This includes disaster risks, such as floods and fires, which can have a significant impact on communities and businesses. The creation of the Partnership for Risk and Resilience attempts to include both the work done under BAAM since 2011 and the work done under the Santam High Risk Node initiative to address climate and systemic risk.

Santam expanded and accelerated the programme in response to government's request for increased assistance to support municipalities that are dysfunctional and at risk. The needs of vulnerable communities have also been increasing in these municipalities.

The Emthunzini Broad-based Black Economic Empowerment Community Trust was approached for increased funding over the next five years to expand the programme from five to 53 local municipalities.

The Partnership for Risk and Resilience programme has the potential to positively impact the lives of over five million South Africans as it addresses the issues of disaster risk management, job creation, installation of early warning systems and ensuring capacity in municipalities to improve service delivery.

The following municipalities were targeted in 2016:

- Ehlanzeni District Municipality (five local municipalities)
- Sarah Baartman District Municipality (seven district municipalities)
- Sedibeng District Municipality (five local municipalities)

The objective is to target three district municipalities per annum until 2020. Santam will endeavour to bring various partners on board to support the programme.

READ MORE ABOUT SMOKE ALARMS AS A WAY TO REDUCE RISK IN TARGETED MUNICIPALITIES ON PAGE 34.

CSI BRINGS FURTHER RISK SUPPORT

Investing in communities makes them more resilient and self-sufficient over the longer term. This is good for business and has a positive impact on the economy. Santam's corporate social investment strategy is directed primarily at building resilience in communities in the targeted high-risk municipalities (Ehlanzeni, Sarah Baartman and Sedibeng).

Focus areas include:

- Driving community risk awareness through partnerships to address the drivers of risk and inculcate appropriate risk response behaviour
- Partnering with appropriate entities to increase capacity for disaster response and disaster relief in vulnerable communities
- Assisting with the improvement of technology to enable communities to use early warning systems to drive proactive risk management behaviour
- Addressing the causes of fire risks in communities by providing safer alternatives, for example replacing candles with solar candles, heat and smoke sensors, etc.
- Where appropriate, assisting neighbourhood watches with necessary equipment to improve their service to communities
- Focusing on hotspots in the high-risk communities and address high-risk activities through partnerships and programmes, for example eradication of alien vegetation projects for job creation purposes, firebreaks, etc.

Santam invested R21 million in CSI projects, including consumer financial education (CFE) (2015: R16 million), with the majority allocated to environmental and development programmes.

READ MORE ABOUT SANTAM'S CSI INITIATIVES ONLINE.

MANAGING CLIMATE RISKS

Weather patterns are becoming difficult to predict in the context of global warming, exacerbated by urbanisation and the impact of increased concentration in big cities.

Santam has been a member of ClimateWise since 2009. We are committed to forward action on climate risk and to find ways for our actions, products and solutions to effect positive change, build resilience and to reduce the risks that the climate poses for our industry, our business and society at large.

Santam uses the PwC ClimateWise Principles Independent Review to track its progress in addressing climate risk. The ClimateWise Principles provide an international standard tailored specifically to the insurance sector. Adherence to these principles demonstrates a commitment to orientate business practice towards a resilient, low-carbon economy.

Santam has improved its ranking among ClimateWise members from 14th in 2015 to 12th place. The group achieved an overall score of 56% (2015: 49%).

A number of initiatives have been implemented to account for the impact of climate challenges, including geocoding, actuarial pricing and providing support to local authorities. Santam investigated the impact of water scarcity on underwriting. This was typically residually rated as low, as policy wording in most instances excluded cover in water scarcity scenarios. It is now included in the top lists of risks and is being actively monitored to determine mitigating actions and potential interaction with other perils due to the potential wider impact of water scarcity.

The group continues to engage with policymakers nationally and internationally to improve systemic resilience. Santam participated in the PSI GRP and signed the Sendai Statement for disaster risk management. The group is a member of the stakeholder council of the Global Infrastructure Basel (GIB) voluntary Standard for Sustainable and Resilient Infrastructure and was a signatory to the Paris Pledge for Action in support of achieving and exceeding the implementation ambitions of the final COP21 agreement in 2015.

READ MORE ABOUT COLLABORATION REGARDING INFRASTRUCTURE AT RISK DUE TO CLIMATE RISK IN THE REAL-LIFE STORY ON PAGE 33.

MULTINATIONAL RISK MANAGEMENT

Santam is building capacity to improve the understanding of risk exposures in the geographical markets where we invest. The failure rate has been high for multinationals penetrating African markets without a deep understanding of local dynamics, skills and conditions. Santam develops an understanding of market dynamics through research and relationships and by recognising that Africa is made up of 54 sovereign states that cover a range of natural ecosystems and an even more vast range of cultures, with about 2 000 languages spoken.

READ MORE ABOUT HOW WE APPROACH RESPONSIBLE DIVERSIFICATION ON PAGE 54.

DATA AND SYSTEMS SUPPORTING RISK MANAGEMENT

Santam's multiyear investment in a new policy administration system is enabling the business to improve risk assessment, pricing and underwriting. The new system, which has been implemented for personal policies and is at the policy migration phase for commercial, also improves the group's ability to respond quickly to the market from a product perspective. It helps streamline and improve processes and system infrastructure, and enables us to interact with customers through a variety of channels.

READ MORE ABOUT SANTAM'S INVESTMENT IN NEW SYSTEMS IN "CONTINUOUSLY INCREASE EFFICIENCY" ON PAGE 52.

Santam's claims experience over the last few years reflects rising levels of flood, fire and storm events. The group has been investing in data access and quality to improve our understanding of these phenomena.

RISK MANAGEMENT THROUGH THE INTERNAL CAPITAL MODEL

With the implementation of SAM now scheduled for 2017, Santam has entered the next phase in the approval of its internal capital model. Santam operates an internal capital model that is in line with best practice, to assist with capital management, risk quantification and decision-making. The group has been engaging with the FSB for several years to establish the suitability of the internal model for regulatory use once SAM is enacted. The FSB has evaluated the internal dimensions of the model through thematic reviews, and has now given the go-ahead for Santam to enter the formal application phase.

CONTINUOUSLY INCREASE EFFICIENCY

We maintain high standards of operational efficiency, ultimately creating more robust and sustainable stakeholder outcomes by continuously increasing efficiency.

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. An investment in technology of R212 million capitalised since inception has, for example, enabled Santam Commercial and Personal to improve productivity measurably. The investment assists the business unit in implementing the strategy and being competitive in a world of digital disruption. It provides optionality in optimising current processes and accessing new business models. In practice, this means that intermediaries and policyholders can select their Santam interface, offering and profile seamlessly – at any time, from anywhere.

The majority of personal line policies have been migrated to the new system. This is expected to be completed in 2017. New business is already being written on the system. Commercial policies have been migrating since June 2016.

TRANSFORMING SUPPLY RELATIONSHIPS

Santam's suppliers form an integral part of the claims management process and the group's ability to deliver on its promise to clients. Procurement and sourcing have been centralised for the Sanlam Group, including Santam, but subsidiaries still have the option to manage their own sourcing, for example at MiWay.

Suppliers encompass functional elements that include claims assessment, contact centres, drive-in centres, a variety of technical specialists, repairers and the internal arbitrator. The robustness of the supplier network is tested for efficiency, cost-effectiveness and reliability by catastrophe events, such as floods in Johannesburg this year. Total claims incurred for the year amounted to R12.9 billion (2015: R11.5 billion).

The supplier network is also an area of high impact through empowerment initiatives, with the opportunity to encourage local employment and sourcing. In collaboration with the Sanlam Group, Santam continued its participation in the Sanlam Santam Enterprise Development Programme in partnership with ASISA. Santam has contributed R40 million over two years by investing in the sustainability of small and medium-sized enterprises in the group supply chain. The programme assisted 81 small and medium enterprises that support 264 jobs, including 67 new jobs.

In total, 88.7% (2015: 96.9%) of the group's spend is with BBBEE suppliers, of which 43.9% (2015: 41.3%) are qualifying small enterprises or exempt micro-enterprises.

Santam also engages regularly with stakeholders such as the South African Auto Repairer and Salvage Association (SAARSA) and South African Building Contractors and Civils Association (SABCCA) to find ways to increase its support of supplier development initiatives and direct its spend to enable empowerment.

CONTINUOUS COST MANAGEMENT

A weaker currency has a direct impact on Santam's claims costs in South Africa. To mitigate and manage this risk, Santam has implemented a value-based decision model 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.

The group continues to explore initiatives to contain costs, as this contributes positively to Santam's loss ratio and supports affordable insurance premiums. Some progress has been made in contracting direct supply of parts to motor body repairers through original equipment manufacturers. This is a long-term initiative with engagements at different stages of maturity, and overall good interaction with dealer groups.

The Santam claims card is functioning well with further functional enhancements implemented to support flexible, client-centric claims fulfilment processes. Further roll-out of the card mechanism and leveraging of the supply base in this regard is planned for 2017.

Santam's internal cost management process includes quarterly expense forum meetings, which monitor expense trends and drive savings. This is approached holistically, considering cost management from policy formulation through to cultural drivers. We believe in constantly making small improvements to deliver long-term optimisation.

THE RIGHT PEOPLE

For the past 99 years, people have been at the heart of Santam's business and its success. Our strategic focus on "the right people" ensures that we have the right people in the right positions to deliver on our chosen strategies.

Our achievements include the continuous adjustment to a diverse employee complement that is suited to the contexts in which we do business, and progress towards meeting our transformation targets.

THE RIGHT PEOPLE FOR A MULTINATIONAL CONTEXT

Santam's expansion outside South Africa requires building people capabilities to manage increasing size, scale and complexity. With a growing presence in South Africa, sub-Saharan Africa, India and Malaysia, the group has to take the development of leadership skills beyond the traditional to include traits such as the ability to influence, cultural intelligence and an understanding how to manage and lead in different environments.

Our leadership programmes – at junior, middle and senior management levels – have a strong leaning towards managing diversity, leading and managing change, innovation across different geographies and collaboration with global partners. These programmes are designed and facilitated in partnership with external parties and business schools.

Our business, and that of our partners in other geographies, also requires key technical skills that include general insurance, specialist underwriting, actuarial, operational and finance. For example, through SEM, we are in the process of rolling out a surveyor training e-learning course, with the necessary on-site support.

To support the business partners where we invest, we have employees in medium-term secondments (one to three years) and short-term (three to six months) assignments. This creates the opportunity for talent mobility and development across the business.

We also have partnerships through which our business partners in international markets assign their employees for training and knowledge sharing in the Santam South African businesses.

It is vital that we are able to "export" the Santam culture, underpinned by the values of integrity, passion, humanity, innovation and excellence. These engender trust in the Santam brand wherever we operate.

THE RIGHT PEOPLE FROM A TRANSFORMED PERSPECTIVE

At Santam, transformation is embedded and integrated into the way our business operates and across our stakeholder value chain.

Our focus remains on the diversification of our South African workforce, intermediary and supplier network, providing opportunities for non-traditional markets to access Santam's products, as well as investment in the communities in which Santam employees live and where the group does business. Transformation initiatives reinforce the brand promise of ***Insurance good and proper***.

A new diversity strategy was launched in April 2016 to ensure that the Santam culture supports sustainable transformation.

To ensure future availability of black intermediaries for the industry, and as a critical element of Santam's business model and transformation priorities, the Santam Black Broker Development programme, which focuses predominantly on developing skilled black people as intermediaries, has delivered 166 black learners in 2015 and 2016. The learners have graduated from the programme with a full insurance qualification and are now contributing to the South African economy.

The programme has been expanded to smaller cities like Pietermaritzburg and Bloemfontein to provide broader access. The goal is to expand the programme to youth in rural towns. Efforts to increase the placement of Black Broker Development graduates in permanent employment are progressing, following the establishment of a central structure in Santam to encourage and promote cross-selling opportunities and generate business leads across various distribution channels.

As part of Santam's effort to build a pipeline of new entrants into the insurance industry, a concerted effort is made to place as many of the Black Broker Development graduates with either intermediaries or Santam. Twelve per cent of the graduates of the class of 2015 have been placed.

Santam's learnership programmes for 2016 included:

- The Santam general insurance learnership programme
- The Santam motor assessor learnership programme
- The Santam Black Broker Development programme
- The empowerment incubator (Uyanda STI Careers)

THE RIGHT PEOPLE FROM AN ORGANISATIONAL PERSPECTIVE

Santam participated in the Top Employer Certification Programme for the first time and was subsequently certified as a Top Employer for 2017.

Attracting and securing new talent remains a challenge for Santam and the insurance sector as a whole. Santam invests funds and resources in the form of subsidised study assistance for employees, leadership programmes, graduate development programmes and the Black Broker learnership programme (the biggest general insurance learnership in South Africa). As a prospective employer, Santam provides cross-border mobility and opportunities in diverse fields, such as aviation, agriculture, marine and transport insurance.

Santam is also making progress with the implementation of the Strategic Resourcing Plan (SRP), which is creating additional roles to mitigate critical skills needs. Santam's talent management strategy supports the plan: high-potential successors for senior and middle management have been identified and talent pools have been created for critical skills, such as assessors and underwriters.

The Santam group annual recognition awards are targeted at individuals and teams who have made an exceptional contribution to the business and had an impact on the Santam strategy.

Santam drives performance excellence through a culture of performance accountability, employee engagement, reward and recognition. A project to review Santam's total rewards framework is in progress to ensure that our total rewards approach effectively supports talent attraction and retention.

All group employees have performance contracts in place for each year, with clear key performance indicators (KPIs), weightings, targets and measurements set for that period. These KPIs align with the group strategy and the business unit and team focus areas. In this way, the strategy is deployed into executive and business unit scorecards, and ultimately cascaded to individual performance contracts. Employees are formally appraised twice a year and given informal feedback on an ongoing basis. A four-level recognition framework and online 360-degree evaluation functionality was implemented to support the culture of performance excellence.

READ MORE ABOUT PERFORMANCE INCENTIVES IN THE REMUNERATION REPORT ON PAGE 93.

The 2016 Santam culture and engagement survey had an 86% response rate (2014: previous survey 89%) from a much wider range of participants, which included the Santam branded business units, MiWay, Brolink and several UMAs.

Employee engagement scores confirmed that employees care about their work and Santam, and that their level of motivation will facilitate growth in performance. The retention risk indicator, which measures the level of employee flight risk, indicated an overall medium retention risk, with some employees reporting that they are considering or are actively seeking alternative employment.

It is our people who, through their strong understanding of our clients, their personal and business challenges and associated risks, package general insurance solutions that contribute to the success of the company and the economy.

THE RIGHT PEOPLE IN NUMBERS

Santam's employee demographics at the end of the year constituted the following:

	Black				White					
	Female		Male		Female		Male			
	2016	2015	2016	2015	2016	2015	2016	2015	Total 2016	Total 2015
Headcount	2 294	1 991	1 592	1 351	1 093	1 223	770	748	5 749	5 313
Percentage	39.91	37.47	27.69	25.43	19.02	23.02	13.38	14.08	100	100
Terminations	505	513	402	396	113	161	89	81	1 109	1 151
Appointments	726	661	584	506	77	151	96	95	1 483	1 413
Turnover (%)	22.01	25.76	25.25	29.31	10.33	13.16	10.82	1.46	19.29	21.66

The significant headcount movement noted above is largely as a result of the inclusion of employees with fixed-term contracts of three months or more and labour broker contractors in 2016, as required by the South African Department of Labour.

WE KNOW FARMERS VALUE MORE THAN JUST THEIR FARMS.

Our agriculture business understands that today's farmers know more than just farming. They have to take care of their farms, their families and their workers. That's why we help lighten the load by offering insurance that covers their farms, crops and livestock, as well as their personal assets, under one umbrella.

CHIEF FINANCIAL OFFICER'S REPORT

OVERVIEW

The Santam group reported underwriting results for the 2016 financial year well within the target range of 4% to 8% with a net underwriting margin of 6.4% compared to the exceptional 9.6% in 2015. The negative impact of a number of large property claims and the drought on the crop insurance business was set off by disciplined underwriting actions in the Commercial and Personal business, as well as a strong performance by the liability business and MiWay. Significant catastrophe claims were contained through reinsurance recoveries.

Acceptable gross written premium growth of 7% was achieved (6% excluding the impact of cell captive insurance business) in the current low-growth economic environment.

Investment income, net of fair value movements on financial assets and liabilities, of R832 million was significantly lower compared to R1 445 million in 2015. The South African investment portfolio performed better than the market. The relative strengthening of the rand during 2016, compared to the very weak position at December 2015, resulted in significant foreign currency losses of R372 million (including the SEM investment portfolio) compared to gains of R467 million included in investment income in 2015. In addition, the value of the SEM general insurance business portfolio showed negative unrealised fair value movements following tough trading conditions in certain emerging markets.

Headline earnings per share decreased by 41%, while a return on capital of 15.9% on an annualised basis was achieved. Normalising the results for the impact of the foreign currency gains and losses in 2015 and 2016, headline earnings per share would have decreased by 14%, while return on capital would have improved to 18.5%.

Cash generated from operations decreased to R2.2 billion (2015: R3.7 billion) impacted by the normalised underwriting performance in 2016 compared to 2015. The economic capital coverage ratio of 155% was close to the midpoint of the target range of 130% to 170%.

FINANCIAL RESULTS

A summary set of financial statements for 2016, 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 ON PAGE 22.

ECONOMIC ENVIRONMENT

Real annual GDP was a low 0.7% for 2016 with inflation (average CPI) of 6.4%, which equates to low growth of insurable assets for the insurance industry. The repo rate increased by a further 75 basis points in 2016, following the 50 basis points increase in 2015, which resulted in more pressure on consumers and increased interest income for the group.

The rand appreciated by 12% against the US dollar since January 2016 following the significant weakening in December 2015, which resulted in significant currency losses on foreign assets in 2016. The rand is, however, still weaker than pre-2014 levels, which continues to have a negative impact on claims cost (mainly imported motor parts). Santam continues to focus on the optimisation of the claims and procurement value chains to increase efficiency and counter the impact of the weakening rand.

CREDIT RATING AGREEMENT

South Africa's foreign currency sovereign rating was affirmed at BBB- (negative outlook) in December 2016. S&P, however, lowered its local currency rating on South Africa to BBB from BBB+, reflecting their view of South Africa's weakening debt position and continued low GDP growth.

As a result of this downgrade Santam's international counterparty credit and insurer financial strength rating was also lowered to BBB from BBB+ as it is limited to the level of the S&P local currency sovereign credit rating. The revised rating was a reflection of S&P's view on South Africa and was not driven by any change in the financial performance of Santam.

In order to compete in the international insurance market an A- or better international credit rating is often required. Santam has therefore entered into an agreement with Munich Reinsurance Company of Africa Ltd (Munich Re of Africa) in October 2016 in terms of which selected Santam business units will be able to use the reinsurer's S&P AA- credit rating to write inwards international reinsurance business on Munich Re of Africa's licence. This will enable Santam to further the group's strategic objective to profitably grow its business flows from territories outside South Africa in situations where an international credit rating of A- or better is required. The agreement between Santam and Munich Re of Africa is effective 1 January 2017.

The agreement with Munich Re of Africa replaces a credit rating agreement with another international reinsurer which expired on 31 December 2016, in terms of which Santam could use that insurer's licence for business which was dependent on a minimum international scale rating.

INSURANCE RESULTS

UNDERWRITING PERFORMANCE

The net underwriting margin of 6.4% decreased from the exceptional margin of 9.6% achieved in 2015. It is on par with the 10-year average of 6.4%.

Gross written premium growth of 7% (6% excluding the impact of cell insurance business), was on par with the 7% (7% excluding cell business) achieved in the corresponding period in 2015, impacted by competitive market conditions and the economic slowdown in South Africa.

The property class achieved strong growth of 11% on the back of increased corporate property business written in the rest of Africa and Asia and good growth achieved by the Santam re property portfolio. The motor class benefitted from the 19% growth reported by MiWay, but was negatively impacted by corrective actions on unprofitable books of business on outsourced platforms.

The liability and transport classes experienced significant competitive market pressure and reported a decline in gross written premiums of 9% and 1% respectively. The engineering business for large construction contracts was under strain following reduced construction activity in the current economic climate, reflecting growth of only 2%.

The crop insurance business showed significant growth of 17% following the low premium growth in 2015 due to prevailing drought conditions. Acceptable growth of 7% was achieved in the alternative risk class.

The group's focus on international diversification continued to reflect positive growth results with gross written premium from the rest of Africa, India, Southeast Asia and China of R1 431 million for the period (2015: R1 354 million). Santam Namibia reported gross written premium of R1 118 million (2015: R1 056 million), resulting in total gross written premium from outside South Africa for 2016 increasing to R2 549 million compared to the R2 410 million achieved in 2015. In addition, Santam's portion of the gross written premium from SEM insurance businesses increased to R1 939 million (2015: R675 million).

The motor and property classes of business were positively impacted by continued disciplined underwriting, including a significant improvement in the underwriting results from business on outsourced platforms. The impact of the catastrophe hail events during 2016 was significantly reduced by recoveries from the catastrophe and sideways reinsurance programmes, resulting in the net impact of 2016 catastrophe events to be in line with 2015. A number of large corporate property claims reduced the underwriting results in the property class of business. MiWay reported a claims ratio of 63.6%, up from 60.9% in 2015, mainly due to the impact of significant new business growth and an increase in motor parts cost following the weakening of the rand in 2015. MiWay contributed an underwriting profit of R160 million (2015: R163 million). The continued investment in the expansion of Santam Direct, MiWay Business Insurance and MiWay Broker Direct reduced the net underwriting margin in 2016. These new initiatives however performed in line with their business plans to generate future profitable growth.

The underwriting profit of the engineering class of business showed a decrease compared to 2015, mainly due to the impact of competitive market conditions. The liability class reflected a significant improvement in underwriting results following claims estimate releases and the absence of large claims during 2016.

Despite the severe drought conditions during the first half of 2016, the crop insurance business achieved a net underwriting profit of R69 million (2015: R131 million). This was as a result of disciplined underwriting and fewer hail-related claims during the crop season. Gross drought claims of R231 million were incurred during 2016. The transportation class was negatively impacted by a number of significant aviation claims. Santam re delivered satisfactory results on third-party business.

There were no significant changes to the group's reinsurance programme for 2016 as the soft reinsurance market continued to provide opportunities to optimise reinsurance placements.

NET INSURANCE RESULTS UNPACKED

	2016		2015		5-year average	10-year average
	R million	% of NEP	R million	% of NEP	%	%
Net earned premium (NEP)	**19 826**	100.0	18 523	100.0	100.0	100.0
Claims incurred	**12 911**	65.1	11 510	62.1	65.6	66.3
Acquisition costs	**5 647**	28.5	5 234	28.3	28.1	27.3
Underwriting surplus	**1 268**	6.4	1 779	9.6	6.3	6.4
Investment return on insurance funds	**619**	3.1	499	2.7	2.6	2.9
Net insurance result	**1 887**	9.5	2 278	12.3	8.9	9.3
Combined ratio		93.6		90.4	93.7	93.6

The net acquisition cost ratio of 28.5% increased from 28.3% in 2015.

The management expense ratio decreased from 17.5% in 2015 to 16.5% in 2016. The 2015 comparatives included the management expenses of Indwe Broker Holdings Group (Pty) Ltd (Indwe). Following the sale of the controlling stake in Indwe in December 2015, the management expenses of Indwe are no longer consolidated in 2016. The adjusted ratio excluding Indwe for 2015 was 16.9%. Management expenses growth was well contained despite new growth initiatives.

Strategic project costs, included as part of management expenses, amounted to 0.8% of net earned premium (2015: 0.9%). These costs mainly relate to the continued development of a new core underwriting, administration and product management platform for the Santam intermediated business. The project is progressing according to plan with the majority of personal lines policies now migrated to the new system. The development phase of the commercial business product was completed in June 2016 and the migration processes has commenced. Development costs of R17 million were capitalised in 2016, bringing the total amount capitalised since inception to R212 million. Santam will maintain its focus on cost-efficiencies to improve the management expense ratio over the medium term.

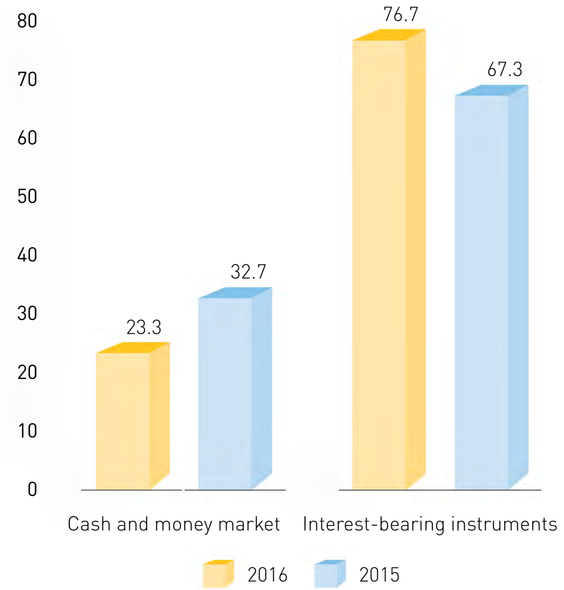
The net commission ratio was 12.0% (2015: 10.8%). The comparative ratio in 2015 excluding Indwe was 11.5%. A decrease in the commission ratio due to the growth in MiWay, where limited commission expenses are incurred, was offset by lower reinsurance commissions earned, mainly on crop and corporate property business, following relatively worse loss ratios compared to 2015. Furthermore, commission on inwards reinsurance business from Santam re, as well as business written in Africa, typically carries higher commission rates than South African business.

In managing Santam's risk pool, the aim is to retain the optimum amount of risk after reinsurance, taking into account the group's risk appetite and the cost of reinsurance. The level of reinsurance earned premium as a percentage of gross earned premium increased somewhat from 19.0% in 2015 to 19.8% in 2016 on a comparable basis, excluding the impact of cell business. Favourable reinsurance terms on specialist business lines, and increased reinsurance ceding by Centriq, were key drivers for the increase.

INVESTMENT RETURN ON INSURANCE FUNDS

The assets backing the net insurance funds (excluding Centriq group) decreased from R7.5 billion in December 2015 to R7.3 billion as at 31 December 2016, mainly due to lower technical reserves at the end of 2016 compared to 2015. The assets backing the net insurance funds (excluding Centriq group) were invested as follows:

ASSETS BACKING NET INSURANCE FUNDS (excl CENTRIQ GROUP) %



Currency mix of assets backing net insurance funds (excl Centriq group)		2016 R million	2015 R million
Cash and other short-term interest-bearing instruments	Rand	5 959	6 255
	US dollar	605	459
	Other currencies	324	315
Debt securities	Rand	–	52
	US dollar	391	408
	Total	7 279	7 489

The investment return on insurance funds increased to R619 million (2015: R499 million) supported by a 75 basis points increase in interest rates during 2016, higher-average insurance funds for the year, as well as the good investment performance of the investment portfolios backing the insurance funds.

INVESTMENT RESULTS

INVESTMENT INCOME

The South African investment portfolio achieved good returns in 2016; however, the investment results were negatively impacted by foreign currency losses and the performance of the SEM investments.

Listed equities achieved a return of 3.3%, lagging the SWIX benchmark of 4.1%. A hedge structure over R1 billion of equities entered into for the period May to December 2016 realised a profit of R75 million, increasing the total return of the listed equity portfolio to 8.4%. The Santam group's interest exposure is managed in enhanced cash and active income portfolios. The active income portfolios include exposure to bonds and longer-dated instruments and had about R7 billion invested in line with this strategy across the group during 2016. The active income portfolios achieved a strong performance of 10.6% for the year, comfortably exceeding the STeFI-related benchmark.

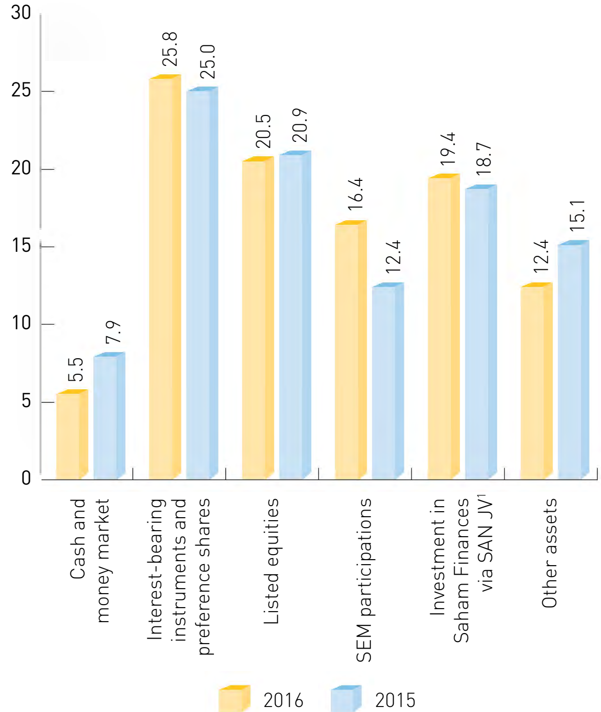
Negative fair value movements (excluding foreign currency losses) of R67 million (2015: positive movement of R47 million) in Santam's interest in SEM's general insurance businesses in Africa, India and Southeast Asia had a further negative impact on the investment performance.

The following were key drivers of the fair value movements of Santam's share of the SEM investment portfolio:

- A downward adjustment to the value of the P&O business in Malaysia of R88 million due to lower premium growth in competitive market conditions. There is a significant focus on expanding the current P&O product offering, and growth reported in non-motor business lines was positive.
- A reduction in the value of the investment in SORAS in Rwanda of R47 million following financial irregularities identified during 2016 relating to prior years. Corrective measures were taken to address these irregularities, and the business was recapitalised during the second half of 2016.
- An increase in the value of SGI of R51 million was mainly attributed to good growth achieved in the Indian insurance market.

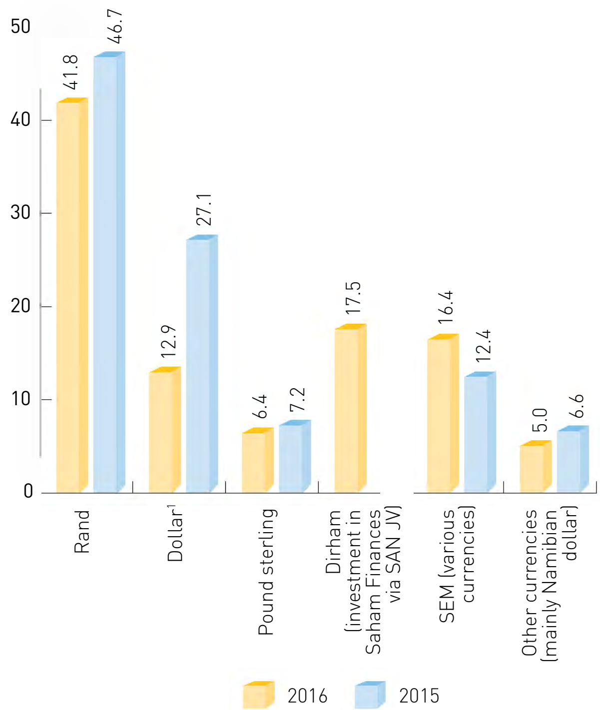
Net earnings from associated companies of R67 million increased from the R53 million reported in 2015 following the acquisition of the Saham Finances investment through a 25% shareholding in SAN JV, which contributed earnings of R43 million in 2016. No earnings were recognised from Credit Guarantee Insurance Corporation of Africa Ltd in 2016 (2015: R31 million) following the sale of this investment in 2015.

SHAREHOLDER FUNDS ASSET MIX %



[1] 2016 includes US$10 million cash designated for the further subscription of shares in Saham Finances via SAN JV, and 2015 included US$100 million cash designated for the initial subscription.

SHAREHOLDER FUNDS CURRENCY MIX %



[1] Includes cash designated for the Saham Finances transactions via SAN JV.

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 that there are sufficient liquid funds available to meet Santam's insurance liabilities to ensure that the subordinated debt obligations are adequately covered by matching interest-bearing instruments, and that the shareholders' funds are not unduly exposed to investment risk. Foreign currency assets are also held to back foreign currency insurance business conducted by Santam in order to manage the currency risk.

As at 31 December 2016, funds to the value of R1.7 billion (2015: R1.4 billion) backing the insurance liabilities and capital relating to the business written in foreign currency were invested in foreign currency bank accounts and global fixed income portfolios.

Investment management is mostly outsourced to Sanlam Investment Management, an external fund manager under predetermined mandates, which consists of a combination of various benchmarks, inter alia, SWIX and STeFI-related benchmarks. The overall performance of the fund manager against the mandates is monitored and tracked by management and reported to the Santam investment committee and board on a quarterly basis. The mandate guidelines include performance objectives, market risk limitations such as tracking error and duration, asset allocation, credit and exposure limitations, the use of derivative structures and compliance with relevant FSB regulations.

SEM PARTICIPATION INVESTMENTS

Santam entered into a series of transactions with SEM in December 2013, in terms of which Santam acquired participation interests in SEM's emerging markets general insurance investments. The co-investment arrangement positions SEM as a single investor for the Sanlam Group's general insurance businesses in emerging markets, while enabling Santam to share in the economic interest of the current and future general insurance expansion in these markets.

In principle, SEM and Santam participate on a 65%/35% basis, respectively, in the Sanlam Group's general insurance businesses in emerging markets. Through this participation, Santam obtains exposure to the Indian, Malaysian and African emerging markets, and has the opportunity to participate in the Sanlam Group's future emerging markets general insurance investments. Santam renders technical services to the SEM general insurance partner companies.

Santam has subscribed for shares of separate classes in SEM with each separate class linked to one of the following participation interests:

SEM INVESTMENT HOLDINGS

	Incorporated in	Santam effective holding 2016 %	Santam effective holding 2015 %
P&O	Malaysia	**15.4**	15.4
SGI	India	**15.0**	7.0
BIHL Insurance Company Ltd	Botswana	**21.2**	20.5
NICO Holdings general insurance subsidiaries	Malawi and Zambia	**19.8**	21.6
NICO Holdings general insurance subsidiaries	Uganda	**28.6**	29.3
NICO Holdings general insurance subsidiaries	Tanzania	**17.4**	18.1
SORAS	Rwanda	**26.1**	22.1
SOCAR s.a. Burundi	Burundi	**8.6**	7.3
FBN General Insurance Ltd	Nigeria	**12.3**	12.3
Enterprise Insurance Company Ltd	Ghana	**14.0**	14.0
Sanlam General Insurance Ltd (previously Gateway Insurance Company Ltd)	Kenya	**10.9**	10.9
Botswana Insurance Company Ltd	Botswana	**10.3**	–
Zimnat Lion Insurance Company Ltd	Zimbabwe	**14.0**	–
Grand Reinsurance Company (Private) Ltd	Zimbabwe	**14.0**	–

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.

Santam increased its participatory interest in SGI during the second half of 2016 by 8% to 15% at a cost of R251 million.

During the second half of the year, Santam contributed R36 million to the recapitalisation of SORAS.

The SEM investments accounted for 16.4% (2015: 12.4%) of the Santam group's shareholder funds.

SEM PARTICIPATION INVESTMENTS

			Fair value movements		
Region	2015 R million	Additions R million	Change in exchange rates R million	Change in valuation R million	2016 R million
Africa	271	83	(54)	(30)	**270**
Southeast Asia	382	–	(49)	(88)	**245**
India	352	251	(42)	51	**612**
	1 005	334	(145)	(67)	**1 127**

ANALYSIS OF SANTAM'S SHARE OF THE UNDERWRITING PERFORMANCE OF THE SEM INVESTMENTS

	2016		2015	
	R million	Key ratios (%)	R million	Key ratios (%)
Gross written premium	**962**		675	
Net written premium	**688**		494	
Net earned premium	**665**	**100**	499	100
Net claims incurred	**484**	**73**	397	80
Net commission	**32**	**5**	19	4
Management expenses	**162**	**24**	103	21
Underwriting result	**(13)**	**(2)**	(20)	(4)
Investment return on insurance funds	**119**	**18**	79	16
Net insurance result	**106**	**16**	59	12

The acquisition of a 30% shareholding in Saham Finances, together with SEM, was finalised during the first quarter of 2016. SEM and Santam's respective 75% and 255 acquisitions were structured through SAN JV.

In December 2016, SEM and Santam announced a further acquisition of a 16.6% interest in Saham Finances via a subscription for new shares for US$325 million, which are still subject to regulatory approval. Santam's share of the purchase price is US$7.35 million plus transaction costs. Santam's ability to participate in the transaction was limited due to the size of the investment already held in Saham Finances through SAN JV. The investment in Saham Finances comprised more than 17.5% of Santam's shareholder funds at 31 December 2016, making it the most significant strategic investment held by Santam. Santam's interest in SAN JV will therefore dilute to 15% (previously 25%). The dilution of Santam's interest in SAN JV will, however, not affect any of its existing shareholder rights.

ANALYSIS OF SANTAM'S SHARE OF THE UNDERWRITING PERFORMANCE OF THE SAHAM FINANCES INVESTMENT, THROUGH SAN JV, FOR THE 10 MONTHS TO 31 DECEMBER 2016

	2016	
	R million	Key ratios (%)
Gross written premium	**977**	
Net written premium	**789**	
Net earned premium	**749**	**100**
Claims incurred	**498**	**67**
Net commission	**89**	**12**
Management expenses	**185**	**25**
Underwriting result	**(23)**	**(3)**
Investment return on insurance funds	**61**	**8**
Net insurance result	**38**	**5**

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 also linked to the current and future regulatory capital requirements in terms of the existing and the newly formulated solvency assessment and management regime (SAM).
- The allocation of capital to business units or new business ventures/acquisitions.
- The amount and type of risk that the company is willing to assume in the pursuit of value creation.
- The reinsurance programme and asset allocation to optimise economic capital requirements.

Santam targeted a threshold return on capital hurdle rate of 24% in 2016. Capital is allocated to the various businesses in the group and the returns on these businesses are measured against the threshold hurdle rate.

UNSECURED SUBORDINATED CALLABLE NOTE PROGRAMME

Santam Ltd established a new R4 billion unsecured subordinated callable note programme on 29 February 2016. The group successfully issued R1 billion of subordinated debt under this programme in April 2016 with the purpose of investing the proceeds in an interest-bearing investment portfolio in order to enhance the group's regulatory position and to achieve economic benefits.

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 2016 based on the internal model amounted to R5.8 billion or an economic capital coverage ratio of 155%. 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.

In 2016, a review of optimal capital levels and the targeted solvency range was performed. This review took into account the current and future regulatory solvency requirements, the impact of the delayed implementation of SAM as well as the structural change to the statement of financial position following strategic investments made and further potential acquisitions. Following this review, the board of directors decided to reduce the Santam group's capital level by R880 million through the payment of an R8 per share special dividend in September 2016.

We remain committed to efficient capital management.

REGULATORY SOLVENCY AND CAPITAL REQUIREMENTS

One of the most important regulatory developments is the SAM that the FSB is in the process of developing for the South African long-term and general insurance industries to be in line with international standards. SAM will adopt the principles of the Solvency II, adapted to South African circumstances specifically, where necessary. The target date for implementation of the final requirements under the new regime, including the internal model approach for general insurers, is expected to be early 2018.

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

Santam is in the process of applying to the FSB to use this internal model for determining its capital requirements once SAM is enacted.

DIVIDENDS

The company paid an interim dividend of 311 cents per share, which was 8% higher than the 288 cents per share in 2015. Santam declared a final dividend of 570 cents per share for 2016 (2015: 528 cents per share), resulting in a total dividend of 881 cents per share for the year (2015: 816 cents per share). This represents an increase of 8%.
A special dividend of 800 cents per share was furthermore declared in 2016 (2015: zero)

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.

OTHER CORPORATE ACTIONS

During February 2016, Santam acquired a 49% stake in PST for R55 million. PST is an independent short-term insurer focusing on providing short-term insurance solutions exclusively to Graduate Professionals including the PPS Group's client base of more than 200 000 professionals. A pro rata recapitalisation in line with the business plan took place during the last quarter of 2016, in terms of which Santam injected a further R10 million into PST.

In August 2016, Santam announced the acquisition of RMB-SI Investments (Pty) Ltd (RMB-SI). The transaction, which is still subject to the fulfilment of certain conditions precedent, will entail Santam acquiring 100% of RMB-SI's specialist insurance structuring business. RMB-SI offers insurance structuring solutions across jurisdictions including local and offshore insurance licences in Mauritius and Ireland.

In November 2016, Santam purchased the Absa Intermediated Commercial Lines Business from Absa Insurance Company Ltd for R13.2 million in cash, including contingent payments estimated at R28 million.

Full details of the company's holdings in subsidiaries, associated companies and joint ventures are contained in notes 10.1 and 12.1 to the annual financial statements.

Hennie Nel
Chief financial officer

IT TAKES A SPECIALIST TO COVER ONE.

Specialist insurance offers unparalleled technical expertise across a vast variety of industries, from engineering and corporate property to travel and tourism. That is because we understand that some businesses require insurance solutions with the highest level of expertise.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

AS AT 31 DECEMBER 2016

Standing (from left): Bruce Campbell (66), Machiel Reyneke (59), Heinie Werth (53), Hennie Nel (48), Tantaswa Nyoka (née Fubu) (45), Grant Gelink (67)
Seated (from left): Dawn Marole (56), Themba Gamedze (58), Lizé Lambrechts (53), Ian Kirk (59)
Absent: Monwabisi Fandeso (58), Yegs Ramiah (49)

BOARD PROFILES
AT 1 MARCH 2017

GG GELINK (67)
Independent non-executive chairman
CA(SA), HED, BAcc (Hons)
Appointed 1 June 2012

Director of FirstRand Ltd, Grindrod Ltd, Allied Electronics Corporation Ltd (Altron) and MTN Zakhele. Chief executive officer of Deloitte Southern Africa from 2006 to 2012.

B CAMPBELL (66)
Independent non-executive director
BA, MBL, ACII & FCII (UK)
Appointed 4 October 2010

Previous managing director of Mutual & Federal Insurance Holdings Ltd and previous group chief executive officer of Alexander Forbes.

MP FANDESO (58)
Independent non-executive director
BSc (Hons), MBA
Appointed 10 October 2011

Director of South African Breweries (Pty) Ltd and SABSA Holdings Ltd. Previous chief executive officer of the Land and Agricultural Development Bank of South Africa.

T NYOKA (NÉE FUBU) (45)
Independent non-executive director
BAdmin (Hons), HDip in Banking Law, CA(SA)
Appointed 1 January 2015

Director of Grindrod Ltd, Grindrod Bank Ltd, Public Investment Corporation Ltd and former executive partner at KPMG.

BTPKM GAMEDZE (58)
Non-executive director
BA (Hons), MSc, FASSA
Appointed 16 October 2006

Director of Sanlam Emerging Markets (Pty) Ltd and Sanlam Investment Management (Pty) Ltd. Immediate past president of the Actuarial Society of South Africa and trustee of the Government Employees Pension Fund.

IM KIRK (59)
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 Channel Life Ltd, Genbel Securities Ltd, Sanlam Capital Markets Ltd, Sanlam Developing Markets Ltd, Sanlam Emerging Markets (Pty) Ltd, Sanlam Investment Holdings Ltd, Sanlam UK Ltd, Shriram Capital, Sanlam Netherlands Holding BV and WWF South Africa. Chairman of Association of Savings and Investment South Africa and Vumelana Advisory Fund NPC.

L LAMBRECHTS (53)
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 and chairperson of SAIA. Non-executive director of Saham Finances SA.

MLD MAROLE (56)
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.

NV MTETWA (37)
Independent non-executive director
CA(SA)
Appointed 8 February 2017

Previous managing executive of finance at Vodacom South Africa. Served as managing 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.

HD NEL (48)
Chief financial officer, executive director
CA(SA)
Appointed 17 September 2012

Director of Centriq group of companies, Emerald Risk Transfer (Pty) Ltd, MiWay group of companies, Stalker Hutchison Admiral (Pty) Ltd, Central Plaza Investments 112 (Pty) Ltd, Swanvest 120 (Pty) Ltd, Brolink (Pty) Ltd, Sanlam Emerging Markets (Pty) Ltd, Mirabilis Engineering Underwriting Managers (Pty) Ltd, First Bank Nigeria Insurance Ltd, Guardian National Insurance Company Ltd and Indwe Broker Holdings Ltd.

Y RAMIAH (49)
Non-executive director
BA LLB, MBA, AMP (Harvard), HDip Tax (Admitted Attorney)
Appointed 13 December 2011

Director of Sanlam Ltd, Sanlam Life Insurance Ltd, Sanlam Investment Management (Pty) Ltd, Sanlam Investment Holdings Ltd and Adopt a School Foundation.

MJ REYNEKE (59)
Independent non-executive director
CA(SA)
Appointed 26 August 2003

Director of African Rainbow Capital (Pty) Ltd, Indwe Broker Holdings (Pty) Ltd, Central Plaza Investments 112 (Pty) Ltd, Santam International Ltd, Uyanda STI Careers (Pty) Ltd, Indwe Risk Services (Pty) Ltd

PE SPECKMANN (60)
Independent non-executive director
CA(SA)
Appointed 8 February 2017

Previous Group Financial Director of MMI Holdings group. Former roles include senior finance positions at Old Mutual, Pepkor Group and Seagram SA and audit partner at PricewaterhouseCoopers.

HC WERTH (53)
Non-executive director
CA(SA), MBA, EDP (Manchester)
Appointed 13 September 2016

Director of Sanlam Ltd and Sanlam Life Insurance Ltd, Sanlam Emerging Markets (Pty) Ltd, 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 (41)
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 1 MARCH 2017

LIZÉ LAMBRECHTS (53)

HENNIE NEL (48)

EBRAHIM ASMAL (52)

MOKAEDI DILOTSOTLHE (47)

EDWARD GIBBENS (47)

QUINTEN MATTHEW (53)

JOHN MELVILLE (51)

JEANETT MODISE (53)

TEMBA MVUSI (61)

RENÉ OTTO (58)

KEVIN WRIGHT (51)

EXECUTIVE PROFILES
AT 1 MARCH 2017

LIZÉ LAMBRECHTS (53)
Chief executive officer
BSc (Hons), FIA (1992), EDP (Manchester)
Appointed January 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 (48)
Chief financial officer
CA(SA)
Appointed 2012

Responsible for financial reporting, corporate finance, investments (including SEM partnership investments), internal audit, enterprise risk management and corporate legal services.

EBRAHIM ASMAL (52)
Claims and group sourcing
Appointed 2009 (appointed to executive management in 2012)

Responsible for the management of the claims value chain, including assessments services and quality assurance. Also responsible for group sourcing and facilities, leveraging the group's procurement spending power to manage efficiency in the supply chain and drive opportunities related to new initiatives.

MOKAEDI DILOTSOTLHE (47)
Brand and marketing
BComm (Hons), MBA
Appointed 2016

Responsible for the management of the Santam Brand, corporate communication, developing and implementing strategic brand initiatives relating to change in distribution channels and ensuring that the Santam brand is well positioned across all of the target market segments.

EDWARD GIBBENS (47)
Santam Commercial and Personal
AIISA, BComm, MBA, AMP (Insead)
Appointed 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.

QUINTEN MATTHEW (53)
Santam Specialist
FIISA
Appointed 2003 (appointed to executive management in 2010)

Responsible for developing and expanding the underwriting manager model, niche segments, affinity markets and specialist insurance (including Centriq); provides strategic input to each business; promotes growth and profit objectives; 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 specialist capabilities.

JOHN MELVILLE (51)
Risk services
BBusSc (Hons), FIA, FASSA, MCR (IMD)
Appointed 2010

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

JEANETT MODISE (53)
People and transformation
BComm, MDP, MBL, SEP (Harvard), AMP (Insead)
Appointed 2014 (appointed to executive management in 2015)

Responsible for human resources and transformation; leads and manages people strategy in line with best practice to enable successful execution of the Santam business objectives through engaged and competent people in an enabling work environment.

TEMBA MVUSI (61)
Market development – CSI
BA, ELP (Wharton School of Business), MAP (Wits), PDP (UCT)
Appointed 2008

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

RENÉ OTTO (58)
Chief executive officer of MiWay
BLC LLB, LLM, Admitted Advocate of the Supreme 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 (51)
Operations and IT
BComm, Fellow of the South African Institute of Chartered Secretaries and Administrators, FCIS
Appointed 2014

Responsible for client services, ensuring efficient policy administration, operation of sales and administration contact centres. Also responsible for information technology and business change to bolster the business strategy by leveraging information and technology; overseeing the building of systems capabilities to enhance Santam's agility and operational effectiveness.

MESSAGE FROM THE CHAIRMAN

The recently launched King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™) highlights the changed world of business in terms of financial instability, technological disruptions, stakeholder activism and climate risk.

As we reflect on our role and responsibilities as board members, we consider lessons learnt in the past, and we look towards future opportunities and challenges. Santam is a leader in South Africa's insurance industry, and is expanding its footprint in Africa, India and Southeast Asia. Therefore, we are in a position to influence ethical and governance practices broadly and directly, in a way that will create value sustainably.

We remain committed to good governance practices, which includes effective leadership, clarity of roles and independent judgement. As chairman of the nominations committee, I am involved in the evaluation of each board member, the board as a whole and every committee. This ensures that we improve continuously and ensure the board composition is appropriate for the nature, complexity and insight of decision-making that is required.

CHANGES TO THE BOARD

- 2 March 2016: Yegs Ramiah's designation changed from executive to non-executive director
- 30 May 2016: Clement Booth resigned as an independent non-executive director
- 1 June 2016: Malcolm Dunn retired as an independent non-executive director, having reached retirement age in terms of the company's memorandum of incorporation (MOI)
- 13 September 2016: Kobus Möller resigned as a non-executive director upon retiring from his executive role at Sanlam Ltd and was replaced by Heinie Werth, his successor at Sanlam Ltd, as a non-executive director
- 8 February 2017: Gugu Mtetwa and Preston Speckmann joined the board as independent non-executive directors

We would like to extend our heartfelt appreciation to Clement Booth, Malcolm Dunn and Kobus Möller, who served on the board for one, six and 10 years respectively. Their contributions and commitment were valued by all.

A GOVERNANCE LANDSCAPE SHAPED BY REGULATORY CHANGES

The global and local markets for general insurance continue to face increasing regulatory requirements. These are a priority for the board and its committees, as we acknowledge the importance of compliance with all regulatory frameworks affecting operations, and our accountability to all stakeholders.

The compliance resources across the group were reviewed, taking into account the growing scale of the group, the nature and complexity of the licensed entities' businesses within the group, and the additional expansion of the compliance obligations under the newly proposed twin peaks model of supervision. This resulted in additional capacity being created.

Although Santam welcomed government's adoption of the twin peaks regulatory supervision approach, the ensuing period of uncertainty regarding the implementation, enforcement and consistent application of regulations remains. Santam ultimately believes that the current suite of regulatory reforms is necessary and in the best interest of policyholders, shareholders and the regulator. While the effort of meeting these regulatory changes is high in terms of financial costs and human resources, the group has managed the process to date in an appropriate and effective manner.

Legislation that is in process and will potentially affect Santam includes:

- Amendments to the FAIS fit and proper requirements
- Financial Intelligence Centre Act (FICA), 38 of 2001: Schedule 1
- Twin Peaks Financial Sector Regulation Bill
- Reinsurance Regulatory Review Position Paper
- Insurance Bill 2015
- Draft Market Conduct Policy Framework for South Africa
- Retail Distribution Review (RDR)
- Proposed amendment to the binder regulations under the Short-term Insurance Act, 53 of 1998, and Long-term Insurance Act, 52 of 1998
- Protection of Personal Information (POPI) Act, 4 of 2013

In 2017, the board will continue to ensure that there is holistic oversight of risks facing the group, that the strategy remains appropriate and that we attract, upskill and reward the right people to sustain business growth. We are also cognisant of South Africa's unique challenges, and recognise that Santam has a responsibility in supporting its stakeholders towards a healthy, prosperous, safe and empowered society.

Grant Gelink
Chairman

CORPORATE GOVERNANCE REPORT

GOVERNANCE STATEMENT OF COMMITMENT

Santam's board of directors aims to achieve high standards of effective corporate governance, integrity and ethics. The board is assisted by senior management in ensuring that the business complies with the regulatory landscape to ensure the sustainability of the business. Governance processes are reviewed on a regular basis in order to reflect best practice.

The board endorses the principles contained in King III and applied the principles contained in chapter 2 of King III during 2016. In instances where the company has elected not to apply certain recommendations, the rationale is explained in the relevant sections of this report. The board has welcomed the shift in King IV™ towards integrated thinking.

FIND THE REGISTER DETAILING SANTAM'S APPLICATION OF ALL THE KING III PRINCIPLES ON THE WEBSITE.

In terms of King III, the integrated report should disclose the terms of reference of all the board committees. Only a summary of these terms of reference have been included in this report.

FIND THE COMPLETE TERMS OF REFERENCE OF ALL THE BOARD COMMITTEES ON THE WEBSITE.

The board is of the opinion that Santam applied the significant governance principles in King III and complied with the JSE Listings Requirements and Companies Act, 71 of 2008, as amended, during 2016.

During the year, Santam further reviewed its governance processes to enhance alignment with legislative and regulatory changes and to reflect best industry practice. The board gender diversity policy was approved by the board, in accordance with the JSE Listings Requirements. The board and board committee charters were all also subjected to annual reviews as recommended by King III.

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 all fulfil key roles to ensure good corporate governance is applied at Santam.

Santam is responsible for conducting its affairs with prudence and safeguarding the interests of all its stakeholders.

The board is, inter alia, accountable for:

- approving strategic plans, 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 there are clear and formal procedures in key areas so that regulators and auditors can readily review decisions and actions, both internally and externally; and
- conducting business in accordance with the company's code of ethics.

Santam's response to increasing levels of economic crime is entrenched in its enterprise risk management (ERM) and is based on King III requirements and codified in its business ethics and economic crime (BEEC) policy. The group has expanded its efforts to curb the problem by engaging with stakeholders and creating appropriate structures and forums to help govern the management of ethics and fraud.

Santam's code of ethics prescribes that all employees must comply strictly with all relevant legal requirements and regulations that apply to their area of work. The code of ethics also regulates conflict of interest and key ethical risks in the company.

FIND SANTAM'S POLICY ON BUSINESS ETHICS ON THE WEBSITE.

Santam advocates zero tolerance towards fraud and corruption. Employees are kept apprised of the latest trends in fraud and crime, locally and internationally, through its Integrity publication.

READ MORE ABOUT SANTAM'S FRAUD REPORTING DETAILS UNDER THE ADMINISTRATION SECTION ON PAGE 134.

DISPUTE RESOLUTION

At this stage, the board does not intend to institute a formal dispute resolution process as recommended by King III. The existing processes operate satisfactorily and do not require a more formal mechanism. In the event that disputes with shareholders should arise, shareholders have remedies in terms of the Companies Act at their disposal.

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 the company conducts its activities according to best practice.

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 that is consistent with the ethical leadership and values of Santam. The roles and responsibilities of each board committee are set out in terms of references 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 committees are chaired by independent non-executive directors, except for the human resources and remuneration committee, which is chaired by a non-executive director who is not independent, Ian Kirk. Although he is not independent, the board is supportive of his chairmanship of this committee given his knowledge of the business, his commercial experience and the necessity to align the company's remuneration approach with the corporate strategy.

There are well-entrenched governance structures within Santam that ensure proper assurance is given to materially significant strategic and operational matters.

Directors have unrestricted access to all company information, and access to the advice and services of the group company secretary. Directors are entitled to seek independent professional advice, at the company's expense (after consultation with the chairman of the board), as and when required, in fulfilling their duties. No directors exercised this right during the period under review.

As at 31 December 2016, the board comprised 12 directors, of whom two are executive directors. Of the 10 non-executive directors, six are independent. On 8 February 2017, Gugu Mtetwa and Preston Speckmann, both independent directors, were appointed to the board. There is a formal, transparent board nomination process in terms of a policy detailing procedures for appointment to the board. This policy is reviewed annually. 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 division of responsibilities and authority at board level to ensure 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 chief executive officer have been clearly defined and are separate.

The non-executive directors on the Santam board can all influence decision-making. The non-executive directors bring a diverse range of skills and experience to the board and have the integrity, skills and experience to provide insight and to add value to board meetings.

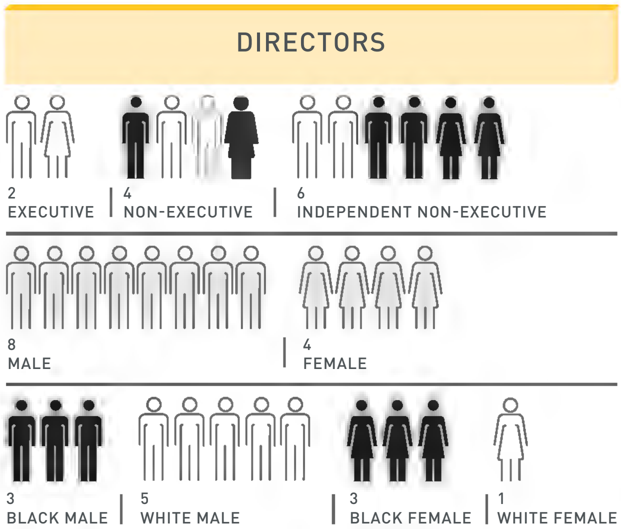
READ MORE ABOUT BOARD MEMBERS IN THE PROFILES FROM PAGE 70.

THE SANTAM BOARD

AT 31 DECEMBER 2016

Name	Executive	Non-executive	Independent non-executive
B Campbell			*
MP Fandeso			*
BTPKM Gamedze		*	
GG Gelink (chairman)			*
IM Kirk		*	
L Lambrechts	*		
MLD Marole			*
HD Nel	*		
T Nyoka (née Fubu)			*
Y Ramiah		*	
MJ Reyneke			*
HC Werth		*	

READ MORE ABOUT BOARD MEMBERS IN THE PROFILES FROM PAGE 70.



It is their responsibility to ensure their judgement is exercised freely and independently. In the board's opinion, there is no business or other relationship within the current structure that could materially interfere with the impartial judgement of any of the non-executive directors.

When appointing directors, the board takes cognisance of its needs in terms of different skills, experience, diversity, size and demographics. The effectiveness of the board composition and the performance of all its directors are assessed annually.

BOARD CHARTER

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

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

- the company's MOI;
- the Companies Act, 71 of 2008, as amended;
- the JSE Listings Requirements;
- King III Report on Corporate Governance for South Africa, 2009; and
- the Short-term Insurance Act, 53 of 1998.

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

The board charter prescribes that directors should conduct themselves in the best interest of the company and take special care to ensure that there is no conflict between their own interest and the company's interest. All board members are required to declare any potential conflict of interest between their obligations to the company and their personal interests. 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 where the matter in which he/she has an interest is discussed.

Through its charter, the board has reserved matters specifically for its attention to ensure it exercises full control over significant matters, including strategy, finance and compliance. The board is regularly advised and updated on the activities of the company. 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 and receive appropriate training, reading material and guidance on their duties, responsibilities, Santam's business environment and sustainability issues relevant to the business. The induction programmes are tailored to the needs of individual appointees.

FIND A COPY OF THE BOARD CHARTER ON THE COMPANY'S WEBSITE.

SALIENT FEATURES OF THE BOARD CHARTER

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

The 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;
  - financial risk management and capital policies, including funding and the issue of ordinary shares and loan capital;
  - capital expenditure, acquisitions, joint ventures and disposals in excess of the limits set out in the delegation of authority document and the MOI; and
  - significant changes in accounting policy.
- Recommending changes to the MOI of the company, remuneration of directors, and remuneration policy to shareholders for approval
- Composition of the board committees, electing a chairman of the board, approval of the appointment of the chief executive officer, executive directors and the company secretary
- Monitoring of and reporting on sustainability management
- Ultimate responsibility for IT governance
- Commencing business rescue proceedings as soon as the company is financially distressed

During 2016, the board approved the strategy and budget for 2017. Material issues relating to the execution of strategy were considered. The board approved the interim and year-end financial results and the 2016 integrated report. The board also approved the appointment of the new directors. The board is satisfied that it has discharged its duties and obligations as contained in its charter.

RESPONSIBILITY AND ACCOUNTABILITY

DELEGATION OF AUTHORITY

The company's delegation of authority provides an approval framework to ensure the company is optimally managed within a decentralised management environment. The board delegates the power to run the day-to-day affairs of the company to the chief executive officer, who may delegate some of these powers. The delegation of authority document codifies and regulates any such delegation of authority within the company. The board reviews its delegated authorities annually. There are a number of governance policies which complement the delegation of authority, and are reviewed on a regular basis by the board.

CHAIRMAN

The chairman provides overall objective leadership of the board of directors. The chairman's primary function is to preside over meetings of directors and shareholders, and to ensure the smooth functioning of the board and that it receives timely and accurate information for the directors to perform effectively.

CHIEF EXECUTIVE OFFICER

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

EXECUTIVE AND NON-EXECUTIVE DIRECTORS

The directors have a fiduciary duty to exercise due care and skill in carrying out their mandate as directors of the company. In doing so, the directors will ensure that they act in the best interest of the company at all times, and do not derive any profit as a result of their fiduciary relationship with the company.

BOARD COMMITTEES

The committees assist the board in discharging its duties and responsibilities. Ultimate responsibility rests with the board and the board does not abdicate its responsibility to the committees. The committees report to the board quarterly as to how they have carried out their responsibilities 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 such 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 administrated properly. The company secretary monitors directors' dealings in securities to ensure adherence to the directors' dealings in securities policy. 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 is not a director of the company.

In terms of the JSE Listings Requirements, the board is required to consider and satisfy itself, on an annual basis, of the competence, qualifications and experience of the company secretary. The board conducted a formal evaluation of the company secretary during the year and is satisfied that he has the necessary competence, qualifications and experience to carry out the required responsibilities of a secretary of a public company. The board is further satisfied that an arm's-length relationship exists 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. The company secretary also acts as secretary for the committees of the board.

READ MORE ABOUT THE COMPANY SECRETARY'S QUALIFICATIONS ON PAGE 71.

BOARD COMPOSITION AND MIX

The efficacy of the board depends on its composition. There is an appropriate balance of skills, power and authority on the board. The independent non-executive directors have a standing closed-session agenda item at every board meeting to deliberate on any issues that they may want to discuss with the chairman or the chief executive officer and/or any other directors.

Ongoing director development includes regular updates and information sessions on legislature and regulatory change.

BOARD EVALUATION

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

The evaluation for 2016 included an effectiveness assessment of the board itself collectively, and an appraisal of the board committees and the chairman. The evaluation was conducted by an external service provider. The evaluation found no significant matters or material concerns in respect of the board and board committee performance. The results indicated that the board was functioning effectively and that the core board processes were working well and that the board was well balanced. Specific training needs for individual directors were identified. The directors believe that board meetings were well organised and efficiently run and that all relevant aspects of the company's business were dealt with by the board and its committees.

The nominations committee conducted a review on the individual directors during February 2017. 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 June 2017 has been considered by the board, and their re-election is supported.

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 company securities. The company secretary retains a record of all such share dealings and approvals. Senior management and designated employees that are exposed to unpublished, price-sensitive information in relation to the company's shares by virtue of their positions, are prohibited from trading in Santam securities during the company's closed periods and require written approval from the CEO 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 other intellectual capital, the extent of the company's social transformation, ethical, safety, health and environmental policies and practices.

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

LEGAL COMPLIANCE

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

Due to the regulatory environment within which it operates, Santam has a dedicated legal compliance function in place, which is responsible for implementing the legal compliance framework. The compliance function identifies legislation applicable to the group, informs business of pertinent regulatory requirements (and amendments thereto), analyses their impact on business operations, facilitates the introduction of controls aimed at ensuring compliance and monitors compliance. For increased efficiency and effectiveness, the legal 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. In addition, Santam complies with mandatory industry codes.

READ MORE ABOUT RISK MANAGEMENT IN THE REPORT ON PAGE 88.

Santam has a legal 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.

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

BOARD AND COMMITTEE MEETINGS

The board met five times at scheduled meetings in 2016. One ad hoc board meeting was also held during the year. The board meets at least once every quarter and holds a strategy meeting annually in August to approve the strategic direction of the company.

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 2016	**6**	**4**	**4**	**4**	**4**	**4**	**3**
CB Booth	1 (100%)	–	–	–	–	–	–
B Campbell	6 (100%)	4 (100%)	4 (100%)	–	–	–	3 (100%)
MD Dunn	2 (100%)	2 (100%)	2 (100%)	–	–	–	–
MP Fandeso	0 (0%)	3 (75%)	3 (75%)	–	–	–	–
BTPKM Gamedze	6 (100%)	–	4 (100%)	–	–	–	2 (67%)
GG Gelink	6 (100%)	4 (100%)	4 (100%)	4 (100%)	4 (100%)	4 (100%)	–
IM Kirk	6 (100%)	–	–	4 (100%)	4 (100%)	–	–
L Lambrechts	6 (100%)	–	4 (100%)	–	–	4 (100%)	–
MLD Marole	6 (100%)	–	–	4 (100%)	4 (100%)	–	3 (100%)
JP Möller	4 (100%)	–	3 (100%)	–	–	3 (100%)	–
HD Nel	6 (100%)	–	4 (100%)	–	–	4 (100%)	–
T Nyoka (née Fubu)	6 (100%)	4 (100%)	4 (100%)	–	–	–	–
Y Ramiah	3 (50%)	–	–	–	–	–	3 (100%)
MJ Reyneke	6 (100%)	2 (100%)	4 (100%)	–	–	4 (100%)	–
HC Werth	1 (100%)	–	1 (100%)	–	–	1 (100%)	–

Key:
– Not a member of the committee.
Clement Booth retired as a director effective 30 May 2016.
Machiel Reyneke was appointed as the chairperson of the audit committee and risk committee on 1 June 2016.
Malcolm Dunn retired from the board on 1 June 2016.
Kobus Möller retired from the board on 13 September 2016.
Heinie Werth was appointed as a director on 13 September 2016.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Based on the recommendation from the remuneration and 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, one-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. 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 and five other shareholders must second the nomination. An abridged CV of the nominated director is sent with the notice of 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 COMMITTEES

RISK COMMITTEE

The risk committee is chaired by Machiel Reyneke. The committee assists the board in fulfilling its governance (from a risk and control perspective), compliance and risk management responsibilities. The committee is chaired by an independent non-executive director and is responsible for ensuring that all significant risks are identified, evaluated and effectively managed, and that there is 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 in ensuring that:

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

The committee met four times during the year. Details of attendance at meetings are provided on page 82. 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.

AUDIT COMMITTEE

The audit committee is chaired by Machiel Reyneke. The committee is constituted as a statutory committee of Santam with respect to its duties in terms of the Companies Act and a committee of the Santam board with respect to all other duties assigned to it by the board. During 2016, the committee consisted of five independent non-executive directors. The committee ensures, inter alia, that the company's financial standing is sound and that the internal financial controls and processes are effective. The committee reviews the overall quality and integrity of financial reporting and integrated and sustainability reporting disclosures.

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

The audit committee is appointed by shareholders at the AGM. Its primary function, in addition to those required by the Companies Act, is to help the board oversee financial matters. The committee operates in terms of a formal charter and annual work plan approved by the board. The audit committee is chaired by an independent non-executive director. The independent chairman of the board, Grant Gelink, is a member of the audit committee. Although this is not in line with the recommendation contained in chapter 3 of King III, the board is supportive of his membership, given his substantial experience in audit process, international financial reporting standards and internal financial controls. Mr Gelink does not chair the audit committee. The committee also consisted of four other independent non-executive directors during 2016, exceeding the minimum recommended number of members.

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, 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
- Recommending to the board whether or not to engage an external assurance provider on material sustainability issues
- Reviewing accounting policies and practices and considering any significant changes 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, the audit committee reviewed communication from the external auditors and, after conducting its own review, confirmed the independence of the auditors. The committee also considered and determined the external auditors' fees and terms of engagement.

As required by JSE Listings Requirement 3.84, the audit committee considered the expertise and experience of the executive financial director during November 2016. 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 external and internal auditors attend committee meetings and have unrestricted access to the committee and its chairman, 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 meeting without the presence of management.

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 ensure that it is reliable and does not conflict with the financial information. The audit committee has not recommended the engagement of an external assurance provider on material sustainability issues to the board as it is of the view that the assurance provided is adequate, given the maturity of the processes in place.

The committee met four times during the financial year. Details of attendance at meetings are provided on page 82. The audit committee is satisfied that it has fulfilled its responsibility during the year in terms of its charter. The committee believes that it has complied with its legal and regulatory responsibilities for the year. The committee reviewed the company's integrated report and recommended it to the board for approval.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

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

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

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

- 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 for inclusion in the company's integrated report.
- Developing the remuneration strategy for executive directors and members of the executive committee.
- Developing short-term incentive plans for board approval. It sets annual targets, monitors progress towards targets and reviews the incentive plans regularly to ensure that a strong link with performance is maintained.

- Developing long-term incentive schemes for board approval. It sets individual and group performance hurdles, as well as guidelines for annual allocations. It performs regular reviews of the structure of the schemes.
- Developing, monitoring and testing of appropriate performance drivers for both short-term and long-term incentives.
- Managing the contracts of employment of executive directors and executive committee members, ensuring that their terms are compliant with good practice principles.
- Considering the individual remuneration packages for executive directors and executive committee members, including incentive schemes and increases to ensure they are appropriate.
- Considering the remuneration of non-executive directors of the board and its committees. Proposals are made to the board for final approval by shareholders at the annual general meeting.
- Succession planning.
- Human capital imperatives.

The HRRC met four times during the financial year. Details of attendance at meetings are provided on page 82. The HRRC is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year. In accordance with King III recommendations, the company's remuneration policy is to be tabled for shareholders to make a non-binding advisory vote at the AGM in 2017.

This vote enables the shareholders to express their views on the remuneration policies adopted and their implementation.

During 2016, the HRRC considered the following matters:

- Benchmarking of remuneration levels and practices with local comparator groups for employees, executives as well as non-executive directors.
- Monitoring of people-related metrics, such as head count, employee turnover and transformation.
- Recruitment and appointment of executive employees.
- Contracted deliverables of the executive directors.
- Talent management strategy and succession planning.
- People-related risks identified and the measures taken to mitigate them.
- Review of Santam's STI plan.
- Monitoring of actions taken with regard to fit and proper requirements.
- Monitoring and approval of STIs (performance bonuses) and LTIs.
- BBBEE transformation scorecard progress.

NOMINATIONS COMMITTEE

The nominations committee is chaired by Grant Gelink. The committee considers board succession 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 and is chaired by the chairman of the board. The chief executive officer attends committee meetings by invitation. The committee met four times during the financial year. Details of attendance at meetings are provided on page 82. The committee has considered and applied the policy on board gender diversity in the nomination of 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, including gender diversity. The board's aim is to ensure that at least 33% of the board is made up of women by the end of 2016, and for that position to have exceeded 40% by the end of 2019. As at 31 December 2016, four of the 12 directors were women. 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 REPORT

The group's social, ethics and sustainability committee is chaired by Dawn Marole. 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, regulation and codes of best practices relating to ethics, empowerment and stakeholder engagement. The committee also assists the board in ensuring that the sustainability strategy and objectives are effectively integrated into the business. The committee, in addition to performing the function for Santam Ltd, accepted the role of the social and ethics committee for all Santam's South African subsidiaries who have the requisite public interest score.

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 managing 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, including:
  - Minimising the risk associated with social, economic and environmental impact, including stakeholder activism and government regulation.
  - Ensuring that the business aligns with legislative requirements, such as King III, the JSE Listings Requirements, 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.
  - Having 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 the conduct of the group has 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 impacting clients and ensuring that the conduct of the organisation results in fair outcomes to customers.

The committee reviewed the strategy, plans and progress made towards achieving Santam's transformation targets. The committee further reviewed 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 comprises four suitably skilled and experienced directors, and is chaired by an independent non-executive director. At 31 December 2016, all members of the committee are non-executive directors. 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 annum, or as required for the effective performance of its duties. The committee met three times during 2016. Details of attendance at meetings are provided on page 82. 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, inter alia, ethics, compliance, stakeholder relations, HR and CSI reports submitted by management. The committee members believe that the group addresses the issues the committee is required to monitor in terms of the Companies Act.

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

INVESTMENT COMMITTEE

The investment committee is chaired by Grant Gelink. The committee meets to evaluate and monitor the investment portfolio and 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 regarding the company's investment philosophy. The committee reviewed the Santam group investment policy during 2016, which was approved by the board.

The committee is chaired by an independent non-executive director. The committee met four times during the financial year. Details of attendance at meetings are provided on page 82. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

AD HOC SUBCOMMITTEES

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

OTHER COMMITTEES

EXECUTIVE COMMITTEE

Executive management and the board work closely in determining 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 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.

STAKEHOLDER RELATIONS

Various methods of communication are used to keep employees, and other stakeholders, informed of company and group activities.

READ MORE ABOUT SANTAM'S STAKEHOLDERS ON PAGE 98.

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

IT GOVERNANCE

The Santam board is responsible for the governance of IT, as recommended by King III. The board has mandated the executive team to implement the Santam IT governance framework and reporting system to monitor the risks and effective control of IT within the group. Internal audit also provides assurance to management and the audit committee of the effectiveness of IT governance.

The IT governance framework is directed by the Santam IT charter, which describes the IT governance mechanisms, principles and responsibilities within the group. Santam IT reviewed and aligned a number of IT policies with the Sanlam Group policy standards.

The Santam information security charter expands on the IT charter by describing the governance of information security. This charter sets out the information security principles, governing bodies and role players to enable the implementation of an information security management system with the core purpose of protecting Santam's information assets.

The group IT strategy aims to develop and implement business application platforms that will enable the overall Santam strategy to deliver products more speedily, reduce Santam's exposure due to incorrect risk calculations, move closer to our partners and clients through different user experience platforms, and reduce the overall operational cost of contact centres. Furthermore, from a group perspective, there is a significant focus from the business to increase operating profit and reduce operational expenses. The IT strategy is also aligned with this strategic focus by reducing the complexity and number of applications within Santam, which should ultimately reduce the total cost of ownership of IT by 2018.

The major IT investments for 2017 will be developing and delivering further strategic solutions.

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 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, management has implemented a system of internal control. The internal control system provides the board with reasonable assurance that the business is operated consistently with:

- 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 system aims to detect and prevent any significant risk from materialising and to mitigate any adverse consequences thereof.

The board is supported by the control functions within Santam, which include the internal audit, enterprise and financial risk management and compliance functions. The functions are reviewed regularly, as agreed with the board of directors. A number of business units have quality assurance functions in place. This is a management control to continuously identify specific control weaknesses that need to be addressed. Both the risk and audit departments work closely with these functions to ensure 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 this process is regularly reviewed by the board.

The board reviewed and approved the Group Internal Control Policy in the year under review.

Management is responsible for the identification and evaluation of significant risks applicable to their areas of business, in addition to the design and operation of suitable internal controls. These risks are assessed continually.

A control process of self-assessment and hierarchical reporting has been established, which generates for a documented and auditable trail of accountability. These procedures are relevant across group operations, and 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 provides a degree of assurance as to 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. There were no breakdowns in the functioning of the internal financial control systems during the year, which 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 International Financial Reporting Standards and are supported by reasonable and prudent judgements that has been consistently applied.

INTERNAL ASSURANCE PROVIDERS

The main internal independent assurance provider in Santam is the internal audit unit. Internal audit provides objective and independent assurance to management and the board of Santam through the audit committee about risk management, control and governance processes. Internal audit is governed by an internal audit charter, approved by Santam's audit committee and 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 their scope and findings; and 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 executive management.

The Santam group's approach to the governance of its group operations is detailed in the board-approved Santam group governance framework (framework). In the framework, 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/business arrangements. Internal audit has developed an audit strategy for each category of entities.

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 specific legal entity governance requirements.

The annual internal audit plan is reviewed regularly to ensure it remains relevant and responsive to changes in the operating environment. The Santam audit committee approves the internal audit plan for the 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 ever-increasingly demanding corporate governance and regulatory environment, including the requirements of King III and the FSB's SAM project. Board Notice 158 has been implemented and the relevant notifications and applications were submitted and approved by the regulator during 2015. The head of the internal audit control function was appointed at a group level and was outsourced to MiWay Insurance Ltd, Centriq Insurance and Centriq Life.

EXTERNAL AUDIT

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

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

Santam has a formal pre-approval policy on the use of external auditors for non-audit services. The policy provides guidelines on 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 R3.8 million. This includes R0.2 million for assurance-related services, R1.1 million for regulatory-related services and R2.5 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 of addressing the audit committee at each of the meetings without management being present.

OTHER ASSURANCE

There is regular interaction and consultation between internal audit and other internal assurance providers and control functions, for example the quality assurance functions in the distribution, claims and underwriting business units, and the heads of risk management and compliance control functions.

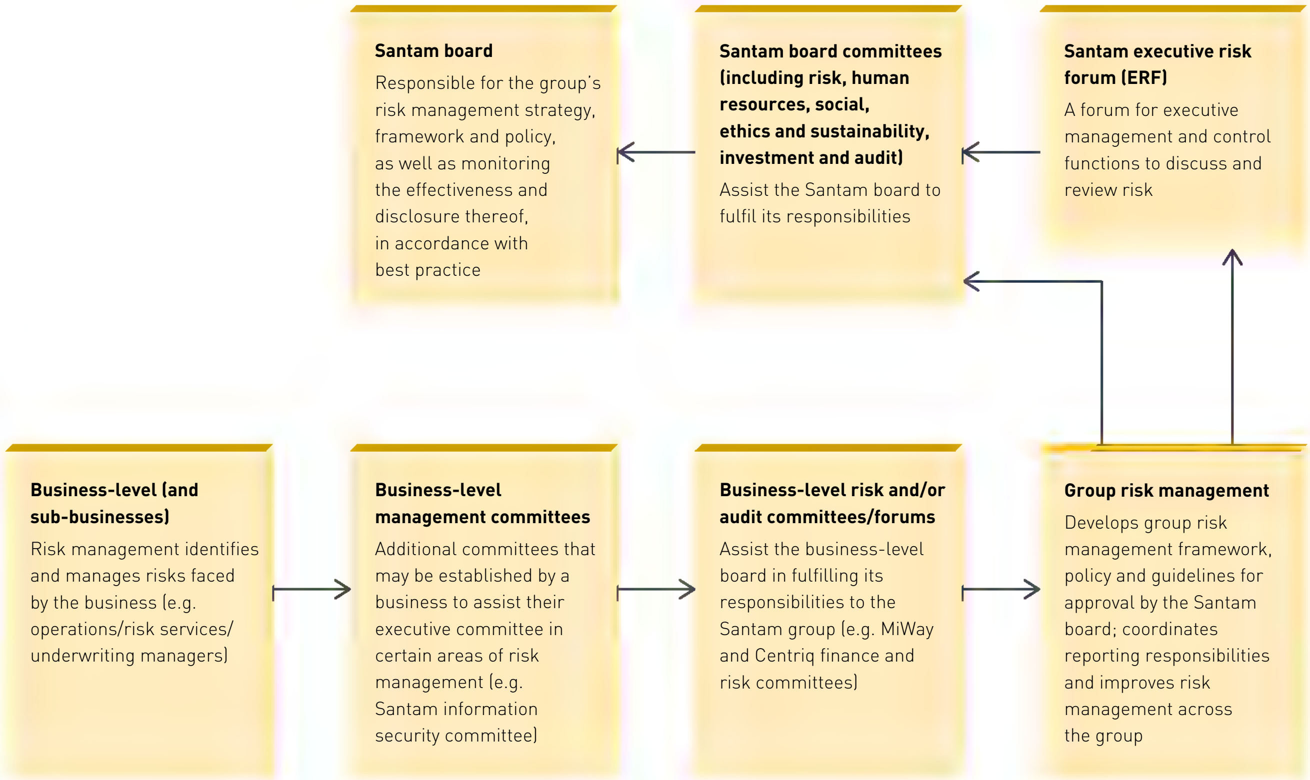
RISK MANAGEMENT

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

The board also ensures that the risk management, internal control and compliance systems are reviewed regularly 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 due to the risks that the group is exposed to through its business model.

The Santam board adopted the three lines of defence model for managing these 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 decentralised business model environment. In terms of this philosophy, the Santam board sets the group ERM policies and frameworks and the individual businesses



take responsibility for all operational and risk-related matters on a business level, within the limits set by these policies and frameworks. The above diagram generically depicts the flow of risk management information from the individual businesses to the Santam Ltd board.

In compliance with the FSB's Board Notice 158, the heads of all the required control functions remain intact at a group level, and these roles are outsourced to MiWay and Centriq. The heads of risk and compliance control functions are supported by relevant functional teams at both MiWay and Centriq 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 encompasses the totality of strategies, policies and procedures for identifying, measuring, monitoring, managing and reporting all material risks to which the group may be exposed.

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/oversight gaps that are escalated to the audit committee.

ERM conducts a quarterly analysis of the executive committee's top strategic risks, and operational risk work provides a bottom-up perspective to inform the relevant risk profiles. Research, one-on-one interviews, risk indicators, surveys, loss event management as well as group workshops and interviews with the executive committee and selected management are techniques applied to assist in gathering the necessary information. The process includes "deep dives" and discussion of new and emerging risks.

This year, an assessment was performed across the business and with key stakeholders to assess key risks for the group. A survey was conducted in collaboration with the Corporate Executive Board (CEB) Risk Management Leadership Council to obtain input on various stakeholders' views of Santam's top residual risks, specifically looking into the future. The survey highlighted the compliance and ethics risks assessed as the lowest risks. Strategic risks, in general, were rated the highest. These risks aligned well with the current top strategic risk view with most of the identified risks being risk drivers/causes for growth and earnings challenges. These remain the top risks for the Santam group from a strategic perspective. The top residual risk themes identified included financial health/economic uncertainty (including risk of sovereign downgrade), extreme weather events (e.g. floods, drought), attraction and retention of skills, competition and sovereign/political.

READ MORE ABOUT THE STRATEGIC RISKS ON PAGE 43.

The relevant board committees and forums monitor specific risks with overall oversight and review provided by the risk committee. The risk appetite remains a key tool to review and measure to what extent risks are managed within risk appetite. Risk appetites are in place for the main strategic business units, which are reviewed at a board level. Risk reports are discussed quarterly by the various committees and boards, ultimately feeding into the overall group risk appetite, which is discussed and reviewed by the Santam risk committee.

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 confident 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 due to the nature of its financial services operations. Long-term sustainability is inextricably linked to compliance with all applicable regulations and maintaining a productive relationship with regulators, who grant operating licences to the group's businesses. Regulatory compliance is therefore a particularly important operational governance focus area:

- The Sanlam board is ultimately responsible for regulatory compliance. The responsibilities of the risk committees at the various business units include monitoring of regulatory compliance.
- Quarterly reports to these committees and the Santam board include updates on regulatory developments, augmented by regular training sessions to ensure that members of the board and these committees stay 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 within the group risk management function.
- These functions are actively involved in commenting on proposed regulatory changes directly and through industry bodies, and are also responsible to coordinate 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 will be extended over time to include non-South African businesses.
- Regulatory compliance remains the responsibilities of business management.

The insurance industry faces major regulatory changes, which currently require more diligent attention.

READ MORE ABOUT THE REGULATORY ENVIRONMENT IN WHICH THE GROUP OPERATES ON PAGE 81.

BUSINESS CONTINUITY

A key operational risk, which 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. This year saw the first integrated disaster recovery and business recovery tests conducted at Santam's off-site premises. The test was successful and learnings have been incorporated into business recovery plans.

A cyber crisis learning intervention session was also held at Sanlam with the various business unit heads taking part in a simulated cyber incident. The objective was to display how a cyber crisis is handled differently to a "normal" crisis which previous scenarios used. Outputs from the event will be used to update the Santam's crisis management guide to cater for cyber events. The exercise involved the Santam group recovery director (and chief information officer), the chief financial officer and ERM. The exercise provided participants with practical insight and a cyber-specific crisis management capability.

READ MORE ABOUT THE HACKATHON IN THE REAL-LIFE STORIES ON PAGE 37.

REMUNERATION REPORT

INTRODUCTION

Santam's remuneration philosophy and policy support the business strategy by aligning agreed strategic goals with the behaviour required to meet and exceed these goals. The policy is reviewed annually to ensure alignment with changes in the remuneration-related legislative and regulatory requirements. Short- and long-term strategic objectives are measured and rewarded and this approach mitigates excessive risk-taking and balances longer-term strategic objectives with short-term gains.

In setting up the reward structures, prevailing economic conditions and local governance principles are taken into account – specifically to correctly position the nature and the scale of remuneration at all levels of the organisation relative to relevant benchmarks and best practice.

Alignment with applicable regulatory and governance requirements is ensured, while also conforming to the principles contained in the codes of good practice which support Employment Equity legislation, and notably for purposes of this policy, those that deal with remuneration.

Santam is the sole or part owner of a number of businesses. Although compliance with Santam's remuneration strategy and policy is primarily targeted at Santam group companies or subsidiaries, Santam encourages the application of sound remuneration practices in those businesses where it does not hold a controlling interest.

REMUNERATION PHILOSOPHY AND STRATEGY

The board recognises that appropriate remuneration for executive directors, members of its executive committee and other employees is inextricably linked to the development and retention of top-level talent and intellectual capital within the group. Given the current economic climate, changes in the regulatory requirements and the ongoing skills shortage, it is essential that adequate measures are implemented to attract and retain the required talent.

Santam's reward philosophy and strategy support the business strategy by implementing processes that align agreed strategic objectives with the behaviour required to meet and exceed these objectives. These processes include performance contracting, performance measurement and the linking of rewards to performance. Reward structures are created taking into account prevailing economic conditions, national and international governance principles and the management of risk in the context of both short and long-term incentive awards.

The Santam board recognises certain industry-specific and other relevant differences between group businesses and, where appropriate, allows the business units relative autonomy in positioning themselves to attract, retain and reward their employees appropriately within an overarching framework. 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 or corporate identity require full disclosure, motivation and approval by the HRRC, either at group or business unit level.

The principle of management discretion, with regard to individual employees, is central to the remuneration philosophy on the basis that all rewards are based on merit. However, the overarching principles and design of the remuneration structure are consistent, to support a common philosophy and to ensure good corporate governance, with differentiation where appropriate. In other instances, the Santam remuneration philosophy implies that the businesses are mandated to apply their own discretion, given the role that their own remuneration/human resources committees will play in ensuring good governance.

The group has continued to apply a total reward strategy for its employees. 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. In applying the remuneration philosophy and implementing the total reward strategy, a number of principles are followed:

- **Pay for performance** – Performance is the cornerstone of the remuneration philosophy. On this basis, all remuneration practices are structured in such a way as to provide for clear differentiation between individuals with regard to performance.
- **Leverage and alignment** – The reward consequences for all levels of employees are, as far as possible, aligned with, linked to and influenced by:
  - the interests of Santam's shareholders;
  - sustainable performance of the group;
  - the performance of the business unit or function; and
  - the employee's own contribution.

  Excessive risk-taking is mitigated against in the design of incentive plans, for instance through the inclusion of hurdles and vesting periods.
- **Consistency and fairness** – The remuneration philosophy strives to be both consistent and transparent. Where there is differentiation between employees performing similar work, the differentiation is required to be fair and rational. Market comparison methodology makes provision for benchmarking specialist skills groups as well as roles of a more general nature on all levels.
- **Competitiveness, attraction and retention** – A key objective of the remuneration philosophy is that total reward should enable the group and its business units to attract and retain talented individuals in order to ensure the sustainability of the organisation. Reward in this regard is viewed in a holistic manner, comprising a range of monetary (fixed and variable) and non-monetary components of the employee value proposition. Pay practices are underpinned by globally recognised job evaluation processes, enabling Santam to draw valid comparisons to reputable surveys. In line with market practice, the variable pay component of total reward increases with seniority (organisational level), as the ability to impact business results increases. This is reflected in higher-incentive opportunities (both short- and long-term) offered on more senior levels compared to junior employees.
- **Share participation** – High-performing employees are encouraged to identify with the success of the business through share participation, establishing a clear link between their individual efforts and the group's long-term success. For employees of the unlisted entities of the group, deferred bonus plans are used. Net insurance result (NIR) is used as the key performance driver and vesting is partially dependent on the achievement of a minimum performance hurdle. Vesting in all cases occurs over a five-year period.
- **Communication** – The remuneration philosophy, policy and processes to determine individual pay levels strive to be both consistent and transparent and are communicated effectively to all employees. A range of channels is used to increase employees' understanding of pay practices and appreciation of the total rewards offering.
- **Regular review** – Current market information and trend information is used on an annual basis to determine individual remuneration packages of all levels of employees.
- **Clawback** – Where performance achievements are subsequently found to have been significantly misstated so that the bonuses and other incentives should not have been paid, provision is made for redress in appropriate instances.

REMUNERATION STRUCTURE

The various components of reward are summarised in the table on page 94. A detailed description of each component follows in the next section.

Where applicable, the quantum of the different components of the package is determined as follows:

- The guaranteed component is based on market relatedness in conjunction with the individual's performance, competence and potential.
- The short-term incentive component of remuneration is based on individual performance, after taking into account business performance in determining the quantum of the bonus pool.
- The long-term incentive component is based on the individual's performance, potential and overall value to the group.

REMUNERATION COMPONENTS

Element	Purpose	Performance period and measures	Operation and delivery
Total guaranteed package	Core element that reflects market value of role and individual performance.	Reviewed annually based on performance against contracted output and market surveys. Benchmarked against comparator group and positioned on average on the median.	Guaranteed package is delivered to the employee as a cash salary and a mix of compulsory and discretionary benefits.
Short-term incentives (STI) (performance bonus)	To drive achievement of sustainable results and encourage behaviours that are consistent with the Santam values and aligned with the best interests of our stakeholders. To create a high-performance culture through an annual cash bonus linked to performance against contracted deliverables, with due regard to preventing excessive risk-taking. The STI scheme supports collaboration and teamwork across business units and various businesses. To attract, retain and motivate key talent. The criteria and quantum of the STI are benchmarked to the market.	Based on short-term performance measured over a 12-month period with the aim to remunerate outstanding performance in excess of market mean.	Performance is measured at company, business unit and individual level against predetermined performance targets. The bonuses of all employees are funded from bonus pools that are based on financial targets agreed at board level.
Long-term incentives (LTI)	To increase employee motivation and create alignment between employee interests and shareholder interests. To attract and retain the services of valuable and highly skilled individuals who are performing exceptionally.	Annual grants vesting over either five or six years. Part early vesting is allowed from the third year provided that all the vesting conditions have been met.	Awards are made annually based on key eligibility criteria, including leadership and those individuals key to driving the business strategy, talent management and succession planning, retention of critical talent and contribution. The quantum of awards aims to maintain an appropriate level of employee retention value. Vesting occurs upon satisfaction of performance hurdles and individual performance targets.
Outperformance Plan (OPP)	To incentivise exceptional performance of senior leaders in the business, over a three-to-five-year measurement period.	For payment to occur, expected growth in net insurance results must exceed the hurdle for the period. Full payment is only made if the stretch performance targets are met. The maximum payment is a multiple of six times annual total guaranteed package over the measurement period.	Awards are made on an ad hoc basis based on role, performance and contribution. The size of awards aims to maintain an appropriate level of incentive towards attaining strategic objectives.

DESCRIPTION OF REMUNERATION COMPONENTS

TOTAL GUARANTEED PACKAGE (TGP)

TGP is a guaranteed component of the remuneration offering. It forms the basis of the organisation's ability to attract and retain the required skills. In order to create a high-performance culture, the emphasis is placed on the variable/performance component of remuneration rather than the guaranteed component. For this reason, TGP is normally positioned on the median of the market. As an integral part of TGP, Santam provides a flexible structure of benefits that can be tailored, within certain limits, to individual requirements. These include retirement plans, group life cover and medical aid.

Process and benchmarking

Average TGP is normally set by reference to the median paid by comparative local companies. The comparator group is made up of a sizeable and representative sample of companies that have similar characteristics to Santam in terms of being in the financial services sector (but not limited only to this sector) and market capitalisation. In terms of the process followed in benchmarking TGP, Santam obtains data from a number of salary surveys. The data is then analysed using Towers Watson's Global Grading Calculator. In addition to this benchmarking process, Santam also takes into account the skills, potential and performance of the individual concerned, as well as the current consumer price index of the country.

Levels

TGP levels are positioned around the median of the comparator market. Where specific skills dictate, TGP levels may be set in excess of the median.

Governance

The HRRC is responsible for remuneration governance as mandated by the board, with its responsibilities defined in the charter. Feedback from the HRRC meetings are presented to the board. The HRRC applies the principles outlined in the remuneration policy with the right to apply discretion in exceptional circumstances should there be a need. Upon conclusion of the benchmarking process, the HRRC is provided with market-related remuneration information and proposals regarding the annual remuneration review for consideration and approval. The HRRC also reviews and approves the adjustments to the total guaranteed package for each of the Santam executive directors and members of the Santam executive committee.

SHORT-TERM INCENTIVES

The purpose of the performance bonus plan is to align the performance of employees with the goals of the organisation and to motivate and reward employees who outperform the agreed performance hurdles. No part of the executives' performance bonuses is guaranteed – the full bonus depends on individual and company performance. At executive level, the maximum bonus that can potentially be earned is 160% of annual TGP for the chief executive officer, 120% for the chief financial officer and 100% for the other executives.

Vesting levels

The performance bonus plan is a cash-settled plan. Where the annual business and individual bonus targets are achieved in full, the on-target bonus percentage will be paid, which is equal to 50% to 70% of the maximum bonus (bonus cap). In instances where expected target goals have been exceeded, the cash component is capped at a percentage of TGP, but in exceptional cases, the total value of the bonus awarded can exceed the capped cash bonus (refer to ex gratia performance bonus rewards below).

Where the bonus targets are not achieved in full, a reduced bonus will be paid only if a minimum threshold performance level has been achieved. Where the annual business bonus targets are not achieved, an amount may be set aside to reward exceptional individual performance at the discretion of the chief executive officer. The annual bonus targets at a group and business unit level incorporate a number of financial and non-financial performance measures that are directly linked to the group strategy and KPIs, including net insurance result, GWP, skills development and employment equity. The specific performance targets and relative weighting are determined per business unit based on the unit's strategic initiatives. The targets of the corporate support functions reflect the overall performance of the group.

Ex gratia performance bonus rewards

Where it is determined that an individual has demonstrated exceptional performance within his or her area of expertise that justifies a bonus payment in excess of the maximum cash bonus percentage of TGP, the HRRC may award an additional bonus amount to acknowledge such outperformance. The rationale of this mechanism is to encourage retention of high-performing individuals and ensure the sustainability of performance-driven behaviour.

Governance

The HRRC's role with regard to the annual bonus plan is to determine the overall design of the performance bonus plan, to ensure that it provides a clear link to performance, fosters sustainable business performance and is aligned with the group's business strategy. It also sets the overall principle with respect to thresholds, targets and stretch levels for the annual bonus plan and the percentage of total guaranteed package that can be earned at each level by each group of employees.

LONG-TERM INCENTIVES

LTIs are an integral part of the company's approach to competitive performance-based pay, and are aligned with shareholder returns to ensure a clear line of sight between pay and long-term value creation for shareholders.

Santam currently grants awards under the Deferred Share Plan (DSP), the Performance Deferred Share Plan (PDSP) and Santam Outperformance Plan (OPP). With the exception of the OPP, these LTI plans are equity-settled plans. The OPP is a cash-based plan, which rewards long-term performance.

With respect to the DSP and the PDSP, Santam's practice is to make awards annually to ensure that the total face value of outstanding awards (calculated on their face value at date of grant) is equal to a set multiple of the individual's TGP. The set multiples are determined by reference to the individual's level in the organisation. In addition, transformation considerations and the role and performance of an individual and the need to attract and/or retain key talent are taken into account when determining the final multiple.

In general, the targeted award level ranges from 70% to 245% of annual TGP, but may exceed this in the specific circumstances referred to above. The vesting of LTI awards granted under the DSP is subject to individual performance hurdles. Under the PDSP, it is dependent on business hurdles being achieved.

Appropriate LTI plans are designed for Santam's unlisted subsidiaries. The plans currently in use are share appreciation rights schemes or Deferred Cash Bonus Plans. The vesting principles and period are aligned to those of the DSP.

Participation

The LTIs are aimed at attracting and retaining key employees. The practice is to target allocations to employees in management or key functional roles. Non-executive directors do not participate in any of the LTIs.

Deferred Share Plan (DSP)

Awards granted under the DSP are conditional rights to acquire shares for no consideration, subject to vesting conditions being satisfied. The award has individual performance hurdles attached to it. The vesting conditions are that the individual remains employed by the group throughout the vesting period and maintains agreed individual performance hurdles. The measurement period is five years and early vesting may occur as follows, provided that all the vesting conditions have been met:

- After three years – 40%;
- After four years – 70% less any portion vested earlier; and
- After five years – 100% less any portion that vested earlier.

The award granted under the DSP is not subject to the satisfaction of the group performance conditions, but does require meeting individually contracted performance hurdles. Typically, the award granted under the DSP has a face value of up to 105% of TGP. To the extent that this percentage falls, whether through vesting or due to a promotion or salary increase, an additional award may be granted on an annual basis to maintain the level of participation under the DSP.

Performance Deferred Share Plan (PDSP)

To the extent that the face value of the awards granted under the DSP does not satisfy the specified multiple of TGP to be granted as LTI awards, the individual will be granted an award under the PDSP. Awards granted under the PDSP are conditional rights to acquire Santam and Sanlam shares for no consideration, subject to various vesting conditions being satisfied.

In addition to the individual remaining employed by the group throughout the measurement period and maintaining the agreed-upon individual performance hurdles, the vesting of the award is also subject to the following performance conditions:

- **Santam shares:** that the group achieves an implied fair value to Net Asset Value (NAV) ratio of 1.25 times. For the purposes of calculating the implied fair value to NAV ratio, the return on capital in excess of the cost of capital will be expressed as a ratio on the following basis: (Return on Capital – g) / (Cost of Capital – g) = implied fair value to NAV ratio.
- **Sanlam shares:** that the group's adjusted Return on Group Equity Value (RoGEV) exceeds the Sanlam Group's cost of capital for the relevant measurement period (group performance hurdle). Cost of capital is defined as the nine-year government bond rate in South Africa plus 300 basis points.

The exact condition varies by reference to the value of the performance award as a proportion of the individual's TGP. The higher the award allocated, the more stretching the vesting conditions thereof.

The use of relevant performance conditions is considered appropriate as these are the key drivers of the Santam and Sanlam groups' strategies. The use of these measures creates a direct link between the LTI reward, group strategy and shareholders' interests. To the extent that they are not met at the end of this period, the performance-related awards will lapse. However, awards under the PDSP can vest prior to the end of the six-year performance measurement period on a proportional basis to the extent that all the vesting conditions are met earlier, as follows:

- After three years from the date of grant – 40% of the award;
- After four years – 70% less any portion that vested earlier; and
- After five years – 100% less any portion that vested earlier.

This arrangement is aimed at encouraging performance that will result in targets being met earlier within the agreed performance measurement period. To the extent that the value of performance awards falls below the specified multiple of TGP, whether through vesting or due to a promotion or salary increase, an additional award may be granted on an annual basis to maintain the level of performance awards and encourage ongoing long-term performance.

OUT-PERFORMANCE PLAN (OPP)

From time to time, at the discretion of the HRRC, participation in an OPP may be offered to senior leaders in the group. The OPP rewards superior performance over a three-to-five-year measurement period. No payment is made under the OPP unless the agreed growth target over the period is exceeded and full payment is only made if the stretched performance target is met. The maximum payment that can be made under the OPP is a multiple of six times the annual TGP in the final measurement year.

Governance

The HRRC's role as far as the LTI plans are concerned is to ensure that their structure contributes to shareholder value and the long-term sustainability of the group. It sets appropriate performance drivers and takes responsibility for monitoring and agreeing on the level of compliance with those performance drivers.

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 2016 AGM, a total of 90 859 484 votes (2015: 96 695 636) were cast on the advisory vote, with the vast majority of shareholders supporting the group's remuneration policy and practices. The result of the voting was as follows:

- For: 87.1%
- Against: 12.9%
- Abstain: 0%

EXECUTIVE CONTRACTS

Santam executive directors and members of the executive committee are contracted as full-time, permanent employees for employment contracting purposes. As a standard element of these contracts, a 12-month restraint of trade is included, which Santam has the discretion to enforce, depending on the circumstances surrounding the individual's departure. Notice periods are three months' written notice.

Bonus payments and the vesting of LTIs that are in place at the time of an individual's termination of service are subject to the rules of the relevant scheme with some discretion being allowed to the HRRC, based on the recommendations of the chief executive officer.

No clauses are included in employment contracts that relate to any form of payment in the event of a change in control of Santam. In the event of a change in control, the vesting of share awards will only be accelerated if an offer is made that does not substitute unvested LTIs with arrangements on terms similar to the existing terms and conditions.

SERVICE CONTRACTS AND TERMINATION AGREEMENTS

Executive directors have service contracts with the company, which may be terminated with no less than three months' notice. Non-executive directors do not have service contracts, but serve the company under letters of appointment.

ROLE OF THE HRRC REGARDING REMUNERATION

The HRRC is responsible for developing the remuneration strategy of the group, the approval of guidelines for incentive schemes, and the annual determination of remuneration packages for members of the executive committee and Santam heads of control functions. In fulfilling this function, the committee takes cognisance of local industry benchmarks, ensures that incentive schemes are aligned with good business practice and that excellent performance is rewarded. It also makes recommendations to the board regarding directors' remuneration. In accordance with the King III recommendations, the company's remuneration policy is tabled to shareholders for a non-binding advisory vote at its AGM.

The HRRC has the prerogative to make all remuneration decisions it deems appropriate within an approved framework and may propose amendments to any part of the group's remuneration policy as necessitated by changing circumstances.

Executive directors	Date first appointed to the board	Notice period	Termination payment	Restraint of trade
Lizé Lambrechts Hennie Nel	1 January 2015 17 September 2012	Three months Three months	Total guaranteed package is paid for the full notice period. **Short-term incentives:** Not contractual, but normal practice is to forfeit bonus for the (uncompleted) year in which an employee departs due to resignation. If an employee leaves by reason of retirement, injury, disability, ill health or redundancy, bonus is prorated. **Long-term incentives:** In the event of a voluntarily resignation or a termination on disciplinary grounds or for reasons of poor performance prior to the vesting of the awarded shares, such shares will be forfeited. In the event of retirement, retrenchment, death or permanent disability, the remaining awarded shares will be deemed to have vested on the date of the termination of services.	Executive directors have a 12-month restraint of trade included in their employment contracts. During the restraint period, normal total guaranteed package is paid, should Santam elect to enforce the restraint.

TRANSFORMATION REPORT

BACKGROUND

The private sector is a key player in the acceleration of economic transformation of a country, and Santam takes its role seriously in supporting this. The group follows a holistic and integrated approach in applying transformation. This is focused on creating a diverse workforce, intermediary and supplier base, creating access for non-traditional markets to products and services, and investment into communities.

Santam continues to drive this approach across all stakeholder networks – including business partners, clients and employees. This encourages the sustainable evolution of the business, while building competitive advantage and enabling successful execution of the strategy and vision.

TRANSFORMATION DEFINED

Santam defines transformation as a dynamic process through which it creates a sustainable culture of diversity and inclusion, with a focus on its workforce, the workplace and the marketplace.

This is activated through the group's product/service offering to diverse markets, the creation of diverse distribution channels, employee profiles, ideas, race, gender, experience and other perspectives. In so doing, the business ensures economic inclusion and creates value for its key stakeholders across the markets in which it operates, locally and internationally. The Santam transformation journey will continue to focus primarily on the South African market.

KEY STAKEHOLDERS IMPACTED

The stakeholders impacted and affected by Santam's transformation strategy are diverse and representative of the entire value chain. For the purpose of this strategy, the key stakeholders are:

- Employees
- Suppliers
- Clients
- Intermediaries
- Associated companies
- Business partners
- Subsidiaries
- Relevant government departments (dti, Small Business Development Department and National Treasury)

APPROACH

Santam's approach to transformation is directly aligned to its vision and reinforces the brand promise of ***Insurance good and proper***. Through the transformation mission, the group aims to leverage off diversity and inclusion to drive superior and sustainable business results to provide competitive advantage and create value for all stakeholders.

This will be achieved by focusing on Santam's workforce, workplace and marketplace, underpinned by the values of the Santam Way.

Transformation mission: To leverage the value of diversity and inclusion to drive superior and sustainable business results, competitive advantage and value for stakeholders.

We aim to achieve this by focusing on:

- **Our workforce:** We build a capable, high-performing and diverse workforce that is reflective of the marketplace in which we operate (skills, generation, race, gender, ideas).
- **Our workplace:** We create a culture that values our differences and drives innovation to achieve growth, reduce our risks and create efficiencies.
- **Our marketplace:** We work with our stakeholders (clients, employees, intermediaries, suppliers, business partners, shareholders and communities) to create value and to enable business success in our diverse marketplace.

IMPLEMENTATION OF THE TRANSFORMATION STRATEGY

The organisation has created a framework which will be its focus in 2017 and beyond. This focus will ensure that its efforts in achieving the transformation mission are directed where it can add the most value.

Objectives	Initiatives	Outcomes
Drive high-impact transformation initiatives for business and societal value	– Integrated supplier development programme – Diverse investment partnerships – Diverse distribution channel programme – Growth through a diverse SMME approach – Partnership for Risk and Resilience – Transformation at community and municipal level	**1. A shared Santam transformation story** **2. A purpose-driven and integrated approach** **3. A better connection to and engagement with all stakeholders**
Drive a diverse and inclusive culture	– Establishment of holistic diversity programmes and platforms to support an inclusive culture throughout the workplace, workforce and marketplace – Progressive and inclusive products and services – Development of our people	
Drive transformation through innovation	– Solutions innovation for gaining access to changing markets – Investment mandate to drive innovation – Innovation in risk management	
Lead transformation compliance	– Compliance leadership in the industry (FSC) – Diverse employee base	
Accountability is driven by the respective executives		

TRANSFORMATION GOVERNANCE AND MANAGEMENT

The governance of the transformation strategy at board level is driven mainly by the HRRC and reported to the social, ethics and sustainability committee.

The transformation strategy is being fully integrated into current business, functions and responsibilities, thus it leverages off the embedded reporting and management mechanisms. These reporting mechanisms include, among others, the National Employment Equity Forum that looks at employment equity and skills development based on plans and targets.

The Santam executive committee serves as the overall transformation management committee. In fulfilling this objective, the committee focuses on the implementation, monitoring and evaluation of and reporting on the transformation strategy for the group.

Transformation governance elements include the following:

The chief executive officer takes key accountability for implementation of the transformation strategy. Each executive's transformation accountabilities are included in his or her respective annual key performance areas. The head of transformation and executive heads are responsible for integration, monitoring and evaluating the progress made.

TRANSFORMATION PRIORITIES

The Santam transformation journey will continue to focus primarily on the South African market and will later be transitioned to the rest of the chosen geographies in emerging markets. This strategy will be activated through the group's product/service offering to diverse markets, diverse distribution channels created, employee profiles, ideas, race, gender, experience and other perspectives. In so doing, the business ensures economic inclusion and creates value for its key stakeholders across the markets in which it operates, both locally and internationally.

TRANSFORMATION HIGHLIGHTS FOR 2016

Santam's transformation highlights continue to strengthen the group's drive to transform the business across its entire value chain. There are improvements year on year and deeper commitment for 2017 and beyond.

KEY HIGHLIGHTS*:

- Employee black representation improved by 5% to 68% (2015: 63%)
- R114 million (2015: R79 million) invested in learning and development for black employees across the group
- R40 million (2015: R10 million) invested in supplier development through the Sanlam/Santam ASISA Supplier Development Programme
- R21 million (2015: R16 million) invested in CSI and CFE
- Socio-economic development strategy expanded to support risk management work, focusing on vulnerable communities (Partnerships for Risk and Resilience, see page 50)
- R8.3 million (2015: R9.3 million) invested in consumer financial education programmes
- Expanded consumer financial education focus on the development of small businesses (inclusive of emerging farmers). This will remain a focus going into 2017
- R3.3 million (2015: R3 million) invested in the Black Broker Development programme, with 166 participants in 2015 and 2016 and 12% placed in jobs
- An improved product offering to the emerging markets by increasing the group's product base of from 10 to 12 options for this market
- Just over 129 000 policies sold as access products in South Africa (2015: 66 000)
- Transformation agenda expanded across a further six subsidiaries, with a total of nine subsidiaries now aligned to the group transformation agenda
- BBBEE rating improved with the achievement of a level 2 (2015: level 3)

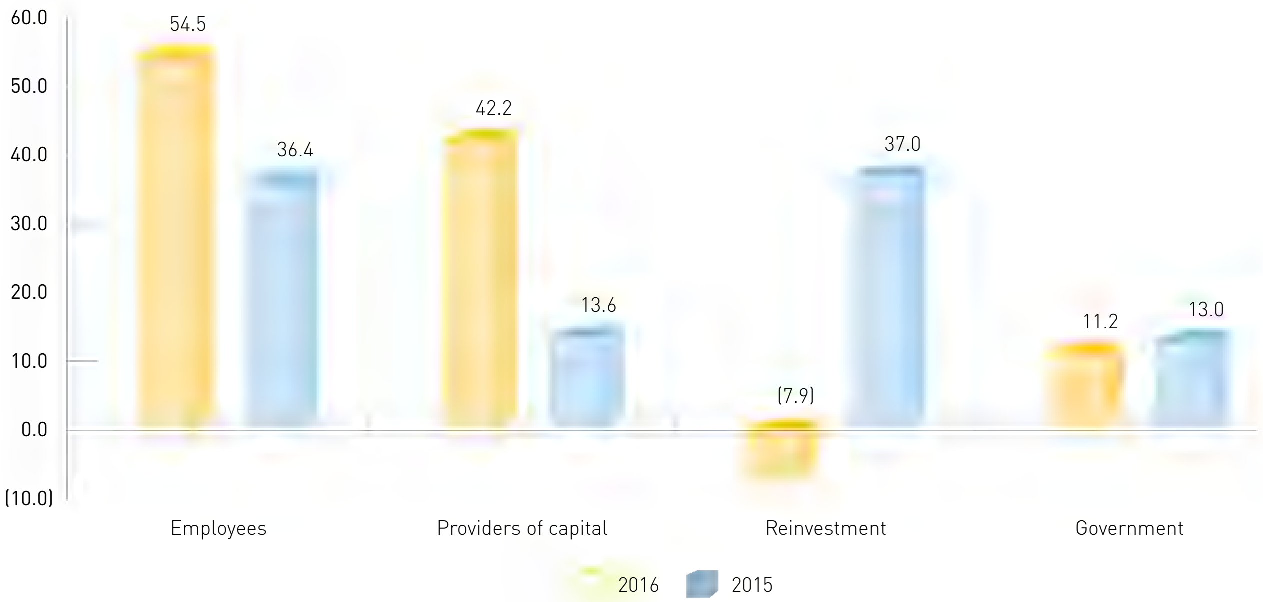
* *The key highlights cover Santam Ltd and its South African subsidiaries.*

READ MORE ABOUT THE PARTNERSHIP FOR RISK AND RESILIENCE ON PAGE 50.

VALUE-ADDED STATEMENT

Value added	Group 2016 R million	2015 R million
Gross written premium	25 909	24 319
Claims paid and cost of other services	22 022	19 153
	3 887	5 166
Investment income net of fees	777	1 840
	4 664	7 006
Value distributed		
Employee benefits	2 543	2 553
Government	524	908
Direct taxation on income	524	908
Providers of capital	1 966	952
Dividends paid	1 806	869
Finance cost on subordinated debt	160	83
	5 033	4 413
Retained for reinvestment and future support of business	(369)	2 593
Depreciation and amortisation of intangible assets	95	160
Retained income before transfer to reserves	(413)	2 068
Compulsory reserves for future support of business	(51)	365
	4 664	7 006

VALUE DISTRIBUTED %



WE REDUCE RISK THROUGH COLLABORATION.

Through our Risk and Resilience Programme we work in partnership with municipalities to identify risks such as fire and flooding. This initiative has enabled us to provide 53 local municipalities with disaster management tools. It is a reflection of our enduring commitment to creating better lives for all South Africans.

SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

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 IAS 34 *Interim Financial Reporting*.

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:

Grant Gelink
Chairman
1 March 2017

Lizé Lambrechts
Chief executive officer

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.

Masood Allie
Company secretary
1 March 2017

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SANTAM LTD

OPINION

The summary consolidated financial statements of Santam Ltd, set out on pages 108 to 125, which comprise the summary consolidated statement of financial position as at 31 December 2016, 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 2016.

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 (IFRS) 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 1 March 2017. 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 requirements of 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

1 March 2017

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Audited at 31 December 2016 R million	Audited at 31 December 2015 R million
ASSETS			
Non-current assets			
Property and equipment		106	90
Intangible assets		885	827
Deferred income tax		105	140
Investment in associates and joint ventures		1 536	252
Financial assets at fair value through income			
Equity securities	6	2 581	2 730
Debt securities	6	10 849	9 721
Reinsurance assets	7	140	164
Deposit with cell owner		163	187
Total non-current assets		16 365	14 111
Current assets			
Cell owners' interest		7	6
Financial assets at fair value through income			
Derivatives	6	1	2
Short-term money market instruments	6	1 361	2 281
Reinsurance assets	7	4 349	3 514
Deposit with cell owner		56	67
Deferred acquisition costs		469	525
Loans and receivables including insurance receivables	6	3 754	3 449
Income tax assets		19	13
Cash and cash equivalents		2 887	3 349
Non-current assets held for sale	8	8	541
Total current assets		12 911	13 747
Total assets		29 276	27 858
EQUITY AND LIABILITIES			
Capital and reserves attributable to the company's equity holders			
Share capital		103	103
Treasury shares		(472)	(450)
Other reserves		(41)	548
Distributable reserves		7 286	7 880
		6 876	8 081
Non-controlling interest		469	466
Total equity		7 345	8 547
Non-current liabilities			
Deferred income tax		101	107
Financial liabilities at fair value through income			
Debt securities	6	2 005	974
Derivatives	6	–	1
Cell owners' interest		1 153	980
Insurance liabilities	7	1 312	1 525
Reinsurance liability relating to cell owners		163	187
Total non-current liabilities		4 734	3 774
Current liabilities			
Financial liabilities at fair value through income			
Debt securities	6	48	24
Investment contracts	6	101	70
Financial liabilities at amortised cost			
Collateral guarantee contracts		123	105
Insurance liabilities	7	12 284	11 139
Reinsurance liability relating to cell owners		56	67
Deferred reinsurance acquisition revenue		273	280
Provisions for other liabilities and charges		71	122
Trade and other payables including insurance payables		4 093	3 412
Current income tax liabilities		148	318
Total current liabilities		17 197	15 537
Total liabilities		21 931	19 311
Total shareholders' equity and liabilities		29 276	27 858

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Audited Year ended 31 December 2016 R million	Audited Year ended 31 December 2015 R million	Change
Gross written premium		**25 909**	24 319	7%
Less: reinsurance written premium		**6 137**	5 435	
Net written premium		**19 772**	18 884	5%
Less: change in unearned premium				
Gross amount		**137**	528	
Reinsurers' share		**(191)**	(167)	
Net insurance premium revenue		**19 826**	18 523	7%
Investment income	9	**777**	1 210	(36%)
Income from reinsurance contracts ceded		**1 337**	1 236	
Net gains on financial assets and liabilities at fair value through income	9	**42**	235	
Investment income and fair value losses on financial assets held for sale	9	**13**	–	
Net income		**21 995**	21 204	4%
Insurance claims and loss adjustment expenses		**17 100**	13 980	
Insurance claims and loss adjustment expenses recovered from reinsurers		**(4 189)**	(2 470)	
Net insurance benefits and claims		**12 911**	11 510	12%
Expenses for the acquisition of insurance contracts		**3 716**	3 240	
Expenses for marketing and administration		**3 247**	3 277	
Expenses for investment-related activities		**70**	53	
Amortisation and impairment of intangible assets		**51**	117	
Total expenses		**19 995**	18 197	10%
Results of operating activities		**2 000**	3 007	(33%)
Finance costs		**(212)**	(116)	
Net income from associates and joint ventures		**67**	53	
Profit on sale of associated companies	11	**–**	413	
Profit on sale of subsidiary	11	**–**	15	
Profit before tax		**1 855**	3 372	(45%)
Income tax expense	10	**(524)**	(908)	
Profit for the year		**1 331**	2 464	(46%)
Other comprehensive income, net of tax				
Items that may subsequently be reclassified to income:				
Currency translation differences		**(197)**	163	
Share of associates' currency translation differences		**(255)**	–	
Hedging reserve movement		**(140)**	134	
Tax on hedging reserve movement		**–**	(37)	
Total comprehensive income for the year		**739**	2 724	(73%)
Profit attributable to:				
– equity holders of the company		**1 212**	2 348	(48%)
– non-controlling interest		**119**	116	
		1 331	2 464	
Total comprehensive income attributable to:				
– equity holders of the company		**620**	2 608	(76%)
– non-controlling interest		**119**	116	
		739	2 724	
Earnings attributable to equity shareholders				
Earnings per share (cents)	12			
Basic earnings per share		**1 100**	2 090	(47%)
Diluted earnings per share		**1 088**	2 065	(47%)
Weighted average number of ordinary shares (millions)		**110.21**	112.34	
Weighted average number of ordinary shares for diluted earnings per share (millions)		**111.37**	113.72	

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company						
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Total R million	Non-controlling interest R million	Total R million
Balance as at 1 January 2015	**107**	**(506)**	**238**	**7 171**	**7 010**	**430**	**7 440**
Profit for the year	–	–	–	2 348	**2 348**	116	**2 464**
Other comprehensive income:							
Currency translation differences	–	–	163	–	**163**	–	**163**
Hedging reserve movement	–	–	134	(37)	**97**	–	**97**
Total comprehensive income for the year ended 31 December 2015	**–**	**–**	**297**	**2 311**	**2 608**	**116**	**2 724**
Issue of treasury shares in terms of share option schemes	–	56	–	(56)	**–**	–	**–**
Repurchase of shares (refer to note 14)	(4)	–	–	(797)	**(801)**	–	**(801)**
Transfer to reserves	–	–	4	(4)	**–**	–	**–**
Share-based payment costs	–	–	–	124	**124**	–	**124**
Increase in capital contribution reserve (refer to note 14)	–	–	9	–	**9**	–	**9**
Dividends paid	–	–	–	(869)	**(869)**	(82)	**(951)**
Interest sold to non-controlling interest	–	–	–	–	**–**	2	**2**
Balance as at 31 December 2015	**103**	**(450)**	**548**	**7 880**	**8 081**	**466**	**8 547**
Profit for the year	–	–	–	1 212	**1 212**	119	**1 331**
Other comprehensive income:							
Currency translation differences	–	–	(197)	–	**(197)**	–	**(197)**
Share of associates' currency translation differences	–	–	(255)	–	**(255)**	–	**(255)**
Hedging reserve movement	–	–	(140)	–	**(140)**	–	**(140)**
Total comprehensive income for the year ended 31 December 2016	**–**	**–**	**(592)**	**1 212**	**620**	**119**	**739**
Issue of treasury shares in terms of share option schemes	–	76	–	(76)	**–**	–	**–**
Purchase of treasury shares	–	(98)	–	–	**(98)**	–	**(98)**
Transfer to reserves	–	–	3	(3)	**–**	–	**–**
Share-based payment costs	–	–	–	79	**79**	–	**79**
Dividends paid	–	–	–	(1 806)	**(1 806)**	(116)	**(1 922)**
Balance as at 31 December 2016	**103**	**(472)**	**(41)**	**7 286**	**6 876**	**469**	**7 345**

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Audited Year ended 31 December 2016 R million	Audited Year ended 31 December 2015 R million
Cash flows from operating activities			
Cash generated from operations		2 171	3 656
Interest paid		(161)	(110)
Income tax paid		(681)	(1 002)
Net cash from operating activities		1 329	2 544
Cash flows from investing activities			
Acquisition of financial assets		(17 594)	(14 086)
Proceeds from sale of financial assets		17 764	13 348
Settlement of fence		75	42
Acquisition of business, net of cash acquired	11	70	–
Cash received/(disposed of) through sale of subsidiaries	11	208	(183)
Staff trust acquired	14	–	132
Purchases of equipment		(60)	(39)
Purchases of intangible assets		(50)	(85)
Proceeds from sale of equipment		2	–
Acquisition of associated companies and joint ventures		(1 467)	(2)
Capitalisation of associated companies		(10)	(28)
Proceeds from sale of associated companies	11	–	625
Settlement of deferred conditional right relating to non-current assets held for sale		509	–
Net cash used in investing activities		(553)	(276)
Cash flows from financing activities			
Purchase of treasury shares		(98)	–
Repurchase of shares		–	(801)
Proceeds from issue of unsecured subordinated callable notes		1 000	–
Increase/(decrease) in investment contract liabilities		31	(35)
Increase in collateral guarantee contracts		12	11
Dividends paid to company's shareholders		(1 806)	(869)
Dividends paid to non-controlling interest		(116)	(82)
(Decrease)/increase in cell owners' interest		(114)	16
Net cash used in financing activities		(1 091)	(1 760)
Net (decrease)/increase in cash and cash equivalents		(315)	508
Cash and cash equivalents at the beginning of the year		3 349	2 561
Exchange (losses)/gains on cash and cash equivalents		(147)	280
Cash and cash equivalents at the end of the year		2 887	3 349

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The summary 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 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:

The following new IFRSs and/or IFRICs were effective for the first time from 1 January 2016:

- Amendments to IFRS 10 and IAS 28 – Investment entities: Applying the consolidation exemption
- Amendments to IFRS 11 – Joint arrangements
- IFRS 14 – Regulatory deferral accounts
- Amendments to IAS 1 – Disclosure initiative
- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer plants
- Amendment to IAS 27 – Equity method in separate financial statements
- Annual Improvements 2012 –14 cycle

There was no material impact on the summary consolidated financial statements identified.

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 this 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 2016. There have been no changes since 31 December 2015.

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 disclosure required in the annual financial statements and should be read in conjunction with the group's annual financial statements as at 31 December 2016.

There have been no material changes in the risk management policies since 31 December 2015.

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 performance of the operating segments, has been identified as the chief executive officer, supported by the group executive committee.

The group conducts mainly insurance, investment and strategic diversification activities.

Insurance activities are all core general insurance and reinsurance underwriting activities undertaken by the group and are 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 net underwriting result as measure of profitability.

Investment activities are all investment-related activities undertaken by the group. 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 (excluding net investment income generated by strategic activities).

Strategic diversification activities relate to all strategic investing activities where the purpose of the activities is to obtain certain diversification benefits. The investments in SEM target shares, associates and joint ventures are included in this segment. This segment was included in 2016, subsequent to the acquisition of the shareholding in SAN JV. The segment report was amended to also provide the comparative information relating to SEM. Strategic diversification activities are measured based on net investment income from SEM target share investments and net income from associated companies and joint ventures.

Growth is measured based on the gross written premium generated by the underlying businesses. The underwriting and investment return on insurance funds are provided for each of the underlying components included in the strategic diversification segment for consideration by the chief operating decision-maker. As 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 associated companies 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 associated companies and joint ventures.

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.

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.

The Santam BEE transaction costs are unrelated to the core underwriting, investment or strategic diversification 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 (included in financial instruments).

5. **Segment information** (continued)

5.1 **For the year ended 31 December 2016**

Business activity	Insurance R million	Investment R million	Strategic diversification R million	Total R million	Reconciling and unallocated R million	IFRS total R million
Revenue	**25 909**	**418**	**1 939**	**28 266**	**(2 357)**	**25 909**
Gross written premium	25 909	–	1 939	**27 848**	(1 939)	**25 909**
Net written premium	19 772	–	1 477	**21 249**	(1 477)	**19 772**
Net earned premium	19 826	–	1 414	**21 240**	(1 414)	**19 826**
Net claims incurred	12 911	–	982	**13 893**	(982)	**12 911**
Net commission	2 379	–	121	**2 500**	(121)	**2 379**
Management expenses (excluding BEE costs)[2]	3 268	–	347	**3 615**	(347)	**3 268**
Underwriting result	**1 268**	**–**	**(36)**	**1 232**	**36**	**1 268**
Investment return on insurance funds	619	–	180	**799**	(180)	**619**
Net insurance result	**1 887**	**–**	**144**	**2 031**	**(144)**	**1 887**
Reallocation of net insurance results[1]	–	–	(144)	**(144)**	144	**–**
Investment income/(losses) net of investment-related fees and finance costs	–	136	(205)	**(69)**	–	**(69)**
Income from associates and joint ventures	–	–	67	**67**	–	**67**
Santam BEE costs	–	–	–	**–**	(9)	**(9)**
Amortisation and impairment of intangible assets[2]	(21)	–	–	**(21)**	–	**(21)**
Income before taxation	**1 866**	**136**	**(138)**	**1 864**	**(9)**	**1 855**

[1] *Reconciling items consist of the reallocation of net insurance results relating to the underlying investments included in strategic diversification activities for management reporting purposes.*

[2] *Amortisation of computer software included as part of management expenses.*

	Gross written premium R million	Underwriting result R million
Insurance activities		
The group's insurance activities are spread over various classes of general insurance.		
Accident and health	374	49
Alternative risk	2 406	16
Crop	984	69
Engineering	1 196	196
Guarantee	86	(31)
Liability	1 202	301
Miscellaneous	9	(3)
Motor	11 004	622
Property	7 972	22
Transportation	676	27
Total	**25 909**	**1 268**
Comprising:		
Commercial insurance	13 330	735
Personal insurance	10 173	517
Alternative risk	2 406	16
Total	**25 909**	**1 268**

	R million
Additional information	
Investment activities	
The group's return on investment-related activities can be analysed as follows:	
Investment income	150
Net gains on financial assets and liabilities at fair value through income	268
Investment-related revenue	**418**
Expenses for investment-related activities	(70)
Finance costs	(212)
Net total investment-related transactions	**136**

For detailed analysis of investment activities, refer to notes 6 and 9.

	SEM target shares R million	SAN JV (Saham Finances) R million	Other R million	Total R million
Strategic diversification activities				
The group's return on strategic diversification-related activities can be analysed as follows:				
Revenue	**962**	**977**	**–**	**1 939**
Gross written premium	962	977	–	**1 939**
Net written premium	688	789	–	**1 477**
Net earned premium	665	749	–	**1 414**
Net claims incurred	484	498	–	**982**
Net commission	32	89	–	**121**
Management expenses (excluding BEE costs)	162	185	–	**347**
Underwriting result	**(13)**	**(23)**	**–**	**(36)**
Investment return on insurance funds	119	61	–	**180**
Net insurance result	**106**	**38**	**–**	**144**
Reallocation of net insurance results[1]	(106)	(38)	–	**(144)**
Investment losses net of investment-related fees and finance costs	(205)	–	–	**(205)**
Income from associates and joint ventures	–	43	24	**67**
(Loss)/income before taxation	**(205)**	**43**	**24**	**(138)**

	Gross written premium R million	Underwriting result R million
South Africa	–	–
Rest of Africa	1 427	(18)
Southeast Asia, India, Middle East and China	512	(18)
	1 939	(36)
Reallocation of net underwriting results[1]		36
		–
Investment income		8
Net losses on financial assets and liabilities at fair value through income		
– Net fair value losses		(67)
– Net foreign exchange losses		(146)
Net income from associates and joint ventures		67
Strategic diversification-related loss		**(138)**

[1] *Reconciling items consist of the reallocation of net underwriting results relating to the underlying investments included in strategic diversification activities for management reporting purposes.*

	Dividend income R million	Net fair value losses R million	Net foreign exchange losses R million	Net income from associates and joint ventures R million	Total R million
SAN JV (Saham Finances)	–	–	–	43	**43**
SEM target shares	8	(67)	(146)	–	**(205)**
Other	–	–	–	24	**24**
Total	**8**	**(67)**	**(146)**	**67**	**(138)**

5. **Segment information** (continued)

5.2 **For the year ended 31 December 2015 (restated)**

Business activity	Insurance R million	Investment R million	Strategic diversification R million	Total R million	Reconciling and unallocated R million	IFRS total R million
Revenue	**24 319**	**772**	**675**	**25 766**	**(1 447)**	**24 319**
Gross written premium	24 319	–	675	**24 994**	(675)	**24 319**
Net written premium	18 884	–	494	**19 378**	(494)	**18 884**
Net earned premium	18 523	–	499	**19 022**	(499)	**18 523**
Net claims incurred	11 510	–	397	**11 907**	(397)	**11 510**
Net commission	2 004	–	19	**2 023**	(19)	**2 004**
Management expenses (excluding BEE costs)[2]	3 230	–	103	**3 333**	(103)	**3 230**
Underwriting result	**1 779**	**–**	**(20)**	**1 759**	**20**	**1 779**
Investment return on insurance funds	499	–	79	**578**	(79)	**499**
Net insurance result	**2 278**	**–**	**59**	**2 337**	**(59)**	**2 278**
Reallocation of net insurance results[1]	–	–	(59)	**(59)**	59	**–**
Investment income net of investment-related fees and finance costs	–	603	174	**777**	–	**777**
Income from associates including profit on sale	–	–	466	**466**	–	**466**
Profit on sale of subsidiary	–	–	15	**15**	–	**15**
Santam BEE costs	–	–	–	**–**	(71)	**(71)**
Amortisation and impairment of intangible assets[2]	(93)	–	–	**(93)**	–	**(93)**
Income before taxation	**2 185**	**603**	**655**	**3 443**	**(71)**	**3 372**

[1] *Reconciling items consist of the reallocation of net insurance results relating to the underlying investments included in strategic diversification activities for management reporting purposes.*

[2] *Amortisation of computer software included as part of management expenses.*

	Gross written premium[1] R million	Underwriting result[1] R million
Insurance activities		
The group's insurance activities are spread over various classes of general insurance.		
Accident and health	371	60
Alternative risk	2 248	20
Crop	840	131
Engineering	1 176	216
Guarantee	149	13
Liability	1 327	234
Miscellaneous	62	11
Motor	10 247	673
Property	7 213	330
Transportation	686	91
Total	**24 319**	**1 779**
Comprising:		
Commercial insurance	12 665	1 195
Personal insurance	9 406	564
Alternative risk	2 248	20
Total	**24 319**	**1 779**

[1] *The following reclassifications between insurance classes were made as a result of more granular information becoming available: a decrease of R477 million in gross written premium for commercial lines and a corresponding increase of R477 million in gross written premium for personal lines; a decrease of R36 million in underwriting result for commercial lines and a corresponding increase of R36 million in underwriting result for personal lines.*

	R million
Additional information	
Investment activities	
The group's return on investment-related activities can be analysed as follows:	
Investment income	689
Net gains on financial assets and liabilities at fair value through income	83
Investment-related revenue	**772**
Expenses for investment-related activities	(53)
Finance costs	(116)
Net total investment-related transactions	**603**

For detailed analysis of investment activities, refer to notes 6 and 9.

	SEM target shares R million	Other R million	Total R million
Strategic diversification activities			
The group's return on strategic diversification-related activities can be analysed as follows:			
Revenue	**675**	**–**	**675**
Gross written premium	675	–	**675**
Net written premium	494	–	**494**
Net earned premium	499	–	**499**
Net claims incurred	397	–	**397**
Net commission	19	–	**19**
Management expenses (excluding BEE costs)	103	–	**103**
Underwriting result	**(20)**	**–**	**(20)**
Investment return on insurance funds	79	–	**79**
Net insurance result	**59**	**–**	**59**
Reallocation of net insurance results[1]	(59)	–	**(59)**
Investment income net of investment-related fees and finance costs	174	–	**174**
Income from associates and joint ventures including profit on sale	–	466	**466**
Profit on sale of subsidiary	–	15	**15**
Income before taxation	**174**	**481**	**655**

	Gross written premium R million	Underwriting result R million
South Africa	–	–
Rest of Africa	272	(3)
Southeast Asia, India, Middle East and China	403	(17)
	675	(20)
Reallocation of net underwriting results[1]		20
		–
Investment income		22
Net gains on financial assets and liabilities at fair value through income		
– Net fair value gains		47
– Net foreign exchange gains		105
Net income from associates and joint ventures		53
Profit on sale of associates		413
Profit on sale of subsidiary		15
Strategic diversification-related revenue		**655**

[1] *Reconciling items consist of the reallocation of net underwriting results relating to the underlying investments included in strategic diversification activities for management reporting purposes.*

	Dividend income R million	Net fair value gains R million	Net foreign exchange gains R million	Net income from associates and joint ventures R million	Total R million
5. Segment information (continued)					
5.2 For the year ended 31 December 2015 (restated) (continued)					
SEM target shares	22	47	105	–	**174**
Other[1]	–	–	–	481	**481**
Total	**22**	**47**	**105**	**481**	**655**

[1] *Includes profit on sale of associates of R413 million and profit on sale of subsidiary of R15 million.*

	Gross written premium		Non-current assets	
	31 December 2016 R million	Restated 31 December 2015 R million	**31 December 2016 R million**	31 December 2015 R million
5.3 Geographical analysis				
South Africa	**23 360**	21 909	**1 126**	1 000
Rest of Africa[1]	**3 479**	2 245	**1 670**	441
Southeast Asia, India, Middle East and China[2]	**1 009**	840	**857**	733
	27 848	24 994	**3 653**	2 174
Reconciling items[3]	**(1 939)**	(675)	**–**	–
Group total	**25 909**	24 319	**3 653**	2 174

[1] *Includes gross written premium relating to Namibia of R1 118 million (Dec. 2015: R1 056 million).*
[2] *Includes gross written premium relating to China of R116 million (Dec. 2015: R140 million).*
[3] *Reconciling items relate to the underlying investments included in strategic diversification activities for management reporting purposes.*

	Audited at 31 December 2016 R million	Audited at 31 December 2015 R million
6. Financial assets and liabilities		
The group's financial assets and liabilities are summarised below by measurement category.		
Financial assets		
Financial assets at fair value through income	**14 792**	14 734
Loans and receivables	**3 754**	3 449
	18 546	18 183
Financial liabilities		
Financial liabilities at fair value through income	**2 154**	1 069
Financial liabilities at amortised cost	**123**	105
Trade and other payables	**4 093**	3 412
	6 370	4 586

Financial instruments measured at fair value on a recurring basis

The table that follows 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 2015. 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, prices) or indirectly (that is, derived from prices). Listed bonds that did not trade actively during a financial period are classified as level 2 financial instruments. The fair value of level 2 instruments is predominantly determined using discounted cash flow models based on market observable input.
- Level 3: Input for the asset or liability that is not based on observable data (that is, unobservable input).

All government and corporate bonds were transferred from level 1 to level 2 based on management's current assessment of an active market for debt instruments. There were no significant transfers between level 1 and level 2 during the prior year.

All derivative instruments are classified as investments held for trading. The rest of the investment portfolio is designated as financial assets at fair value through income based on the principle that the entire portfolio is managed on a fair value basis and reported as such to the investment committee.

31 December 2016 Financial assets at fair value through income	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	1 321	–	–	**1 321**
Unitised funds	–	77	–	**77**
Irredeemable preference shares	2	–	–	**2**
Unquoted	–	–	1 181	**1 181**
Total equity securities	**1 323**	**77**	**1 181**	**2 581**
Debt securities				
Quoted				
Government and other bonds	–	2 469	–	**2 469**
Collateralised securities	–	407	–	**407**
Unit-linked investments	–	268	–	**268**
Money market instruments more than one year	–	2 592	–	**2 592**
Equity-linked notes	–	244	–	**244**
Unquoted				
Government and other bonds	–	151	–	**151**
Collateralised securities	–	10	–	**10**
Money market instruments more than one year	–	4 516	–	**4 516**
Redeemable preference shares	–	163	29	**192**
Total debt securities	**–**	**10 820**	**29**	**10 849**
Derivative instruments				
Exchange traded futures	–	1	–	**1**
Interest rate swaps[1]	–	–	–	**–**
Total derivative instruments	**–**	**1**	**–**	**1**
Short-term money market instruments	**–**	**1 361**	**–**	**1 361**
Total financial assets at fair value through income	**1 323**	**12 259**	**1 210**	**14 792**

[1] *Carrying value as at 31 December 2016 is less than R1 million.*

Financial liabilities at fair value through income				
Debt securities	**–**	**2 053**	**–**	**2 053**
Investment contracts	**–**	**101**	**–**	**101**
Total financial liabilities at fair value through income	**–**	**2 154**	**–**	**2 154**

31 December 2015 Financial assets at fair value through income	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	1 643	–	–	**1 643**
Unitised funds	–	66	–	**66**
Irredeemable preference shares	2	–	–	**2**
Unquoted	–	–	1 019	**1 019**
Total equity securities	**1 645**	**66**	**1 019**	**2 730**
Debt securities				
Quoted				
Government and other bonds	1 378	1 122	36	**2 536**
Collateralised securities	–	190	–	**190**
Unit-linked investments	–	214	–	**214**
Money market instruments more than one year	–	1 799	–	**1 799**
Unquoted				
Government and other bonds	–	132	–	**132**
Money market instruments more than one year	–	4 459	–	**4 459**
Redeemable preference shares	–	101	29	**130**
Equity-linked notes	–	261	–	**261**
Total debt securities	**1 378**	**8 278**	**65**	**9 721**
Derivative instruments				
Exchange traded futures	–	2	–	**2**
Total derivative instruments	**–**	**2**	**–**	**2**
Short-term money market instruments	**–**	**2 237**	**44**	**2 281**
Total financial assets at fair value through income	**3 023**	**10 583**	**1 128**	**14 734**

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
6. Financial assets and liabilities (continued)				
31 December 2015				
Financial liabilities at fair value through income				
Debt securities	998	–	–	998
Investment contracts	–	70	–	70
Derivative instruments				
Interest rate swaps[1]	–	–	1	1
Total derivative instruments	–	–	1	1
Total financial liabilities at fair value through income	998	70	1	1 069

[1] *Carrying value as at 31 December 2016 is less than R1 million.*

The following tables present the changes in level 3 instruments:

31 December 2016	Equity securities R million	Debt securities R million	Short-term money market instruments R million	Derivatives R million	Total R million
Opening balance	1 019	65	44	(1)	1 127
Acquisitions	376	–	–	–	376
Disposals/settlements	(2)	–	–	(75)	(77)
Transfers between asset classes	–	44	(44)	–	–
Transfers to level 1 and/or 2	–	(90)	–	–	(90)
(Losses)/gains recognised in profit or loss	(212)	10	–	76	(126)
Closing balance	1 181	29	–	–	1 210
31 December 2015					
Opening balance	820	56	38	–	914
Acquisitions	51	–	1	–	52
Disposals/settlements	(5)	–	(2)	–	(7)
Transfers between asset classes	–	(4)	4	–	–
Gains/(losses) recognised in profit or loss	153	13	3	(1)	168
Closing balance	1 019	65	44	(1)	1 127

The unquoted equity instruments recognised as level 3 instruments consist mainly of the participation target shares issued by Sanlam Emerging Markets (Pty) Ltd (SEM). Santam increased its participatory interest in SGI during the second half of 2016 by 8% to 15% at a cost of R251 million. Of the R212 million loss (Dec 2015: R153 million gain) recognised on equity securities, R212 million (Dec 2015: R152 million) relates to the SEM target shares, of which R145 million (Dec 2015: R105 million) relates to foreign exchange losses (Dec 2015: gains), and R67 million (Dec 2015: R47 million) to a decrease (Dec 2015: increase) in fair value in local currency terms. Key drivers of the fair value movements of Santam's share of the SEM investment portfolio were:

- A downward adjustment to the value of the P&O business in Malaysia of R88 million due to lower premium growth in competitive market conditions. There is a significant focus on expanding the current P&O product offering, and growth reported on non-motor business lines was positive.
- A reduction in the value of the investment in SORAS Assurances Générales Ltd (SORAS) in Rwanda of R47 million following financial irregularities identified during 2016 relating to prior years. Corrective measures were taken to address these irregularities, and the business was recapitalised during the second half of 2016.
- An increase in the value of SGI of R51 million was mainly attributed to good growth achieved in the Indian insurance market.

The fair value of the SEM target shares is determined using predominantly discounted cash flow models. The most significant assumptions used in these 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 would decrease by R140 million (Dec. 2015: R114 million) or increase by R213 million (Dec. 2015: R172 million), respectively. If the relative foreign exchange rates increase or decrease by 10%, the cumulative fair values will increase or decrease by R85 million (Dec. 2015: R73 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 R91 million (Dec. 2015: R79 million) or decrease by R90 million (Dec. 2015: R78 million), respectively.

At 31 December 2016, the group had exchange traded futures with an exposure value of R345 million (Dec. 2015: R585 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 2016 of R27 million (Dec. 2015: R31 million) and R27 million (Dec. 2015: R31 million).

The interest rate derivative liabilities represent the fair value of interest rate swaps effected on a total of R100 million (Dec. 2015: R100 million) of fixed interest securities held in the investment portfolio underlining the subordinated callable notes. The interest rate swaps have the effect of swapping a variable interest rate for a fixed interest rate on these assets to eliminate interest rate risk on assets supporting the bond liability. The derivatives mature on 12 June 2017. The gross exposure asset and liability at year-end amounted to R3 million (Dec. 2015: R10 million) and R3 million (Dec. 2015: R11 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 is 15 September 2017. Between the optional redemption date and final maturity date of 15 September 2022, a variable interest rate (JIBAR-based plus additional margin) will apply.

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 amounted to 9.81%, representing the three-month JIBAR (as at 31 December 2016) plus 245 basis points at the time of the issue, while the rate for the fixed rate notes amounted to 11.77%. The floating rate notes have a call date of 12 April 2021 with a final maturity date of 12 April 2026, and the fixed rate notes a call date of 12 April 2023 with a final maturity date of 12 April 2028.

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

In February 2015, a zero cost fence structure was entered into based on the SWIX 40, providing 10% downside protection from the implementation level of 10 443, with upside participation (excluding dividends) of 10.9%. The structure matured on 17 December 2015 (resulting in a realised gain of R42 million) and was not renewed. In May 2016, a zero cost fence structure was entered into based on the SWIX 40, providing 10% downside protection from the implementation level of 10 621, with upside participation (excluding dividends) of 10.3%. The structure matured on 15 December 2016 (resulting in a realised gain of R75 million) and was not renewed. These were economic hedges over R1 billion of the listed equity portfolio.

		Audited at 31 December 2016 R million	Audited at 31 December 2015 R million
7.	**Insurance liabilities and reinsurance assets**		
	Gross insurance liabilities		
	Long-term insurance contracts		
	– claims reported and loss adjustment expenses	**25**	6
	– claims incurred but not reported	**42**	30
	General insurance contracts		
	– claims reported and loss adjustment expenses	**6 789**	6 273
	– claims incurred but not reported	**1 873**	1 567
	– unearned premiums	**4 867**	4 788
	Total gross insurance liabilities	**13 596**	12 664
	Non-current liabilities	**1 312**	1 525
	Current liabilities	**12 284**	11 139
	Recoverable from reinsurers		
	Long-term insurance contracts		
	– claims reported and loss adjustment expenses	**6**	3
	– claims incurred but not reported	**12**	7
	General insurance contracts		
	– claims reported and loss adjustment expenses	**2 835**	2 220
	– claims incurred but not reported	**329**	272
	– unearned premiums	**1 307**	1 176
	Total reinsurers' share of insurance liabilities	**4 489**	3 678
	Non-current assets	**140**	164
	Current assets	**4 349**	3 514
	Net insurance liabilities		
	Long-term insurance contracts		
	– claims reported and loss adjustment expenses	**19**	3
	– claims incurred but not reported	**30**	23
	General insurance contracts		
	– claims reported and loss adjustment expenses	**3 954**	4 053
	– claims incurred but not reported	**1 544**	1 295
	– unearned premiums	**3 560**	3 612
	Total net insurance liabilities	**9 107**	8 986

8. **Non-current assets held for sale**

Santam Ltd initially set up the Santam International group in 2002 to facilitate the expansion into Europe. Santam International Ltd (Santam International) directly and indirectly held three subsidiaries called Santam UK Ltd, Westminster Motor Insurance Agency Ltd (WMIA) and Santam Europe Ltd (Europe). The holdings in WMIA and Europe were sold in 2008 and Santam International only retained deferred conditional rights relating to the sale contracts. WMIA and Europe were renamed subsequent to the sale to Cardrow Insurance Ltd (Cardrow) and Beech Hill Insurance Ltd (Beech Hill), respectively.

The deferred conditional rights relating to Cardrow were realised during the first half of 2016 when it paid a dividend of R394 million. The deferred conditional rights relating to Beech Hill were substantially realised during the second half of 2016 with the receipt of an amount of R115 million. The remaining balance of R8 million is expected to be realised during the first half of 2017.

	Audited at 31 December 2016 R million	Audited at 31 December 2015 R million
Assets that are classified as held for sale		
Financial assets at fair value through income		
Equity securities	**–**	390
Loans and receivables including insurance receivables	**8**	151
	8	541
Opening balance	**541**	428
Settlements	**(509)**	–
Dividend income	**394**	–
Foreign exchange (losses)/gains	**(37)**	113
Net fair value losses	**(381)**	–
Closing balance	**8**	541

	Audited Year ended 31 December 2016 R million	Audited Year ended 31 December 2015 R million
9. Investment income and net gains/(losses) on financial assets and liabilities		
Investment income	**777**	1 210
Dividend income	**64**	119
Interest income	**941**	729
Foreign exchange differences	**(228)**	362
Net gains on financial assets and liabilities at fair value through income	**42**	235
Net realised gains on financial assets	**284**	1 010
Net fair value losses on financial assets designated as at fair value through income	**(300)**	(850)
Net realised/fair value gains on derivative instruments	**75**	43
Net fair value gains on short-term money market instruments	**14**	7
Net fair value (losses)/gains on financial liabilities designated as at fair value through income	**(31)**	25
Net fair value (losses)/gains on debt securities	**(31)**	25
Investment income and net losses on financial assets held for sale[1]	**13**	–
Dividend income	**394**	–
Net fair value losses	**(381)**	–
	832	1 445

[1] *Dividend income for the group includes a dividend of R394 million resulting from the realisation of the value in the non-current assets held for sale relating to Cardrow. This resulted in the net fair value of the related investment being reduced by R381 million. Refer to note 8 for more detail.*

	Audited Year ended 31 December 2016 R million	Audited Year ended 31 December 2015 R million
10. Income tax		
Normal taxation		
Current year	553	1 077
Prior year	(8)	24
Recovered from cell owners	(89)	(67)
Foreign taxation – current year	56	57
Total income taxation for the year	512	1 091
Deferred taxation		
Current year	12	(170)
Prior year	–	(13)
Total deferred taxation for the year	12	(183)
Total taxation as per statement of comprehensive income	524	908
Reconciliation of taxation rate (%)		
Normal South African taxation rate	28.0	28.0
Adjusted for:		
Disallowable expenses	0.6	0.7
Foreign tax differential	0.4	0.2
Exempt income	(1.4)	(1.2)
Investment results	(0.5)	(0.9)
Change in CGT inclusion rate[1]	2.4	–
Income from associates and joint ventures	(1.1)	(1.0)
Previous years' (over)/underprovision	(0.4)	0.3
Other permanent differences	0.1	0.7
Other taxes	0.1	0.1
Net increase/(reduction)	0.2	(1.1)
Effective rate (%)	28.2	26.9

[1] *The increase in the CGT inclusion rate resulted in an increase in the deferred tax provision on fair value movements of R45 million.*

11. **Corporate transactions**

2016

Acquisitions

SAN JV (RF) (Pty) Ltd (Saham Finances)

The transaction to acquire a 25% shareholding in SAN JV (with SEM acquiring 75%), announced in November 2015, was finalised during the first quarter of 2016. The total cash consideration was US$400 million. Santam's share of the purchase consideration, amounting to US$100 million, was funded from internal cash resources. In November 2015, Santam acquired sufficient foreign currency, in addition to existing dollar assets, to cover the purchase consideration before the transaction was concluded. A cash flow hedge was implemented on 24 November 2015 to cover Santam's foreign currency exposure by designating these US dollar-denominated cash balances to the transaction. The impact of this was that foreign currency gains of R140 million (Dec. 2015: R134 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. Therefore, the cost price of the investment, net of the cash flow hedge impact, was R1 412 million.

Professional Provident Society Short-term Insurance Company Ltd (PST)

During March 2016, Santam purchased 49% of PST for R55 million in cash. During November 2016, a pro rata recapitalisation took place in terms of which Santam injected a further R10 million into the company.

Absa Intermediated Commercial Lines business

During November 2016, Santam purchased the Absa Intermediated Commercial Lines business from Absa Insurance Company Ltd for R13 million in cash, including contingent payments estimated at R28 million.

	R million
Details of the assets and liabilities acquired are as follows:	
Intangible assets – key business relationships	59
Cash and cash equivalents	83
Insurance liabilities	(83)
Trade and other payables	(2)
Deferred tax liabilities	(16)
Net asset value acquired	**41**
Future contingent consideration payable	(28)
Purchase consideration paid	**13**

2015

Disposals

Indwe Broker Holdings Group (Pty) Ltd

On 31 December 2015, Santam Ltd, as well as Swanvest 120 (Pty) Ltd, Main Street 409 (Pty) Ltd and Thebe Risk Services Holdings (Pty) Ltd (all wholly-owned subsidiaries of Santam Ltd) sold 26.34%, 13.82%, 16.8% and 19.04% respectively of their shareholding in Indwe Broker Holdings Group (Pty) Ltd to Sanlam Life Insurance Ltd (25%) and African Rainbow Capital (Pty) Ltd (51%) for R208 million in total. The net profit realised was R15 million and capital gains tax of R5 million was recognised. The remaining 24%, held by Swanvest 120 (Pty) Ltd, was classified as a joint venture and remeasured to fair value, resulting in a gain of R3 million (included in the profit on sale).

	R million
Details of the assets and liabilities disposed of are as follows:	
Property and equipment	23
Intangible assets	223
Deferred taxation	5
Loans and receivables	6
Cash and cash equivalents	183
Provisions for other liabilities and charges	(1)
Trade and other payables	(170)
Current income tax liabilities	(10)
Net asset value disposed of	**259**
Profit on sale	15
Less: fair value of remaining investment	(66)
Less: purchase price receivable	(208)
Purchase consideration received	**–**

The purchase consideration was received in 2016.

Credit Guarantee Insurance Corporation of Africa Ltd

On 9 October 2015, Santam Ltd sold its 33.6% shareholding in Credit Guarantee Insurance Corporation of Africa Ltd for R602 million. Net profit of R392 million and capital gains tax of R73 million (initially recognised as R91 million) was realised.

Censeo (Pty) Ltd

On 31 May 2015, Swanvest 120 (Pty) Ltd sold its 37.5% shareholding in Censeo (Pty) Ltd for R23 million. The net profit realised was R21 million and capital gains tax of R4 million was recognised.

	Audited at 31 December 2016 R million	Audited at 31 December 2015 R million
Goodwill reconciliation		
Opening balance	**598**	833
Impairment	**(3)**	(47)
Disposal of subsidiary	**–**	(188)
Closing balance	**595**	598

		Audited Year ended 31 December 2016	Audited Year ended 31 December 2015
12.	**Earnings per share**		
	Basic earnings per share		
	Profit attributable to the company's equity holders (R million)	**1 212**	2 348
	Weighted average number of ordinary shares in issue (million)	**110.21**	112.34
	Earnings per share (cents)	**1 100**	2 090
	Diluted earnings per share		
	Profit attributable to the company's equity holders (R million)	**1 212**	2 348
	Weighted average number of ordinary shares in issue (million)	**110.21**	112.34
	Adjusted for share options	**1.16**	1.38
	Weighted average number of ordinary shares for diluted earnings per share (million)	**111.37**	113.72
	Diluted basic earnings per share (cents)	**1 088**	2 065
	Headline earnings per share		
	Profit attributable to the company's equity holders (R million)	**1 212**	2 348
	Adjusted for:		
	Impairment of goodwill and other intangible assets	**3**	52
	Profit on sale of subsidiary	**–**	(15)
	Tax charge on profit on sale of subsidiary	**–**	5
	Profit on sale of associated companies	**–**	(413)
	Tax charge on profit on sale of associated companies	**–**	95
	Capital gains tax overprovision on sale of associated companies	**(18)**	–
	Headline earnings (R million)	**1 197**	2 072
	Weighted average number of ordinary shares in issue (million)	**110.21**	112.34
	Headline earnings per share (cents)	**1 086**	1 844
	Diluted headline earnings per share		
	Headline earnings (R million)	**1 197**	2 072
	Weighted average number of ordinary shares for diluted headline earnings per share (million)	**111.37**	113.72
	Diluted headline earnings per share (cents)	**1 075**	1 822
13.	**Dividend per share**		
	Dividend per share (cents)	**881**	816
	Special dividend per share (cents)	**800**	–

14. Broad-based black economic empowerment (BBBEE)

In May 2007, Central Plaza Investments 112 (Pty) Ltd (Central Plaza) acquired 10% of Santam's shares with the following beneficiaries:

- Emthunzini Black Economic Empowerment Staff Trust
- Emthunzini Black Economic Empowerment Business Partners Trust
- Emthunzini Broad-based Black Economic Empowerment Community Trust

The scheme matured in February 2015. Of the shares held by Central Plaza Investments 112 (Pty) Ltd, Santam repurchased 38% of the shares (4 215 000 shares at a price of R190 per share for a total consideration of R801 million) and 24% were sold in the market through a successful bookbuild during the unwinding process, and the balance was distributed to participants.

The consequent distribution of Santam shares and cash valued at R1.1 billion to the beneficiaries started in September 2015 with R530 million allocated to close to 2 400 Santam and Sanlam employees. Santam shares and cash to the value of R330 million were distributed to 68 black business partners, while the Emthunzini Broad-Based Black Economic Empowerment Community Trust received Santam shares and cash to the value of R275 million. The unwinding of the scheme had a minimal impact on Santam's black ownership status.

The Emthunzini Black Economic Empowerment Staff Trust (staff trust) is also under the control of Santam Ltd since the unwinding of Central Plaza and is therefore consolidated as at 31 December 2015 and 2016. The net impact of the inclusion of the staff trust at 31 December 2015 was an increase in cash of R132 million, the recognition of the capital contribution reserve of R9 million and an increase of 684 482 in treasury shares.

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.

(I) ANALYSIS OF SHAREHOLDERS

	Number of shareholders	% of total shareholders	Number of shares	% Interest
Analysis of shareholders				
1 – 100 shares	1 410	21.98%	94 335	0.08%
101 – 1 000 shares	3 170	49.42%	1 296 242	1.13%
1 001 – 50 000 shares	1 722	26.85%	10 448 118	9.07%
50 001 – 100 000 shares	51	0.80%	3 578 620	3.11%
100 001 – 10 000 000 shares	60	0.94%	32 081 445	27.87%
More than 10 000 000 shares	1	0.01%	67 632 657	58.74%
Total	**6 414**	**100.00%**	**115 131 417**	**100.00%**
Type of shareholder				
Individuals	4 314	67.26%	3 770 119	3.27%
Companies	538	8.39%	85 790 376	74.52%
Growth funds/unit trusts	193	3.01%	12 626 314	10.97%
Nominee companies or trusts	1 215	18.94%	3 388 550	2.94%
Pension and retirement funds	154	2.40%	9 556 058	8.30%
Total	**6 414**	**100.00%**	**115 131 417**	**100.00%**

	Shareholders in South Africa		Shareholders other than in South Africa		Total shareholders	
	Nominal number	% Interest	Nominal number	% Interest	Nominal number	% Interest
Shareholder spread						
Public shareholders	6 229	26.73%	173	100.00%	6 402	30.85%
Directors	7	0.03%	–	–	7	0.03%
Guardian National Insurance Ltd*	1	4.07%	–	–	1	3.84%
Trustees of employees' share scheme*	2	1.46%	–	–	2	1.37%
Holdings of 5% or more	2	67.71%	–	–	2	63.91%
Sanlam Ltd	1	62.26%	–	–	1	58.77%
Government Employees Pension Fund	1	5.45%	–	–	1	5.14%
Total	**6 241**	**100.00%**	**173**	**100.00%**	**6 414**	**100.00%**

The analysis includes the shares held as treasury shares.

* *Owners of treasury shares.*

(II) ANALYSIS OF DEBT SECURITY HOLDERS

	Number of debt security holders	% of total debt security holders	Number of units	% Interest
Analysis of debt security holders				
1 – 50 000 units	24	11.65%	166 622	0.01%
50 001 – 100 000 units	9	4.37%	841 656	0.04%
100 001 – 1 000 000 units	57	27.67%	30 065 378	1.50%
1 000 001 – 10 000 000 units	78	37.86%	342 149 448	17.11%
More than 10 000 000 units	38	18.45%	1 626 776 896	81.34%
Total	**206**	**100.00%**	**2 000 000 000**	**100.00%**
Type of debt security holder				
Banks	4	1.94%	74 300 000	3.72%
Brokers	2	0.97%	53 566 656	2.68%
Endowment funds	6	2.91%	14 909 830	0.75%
Insurance companies	15	7.28%	196 318 583	9.82%
Investment companies	6	2.91%	164 873 400	8.24%
Medical aid schemes	9	4.37%	36 684 000	1.83%
Mutual funds	101	49.04%	802 611 038	40.13%
Nominees and trusts	2	0.97%	1 490 000	0.07%
Pension funds	55	26.70%	581 442 493	29.07%
Private companies	4	1.94%	64 442 000	3.22%
Public companies	2	0.97%	9 362 000	0.47%
Total	**206**	**100.00%**	**2 000 000 000**	**100.00%**

	Nominal number	% Interest
Debt security holder spread		
Government Employees Pension Fund	365 996 877	18.30%
MMI Group Ltd	158 663 400	7.93%
Investec Cautious Managed Fund	107 400 000	5.37%
Other	1 367 939 723	68.40%
Total	**2 000 000 000**	**100.00%**

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SEVEN-YEAR REVIEW

		SEVEN-YEAR COMPOUND GROWTH %/AVERAGE	2016	2015	2014	2013	2012	2011	2010
PERFORMANCE PER ORDINARY SHARE									
Cents per share									
Headline earnings		(3.8)	**1 086**	1 844	1 446	1 033	995	1 216	1 367
Dividends		9.5	**881**	816	742	675	640	555	510
Special dividends			**800**	–	–	–	–	850	500
Net asset value			**6 237**	7 338	6 115	5 360	4 840	5 329	4 535
INSURANCE ACTIVITIES									
Net claims paid and provided (%)	Avg	65.2	**65.1**	62.1	63.1	69.3	68.3	64.2	64.1
Cost of acquisition (%)	Avg	28.0	**28.5**	28.3	28.2	27.9	27.7	28.1	27.3
Net commission paid (%)	Avg	12.6	**12.0**	10.8	10.9	12.7	13.0	13.7	15.3
Management expenses (%)	Avg	15.4	**16.5**	17.5	17.3	15.2	14.7	14.4	12.0
Combined ratio (%)	Avg	93.2	**93.6**	90.4	91.3	97.2	96.0	92.3	91.4
Underwriting result (%)	Avg	6.8	**6.4**	9.6	8.7	2.8	4.0	7.7	8.6
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			**889**	1 041	683	635	722	554	484
Net gain on financial assets and liabilities at fair value through income			**42**	235	286	449	480	189	537
RETURN AND PRODUCTIVITY									
Earnings expressed as % of average shareholders' funds (%)	Avg	24.9	**15.9**	32.5	24.7	20.0	19.3	25.0	37.1
Pre-tax return on total assets (%)	Avg	9.5	**6.3**	12.1	9.0	6.5	8.6	10.1	13.7
Effective tax rate (%)	Avg	27.5	**28.2**	26.9	28.4	20.4	36.7	25.7	26.3
Gross premium per employee (R000)*			**4 088**	4 154	4 020	3 913	3 680	3 608	5 116
* *Alternative Risk Transfer premiums excluded.*									
SOLVENCY AND LIQUIDITY									
Dividend cover (times)	Avg	2.4	**1.4**	2.9	2.1	1.5	3.9	2.2	3.1
Economic capital coverage ratio (%)			**155**	177	–	–	–	–	–
OTHER STATISTICS									
Number of permanent employees			**5 749**	5 313	5 163	4 779	4 696	4 375	2 757
Employee composition (% of black employees)			**67.6**	62.9	60.8	59.9	59.8	56.8	54.4
Number of shareholders			**6 414**	5 859	5 268	5 530	5 565	5 169	4 616
Corporate social investment spend (% of NPAT)**			**0.9**	0.8	0.8	1.2	1.5	0.8	0.7
** *dti codes from 2010 to 2012; Financial Services Sector Charter 2013.*									
SANTAM SHARE PERFORMANCE AND RELATED INDICATORS									
Market price per share (cents)									
Closing			**23 400**	18 950	21 500	18 628	19 025	14 231	13 050
Highest			**24 997**	24 500	22 000	19 074	20 112	15 500	13 547
Lowest			**17 350**	16 750	19 700	18 291	13 950	11 707	9 710
Market capitalisation (R million)			**25 799**	20 868	24 647	21 306	21 651	17 555	14 750
Santam share price index***			**3 020**	2 427	2 767	2 384	2 437	1 967	1 640
FTSE – JSE financial index***			**1 193**	1 183	1 184	953	821	597	578
Closing price/earnings (times)			**21.5**	10.3	14.9	18.0	19.1	12.7	9.5
Closing price/equity per share (times)			**3.8**	2.6	3.5	3.5	3.9	2.9	2.9
Closing dividend yield (%)			**3.8**	4.3	3.5	3.6	5.5	3.6	3.9
Number of shares issued (million)			**110.3**	110.1	114.6	114.4	113.8	113.3	113.0
Number of shares traded (million)			**19.6**	25.8	8.6	13.4	12.1	12.6	18.5
Number of shares traded as a % of total number of shares in issue			**17.7**	23.4	7.5	11.7	10.6	11.1	16.3
Value of shares traded (R million)			**4 325.4**	5 597.4	1 651.2	2 538.8	2 018.6	1 674.4	2 039.5
*** *Base year 1992.*									

	SEVEN-YEAR COMPOUND GROWTH %/AVERAGE	2016	2015	2014	2013	2012	2011	2010
STATEMENTS OF COMPREHENSIVE INCOME								
Gross premium income	8.5	**25 909**	24 319	22 710	20 631	19 386	17 707	15 855
Net premium income	6.5	**19 772**	18 884	17 635	16 900	15 822	14 674	13 519
Underwriting result	1.5	**1 268**	1 779	1 494	477	623	1 186	1 161
Investment return on insurance funds		**619**	499	425	374	415	388	396
Net insurance result		**1 887**	2 278	1 919	851	1 038	1 574	1 557
Investment income and associated companies		**(2)**	1 258	601	752	827	440	915
BEE costs and MiWay deferred bonus plan expense*		**(9)**	(71)	(82)	(30)	(57)	(55)	(15)
Amortisation of intangible asset/impairment of goodwill (excluding computer software)		**(21)**	(93)	(111)	(100)	(108)	(68)	(29)
Income before taxation		**1 855**	3 372	2 327	1 473	1 700	1 891	2 428
Taxation		**524**	908	660	300	624	486	639
Non-controlling interest		**119**	116	88	53	49	29	27
Net income attributable to equity holders	(6.0)	**1 212**	2 348	1 579	1 120	1 027	1 376	1 762

* *MiWay deferred bonus plan to replace shareholding matured in 2014.*

	SEVEN-YEAR COMPOUND GROWTH %/AVERAGE	2016	2015	2014	2013	2012	2011	2010
STATEMENTS OF FINANCIAL POSITION								
Property and equipment		**106**	90	117	95	99	80	88
Intangible assets		**885**	827	1 086	1 072	990	994	988
Deferred tax asset		**105**	140	161	188	221	207	251
Investments in associates and joint ventures		**1 536**	252	355	318	261	274	211
Other non-current assets		**163**	187	–	–	–	–	–
Financial assets	10.6	**14 799**	14 740	13 634	12 757	10 538	10 057	8 090
Technical assets		**4 958**	4 203	3 963	2 713	2 095	1 832	1 518
Current assets		**6 716**	6 878	5 440	5 058	5 533	5 245	6 589
Non-current assets held for sale		**8**	541	428	415	–	–	–
Total assets		**29 276**	27 858	25 184	22 616	19 737	18 689	17 735
Shareholders' funds	5.9	**7 345**	8 547	7 440	6 532	5 617	6 141	5 219
Non-current liabilities		**3 422**	2 249	2 329	2 252	2 030	1 723	1 787
Technical provisions		**13 869**	12 944	12 274	10 862	9 805	8 577	7 803
Current liabilities and provisions		**4 640**	4 118	3 141	2 970	2 285	2 248	2 926
Total shareholders' equity and liabilities		**29 276**	27 858	25 184	22 616	19 737	18 689	17 735
STATEMENTS OF CASH FLOW								
Cash generated from operating activities after finance costs	(0.1)	**2 010**	3 546	2 350	1 498	2 256	2 403	2 020
Income tax paid		**(681)**	(1 002)	(420)	(221)	(521)	(813)	(755)
Net cash from operating activities		**1 329**	2 544	1 930	1 277	1 735	1 590	1 265
Cash generated/(utilised) in investment activities		**245**	(696)	(781)	(945)	935	201	(270)
Net (acquisition)/disposal of associated companies and joint ventures		**(1 467)**	(2)	–	(25)	(6)	–	(17)
Acquisition of business/subsidiaries		**70**	–	(28)	(105)	–	(343)	(357)
Cash received/(disposed through sale)/acquired through acquisition of subsidiaries		**208**	(183)	3	15	–	3	262
Staff trust acquired		**–**	132	–	–	–	–	–
Cash utilised in addition to property and equipment and intangible assets		**(108)**	(124)	(167)	(106)	(93)	(66)	(27)
(Acquisition)/disposal of book of business		**–**	–	–	(9)	(81)	–	–
Proceeds from sale of associated companies		**–**	625	–	–	–	–	–
Capitalisation of associated companies		**(10)**	(28)	(16)	–	–	–	–
Settlement of deferred conditional right relating to non-current assets held for sale		**509**	–	–	–	–	–	–
Net cash (used in)/from investing activities		**(553)**	(276)	(989)	(1 175)	755	(205)	(409)
Net purchase of treasury shares		**(98)**	–	(37)	–	–	(33)	(23)
Repurchase of shares		**–**	(801)	–	–	–	–	–
Proceeds from issuance of target shares		**–**	–	–	277	–	–	–
Proceeds from issue of unsecured subordinated callable notes		**1 000**	–	–	–	–	–	–
Increase/(decrease) in investment contract liabilities		**31**	(35)	(21)	29	(17)	(413)	129
Increase/(decrease) in collateral guarantee contracts		**12**	11	6	7	(39)	–	–
Dividends paid		**(1 922)**	(951)	(853)	(782)	(1 674)	(618)	(1 113)
(Decrease)/increase in cell owners' interest		**(114)**	16	110	111	90	26	42
Purchase of subsidiary from non-controlling interest		**–**	–	–	–	–	–	(90)
Net cash used in financing activities		**(1 091)**	(1 760)	(795)	(358)	(1 640)	(1 038)	(1 055)
Net (decrease)/increase in cash and cash equivalents		**(315)**	508	146	(256)	850	347	(199)
Cash and cash equivalents at the beginning of the year		**3 349**	2 561	2 343	2 471	1 598	1 143	1 379
Translation (losses)/gains on cash and cash equivalents		**(147)**	280	72	128	23	108	(37)
Cash and cash equivalents at the end of the year		**2 887**	3 349	2 561	2 343	2 471	1 598	1 143

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.
Alternative risk transfer (ART)	The use of techniques other than traditional insurance and reinsurance to provide risk-bearing entities with coverage or protection.
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.
Churn rate	The proportion of policyholders who leave a supplier during a given time 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: – 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 taken into account. Also referred to as loss ratios.
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.
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.
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.
General/short-term insurance	Defined in the Short-term Insurance Act as providing benefits under short-term policies, which means engineering policies, guarantee policies, liability policies, miscellaneous policies, motor policies, accident and health policies, property policies or transportation policies or a contract comprising a combination of any of those policies.

Gross written premium	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.
Net written premium	Gross premium written or received on all business less return premium and premium ceded to reinsurers.
Reinsurance premium	The premium paid by the ceding company to the reinsurer in consideration for the liability assumed by the reinsurer.
Salvage	The amount received by an insurer from the sale of (usually damaged) property on which he has paid a total loss to the insured.
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 underway in Europe.
Underwriting	The process of examining, accepting, or rejecting insurance risks, and classifying or segmenting those selected, to charge the proper premium for each.
Underwriting result	The underwriting profit or loss calculated by deducting claims incurred, net of commission and management expenses from premiums earned.
Unearned premium provision	The portion of premiums attributable to the periods of risk that relate to subsequent accounting periods and which are carried forward to such subsequent accounting periods.

ADMINISTRATION

AT 1 MARCH 2017

NON-EXECUTIVE DIRECTORS

B Campbell, MP Fandeso, BTPKM Gamedze, GG Gelink (chairman), IM Kirk, MLD Marole, NV Mtetwa, T Nyoka (née Fubu), Y Ramiah, MJ Reyneke, PE Speckmann, HC Werth

EXECUTIVE DIRECTORS

L Lambrechts (chief executive officer), HD Nel (chief financial officer)

SPONSOR

Investec Bank Ltd

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