INTEGRATED REPORT | 17

Santam

100 YEARS OF INSURANCE GOOD AND PROPER

For 100 years, we've been in the business of protecting South Africa's most important assets and valuables.

From day one, we've looked beyond the facts in front of us and thought about the lives that lie behind them. It's this thinking that separated us back then. It continues to separate us from the rest now, and is what will separate us, always.

Two world wars, the Great Depression, the first man on the moon, the first heart transplant, hurricanes Katrina and Harvey, industrial and digital revolutions, and the rise of our international icon – Madiba.

We've been there through it all, always there providing the nation with an unwavering commitment that's stood the test of time, trust delivered through excellence and uncompromised integrity. It's why when things go wrong, our clients know they're with the insurer that's always there to make it right. It's what helped us become South Africa's leading short-term insurer. An insurer that's invested in its people, its intermediaries, business partners, its country and the continent. Always striving to innovate, improve and do things the good and proper way.

While in the last century others have come and gone, we were always looking for reasons to settle claims, rather than not to. Saying, "We understand," not saying, "Life happens," acting with care, with compassion and integrity.

We don't talk the talk, we walk the walk, we make news that makes others talk... about the partnerships we make that build stronger communities and lessen risk. Partnerships that make tangible differences in the lives of our clients, and intermediaries, partnerships that count, ones that can be seen, ones that can't be missed. We know that we're living in interesting times, the rest of the world is too. We're building a bond with our clients the way we did back then, and the way we'll always continue to do.

We walk a mile in a client's shoes and then another after that. We create the best solutions for them, solutions that will make us stand out as leaders in the industry, and then... we commit. And leave them happy, leave them protected, leave them safe... Because that's how we do it.

This is the Santam way.
This is, Insurance, Good and Proper.
Good and proper then.
Good and proper now.
Good and proper always.

CONTENTS

01

Insurance good and proper is about people.

Santam understands what goes into growing a business, because we have been doing it for 100 years. It takes determination, hard work and the right partnerships. That is why we support South African businesses – big and small – by offering them insurance catered for their risks. We also nurture growing enterprises through initiatives such as our Enterprise Supplier Development (ESD) programme. It provides guidance to black-owned SMEs to help them become suppliers of choice.

The programme is now in its third year and has supported over 20 suppliers in the Sanlam Group, of which at least 80% are from the Santam claims supplier environment. One such supplier is Thembi Sithole, who joined ESD in 2015 and went from being a car washer to owning her own major motor body repair shop. Today, Thembi employs 15 people and has an annual turnover of more than R6.5 million. It is these kinds of success stories that motivate us every day. Because making people's lives better and safer is what drives ***Insurance good and proper***.

Read the full story on page 32.

ABOUT THIS REPORT

TARGET AUDIENCE AND CONTENT

Santam Ltd (Santam or the group) is a South African company listed on the JSE Ltd (JSE) since 1964 under the insurance (non-life) sector. The company was founded in 1918 and its headquarters are in Cape Town, South Africa.

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

This integrated report (the report or this report) reviews the financial year for the 12 months ended 31 December 2017. It 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, Asia, and other emerging markets. The Santam-branded business units (Santam Commercial and Personal, Santam Specialist and Santam re) and subsidiaries are mentioned by name when discussed.

The report provides information targeted at Santam's providers of financial capital, although the interests of other stakeholders were also considered in determining what is material and appropriate to include. The report includes real-life stories that highlight how the six capitals of value creation (as described by the International Integrated Reporting Council's (IIRC) <IR> Framework), combined with the group's strategy and risk management efforts, created value under specific circumstances. These stories underscore our brand promise of ***Insurance good and proper***.

The content remains comparable to the 2016 report in terms of the entities covered, the measurement methods applied and the time frames used for financial and non-financial data.

The only material event that may impact comparability is the acquisition of RMB Structured Insurance (renamed Santam Structured Insurance (SSI)). The acquisition became unconditional in March 2017 and the details can be found in the chief financial officer's report.

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

Detailed disclosures related to Santam's economic, social and governance approach and indicators are available on the website. This includes the Santam broad-based black economic empowerment (BBBEE) certificate.

APPROVAL OF THIS REPORT

The integrated report was reviewed by the audit and the social, ethics and sustainability (SES) committees. The reviewed report was recommended to the board who approved it on 28 February 2018. 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 to 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.

TIPS FOR READERS

- There is a glossary of insurance and financial terms, as well as abbreviations on page 126.
- Santam's performance over the long term (a period of seven years), according to key performance indicators, is set out on page 124.

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

PLEASE SHARE YOUR EXPERIENCE OF READING THIS REPORT VIA ONE OF THE FOLLOWING CHANNELS:

email us on: investor.relations@santam.co.za;

or follow us on:

SCOPE AND BOUNDARY

REPORTING FRAMEWORKS, GUIDELINES AND STANDARDS

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

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

CONTENT ASSURANCE

Santam's 2017 integrated report is the result of combined material input from business units reporting on their activities and achievements. PricewaterhouseCoopers Inc. (PwC) provided assurance of the summary consolidated financial statements. PwC reviewed our annual ClimateWise report as part of the ClimateWise assurance process and Ernst & Young (EY) provided assurance on carbon emission data through Sanlam's participation in the Carbon Disclosure Project (CDP). Data relating to BBBEE was verified by AQRate.

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

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 is under no 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
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 (AGM)	✓	✓	Shareholders
Remuneration report	✗	✓	Shareholders
Sustainability and environmental, social and governance (ESG)-related information and downloads	✗	✓	All stakeholders

All reporting elements are available on the Santam website.

02

We have been a source of certainty in uncertain times for 100 years.

Santam understands that our clients' homes are much more than brick and mortar – they are earned through hard work and carry a lifetime of memories. That is what makes events such as the Knysna fire especially devastating. And when people have lost everything, paying their claims is small consolation. That is why Santam did more than that. We gave our clients the reassurance that we will do our utmost to keep this kind of devastation from happening again.

By partnering with the Eden District Municipality, we are able to conduct research that can help communities become more resilient to urban wildfire risks. Because that is what ***Insurance good and proper*** does: it brings a sense of certainty in uncertain times.

Read the full story on page 33.

THE ROLE OF INSURANCE IN SOCIETY

NEWS HEADLINES FROM 2017

4 JANUARY:
"Fires ravage Somerset West destroying property and vegetation"

24 MARCH:
"Angola floods kill 11, cause widespread destruction"

25 MARCH:
"Durban warehouse fire rages on, no end in sight"

7 JUNE:
"Large storm strikes Cape Town and surrounding areas"

8 JUNE:
"Knysna runaway fires cause the worst natural disaster of its kind"

27 SEPTEMBER:
"Damage amounting to millions caused by Hailstorm in Hoedspruit"

7 OCTOBER:
"Largest open air Kenya market completely burnt down in Nairobi"

16 OCTOBER:
"Joburg, Durban storm damage runs into millions"

Globally, the past year was dominated by headlines about catastrophe events – devastating wildfires, hurricanes, floods, and large commercial and corporate fires. 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 destructive.

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

Risk management refers to the steps households and communities take to limit the impact of man-made and natural accidents and disasters and other unexpected events. Much can be done by individuals, businesses and governments to mitigate risk, but a portion always remains, and it is this exposure that the insurance sector takes on – the risks that are insured against.

The insurance sector plays three roles in society, namely risk manager, investor and risk carrier. The short-term insurance sector's role, in particular, is to pool risk and ensure consumers and businesses are left in the same financial position they were in before the incident that resulted in an insurance claim occurred. Unfortunately, large numbers of uninsured people and businesses, risk protection gaps and underinsurance means that many households and businesses take on all or most of the financial risk when it comes to unexpected losses.

Insurance penetration in emerging markets remains low. The latest Swiss Re Sigma study, *Insurance: adding value to development in emerging markets*, underlines the fact that uninsured risk can aggravate poverty and hinder progress towards inclusive growth.

Catastrophe events continue to leave a trail of destruction and uninsured losses. Only around 11% of total economic losses from catastrophe events in emerging markets were covered by insurance in 2016.

Unexpected adverse financial events are often not provided for by consumers; which forces a reliance on credit to survive or meet monthly financial commitments should such an event occur. Unnecessary debt can be avoided through adequate insurance, thereby freeing 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 economic stability – previously associated chiefly with the banking sector – is now dependent on a wider network of players, including insurance companies. Therefore, the financial services system is highly regulated. South Africa's financial services institutions are recognised as among the most financially stable and well run in the world.

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

THE INSURANCE BUSINESS MODEL

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

- UNDERWRITING AND PRICING OF RISKS BASED ON AN UNDERSTANDING AND ASSESSMENT OF POSSIBLE RISK SITUATIONS
- DESIGNING POLICIES TO COVER RISKS
- CLIENT CONTRACTING AND COMMUNICATION THROUGH THE DISTRIBUTION NETWORK (INTERMEDIARIES AND DIRECT)
- MANAGING CLAIMS COSTS AND SUPPLIER NETWORK
- CARRYING AND DIVERSIFYING RISK THROUGH REINSURANCE
- MARKETING AND BRANDING
- CLAIMS PAYMENT AND ASSISTANCE, WITH ASSOCIATED IMPLEMENTATION OF PREVENTION INITIATIVES
- SYSTEMS AND ADMINISTRATIVE SUPPORT FOR DISTRIBUTION AND CLAIMS MANAGEMENT
- INVESTMENT MANAGEMENT AND CAPITAL ALLOCATION

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

For the business model to function, an insurer needs to offer clients a risk solution of value, to run sophisticated administration and claims systems, to work with a reliable network of suppliers, and to have access to specialised skills, such as actuarial analysis and underwriting. Underwriting is the key determinant of an insurance company's profitability. Underwriting is the process of evaluating and pricing the risk posed by each prospective client. A good underwriting process allows the insurance company to optimise the balance between a policy premium and potential claims against the policy.

The policy is priced using several modelling techniques to predict client behaviour. For example, considerations include the level of cover, the claims history of groups of people with similar characteristics and requirements, potential safety features, replacement value and demographics. In the contracting process, the client agrees to share risk with the insurer, and this risk sharing, for the client, takes the form of an excess payment by the client in the event 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, reimburses the client. Initiating a claim is often called the "moment of truth" in an insurer's relationship with a client. A positive claims experience encourages client loyalty and persistence, whereas a negative experience can cause far-reaching reputational damage for the insurer.

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

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

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

SIX CAPITAL INPUTS, OUTPUTS AND OUTCOMES

Insurance companies have the potential to positively impact all six capitals named below – the values that are affected or transformed by business activities and outputs. This is possible given insurers' ability to provide clients with benefits by paying claims and to indirectly influence socio-economic activities through underwriting practices, claims management and risk products. Society benefits from increased insurance penetration and a reduced risk protection gap – wherever the insurer operates.

FINANCIAL

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

Read the real-life story on page 36 to see how this capital can be transformed and regenerated within a social context.

MANUFACTURED

Manufactured capital relates to the physical assets of clients that are insured, as well as infrastructure, such as buildings and systems. Insurance companies also invest funds in infrastructure development projects to promote a sustainable, financeable and insurable infrastructure that can meet the future needs of local communities. Insurance companies' influence on spatial planning, 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 the Partnerships for Risk and Resilience (P4RR) on page 55.

HUMAN

Human capital takes the form of employees, 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. Insurers commit to human capital growth in South Africa by focusing on improved employee diversity, the development of supply chain preferential partners and through collaboration with industry associations, such as the Financial Intermediaries Association of Southern Africa (FIA) and the South African Insurance Association (SAIA).

Read more about human capital development in the real-life story on page 32, "The right people" on page 59, as well as in the transformation report on page 95.

INTELLECTUAL

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

Read more about the Santam Safety Hackathon initiative on page 34, and Saham Assistance on page 35.

SOCIAL AND RELATIONSHIP

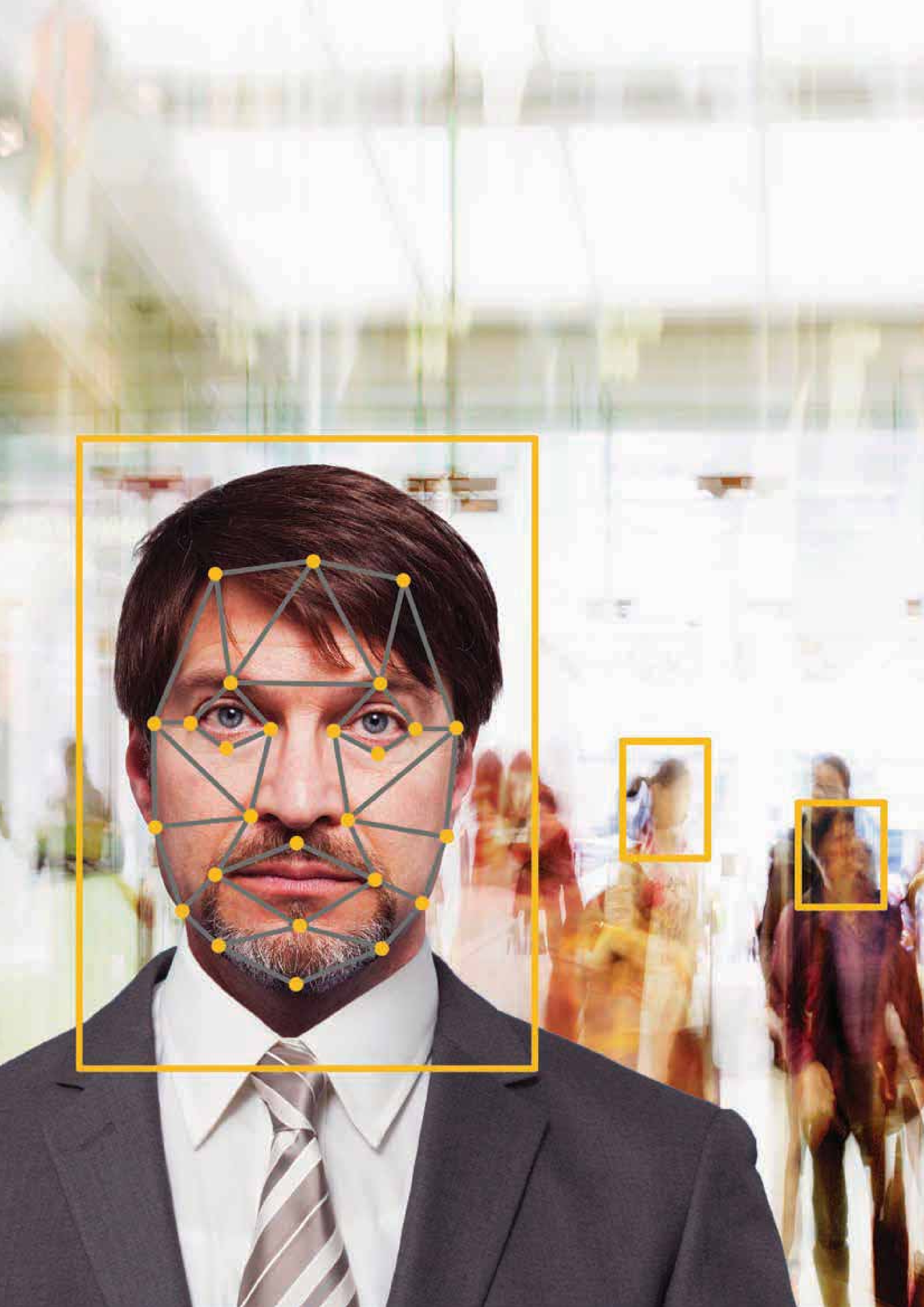
Insurance companies rely on relationships of trust to deliver on promises made. Instances of fraud or dissatisfaction destroy this capital, while transformation initiatives expand this capital. Examples of transformative behaviour include consumer financial education programmes, which introduce more people to the benefits of insurance, 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 36 and the section on "***Insurance good and proper***" on page 51.

NATURAL

Insurance companies use relatively low levels of natural capital in their direct business activities. However, they do impact the use, transformation and destruction of this capital through investment activities and the risks insured. 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 to manage natural disasters in the real-life story about the Knysna fire on page 33.



03

Finding one-of-a-kind risk solutions for a one-of-a-kind country.

Santam has been a part of South Africa for 100 years. Over this time, we have come to truly understand our country and its people. We know that our one-of-a-kind nation needs one-of-a-kind safety solutions. That is why Santam has given ordinary South Africans the opportunity to share their unique safety ideas with us.

MoreEyes by Brent Tollman was the winning idea at the 2017 Santam Hackathon. It uses biometric data, such as facial recognition, movement patterns and heart rates, to automatically identify when there is theft or a threat within a company. This ultimately reduces insurance claims, because the business is able to prevent incidents from happening and to identify vulnerable spots in their security systems. Helping to bring innovations such as this to life is one of the ways in which ***Insurance good and proper*** not only provides cover against unexpected events, but also helps prevent them.

Read the full story on page 34.

MATERIAL MATTERS AND KEY FUTURE DRIVERS

Santam has set an ambitious target in Vision 2020: to be the leading general insurer in selected emerging markets. To this end, the board considers financial priorities, the implications arising from interaction between various financial and non-financial factors, and the ability of Santam to be agile in responding to emerging challenges and opportunities. These factors further include Santam's ongoing management of its solvency position and an evaluation of early warning indicators that may affect the future viability of the business.

To encourage long-term thinking, Santam initiated a cross-group Insurance 2025 future-sketch scenario process in 2016 to inquire into the fundamental shifts at play in the world and the group's target market. The framing question of the exercise was: "Insurance 2025: What is driving our future?" This enabled Santam to identify those matters that are most material for stakeholders and for the group to achieve Vision 2020, while at the same time ensuring a thriving business beyond 2020.

Continuing the process in 2017, the Santam strategy unit, executive committee and board re-evaluated the outcomes of the scenario process – the future drivers shaping the insurance business context – as part of the strategy review process. The review concluded that the drivers are still relevant, albeit with some refinements. The drivers were further supplemented by a robust list of strategic issues.

Santam's material future drivers are:

- Economic activity
- What and how: clients and markets
- Political, governance and regulatory change
- Shifts in the insurance value chain
- ESG risk profiles
- Technology and the rise of fintech
- Complexity rules
- Evolving business and social ecosystems
- Intensifying competition

ECONOMIC ACTIVITY

Worldwide, the rise in financial market volatility has affected the allocation of financial resources as well as the stability of global financial markets, with macroeconomic and microeconomic consequences. These include unemployment, the rising cost of living and the consequent decreases in disposable income.

Interest rates, investment performance and macroeconomic risks are also rated highly in the *Insurance Banana Skins* 2017 survey (conducted by the Centre for the Study of Financial Innovation in association with PwC), thus indicating that the degree of concern about economic instability remains great.

In sub-Saharan Africa, the outlook also remains daunting – particularly for commodity producers.

The South African economy entered a technical recession in the first quarter of 2017. For the remainder of 2017, political uncertainty persisted, which injured business and consumer confidence and kept household consumption low. However, in the first weeks of 2018, the rand strengthened and growth is forecast to pick up moderately during the year.

Economic growth, or the lack thereof, will continue to shape the future insurance context, with unequal, variable and volatile capital returns, particularly in emerging markets, driving the mobility and flow of global capital in search of yields. Levels of underwriting will be impacted by the extent of the increase or decrease in economic factors. Insurers also remain cognisant of the risk of underinsurance – particularly in Africa where general insurance penetration remains below global standards.

Locally, equity markets provided good returns in 2017. Solid balance sheets and innovation, as well as entrepreneurship in the general insurance industry, should keep the market resilient despite the difficult operating environment.

Key risks and opportunities related to economic activity as a future driver:

- Outside-in factors: political, economic, social and country risk
- Investment performance

Read more on page 46.

WHAT AND HOW: CLIENTS AND MARKETS

Virtually every aspect of client behaviour and market trends is in transition. Some aspects are likely to cause dramatic change, including shifts in consumers' value systems, expectations related to accessibility, speed and geographic availability. Consumer populations are expected to experience demographic polarities – ageing as well as becoming younger – leading to lifestyle changes and an increasing variety of lifestyles.

According to the 2017 UN World Population Prospectus, 60% of the global population lives in Asia and 17% in Africa, with the current Asian median age being 30.7 and the comparative African median age being about 19.4 years. Africa's young population is expected to drive consumption and economic growth in the coming decades.

Africans are becoming more 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 now than ever before. Spending patterns are changing with a growing middle class in Africa and Asia as more people are buying technology, goods and cars, and spending money on holidays.

With the nature of consumer needs changing, insurance companies will have to be flexible: insurance products, underwriting and the nature of risks will have to change alongside distribution and service delivery offers.

In South Africa, insurers are providing more diverse insurance options and are beginning to offer insurance to consumers through mobile devices.

Key risks and opportunities related to clients and markets as a future driver:

- Innovation to increase efficiency, including the impact of various disruptors on the business
- Cyber security and fraud
- Damage to brand and reputation (including social media risk)

Read more on pages 47 and 48.

POLITICAL, GOVERNANCE AND REGULATORY CHANGE

Political unpredictability has become an inherent feature of the social landscape globally: choppy markets; the rise of extremism; radicalisation and populism based on fear and economic insecurity; the global refugee crisis; reforms in China; uncertainty around Brexit; and the roles of the United States and Russia all contribute to uncertainty.

People no longer have faith in the institutions that once were the bedrocks of society. People increasingly distrust public institutions such as governments, large corporations, banks, multinationals and the traditional media. Institutions face heightened scrutiny, which results in an increased need for businesses to act more responsibly, ethically and transparently, and to be more stakeholder oriented.

The political environment in South Africa is volatile and uncertain. Allegations of systemic political and corporate corruption – in which private interests significantly influence decision-making – result in populist actions as citizens voice their dissatisfaction with perceived economic exclusion, policy inconsistency and corporate governance failures.

These fears and uncertainties impact risk assessment and consumer decision-making; and, as a result, the insurance industry faces increased risk but, provided insurers respond appropriately, the industry also has an increased number of opportunities.

The *Insurance Banana Skins* 2017 survey showed that, although the global risk of political interference rose sharply, there was a significant decline in concern about the stifling impact of regulation. However, changing political agendas do continue to shape regulatory regimes and, consequently, the insurance environment. Aspects of insurance that will continue to be impacted include the potentially reduced ease of doing business and increased requirements for client data protection and usage. This is likely to increase the cost and complexity of doing insurance business.

Key risks and opportunities related to political, governance and regulatory change as a future driver:

- Outside-in factors: political, economic, social and country risk
- Risks associated with international diversification
- Transformation
- Failing infrastructure

Read more from page 46.

SHIFTS IN THE INSURANCE VALUE CHAIN

Changes in the insurance value chain will continue to accelerate adjustments to the traditional risk protection business model. The underlying drivers include increasing competition in response to mass customisation and omnichannel opportunities, the rise of fintech, and changing regulatory requirements. These factors are leading to the globalisation of risk and risk capital.

In South Africa, insurance companies recognise a further imperative to achieve transformation through inclusive procurement in their value chains.

Insurance companies are likely to adapt their business models and distribution capabilities to ensure innovative offerings and increased efficiency. This will result in changing underwriting and distribution models, including omnichannel capabilities, combined with collaboration opportunities with alternative or new players in the value chain. For these models to be sustainable, insurers have to increase their size by expanding either their scope or scale. The nature of insurance is therefore set to be redefined – from philosophy, to processes and products.

Key risks and opportunities related to shifts in the insurance value chain as a future driver:

- Risks associated with international diversification
- Human resource scarcity
- Transformation
- Innovation to increase efficiency, including the impact of various disruptors on the business

Read more on pages 46 and 47.

ESG RISK PROFILES

Climate change is altering weather patterns and water distribution and availability around the globe with major parts of the world experiencing shortages and droughts, floods or rising sea levels, which are disrupting ecosystems and leading to more extreme weather events. Moreover, the world is undergoing the largest wave of urban growth in human history. The United Nations reports that the current world population of 7.6 billion is expected to reach 9.8 billion in 2050. Cities, industry and other users exploit increasingly greater volumes of water, energy and land resources. (Source: *World Population Prospects: The 2017 Revision*)

In 2016, the World Economic Forum recognised the world water crisis as the most impactful global risk. One example is the evolving and intensifying water crisis in the Western Cape. The food-energy-water nexus is a challenge for southern Africa as the population is still growing rapidly, thereby driving up the demand for water and food, while there is a concomitant and sometimes conflicting need for energy to power industry.

Cities will increasingly have to deal with water shortages and climate change as inhibitors for the development of optimum conditions for future generations. Catastrophe events related to urban growth and insufficient infrastructure development have a severe impact on insurance loss ratios.

Partnerships between industry, government and community groups for risk mitigation and food security will become increasingly important to create resilient communities. Global networks like the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Sustainable Insurance (PSI), ClimateWise, the World Wildlife Fund (WWF) and others are working alongside the insurance industry to improve global resilience.

Sustainable insurance is a strategic approach by which all activities in the insurance value chain are performed in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with ESG issues. Sustainable insurance aims to reduce risk, develop innovative solutions, improve business performance, and contribute to environmental, social and economic sustainability. To build on the foundation the insurance industry has laid for supporting a sustainable society in which people are aligned and incentivised to adopt sustainable practices, UNEP FI developed the Principles:

- We will embed in our decision-making ESG issues relevant to our insurance business.
- We will work together with our clients and business partners to raise awareness of ESG issues, manage risk and develop solutions.
- We will work together with governments, regulators and other key stakeholders to promote widespread action across society on ESG issues.
- We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

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

Key risks and opportunities related to ESG risk profiles as a future driver:

- Catastrophe events and extreme weather impacts, including underwriting of property class of business
- Failing infrastructure
- Western Cape water crisis

Read more on pages 46 and 48.

TECHNOLOGY AND THE RISE OF FINTECH

According to the *Insurance Banana Skins* 2017 survey, change management (a systematic approach to dealing with rapid change), cyber risk and technological change are the three greatest threats that the global insurance industry must contend with over the next few years. Technological change and cyber risk top the list of challenges for all sectors. For the first time, operating risks pose the greatest threat to insurers as new technologies transform insurance markets and traditional business models.

The fourth industrial revolution is disrupting almost every industry in every country, as it is transforming entire systems of production, management and governance. Consumers are ready to embrace the use of technology or new business models to reinvent or reshape existing businesses. Aspects of technology that are driving change include increasing participation in the "connected world", the Internet of Things (IoT), the growth in data about people and things, the increased ability to extract relevant business information from this data, and the speed of information flow.

Commercial peer-to-peer mutualisation systems, for example, allow consumers to engage in monetised exchanges through peer-based services or temporary access to goods. These systems have the potential to significantly change the insurance business model. Examples include peer-to-peer insurance start-ups such as Lemonade and Teambrella.

The IoT provides a means of collecting large amounts of data used by industry to monitor a myriad of processes. The application of this data has the potential to add value to risk assessment and underwriting processes.

However, there are also potential risks. For instance, as automation increases, computers and machines could replace workers across a vast spectrum of industries, from drivers to accountants and estate agents, to insurance intermediaries. There are also numerous examples worldwide of networks that have been brought to their knees as a result of internet-connected devices that had been hijacked and infected with malicious software (malware) and ransomware, where businesses are forced to pay large sums to unlock encrypted files. WannaCry and NotPetya, 2017's largest attacks, affected hundreds of thousands of computers worldwide, and crippled banks, law enforcement agencies and corporates.

Key risks and opportunities related to technology and the rise of fintech as a future driver:

- Innovation to increase efficiency, including the impact of various disruptors on the business
- Cyber security and fraud

Read more on page 47.

COMPLEXITY RULES

Increasing complexity will result from changing technology, lifestyle and risk profiles among clients, businesses and governments. Factors driving increased complexity include the globalisation of business, with the concomitant requirement to operate in different territories. Clients' expectations for efficiency and convenience will drive insurance on demand, speed and universality of access.

The rapidity of these changes and the development of strategies to deal with them are an industry-wide challenge. However, a growing strategic focus on technology, business capability and product investment will ultimately benefit the industry.

Aspects of insurance businesses that will be impacted include business models, product range, design and development philosophy, and underwriting approach and philosophy, with new demands placed on management and technical expertise. This will require employees and suppliers to be more flexible, to be open to change, and able to innovate and think differently.

Key risks and opportunities related to complexity rules as a future driver:

- Human resource scarcity
- Transformation
- Innovation to increase efficiency, including the impact of various disruptors on the business
- Cyber security and fraud

Read more on page 47.

EVOLVING BUSINESS AND SOCIAL ECOSYSTEMS

As ESG risks increase, these start affecting business and social ecosystems with an accelerated, interconnected and dynamic impact on the risk universe. Fundamental drivers include population growth; urbanisation; business and infrastructure; global climate risk, energy, water and food shortages; and 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 intersectionality of risks. Knock-on effects may include secondary impacts on infrastructure and business. This will potentially lead to dysfunctional and overwhelmed urban governments. Insurance products and the nature of risks underwritten will change, and will have a direct effect on underwriting philosophy, approaches and processes.

Collaboration and the establishment of partnerships with government(s) around various components of the value chain, for example, will result in changing networks of accountability and new forms of competition.

Key risks and opportunities related to evolving business and social systems as a future driver:

- Catastrophe events and extreme weather impacts, including underwriting of property class of businesses
- Failing infrastructure
- Western Cape water crisis

Read more on pages 46 and 48.

INTENSIFYING COMPETITION

The variety and sources of competition will increasingly blur traditional boundaries by reshaping 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. Alternative approaches to fulfilling insurance needs will include, for example, self-insurance, insurance by-product suppliers and community-based risk support schemes.

Although technology has helped to usher in a new level of communication and industrial development, it is inevitable that aspects of the business context are increasingly impacted by these changes. These aspects include more informed and empowered clients who have changing expectations related to products, services and providers. Technology will facilitate self-organising and empowered communities, thereby shifting roles and relationships between stakeholders, and leading to new forms of competition.

Insurers' approach to risk management, underwriting, insurance products and distribution will have to change. Businesses will not be able to harness new technologies without adequately prepared human capital. If the insurance industry is not ready for new forms of competition, this would result in job losses, as foreign entrants will capture markets using new technologies and channels.

Key risks and opportunities related to intensifying competition as a future driver:

- Human resource scarcity
- Innovation to increase efficiency, including the impact of various disruptors on the business

Read more on page 47.

SANTAM'S STRATEGIC RESPONSE

Santam is building a diversified business in emerging markets through its specialist risk and reinsurance offerings, as well as investments with Sanlam Emerging Markets (SEM) (read more under "Group at a glance" on page 22). In South Africa, efforts continue to transform distribution from a largely intermediated model to omnichannel capabilities. Santam will continue to build its ***Insurance good and proper*** reputation by working with stakeholders to increase community resilience and demonstrate sustainable business practices.

Santam follows a regular and robust strategic review process focused on material imperatives that are designed to:

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

The following five focus areas remain relevant for Santam to facilitate value creation as the leading general insurer in selected emerging markets:

Each business unit takes responsibility for its own strategic process and focuses on implementation through go-to-market strategies and projects, operational implications and resource allocation. 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 Santam 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 and delivery of the strategy and targets.

Santam's strategy recognises that progression relies on adherence to values of the Santam Way, the creation of stakeholder value, long-term sustainability, the reduction of systemic risk, and the fulfilment of 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 aligned with the group values of integrity, passion, humanity, innovation and excellence.

Read more about progress per strategic focus area in the chief executive officer's report from page 42.

SANTAM SUSTAINABILITY FOCUS AREAS

Santam's sustainability relies on the group's ability deliver on its brand promise, to provide quality and reliable products and services and to work with clients and business partners to understand and manage risks. Santam also recognises that the group operates within a global context where sustainability is defined by the United Nations Sustainable Development Goals (SDGs). By remaining cognisant of the SDGs, Santam contributes to systemic and long-term sustainability in all the geographies in which it operates and invests.

Santam defines and manages business initiatives in support of sustainability through the Santam sustainability framework. The Santam sustainability framework is continually reviewed and refined, with the SES committee providing regular oversight. Key initiatives have been identified with accountabilities assigned to relevant executives.

Read more about the sustainability focus areas and initiatives on the website.

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 (TCF)	Page 52
		Offering value-added services	Page 24
		Creating access to products and services	Pages 27 and 49
		Consumer financial education	Page 53
		Developing distribution channels	Page 47
RESILIENCE THROUGH SHARED VALUE PARTNERSHIPS	Santam works with local municipalities through the P4RR and focuses on disaster risk management and reduction.	P4RR	Page 55
		Products and value-added services that integrate ESG	Page 24
		Corporate Social Investment (CSI) initiatives	Page 56
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 57
		Refining systemic risk models	Pages 51 to 61
		ESG culture and carbon footprint	Pages 5 and 15
		Developing with suppliers	Pages 31 and 32
		Scarce skills development	Pages 31 and 43
		Diverse and productive employee base	Page 59
		Information management and governance	Page 53
RESPONSIBLE INVESTMENT AND SOLVENCY	Santam influences responsible systemic risk responses through vehicles such as the Santam Resilient Investment (SRI) Fund, the South African SME Fund, enterprise and supplier development, and CSI initiatives.	SRI fund management	Page 36
		Enterprise development initiatives	Page 58
		Socio-economic investments	Page 56
		Solvency and asset management	Page 27 and 69

04

Insurance good and proper means being there for clients when they need us most.

Insurance good and proper is more than just insurance. It is the reassurance that we will be there for clients when they need us most.

Saham Assistance – Saham Finance's innovative 24/7 incident support services in Morocco – is turning the claims channel around and goes beyond the assistance services offered by many insurers. They are there to lend a hand with anything from on-site repairs and replacement vehicles to hotel accommodation if the incident occurs abroad. What is more, safety and insurance are made simple through the Saham mobile app. That means, when the unexpected happens, clients are making their insurer their first point of call.

Read the full story on page 35.

GROUP AT A GLANCE

KEY FACTS

Gross written premium (GWP) **R29.7 BILLION** 2016: R25.9 billion	GWP earned outside South Africa **R3.2 BILLION** 2016: R2.7 billion	South African market share **>22%** 2016: >22%
International investments through SEM and SAN JV **32 COUNTRIES** 2016: 31 countries	Headline earnings per share **1 425 CENTS** 2016: 1 086 cents	Number of group employees **5 990** 2016: 5 749
Santam group BBBEE level* **2** 2016: 2	Santam black ownership percentage** **28%** 2016: 28.7%	Global credit rating **AAA(ZA) South African national scale** 2016: AAA(ZA) South African national scale
Standard & Poor's Global rating **BB+ Local currency, global scale** **zaAA+ South African national scale** 2016: BBB Local currency, global scale zaAAA South African national scale	Value of claims incurred **R14.1 BILLION** 2016: R12.9 billion	Socio-economic development spend as % of net profit after tax* **0.86%** 2016: 0.95%

* *Based on Santam Ltd and its South African subsidiaries.*
** *As per the revised FSC scorecard.*

KEY FINANCIAL INDICATORS

Return on capital **23.6%** Long-term goal: >24%	Conventional insurance: gross written premium growth **10%** Long-term goal: Real GDP growth	Conventional insurance: acquisition cost ratio **28.1%** Long-term goal: 27%
Conventional insurance: underwriting margin **6.0%** Long-term goal: 4% – 8% through the cycles	Conventional insurance: investment return on insurance funds **2.8%** Long-term goal: 2.5% of NEP through the cycles	Economic capital coverage ratio **158%** Long-term goal: 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 Africa, Africa, India, Asia and other emerging markets. It is the leading general insurer in South Africa and has a market share of more than 22%. The group provides a diversified range of general insurance products and services through a network of more than 4 800 intermediaries and direct channels. The group has more than a million policyholders that range from individuals to commercial and specialist business owners and institutions in South Africa.

Santam is a subsidiary of the South African financial services group, Sanlam, which holds 61.5% of Santam's shares. The group derives revenue from insurance activities and investments. Insurance activities include:

- Conventional insurance business written on insurance licences controlled by the group, consisting of Santam Commercial and Personal, Santam Specialist (niche business and agriculture), credit insurance written by the Santam Structured Insurance (SSI), Santam re and MiWay;
- Alternative Risk Transfer (ART) insurance business written on insurance licences controlled by the group; and
- Santam's share of the insurance results of the Sanlam Emerging Markets (SEM) general insurance businesses (including Saham Finances).

The performance of insurance activities is based on gross written premium as a measure of growth, with net insurance 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 Insurance Ltd (MiWay) (direct insurer), Centriq (cell captive insurer), Brolink (an independently managed insurance administration business) and Santam Structured Insurance (SSI). 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, Asia and other emerging markets through collaboration with SEM.

Santam holds an effective 7% stake in the Morocco-based Saham Finances via its 15% shareholding in SAN JV with SEM. This significantly expands the Santam footprint across the African continent. The group's other significant associates and joint ventures constitute its 40% interest in Western Group Holdings (personal and commercial insurer), its 49% interest in start-up general insurer Professional Provident Society Short-term Insurance Company Ltd (PST) and its 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 states the manner in which each business unit undertakes its business and how this is agreed upon 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.

The business units share various group governance and support functions for consistency and efficiency.

A core principle that applies throughout the group is that Santam does not underwrite business that it does not understand.

THE SANTAM BUSINESS PORTFOLIO

SANTAM COMMERCIAL AND PERSONAL	SANTAM SPECIALIST	MIWAY	SANTAM RE	SANTAM EMERGING MARKETS INVESTMENTS
The multichannel general insurance business in South Africa and Namibia – Intermediated – Strategic partnerships – Direct	The specialist insurance business portfolio in Africa, India, Asia and other emerging markets – Agri – Niche – Centriq – SSI	The direct insurance business in South Africa – Personal – Business – Life (in conjunction with Sanlam Life)	The reinsurance business in South Africa and international markets – Group – Non-group	Investments in emerging markets – Africa – India – Asia – Other emerging markets

OPERATIONAL PROFILES

SANTAM COMMERCIAL AND PERSONAL

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 specialist 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.
- *Santam Specialist Real Estate* was created exclusively for residential and commercial sectional title and share block properties, and is designed to give intermediaries and clients comprehensive and innovative insurance solutions.
- *Emerald Risk Transfer* provides property insurance solutions for large industrial and corporate businesses 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 and offers comprehensive cover to transport contractors.
- *Stalker Hutchinson Admiral (SHA)* provides insurance against broad-form liability, banker's blanket, cyber and computer crime, directors' and officers' liability, professional indemnity for traditional and emerging professions, as well as personal accident, kidnapping 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, and travel supplier insolvency for leisure and corporate travellers.
- *Vulindlela Underwriting Managers (VUM)* specialises in providing a range of insurance solutions for owners of minibus, midibus and metered taxis in South Africa. VUM has recently entered the small, medium and microenterprises (SMME) market to expand the relationship of the taxi base to include other assets and motor vehicles in underinsured markets.

Centriq is a specialist cell captive insurer that 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.

Santam Structured Insurance is an industry innovator in specialist insurance structuring offering partners and clients individually designed financial solutions, including risk finance and trade credit insurance.

MIWAY

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

Current services include:

- General insurance (motor, homeowners 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, the Middle East, India and Asia (including China and South Korea). Santam re operates under the Santam general insurance licence, which 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 12 countries in Africa, India, Asia and other emerging markets. Santam and SEM's shareholding in Saham Finances, held through SAN JV, expanded this to North, East and West Africa and the Middle East, as Saham Finances operates 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 chief executive officer's report from page 42, and the chief financial officer's report from page 62.

CLASSES OF GENERAL INSURANCE PRODUCTS

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

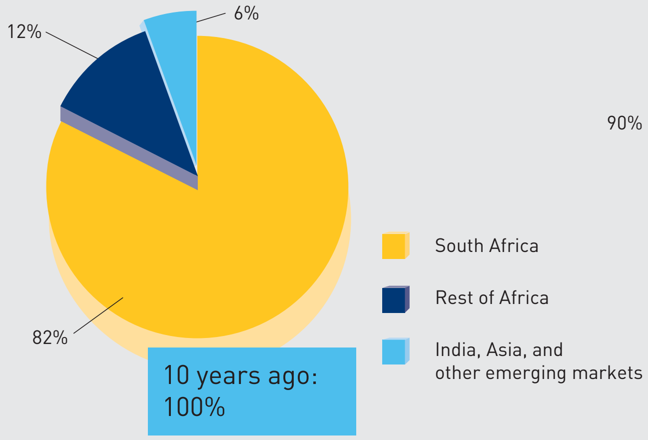
Santam provides technical support in all of the above insurance classes to the SEM general insurance businesses.

SANTAM'S ADVANTAGES AND OPPORTUNITIES

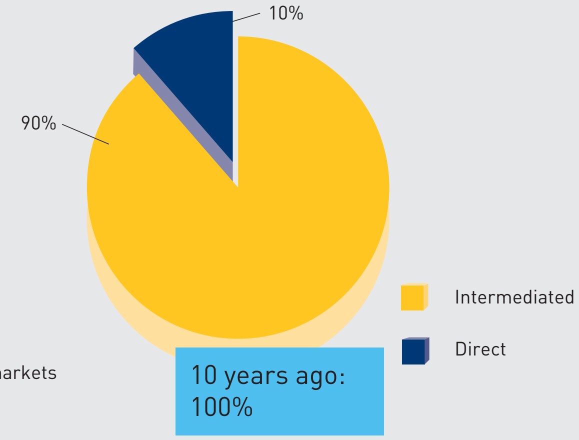
In South Africa, Santam continues to defend its market share, to develop new market offers and to target new segments. A tightening economic environment and socio-political stressors require us to be agile with efficiencies so as to remain competitive, and to invest in social capital development to maintain our reputation and licence to operate. We are in a strong position to leverage general insurance opportunities outside of South Africa, although these will take time to develop.

TRANSFORMATION AND DIVERSIFICATION INDICATORS

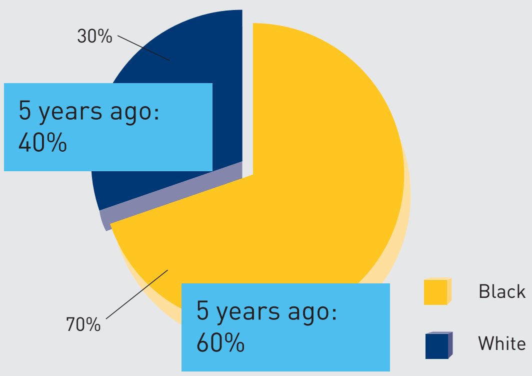
Geographic transformation
(source of gross premium)

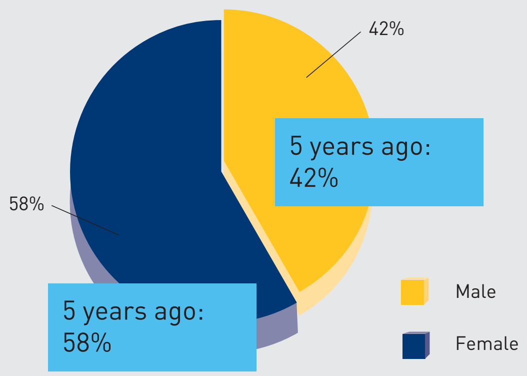


Channel transformation
(source of gross premium)



Employee profile





People with disabilities represent 2.09% of all employees
5 years ago: 0.78%

MARKET POSITION AND SCALE

Santam's geographical footprint, scale, brand strength, business diversity and its distribution networks put the group in a competitive position in South Africa where it has a market share in excess of 22%. It also benefits from the diversity of the product offering and multiple channel capabilities (including a growing direct channel market share). This has contributed to sustained underwriting surpluses despite challenging operating conditions. Santam currently insures 85 of the top 100 companies listed on the JSE and has a network of more than 4 800 intermediaries.

Through its partnership with SEM, Santam offers intermediaries access to insurance licences across India, Asia and other emerging markets.

PROVEN CONSISTENCY FOR 100 YEARS

Santam has been able to achieve consistent underwriting profits since 1918, while adapting its business model to the prevailing market conditions and risks. It has diversified its portfolio by focusing on profitability rather than increasing market share alone. 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 short-term insurer of the year for 2017 for corporate and personal lines by the intermediary community at the FIA. Consumers have recognised the brand as a leader through the South African Customer Satisfaction Index (SAcsi) and the Sunday Times Top Brands Survey. The group also received Top Employer certification for 2018.

LEADING SKILLS AND COMPETENCE

Santam has world-class scientific underwriting capability supported by a strong and experienced management team. Its store of specialist insurance skills and knowledge is evident in the success of the specialist business, which offers a complex range of insurance covers. 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 integrate systems and processes. It is also able 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. It also has an embedded enterprise risk management (ERM) framework, which is integrated into strategic decision-making and capital allocation.

DIVERSE GROWTH OPPORTUNITIES

Santam has strong international diversification capabilities through its partnership with SEM, which includes Saham Finances, as well as Santam re and Santam Specialist. A wealth of technical expertise creates the ability to grow business flows from outside South Africa.

MiWay attracts new as well as previously uninsured clients through its online personal, life and business insurance offerings in South Africa. Acquisitive growth opportunities in the local market are limited due to Santam's dominant position. However, organic growth remains a focus area and is driven by a well-established intermediary network, integration opportunities with Sanlam's distribution network and the development of the Santam direct distribution channel.

STRONG AND CONSISTENT RETURNS

Efficient capital management and a stable dividend policy have enabled Santam to deliver consistent returns. The business is highly cash generative and its investment performance has a solid track record.

An average return on capital of 24.3% has been achieved over the last 10 years and 23.3% over the last five years. Ordinary dividend per share compound growth of 9.2% has been achieved over the last 10 years and 3 special dividends have been paid.

At maturation in 2015, the Santam BBBEE scheme and the three Emthunzini Black Economic Empowerment Trusts created a combined value of R1.1 billion for participants, which included employees, communities and business partners. As shareholders, the trusts continue to benefit from good returns, which enable the creation of social value through responsible giving.

THE SANTAM BRAND

Santam has a tradition of conducting business in a fair and ethical manner. This has enhanced the group's credibility and bolstered its reputation, thereby making it both profitable and sustainable.

Santam is associated with brands such as MiWay, Centriq, other specialist underwriting managers' brands and several niche business unit brands. These businesses are well regarded and acknowledge the importance of being associated with the Santam brand, especially when doing business in other parts of Africa.

The Santam brand remains the most recognised and awarded among the group brands, all of which embrace the ethos around Santam's brand positioning – centred on ***Insurance good and proper*** – which emphasises responsible and ethical insurance.

SUSTAINABLE AND RESPONSIBLE BUSINESS PRACTICES

Santam's integrated approach to managing long-term sustainability and community resilience through the nine-year P4RR initiative ensures alignment with the strategic drivers of the business. Santam plays a leading role among global insurance players by setting the tone in South Africa and selected emerging markets through participation in ClimateWise and the United Nations Environment Programme (UNEP) Principles for Sustainable Insurance (PSI) initiatives. Santam's sustainability journey focuses on:

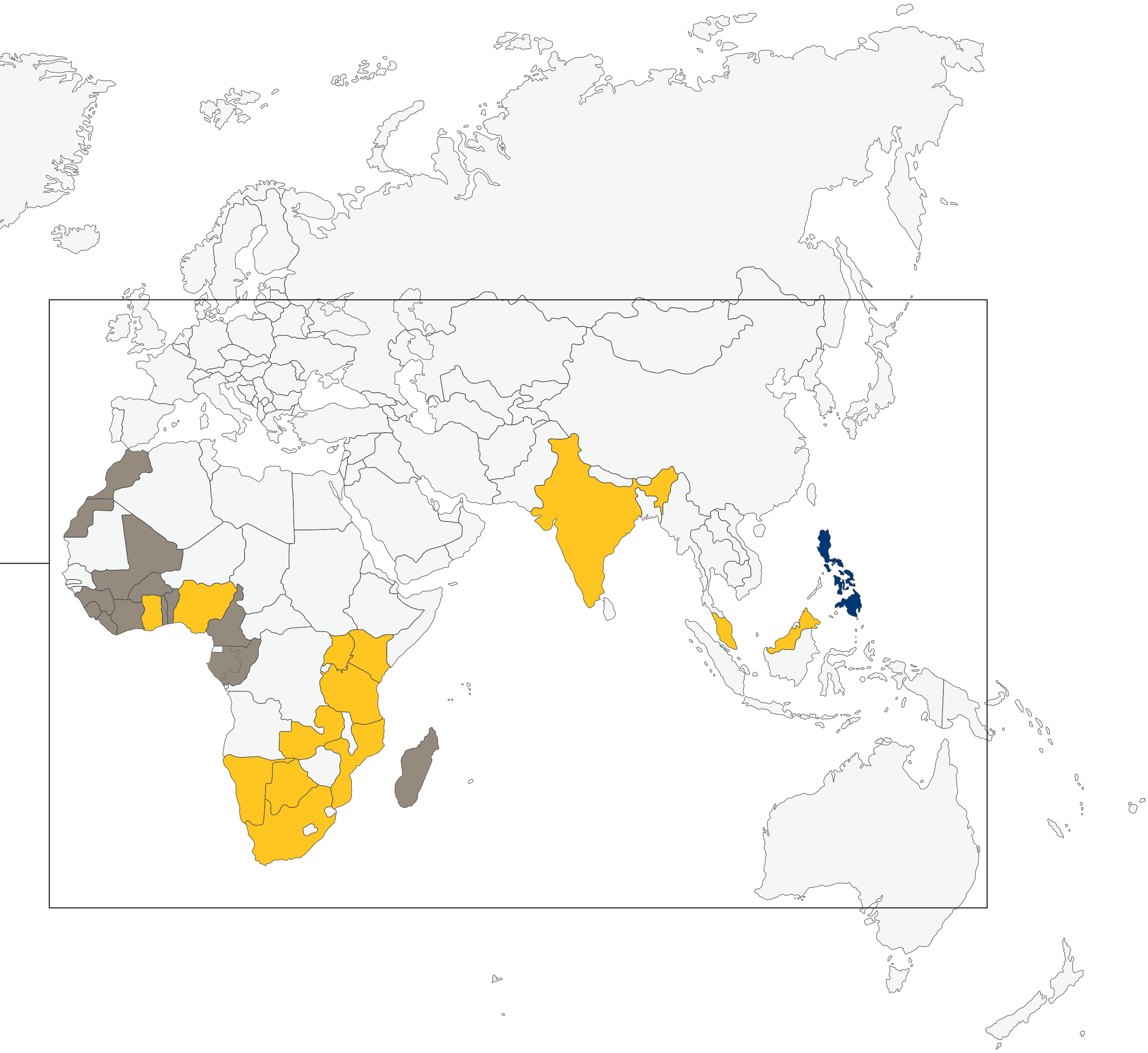
- reaching the insured and uninsured markets;
- resilience through shared value partnerships;
- responsible investment and solvency; and
- developing sustainable business efficiencies (internal and external).

GEOGRAPHIC ANALYSIS OF INVESTMENTS

INTERNATIONAL FOOTPRINT

- Countries we have representation
- Saham Finances' geographical footprint
- Indirect presence via associated companies

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



SANTAM'S STAKEHOLDER UNIVERSE

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. These include:

When stakeholders express dissatisfaction with a company it is too late to engage. This is why Santam believes in regular and productive engagement with its stakeholders to ensure communication channels remain open and that it is addressing their needs. Through effective dialogue and collaboration, the group aims to create a sustainable business environment that supports its long-term strategy.

Santam conducted independent stakeholder focus groups in the first quarter of 2017. This was done to determine how some of its stakeholders perceive their current relationship with the Santam group and whether there are any gaps between Santam's perceptions and its' stakeholders expectations. Among the stakeholders who took part in the process were the FIA, the Insurance Sector Education and Training Authority (INSETA), the National Disaster Management Centre (NDMC), and the South African Local Government Association (SALGA). The insights gathered from the focus groups feed into the management of these relationships and are included in the analysis of each stakeholder grouping below.

Santam reviews the stakeholder universe annually to ensure that new and emerging stakeholders who may have a material impact on Santam and its operations are included. Santam updated its stakeholder management policy and stakeholder management charter to be in line with the principles of King IV™. Each of the material stakeholder groupings is assigned to an executive. These executives provide feedback to the head of stakeholder relations on a quarterly basis. Issues from these stakeholder reports are presented to the SES committee and the board on a quarterly basis.

Santam continues to drive a holistic and integrated transformation approach across all stakeholder networks, which includes business partners, clients, employees and the communities where it operates.

Meaningful stakeholder relationships are critical for Santam to play a positive role in society. Therefore, its approach to stakeholder engagement is aimed at building and maintaining quality business relationships with material stakeholders, as well as addressing the various challenges and opportunities that exist within the current stakeholder framework.

Read more about stakeholder governance in the corporate governance report from page 72.

Read more about the group's transformation strategy in the chief executive officer's report on page 42 and the transformation report on page 95.

CLIENTS

Risk solutions for individual and corporate clients are the reason the general insurance industry exists. Therefore, client-centricity remains core to group strategy and is embedded in the brand promise of ***Insurance good and proper***. Santam must also ensure that it understands the changing needs of clients and innovates to meet them.

The group tracks sentiment through a complaints process and via social media. Santam continuously enhances processes to deal with on-demand service requests and breakdowns throughout the insurance value chain. Through ongoing market research and strategic reviews, Santam anticipates the latest trends that influence the expectations a client has of their insurer.

Santam's clients want reassurance that their insurer will honour its commitments by paying legitimate claims. Santam has an internal TCF committee to ensure that specific, clearly articulated fairness outcomes are delivered.

Read more about how Santam turned a challenging client situation around in the real-life story on page 37, and about its relationship with its clients in ***Insurance good and proper*** on page 51.

SHAREHOLDERS

The financial capital provided by investors and the dividends paid to them are central to the success and sustainable growth of our businesses. Santam engages with shareholders through various investor relations activities such as the AGM, results presentations and reports. It also has regular direct engagement with Sanlam – its strategically aligned core shareholder. Shareholders are focused on the group's performance, as well as its sustainable growth value over the short, medium and long term.

Read more about Santam's performance in the chief executive officer's report on page 42, and about how it ensures sustainable value for shareholders in the corporate governance report from page 72.

EMPLOYEES

Skilled and driven employees create value by providing clients with high-quality and innovative products and services.

Santam engages with employees, some of who are represented by the workers union, Sasbo, which is affiliated with the financial services industry through engagement pulse checks, the CEO roadshow and the management conference. Its employees care about Santam's employment practices and policies, competitive remuneration, enabling work environment, career and skills development, work-life balance and talent acquisition.

Santam responds to their concerns by implementing the strategic focus area "The right people" through a targeted people strategy that includes talent management, a transformation culture, mentorships as well as a wellness programme.

Read more about Santam's relationship with its employees in "The right people" on page 59.

SUPPLIERS

In order for its business model to function, Santam needs a reliable network of suppliers. The group proactively addresses the social and empowerment challenges in South Africa by increasing procurement from black-owned suppliers. Santam also contributes to supplier development initiatives in the industry.

To date, Santam has invested R40 million in the ASISA Edge Growth fund to create access to loan funding for new and small BBBEE suppliers in the sector.

Read more about the supplier development programme in the chief executive officer's report on page 42 and in the real-life story on page 32.

BUSINESS PARTNERS

INTERMEDIARIES

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

The FIA participated in Santam's stakeholder focus groups in 2017. Santam management conducted intermediary roadshows and extensive training initiatives. The group also engaged with the FIA and black intermediaries regarding industry transformation imperatives.

It is testament to the positive relationship that Santam has with intermediaries that the FIA again honoured Santam by selecting it as their top choice for corporate and personal insurance at their annual awards ceremony.

Read more about intermediary transformation initiatives in "The right people" on page 59.

SEM

Santam's investments and partnerships in Africa, India, Asia and other emerging markets through collaboration with SEM (including Saham Finances) are a vehicle for diversification. Santam is engaged in working with Sanlam to improve technical support and governance structures in the SEM general insurance businesses.

Read more about Saham Finances in the real-life story on page 35.

INDUSTRY REGULATORS AND GOVERNMENT

Regulation safeguards a reliable insurance sector, which reduces systemic risk and promotes a functioning economy. Regulation also increases client confidence and reduces the potential for reputational risk. Santam engaged with a number of governmental stakeholders and industry regulators in stakeholder focus groups, and had regular discussions with relevant government representatives, legal entities and institutions.

COMMUNITIES

Santam and the communities in which it operates rely on each other for mutual success and resilience. Santam embraces the role of corporate citizen by accelerating the roll-out of P4RR with municipalities in South Africa.

The feedback received from the stakeholder focus groups and various other community engagements has been positive and the Department of Cooperative Governance and Traditional Affairs (CoGTA) wants other private sector partners to learn about making a difference within communities from this partnership.

Read more about P4RR on page 55.

01 REAL-LIFE STORY

FROM CAR WASHER TO MOTOR BODY REPAIR BUSINESS OWNER

Thembi Sithole started out washing cars in a panel-beating shop.

Soon, she was promoted to receptionist. "I would help Gavin, my boss at the time, answer phones and with admin when the workshop was not too busy. He received many compliments from clients about the lady answering the phone and her beautiful voice – and that's how I landed the receptionist job. I seized every opportunity to learn new skills and was soon doing quotations and estimations," says Thembi.

After leaving the business 13 years later, Thembi crossed paths with Gavin Masters again, and they decided to open a new motor body repair shop, as equal partners.

G&T Auto – named after Gavin and Thembi – was registered late in 2009 and opened its doors to clients in January 2010. But things did not take off as planned; Thembi soon found herself in financial trouble when her partner could no longer contribute his share of the starting capital following the liquidation of his other business.

"We had already signed a three-year lease agreement and we had to pay R30 000 rent a month, regardless of whether we operated or not. We also leased most of the large equipment and we had these fixed costs to pay."

With no permanent job, she was unable to secure a bank loan, and was forced to max out all her credit cards and cash in her provident fund: "It was a huge gamble and not one which I recommend to people. But, at the time, I felt that I had no choice but to make it work."

The first year was the toughest for G&T Auto. Thembi did not have enough equipment to be graded by the South African Motor Body Repairers Association (SAMBRA). This meant that she could not get work from insurers. But then she impressed an insurer with the work G&T did to refurbish two cars that had been written off by another panel beater in the area, and soon more work from the insurer started to come in. G&T was able to purchase more equipment, and obtained a SAMBRA grading.

Thembi joined the Sanlam Enterprise and Supplier Development programme in 2015. Santam has partnered with Sanlam and the Association for Savings and Investment South Africa (ASISA) to stimulate the development and economic growth of black-owned SMEs that are aligned to its supply chain. The enterprise supplier development (ESD) programme provides investment funding and business development support to SMEs.

Now in its third year, the programme has targeted 16 suppliers from the Santam claims supplier environment. The programme runs over a 12-month period that includes business assessment and incubation and aims to prepare small black businesses for targeted procurement spend from the group. The SMEs are also supported with a second year of business mentoring even though the formal part of the programme lasts only one year.

Over the past few years, Santam invested R40 million into the fund – with the intent to direct current suppliers to the fund for expansion loan opportunities. The ESD business mentors assigned to G&T identified the shortcomings in Thembi's finances and marketing efforts. Not only did she not understand her financial records, she also spent more time doing admin work than growing her client base. Before joining the programme, she says she was working in *her business and not* on *her business.*

Today, G&T is a fully accredited major structural repairer. Thembi employs 15 people and has an annual turnover of more than R6.5 million. If her entrepreneurial journey has taught her anything, it's the importance of remaining resilient and persistent in the face of challenges:

"You need to focus, do it and don't look back," she says. "No matter what happens, you need to be prepared to move mountains for your dream, no matter how insurmountable they might seem."

02 REAL-LIFE STORY

THE KNYSNA FIRE – LEARNING FROM CATASTROPHE EVENTS

"The 7th of June 2017 was a windy day and I noticed smoke and fire on the other side of the lagoon from my bedroom window. I didn't think it would jump the lagoon in our direction, but after a while it was impossible to see which way the fires were heading because the smoke had now enveloped everything. It was getting darker; the sky was red and the wind hot and very strong.

I grabbed my pets and asked my visiting friend to carry suitcases to my car in the garage when I heard loud banging on the windows. It was the police who had arrived to evacuate us. As I ran back into the smoke-filled house to grab the car keys, I looked around and realised it was quite possibly the last time I would have a glimpse of my beautiful dream house, filled with so many memories and valuables.

My friend, my two dogs, my African Grey parrot and I got into the car and we drove away.

Everybody around me was in shock. At one stage, I remember phoning my broker, Quinton Haarhoff from Perfecsure Brokers and sending him pictures and videos from my cellphone. He was so helpful: he said he would handle everything. I would like to thank him and the Santam claims team for supporting me throughout this nightmare."

– *Marelize Bruyns is a Santam client and former Knysna resident who lost her entire home in June 2017.*

Within 48 hours of the tragedy unfolding, Santam's teams of catastrophe management experts were on the scene to offer much-needed assistance. Santam has processed client claims totalling R823 million and donated R1 million to support relief efforts. The overarching question at Santam in the aftermath of the fires has been: "What can we learn so that this kind of destruction can be avoided or mitigated in future?"

When natural disasters strike they can overwhelm large, interconnected systems: social, economic and ecological. Santam realised that to reduce community risks long term it has to think "for the whole system" – this means getting together with people from across that system to understand its dynamics and forge partnerships that can, over time, genuinely re-shape the system for improved resilience.

Knysna is an apt place at which to start this journey.

Santam had a pre-existing partnership with Eden District Municipality (of which Knysna is a part) under P4RR. This helps municipalities develop disaster resilience through a range of preventive measures and decreases the likelihood of flooding or fire reaching catastrophic proportions, thereby leading to fewer losses and claims.

The post-Knysna fires period was a window of opportunity to bring together the group of wildfire and disaster experts involved who wanted to ensure such a grave urban wildfire event never happened again – or, that if it did, the related damage and losses could be better contained.

Santam hosted a series of three workshops with what is now called the "Knysna fire learnings forum", and more are in the pipeline. All participants are committed to the initiative and have no illusions about the mounting fire risks faced in South Africa.

03 REAL-LIFE STORY

INNOVATIVE PLATFORM FOR RISK MITIGATION

Every company that employs people is susceptible to theft or fraud of some kind. Retailers are particularly vulnerable by nature of their diversified infrastructure and manpower since they have branches at multiple locations where clients and employees have direct access to goods and cash. Crimes facilitated by the above circumstances can be hard to detect and pose serious risks to business stability. The 2016 PricewaterhouseCoopers Global Economic Crime Survey (SA edition) reported that one in four South African companies indicated that they had lost between R1.8 million and R18 million as a consequence of fraud and theft.

A technology or product that can measure and mitigate these typical retail risks would have been unfathomable a decade ago. Thanks to biometrics and IoT – the connectivity of all kinds of household and workplace devices to the internet – a product is in the trial and development phase that could drastically reduce incidences of workplace fraud and theft.

The product, MoreEyes, was the winner of the 2017 Santam hackathon and was included as a Santam Safety Ideas top 10 finalist. Here is how it works:

MoreEyes uses biometric data – from facial recognition, movement patterns and heart rates – to identify when a threat or theft is happening without the need for a panic button: the biometric data of human stress and fear becomes the panic button. It can also identify irregularities in employees' biodata and ultimately detect instances of asset shrinkage, credit card fraud and insider theft.

The idea is to target a cost-effective solution at retailers, factories and businesses that ultimately lowers insurance claims by enabling security to be notified of theft and crime, helping to recover stolen goods if removed from the premises, or assessing and predicting security vulnerabilities.

MoreEyes received a R20 000 cash prize as part of the hackathon winning package. Also, as a Santam Safety Ideas top 10 finalist, it was awarded incubation support (worth R150 000) to guide the idea from ideation to concept, to prototype and eventually to business plan and readiness to launch.

Brent Tollman is the originator of the product. He is a brand and digital strategist by trade, and so product development is sometimes part of his job, but it is mostly an after-hours and entrepreneurial pursuit.

"While co-developing an ad tech platform that uses machine learning algorithms to improve online marketing and operational efficiencies, I became fascinated with biometric data and IoT platforms. I was specifically interested in how biometric data could be an alert for critical events. So, for 10 months I researched this idea. I was never sure if I was just in love with it or if it was an idea worth investing in."

Brent entered the Santam hackathon on a whim, mostly hoping to meet innovators and collaborators, and perhaps to receive validation that his idea wasn't crazy.

Says Brent: "It was a life-changing moment to hear one of the innovators on the Santam hackathon judging panel tell me how "doable" the idea was. That's when I realised I had to take a risk and invest time and money into a proper trial – which we are now conducting."

04 REAL-LIFE STORY

SAHAM ASSISTANCE – INNOVATION IN INSURANCE CHANNELS

"Morocco: Road traffic accidents kill thousands each year" – Morocco World News

"Ivory Coast: A coach of travellers overturns at the entrance of Divo" – Agence Ivoirienne de Presse

Incidents such as these have a severe socio-economic impact due to their costs and the toll they take on the families of the victims. With the development of road networks and an increase in motorists in Morocco, accidents and breakdowns have risen proportionately. This has resulted in a greater need for roadside assistance.

Assistance services are often a supplement to insurance products and allow clients to interact with insurance companies in a convenient way. If a client is involved in an accident they will be able to call roadside assistance and benefit from emergency road service coverage. In many cases, this coordinates any follow-up services clients may need to file a claim. It is also in the insurer's best interest to provide assistance services and limit the damage following an accident and thus limit the reimbursement cost.

Saham Finance is taking this model one step further. They are turning the claims channel around with Saham Assistance. The claims team will move into assistance from 2018 and assistance will be the first port of call.

Saham Assistance offers towing services, on-site repair, ambulance services, replacement vehicles, and hotel accommodation, if incidents occur abroad. Call centre agents are available in real time around the world, 24 hours a day, seven days a week. It relies on a network of 600 centres in Morocco and offers a global network of 240 correspondents and 400 000 service providers (which include doctors, nurses, paramedics, towing services, mechanics, airline companies, etc.).

Their mobile application, Saham Mobile, offers a space where clients can access all the details of car, home and health insurance policies, follow health settlements, have access to the Mazaya loyalty programme and get personalised rates in a few minutes. Clients can claim via the mobile application for prompt support and follow the processing status of claims step by step.

Saham Finance also offers geolocated assistance through the app. This traces clients in the event of accidents or breakdowns and is able to send emergency or repair services immediately. Clients are able to track the position and progress of assistance services on the app, and locate the nearest authorised repair centres.

05 REAL-LIFE STORY

SECURITY GUARDS RECEIVE THEIR SALARIES THANKS TO THE SANTAM RESILIENT INVESTMENT (SRI) FUND

Sinqobile, which means "we have conquered" in isiZulu, is a fast-growing black owner-managed business with a national footprint and approximately 1 300 security guards on its payroll. They provide equestrian and canine security services and comprehensive security training.

Sinqobile's strong growth in the past year has seen it exceed the revenue thresholds set in the BBBEE Codes of Good Practice for a Qualifying Small Enterprise (QSE). As a result, certain clients extended their payment terms to Sinqobile, which created cash flow pressure. The company was suddenly in a position where it was not able to pay its employees at the end of the month.

Spartan SME Finance (Pty) Ltd provides financing for SMEs. They were able to implement a bridging finance facility for Sinqobile within two days, enabling it to meet all payroll commitments timeously and to consider new areas of growth.

"We look to create an ongoing relationship with clients and to become partners in their growth," says Kumaran Padayachee, Spartan's CEO. To date, Spartan has managed to assist 81 SMEs utilising funding from Santam's Resilience Investment (SRI) fund.

The SRI Fund targets investments based on Santam's ESG needs or focus, which includes investments in companies or organisations with the intention to generate social and environmental impact, while at the same time generating a sustainable financial return.

06 REAL-LIFE STORY

MIWAY AND THE FAKE EMAIL – COMING OUT STRONGER

On 20 July 2017, MiWay trended at number one in South Africa on Twitter after someone tweeted a supposed internal MiWay email that contained racist content. This post sparked widespread outrage.

Certain that the email was fake, MiWay launched an independent forensic investigation into the incident and a client was identified as the author of the email in question.

After his claim was legitimately rejected by MiWay – a decision that was subsequently upheld by the Ombudsman for Short-term Insurance – the client fabricated a defamatory mail that contained racist remarks and made false allegations about MiWay's claims-handling policies. In what seemed to be an internal mail between colleagues, a MiWay claims assessor was falsely portrayed as making racist statements and stating that MiWay had decided to reject 90% of claims from black people. The disgruntled client posted a picture of the fabricated email on his Facebook, whereafter someone else posted the picture on Twitter.

This fake racist email caused hurt and anger, but eventually developed into a story of forgiveness, hope and reconciliation.

MiWay decided against taking legal action. Instead, the insurer sought an alternative approach that took into account the client's circumstances.

Commenting on this decision, MiWay CEO Rene Otto said, "MiWay's objectives in investigating and pursuing the matter were to prove our innocence, protect the employees who were falsely implicated, and not act in way that would further fuel the racial divide in South Africa."

The client subsequently apologised to MiWay employees for bringing the company into disrepute – especially the two employees who were threatened as a result of his actions. He also apologised to the people of South Africa for stoking racial tensions and stated that he had experienced no racism in his interactions with MiWay or its employees. To further atone for his actions, he agreed to give talks at six schools as part of MiWay's CSI initiative, the MiHeart Project, which is about the dangers of social media.

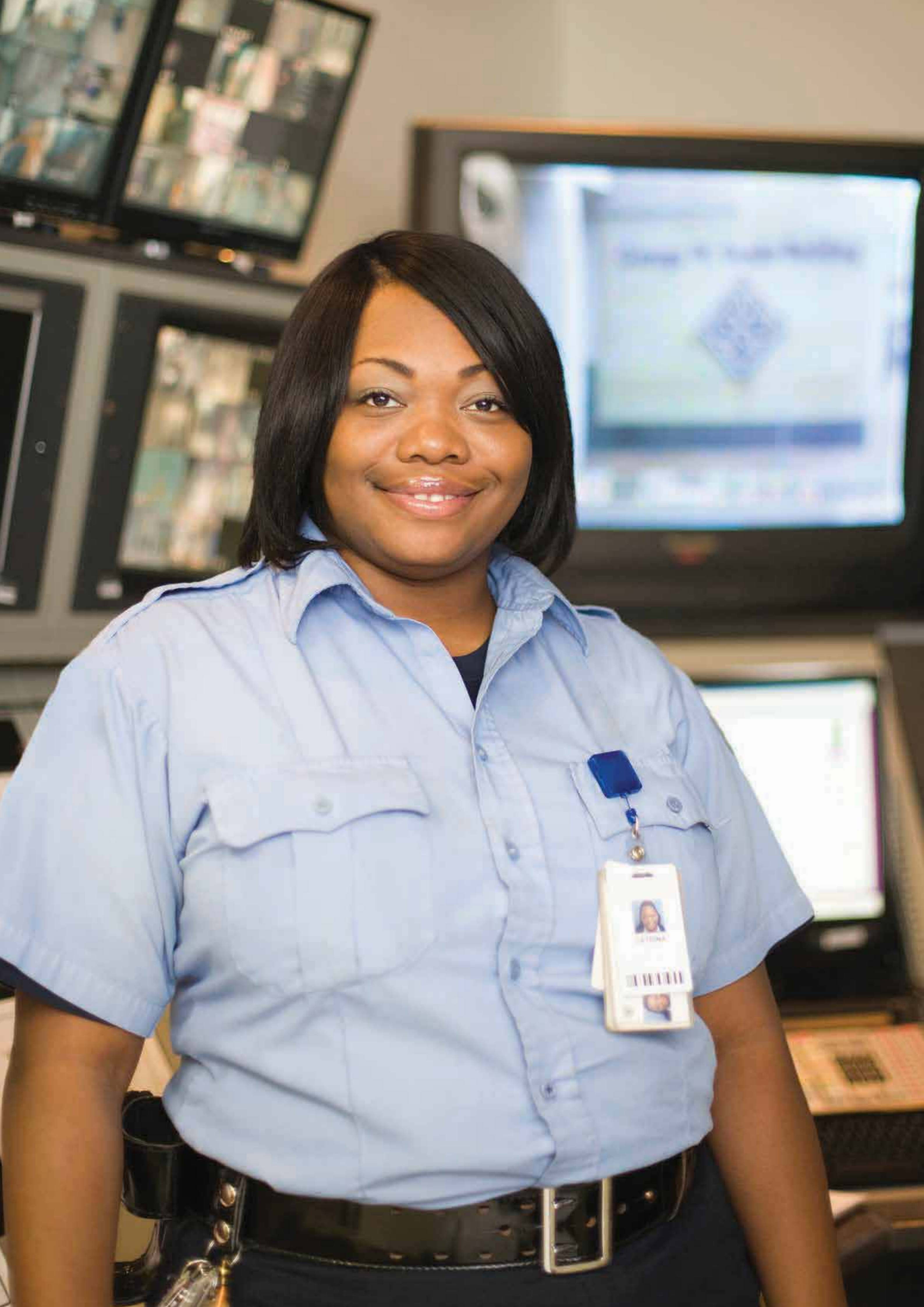
Says Otto: "I came to the conclusion that he was not a social media terrorist, but rather an impulsive young man who made a terrible error in judgement that will haunt him for a long time to come. I experienced his apology as sincere and immediately accepted it.

"The client is a 32-year old entrepreneur who holds down three jobs simultaneously. The repudiation of his claim was a terrible financial knock for him. His unhappiness was aggravated by the fact that we failed to send him recordings of his conversations with MiWay that he requested. This was a mistake on MiWay's part – we sent them to the Ombudsman, but neglected to send them to him.

"MiWay contributed to his anger by not sending the recordings to him as per his request. I detest it when big corporates shy away from taking accountability for their mistakes. We work with people and people make mistakes. If you mess up, admit it, take corrective action, and move on."

This attitude is testimony to MiWay's strong brand and corporate culture, which is built around excellent service and fair and ethical claims decisions.

"In the final analysis, this saga has challenged all of us to reflect on the kind of world we want to live in and leave behind for our children and grandchildren", says Otto.



05

We safeguard that which matters most to our partners.

A century of experience has taught us that a business is only as strong as its partnerships. That is why we stand by the businesses we insure. It is short-term insurance that offers certainty well into the future.

In the uncertain world of business, we are proud to keep this promise of surety, such as when the security company Sinqobile faced cash flow problems (ironically, due to their strong growth). Together with Spartan SME Finance, Santam stepped in to implement a bridging finance facility through our SRI fund so that Sinqobile could pay their employees' salaries. This is just one of the ways in which ***Insurance good and proper*** safeguards that which is most important to our partners and clients.

Read the full story on page 36.

MESSAGE FROM THE CHAIRMAN

For the past 100 years, Santam has kept pace with how South African businesses, individuals and their assets have developed. We have remained at the cutting edge of general insurance locally and, more recently, in emerging markets worldwide. In all this time, there has never been a year in which Santam did not make a profit.

To achieve this, we have continually evolved our business to keep up with shifting macroeconomic conditions and changing client needs.

The group remains cash generative and financially strong, and continues to deliver competitive returns for shareholders. Our net asset value per share increased by 8% to 6 722 cents, which underlined the strength of the balance sheet.

Despite the challenges posed by the political and economic turmoil witnessed in South Africa in the past year, Santam managed to achieve strong gross written premium growth. Fortunately, the resilience of Santam ensures the business can hold its own in trying conditions. General insurance props up capital markets – without insurance many transactions become too risky. Therefore, regardless of what happens in the political arena, large insurers like Santam remain an integral part of the economy.

Although Santam's growing international footprint and the significant investments made in diversification will only yield returns in the medium to long term, there is a sense of urgency around further improving our relationship with SEM and the SEM general insurance businesses. The SEM partnership model has strengthened the group's investment case by diversifying our client base and risk exposure, as well as by providing a platform for organic and acquisitive international growth.

At board level, we focus on how Santam applies itself to new markets: we need to drive reinsurance into Santam and actively help our SEM general insurance partner businesses improve. Santam's wealth of general insurance knowledge will be beneficial as we grow the business – appointing the right people to lead the skills transfer into the SEM general insurance businesses is a huge step forward.

Various regulatory changes over the past year affected Santam and will continue to impact the business. These changes include developments in the Retail Distribution Review (RDR) in South Africa. One such example is the amendment to the binder regulations that introduces the capping of binder fees and allows commercial binders under certain circumstances.

Santam continues to drive the South African transformation agenda across its value chain. There are improvements year on year that strengthen the transformation of our business and our society in 2018 and beyond. We acknowledge that gender and race diversity at board level and throughout the business must be a priority. It is imperative that we drive initiatives like our mentor programme to increase diversity. Supplier and enterprise development remains crucial to speed up the transformation of the financial services industry.

At Santam we need to ensure we are not only the largest general insurer in South Africa, but we also develop skills, products and systems that keep us at the top of our game as we move into new and emerging markets. To remain relevant amid rapidly shifting technologies and changing client expectations, Santam will need to apply fintech to relevant areas of the business. We have a rich store of data which, if mined properly, will give us a strong competitive advantage. We are already positioning ourselves with the new policy administration system, which we are bedding down in the commercial lines.

CLIMATE CHANGE AND COMMUNITY RESILIENCE

South Africa's climate is changing and with that comes extreme weather events. The crippling storms and droughts, which used to happen once a century, may now happen every decade or more frequently. Our role as a general insurer is to mitigate risk and build communities that are resilient in the face of unexpected catastrophes. Through strategic partnerships and improved products, we can help our clients and communities mitigate risks in small as well as large ways every day, while at the same time strengthening our business. Santam's partnerships with local municipalities through P4RR are ground-breaking examples of how to achieve this.

GOVERNANCE

As the market leader in South Africa, Santam has a responsibility to our stakeholders and the broader industry to uphold the brand promise of ***Insurance good and proper***. While we cannot predict what will happen in the South African political arena, or in any of the emerging markets where we operate, we can maintain the strong ethical culture that has always been part of Santam. The way Santam reacted to the Knysna fires proves that we are not an insurer that sits back to wait for claims. We actively went looking for claims. This philosophy is part of the group's DNA: when people are in trouble, we help.

Governance at Santam extends beyond compliance to improve strategic performance and ultimately enhance value for our stakeholders. Each board meeting, for example, includes a training initiative for our directors. In 2017, these included King IV™, own risk and solvency assessment (ORSA) and the operating model of the structured insurance business.

Governance focus areas for the year included:

- Implementing the board-approved strategy formulated by management.
- Refining Santam's remuneration report to shareholders in order for them to cast a non-binding advisory vote on the company's remuneration policy and implementation report.
- Regularly reviewing and approving the company's risk appetite.
- Prioritising IT governance and security.
- Optimising combined assurance to enable an effective control environment, supporting the integrity of information used for internal decision-making and of the company's reports.
- Conducting an ethics culture survey, with outcomes to be addressed during 2018.
- Conducting a King IV™ maturity assessment and addressing its outcomes.

CHANGES TO THE BOARD

- 8 February 2017 – Nomagugu Mtetwa and Preston Speckmann were appointed to the board as independent non-executive directors. They serve on the company's audit and risk committees.
- 2 March 2017 – Tantaswa Nyoka and Monwabisi Fandeso resigned from the board. Tantaswa joined the Santam board in January 2015. Monwabisi served on the board from October 2011. The board wishes to thank both directors for their dedicated contribution to the group and wishes them well in their future undertakings.
- 5 January 2018 – Yegs Ramiah resigned from the board. Yegs served on the board since December 2011. We thank her for her valuable contribution over the period of her tenure.

As we embark on the next 100 years, the board's focus will be on the next 10 years. We will closely monitor new areas within the group such as Saham Finance, SSI, the Santam Direct business and MiWay business insurance, while monitoring the risk that catastrophe events pose to our business.

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

Grant Gelink
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

As we celebrate 100 years – and look forward to the next 100 – the core of our business remains unchanged. How we deliver our service, how we assess risks and the scope of disasters will change, but the core function of pooling risks will remain the same. The past year is proof of the positive impact that Santam can have when unexpected and sometimes devastating events affect communities and individuals. I am proud to say that Santam employees went the extra mile to assist clients in challenging conditions.

In a period of high-intensity events, we have found that insurance becomes more top of mind for ordinary people. This provides us with an opportunity to position our solutions more effectively. It also contributes to higher and more effective insurance penetration, thereby enabling more people to cope better over the long term.

Santam's 100 years' experience, through cycles and catastrophe events, has equipped us to manage and mitigate challenges. We reduced the claims' impact through reinsurance and continued to manage costs downward through efficiency initiatives. The group remains strong, but shares the collective concern about the global and South African economy, and the challenging socio-economic conditions under which our current and potential clients need to safeguard their assets and businesses.

OUR OPERATING ENVIRONMENT

While growth in the global general insurance industry remains muted, there are signs of recovery and pockets of rising confidence:– a welcome end to a year that was dominated by political uncertainty and unusual climatic events. The latter included the Western Cape storms, the devastating Garden Route fires, further large commercial and corporate fire claims, and flash flooding and hail events in Gauteng and KwaZulu-Natal.

These factors, combined with macroeconomic challenges, emphasise the need for insurers to manage society's risks effectively in a rapidly evolving and interdependent environment. Insurers have to anticipate and exploit emerging trends related to climate change, urbanisation, new technology and changing client behaviour. More frequent extreme weather events are driving up uninsured losses, are making some assets uninsurable and are adding to reinsurance strain. Furthermore, client expectations are causing a shift away from traditional means of insurance towards the newer, more evolved methods necessary for keeping pace in a fast-changing, always-on and connected world.

However, challenging environments and lower growth scenarios are strong drivers for innovation and efficiency. These demand a clear strategy, consistent implementation and strong leadership – all qualities evident in Santam's 2017 results and performance. Our strengths remain our diversified footprint, capital strength, recognised brand, technical expertise and our ability to grow business flows outside of South Africa. We are also increasingly committed to developing networks that are able to support our goal to be the first port of call for anyone wanting to do general insurance in Africa.

2017 PERFORMANCE

Santam pulled through well in a difficult claims year. All businesses, particularly Santam Commercial and Personal and Santam re, were impacted by the high number of catastrophe events. There was also an increased incidence of fire- and storm-related as well as liability claims in Santam Specialist.

Santam achieved gross premium growth of 15% (2016: 7%) on the back of a diversified geographic presence, product offering and the acquisition of Santam Structured Insurance. Growth in gross written premium was excellent given the impact of competitive market conditions and low economic growth.

The conventional insurance net underwriting margin of 6.0% (2016: 6.5%) was good in this tough economic climate and the deteriorating claims environment.

The SEM general insurance businesses delivered improved operating results, with good contributions from the Saham Finances Group and Shriram General Insurance in India.

Investment income, inclusive of fair value movements on financial assets and liabilities, increased by more than 80%. The increase was mainly due to positive fair value adjustments on the investment portfolios and the release of foreign currency gains on the winding up of Santam International.

SALIENT FEATURES OF 2017

Santam contributed to the resilience of clients by settling claims worth R19 billion

- The impact of two large catastrophe events in June and October on the net underwriting result amounted to R360 million
- We made the following acquisitions:
  - 100% of the issued share capital of RMB-SI, a specialised insurance business, now SSI
  - a further 16.6% interest in Saham Finances via SAN JV by SEM and Santam resulting in Santam's effective shareholding of 7%

- Santam disposed of its interest in Enterprise Insurance Company Ltd (EIC) in Ghana in June 2017 when the Sanlam Group entered into an agreement to dispose of its various interests in EIC. In terms of the co-investment arrangement with SEM, Santam had an economic interest of 14% in EIC
- The group entered into a new reinsurance arrangement, effective May 2017, to provide sideways cover against multiple catastrophe events
- Santam successfully issued R1 billion of subordinated debt
- The Santam Resilient Investment Fund continues to focus on investments in small and medium businesses that generate positive social and environmental impact as well as a sustainable financial return
- More than five million people are targeted to benefit nationally through P4RR, which sees us working on disaster risks such as fire and flood exposures with 10 districts and 53 local municipalities from 2015 to 2020
- We are a proud member of ClimateWise, a founding signatory to the UNEP PSI and a signatory to the PSI "assisting ocean stewardship through marine insurance" statement
- We were certified as a Top Employer for 2018 by the Top Employers Institute
- 85 of the top 100 JSE-listed companies trust us to protect their businesses
- Santam won the FIA's top corporate and personal insurance awards
- Clients rate us as the best insurer when it comes to settling claims and handling complaints from clients (SAcsi 2017)

Read more in the Chief financial officer's report on page 62.

SANTAM COMMERCIAL AND PERSONAL

Santam Commercial and Personal's ability to understand and respond to clients' need was tested and validated in 2017.

Underwriting results for Santam Commercial and Personal were impacted by catastrophe events, which included wildfires in the Western and Eastern Cape, hailstorms in Gauteng and severe storms in the Western Cape and KwaZulu-Natal, resulting in extensive flood and fire damage. These events made 2017 the costliest 12 months for natural catastrophe losses in Santam's history. The underwriting performance of the commercial and corporate property class also came under pressure after an increase in large property fire claims. Santam Namibia was negatively impacted by new market entrants and the suspension of government infrastructure spending.

The combined effects of climate change and poor maintenance of infrastructure mean that our exposure to risk has increased. During tough economic times, claims often arise as maintenance and safety standards are compromised, public service delivery falters, and fraud and arson increase.

Cost containment efforts were challenged by more catastrophe claims and capacity constraints due to higher levels of claims incidents. This led to underwriting margins being lower than expected.

Santam Commercial and Personal's year-on-year premium growth showed an increase due to book acquisitions, organic growth in the intermediated business and also a dedicated focus on the Sanlam tied agents and Santam Direct channels.

There was a sustained focus on improving the profitability of the business, with specific emphasis on the commercial property business. The integration of the Absa Insurance Company (AIC) commercial business has been finalised with many ex-AIC employees placed in existing vacancies.

Santam Commercial and Personal's optimisation initiative progressed well. Although an attention to management expenses will be maintained, a bigger focus will be placed on reducing claims costs, for example, increased salvage and third-party recoveries.

2017 also saw a strategic focus on technical skills development, which impacted employee retention and the quality of decision-making positively.

Santam Commercial and Personal continues to rely on strong relationships with intermediaries. This is aided by the launch of Santam's risk assessment app, which allows them to survey risks that surveyors cannot physically get to.

Our commitment to developing digital channels, and moving from a multichannel to an omnichannel approach, is responding to the needs of the modern connected society.

The project to replace our legacy administration, underwriting, pricing and product management systems for the Commercial and Personal business started during 2013. The project is progressing according to plan, with most personal lines policies, as well as majority of new business quotes for commercial business products, now being managed on the new platform. The migration process for commercial business products is also well underway. Santam will maintain its focus on cost-efficiencies to improve the management expense ratio over the medium term.

SANTAM SPECIALIST

Santam Specialist has a leadership position across most segments in which it does business and leverages this position across distribution channels and specialist intermediaries. The Santam Specialist business experienced competitive trading conditions and underwriting results were negatively impacted by a number of large corporate property claims, storm-related claims impacting the marine business and an increased incidence of liability-related claims. The business achieved solid growth with significant contributions across most of the business units.

The business unit continues to diversify and grow its footprint outside of South Africa.

Despite challenging business conditions, we still delivered acceptable underwriting profits and benefitted from the agreement with Munich Re of Africa for certain Santam Specialist underwriting managers to use its A- S&P credit rating from 1 January 2017 for business outside of South Africa.

Gross claims were impacted by a number of large fire losses impacting the property portfolio. A sizeable number of these claims were reinsured, which reduced our exposure. However, the sustainability and cost of reinsurance will have an impact going forward. Rate increases were implemented for clients who had high claims ratios or where the risk was classified as significantly below technical requirements. The complexity of some of these claims tested the robustness of the business unit's relationships with intermediaries, although positive outcomes and recognition of the quality of service was achieved on both sides.

Centriq delivered a strong financial performance and continues to hold a material share of the cell captive market with a business model that is difficult to replicate. Centriq's positioning is strategically important to the group.

Santam Agriculture produced a strong underwriting profit due to the lower incidence of hail-related and drought claims. Santam Specialist continues to explore opportunities to expand its crop insurance footprint and product offering, especially in central and eastern Africa.

Santam announced, in August 2016, that it had acquired 100% of RMB-SI Investments from Rand Merchant Investment Holdings. Renamed SSI, the business is an industry innovator in specialist insurance structuring, chiefly offering partners and clients individually designed insurance solutions. The deal received regulatory approval and became unconditional in March 2017. This provides Santam with access to new clients and markets including credit insurance, and enhances the group's innovation and solutions mindset.

MIWAY

MiWay reported excellent results following an improvement in the claims ratio to 56.9% (2016: 62.7%) as it was positively impacted by disciplined underwriting. The business contributed an underwriting profit of R317 million (2016: R178 million), mainly driven by the personal lines book. Their direct client relationships, enabled by an effective digital platform and strong brand, continue to drive sustained growth. The business unit reported a gross written premium of R2.3 billion (2016: R2.1 billion), which is 10% higher than 2016.

In the second half of the year, MiWay reported lower growth following corrective steps taken to improve the overall loss ratio of the business during 2017. Management is confident that these corrective measures have improved the overall quality of the book, thereby enabling a renewed focus on growth in 2018.

2017 saw the launch of MiChatBot, the addition of a "bot" to the call-back process on MiXpress to gather quote information for sales agents. MiWheels also introduced a step-up product option, a speed-dependent excess option based on telematics speed data and a crash detection emergency alert option on. MiWay Life enhanced its underwriting to include people who are HIV positive for comprehensive life cover, fiduciary services to clients and employees, including wills and trusts, and MiFitLife and MiLittleLife.

MiWay ended 2017 with 290 000 clients (2016: 278 000) and 1 705 employees (2016: 1 551).

Read more about MiWay's reputational risk mitigation strategy in the real-life story about social media risk on page 37.

SANTAM RE

Although the unprecedented catastrophe loss activity in South Africa during 2017 impacted Santam re, the international portfolio fared very well and resulted in a solid overall underwriting result for the non-group portfolio for the year. This outcome again demonstrates the value of diversity within the Santam re business, and between Santam re and the group as a whole.

The number of treaties and better quality of business offered to Santam re in 2017 has been very encouraging. The A-rated credit rating solution developed in partnership with Munich Re of Africa at the end of 2016 produced good opportunities to the portfolio, and this is expected to be enhanced in 2018. Santam re also continued 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 that cover the developed world geographies. This has provided further balance and diversity to the international portfolio.

The Santam re group portfolio, excluding MiWay, reported a net underwriting loss, driven by large claims and catastrophes in the South African business units of the group.

Santam re continues to contribute to the group's diversification strategy and its ability to create long-term value, and remains an important vehicle for group reinsurance optimisation and services. Combined initiatives to enhance business retention were implemented for the Saham Finances Group, which resulted in significant additional reinsurance business flows in Saham. In addition, technical support and shared training resources have been provided in various territories.

SANTAM EMERGING MARKETS INVESTMENTS

Santam continues to provide comprehensive technical support to SEM business partnerships. This includes product, pricing, underwriting, claims and reinsurance input.

During the second half of 2017, the first cooperation agreement between SEM, Saham Finances and Santam was entered into with a new partner in Africa – Sompo International Holdings, which owns Sompo Japan Nipponkoa Insurance Inc, the second largest insurer in Japan. This allows us to offer insurance to Sompo clients across 34 countries on the African continent. It supports our strategic positioning as the preferred service provider for multinationals on the continent.

The group takes a long-term view of the SEM General Insurance businesses and will continue to invest in technical support capacity. The focus is on organic growth and in-country bolt-on acquisitions rather than structural growth initiatives, as was the case in the past few years.

MULTIPLE WAYS OF MANAGING RISKS

Santam's risk approach takes many forms. The group and business units each have a detailed risk appetite policy with criteria that consider financial and non-financial risk categories. This indicates how much risk Santam is willing to take on in the pursuit of its strategic and operational objectives. It also quantifies the amount of capital we are willing to put at risk in the quest for value creation.

When a risk event occurs – despite mitigating and preventative measures – constructive action is taken.

Read more about MiWay's approach to social media risk mitigation in the real-life story on page 37.

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:

RISK MOVEMENT INDICATORS: RISK HAS INCREASED ↑
RISK HAS REMAINED THE SAME →

INHERENT STRATEGIC RISKS AND OPPORTUNITIES	DESCRIPTION AND SANTAM RESPONSE	TREND
OUTSIDE-IN FACTORS: POLITICAL, ECONOMIC, SOCIAL AND COUNTRY RISK	In 2017, Santam's biggest risk was the subdued outlook for economic growth in South Africa. Economic conditions have a direct impact on clients' ability or appetite to spend money on risk mitigation. South Africa's low growth rate is exacerbating already high unemployment, inequality, and macro vulnerabilities. Inflation has an effect on consumer spending, which may result in an increase in cancellations and returned debit orders. Investment in other regions allows the group to better manage its South African exposure. The agreement with Munich Re of Africa to use its A- international credit rating supports growth strategies for the 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 exposes the group to currency volatility while also providing a hedge against the devaluation of the rand. There is a possibility of not understanding the risks written in these territories. Santam mitigates the risk by measured growth that takes these risks into account, by conservative reinsurance and by the formation of local partnerships. 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 markets. The group actively manages its investment portfolio to optimise the return within the agreed risk appetite. Appropriate rebalancing of assets is managed with the payment of ordinary and special dividends.	→
CATASTROPHE EVENTS AND EXTREME WEATHER IMPACTS, INCLUDING UNDERWRITING OF PROPERTY CLASS OF BUSINESS	Profitability suffered significant losses – with appropriate reinsurance cover – due to wildfire and storm catastrophe losses. Santam is also concerned about the increasing incidence of large commercial fire losses and is driving various actions to reduce our risk in this regard. These include robust underwriting processes, specialist skills recruitment and additional reinsurance protection. Read more about Santam's partnerships with local municipalities to enhance community resilience in the face of catastrophe events on page 55.	↑

INHERENT STRATEGIC RISKS AND OPPORTUNITIES	DESCRIPTION AND SANTAM RESPONSE	TREND
HUMAN RESOURCE SCARCITY	There is relative instability with regard to human resources and skills sourcing. The pool of talent is limited, and the insurance industry must compete with other sectors for suitably qualified candidates. This lack of suitable candidates also delays the process of transformation. To obtain long-term commercial benefit from having skilled employees, Santam invests in training, employee benefits and incentives and succession planning, and supports wider industry initiatives to increase the take-up of professional learning and qualifications. Read more about Santam's employees in "The right people" on page 59.	↑
TRANSFORMATION	The increased focus on inclusive economic transformation in South Africa will require the industry (and Santam as a leader in the industry) to come up with considered actions to play its part. The aim is to create win-win solutions for the country and the industry. Santam is proactively engaging with stakeholders to develop sustainable targets for the benefit of vulnerable communities in society.	↑
DELIVERY ON PROFITABLE GROWTH TARGETS THROUGH MULTIPLE DISTRIBUTION CHANNELS	Growth outside South Africa, while maintaining a local leadership position, remains a strategic focus. Country-specific initiatives between SEM, Santam Specialist and Santam re include increasing business visibility, quote volumes and sales capability, while managing acquisition costs. Santam continues to explore acquisition opportunities that can add to the product offering and generate profitable premiums.	→
INNOVATION TO INCREASE EFFICIENCY, INCLUDING THE IMPACT OF VARIOUS DISRUPTORS ON THE BUSINESS	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 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 Santam can apply when developing more effective pricing and risk underwriting, given access to the appropriate skills and analytical capability. Read more about technological innovations in "Technology and the rise of fintech" on page 16 and "Growth through innovation and diversification" on page 52.	→
CYBER SECURITY AND FRAUD	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, Santam maintains a cyber-resilience framework and crisis management guide to cater for cyber-risk scenarios and safeguard the group. Read more about the Santam hackathon on page 34. Difficult economic conditions and the resultant decline in disposable income increases the risk of internal and external fraud. Santam is vigilant about fraud detection: robust processes provide updated trends so that management is kept abreast of where to expect potential fraud and be proactive.	↑

INHERENT STRATEGIC RISKS AND OPPORTUNITIES	DESCRIPTION AND SANTAM RESPONSE	TREND
DAMAGE TO BRAND AND REPUTATION (INCLUDING SOCIAL MEDIA RISK)	The damage to a brand's public standing as a result of a scandal, disaster or accident can be devastating and long lasting. In today's environment, with the explosion of social media platforms and online review sites, reputation has become fragile. Following the MiWay social media incident in July 2017, this additional risk has been added to the Santam group top risks. MiWay applied clear principles in dealing with the crisis, and went a long way towards mitigating this risk and providing an example for handling such incidents in future. Read more about MiWay's mitigating actions in the real-life story on page 37.	↑
FAILING INFRASTRUCTURE	Failure to adequately invest in, upgrade or secure infrastructure networks has led to pressures or breakdowns with system-wide implications – specifically from an insurance perspective. Santam partners with local municipalities to mitigate a wide range of infrastructure-related risks. Read more about P4RR on page 55.	↑
WESTERN CAPE WATER CRISIS	The impact of the drought in the Western Cape, from an underwriting perspective, is, from a secondary standpoint, around the firefighting impacts due to water shortages, specifically during peak times, as a result of pressure management. Santam's ERM team engages widely with authorities at the City of Cape Town's water, fire and resilience departments to develop risk mitigation action plans.	↑

REGULATORY SHIFTS

Santam has a dedicated group compliance function that is responsible for monitoring the level of compliance as well as to advise management on the various compliance risks facing the group. During 2017, there were a number of regulatory developments which impact the Santam group. These include the enactment of the Financial Sector Regulation Act and the recently accepted Insurance Bill of 2017, which is expected to take effect in July 2018.

The Financial Sector Regulation Act was signed into law in August 2017. This made provision for the Twin Peaks model of financial regulation. On the one hand, the South African Reserve Bank (SARB) will be responsible for the prudential regulation of all financial institutions: banks, insurance houses as well as the asset management sector. On the other hand, financial conduct will be governed by a new entity called the Financial Sector Conduct Authority. This will replace the current Financial Services Board (FSB). The Financial Sector Regulation Act aims to achieve a financial system that works in the interests of financial clients, and supports balanced and sustainable economic growth in South Africa.

Against the background of the TCF approach to regulating market conduct, the Retail Distribution Review (RDR) proposes a series of regulatory reforms. A draft proposal on binder regulations was issued by the FSB in December 2017. Key changes introduced by the new binder regulations include capping all binder function fees to 9% for personal and commercial lines; stronger governance and reporting requirements for binder holders; the requirement of real-time data integration (not just real-time data sharing); and extended transitional arrangements to 24 months for operational (data) compliance.

The proposed effective date of the revised binder regulations is 1 January 2018. In addition, the new Policyholder Protection Rules of 2017 were also released on 15 December 2017, effective 1 January 2018, with transitional provisions ranging from six months to 24 months. These rules are aimed at providing greater protection to policyholders and introduce a number of processes relating to product governance, claims management and complaints management.

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 driving superior and sustainable business results. Santam's progress in transforming the business – and contributing to transformation in the industry and the economy – has created value for our stakeholders.

Our commitment to transformation and BBBEE for the South African businesses remains a priority and we use the Department of Trade and Industry (dti) codes and the Financial Sector Code to measure performance. Our focused transformation strategy ensures delivery on the following objectives:

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

As the leading general insurer in South Africa, Santam plays a key role in SAIA, facilitating transformation discussions with parliament and regulators and industry cooperation on wider economic transformation. We have developed specific initiatives and actions for each objective. The executive team has taken responsibility for the implementation, monitoring and evaluation of the transformation agenda across the group.

Read more about our progress with transformation in the report on page 95.

Salient transformation features for 2017 include:

- We continued our commitment to the diversification of our supplier network, by granting access to loan funding for new and small BBBEE suppliers in the sector with the ASISA Edge Growth fund. The programme is in its fourth year and has, to date, developed 27 suppliers in the Sanlam Group, of which at least 80% is from the Santam claims procurement supplier environment.
- The developmental needs of black intermediaries are addressed through a holistic plan to diversify the intermediary network, developed by the Santam Commercial and Personal distribution team.
- 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.
- The CSI focus has been on SMMEs, and during 2017, we reached 4 170 SMMEs of which 3 000 relate to Grain SA emerging farmers the balance relate to the general SMME environment.
- Finding and developing a viable and affordable offering for underinsured market segments in South Africa remains challenging. R10 million was invested in consumer financial education across business channels and more than 172 795 policies were sold as access products in South Africa through 15 FSC-approved products.

Read more about Santam's CSI initiatives involving SMMEs in Growth through new market segments on page 53 and in the Transformation report on page 95.

RESPONSIBLE COLLABORATION

We continue to expand our collaboration with Sanlam where it makes sense for us to do so. Transactions entered into with Sanlam through SEM Investments are governed and at arm's length, with the specific involvement of Santam's independent directors. Networks are becoming important and our collaboration with the SEM general insurance businesses uses the extensive emerging markets footprint to source new business opportunities. Our presence in 32 African countries means that we can offer seamless insurance across the continent.

Collaboration with Sanlam further entails participation in the governance roll-out through SEM, thereby 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.

Santam now offers clients membership of the Sanlam Reality lifestyle and rewards programme as part and parcel of our value proposition, and to reward Santam clients for managing their risk.

Collaboration between Santam, CoGTA and the Emthunzini Broad-based Black Economic Empowerment Community Trust has resulted in an acceleration of the P4RR programme, which will be extended to 53 local municipalities over the next five years.

In October 2017, SASRIA – a state-owned entity that provides unique insurance cover against risks such as civil commotion, public disorder, strikes, riots and terrorism – signed an agreement with Santam to join the P4RR programme. This partnership will facilitate increased collaboration between provincial and district disaster management centres, to further enhance the capacity of local government to manage fire and flood risk.

Read more about the impacts of this partnership on page 55.

OUTLOOK

In South Africa, 2017 ended on a positive note with the successful conclusion of the ANC leadership conference.

However, trading conditions remain very competitive in a low-growth economic environment, which translates into the limited growth of insurable assets for the insurance industry. Despite this, we are hopeful that new political leadership in South Africa will create an environment in which economic stagnation is arrested and, in time, turned around. An economic rebound will not only enhance growth prospects, but also potentially reduce levels of crime, arson, and fraud – all of which have put pressure on claims costs in recent years.

The local general insurance industry is likely to remain resilient in the face of increased socio-economic challenges and political upheaval. The industry's major players are better positioned to withstand a prolonged downturn in the domestic economy, but some small intermediaries and smaller insurance firms could be forced to close or merge.

The group's focus remains on growing profitably in South Africa and to increase its international diversification through the Santam Specialist Business and Santam re. International diversification is supported by close collaboration with the SEM general insurance businesses, which utilises the extensive emerging markets footprint to source new business opportunities. Santam continues to focus strategically on supporting the development of the SEM general insurance businesses by allocating appropriate technical resources. In South Africa, continued focus is placed on the development of Santam's full multichannel capability.

Following the significant catastrophe events experienced during 2017, reinsurance rates have increased in 2018. Underwriting actions will continue to focus on the commercial and corporate property class of business, taking the increased reinsurance rates into account. We will continue to work with local municipalities to reduce risk and improve resilience.

For general insurance players, it is becoming clear that, for growth to occur, it is necessary to target new client segments in new ways and to find growth opportunities in niche sectors. Future investments will need to facilitate innovations that add value to clients as well as reduce costs to ensure a sustainable competitive advantage in the current contextual climate.

The group continues to strive to balance profitable growth with efficiency to improve the management expense ratio over the medium term and to optimise the claims and procurement value chains.

The calls for transformation and economic inclusion demand a deeper and fresher way of thinking to build an inclusive and cohesive society. This will require more organisations to play a meaningful role as corporate citizens. The group's transformation priorities are focused on creating a diverse workforce, intermediary and supplier base; granting access to insurance products by non-traditional markets; and further impacting communities through investment.

We are looking ahead to ensure 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.

APPRECIATION

I thank the board and management for their contribution to the stability at Santam in the face of heightened political and economic uncertainty and increased catastrophe events. We recognise the efforts of our intermediaries, business partners and suppliers, and especially our employees who delivered sterling efforts in a challenging claims year. We are confident in the ability of our people to create opportunities in the face of a challenging 2018.

Lizé Lambrechts
Chief executive officer

STRATEGY REVIEW

Santam conducted a competitive landscape mapping exercise in 2017. The insights produced were checked against the Vision 2020 strategic focus areas and no material gaps were found. The five focus areas of the Santam strategy remain relevant to all group entities and territories.

Deliver on the promise to clients in a way that creates value for all stakeholders

Achieve responsible, profitable and sustainable growth in South Africa and internationally

Influence and enable successful execution of the Santam strategy through engaged and competent people and partners

Ensure proactive sustainable risk management while promoting dialogue and collaboration on risk and resilience

Maintain high standards of operational efficiency, ultimately creating more robust and sustainable stakeholder outcomes

INSURANCE GOOD AND PROPER

Santam's intent is to design, market and deliver products and services in a way that is fair, respects others and adds to the well-being of clients and 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, India, Asia and other emerging markets;
- 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 stakeholders and clients by reducing risk when it comes to insuring the needs of its clients.

A CLIENT-CENTRIC GROWTH CULTURE

The claims experience is a client'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.

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

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

According to the 2017 SAcsi results, Santam received 81.3 – the highest overall satisfaction index score in the industry and more than five points above the industry average.

Santam was the front runner in terms of the perceived quality of service levels and product delivery and the perceived value of our insurance, and we experienced the lowest number of complaints as a percentage of claims in the industry. Our clients also have the highest overall expectations – a measure of anticipation of the quality of a company's products or services – positioning Santam as a trendsetter in the South African short-term insurance industry. In addition, the group's net promoter score of 50% is the measure of a client's willingness to recommend a company's products or services. This is 25.7% higher than the industry average of 24.3%.

Our strength in the general insurance industry extends across personal and commercial lines. Santam was voted the top South African short-term insurer in the business category of the 2017 Sunday Times Top Brands Survey for the fourth year. The independent research survey findings are based on a poll of businesses from across the country.

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

Our ability to deliver on our brand promise to clients depends on whether our intermediaries are able to service their needs effectively. The FIA awards are one of the most comprehensive total industry intermediary satisfaction benchmarks produced in South Africa. They award insurers that provide the best support to the country's financial advisers and insurance intermediaries. Santam won the South African short-term insurer of the year: personal lines award for the seventh time since 2007 and the corporate category prize for the best all-round package of product, relationship and service to FIA member intermediaries.

SUPPORTING THE SANTAM BRAND PROMISE

Santam conducted research into consumer attitudes towards insurance and the findings informed our series of marketing campaigns in South Africa. Our television advertisement titled "What Could Go Wrong?" depicted scenarios from the surge of innovation currently underway alongside possible risks that need to be managed in advance. The ad highlighted our responsibility to anticipate what's ahead and ask the right questions.

The ad was preceded by national radio advertisements and a series of digital elements called "What I'd Rather Do", depicting the lengths people are prepared to go to avoid claims from their insurer. The idea was to interrogate the level of dread many clients have about claiming. After expressing what people would rather go through than claim, we asked the question: "Why not speak to the insurer that looks for reasons to pay, rather than not?"

Santam also ran the second "season" of our safety ideas initiative to help ordinary South Africans turn their safety ideas into a reality, to the benefit of the greater community. The campaign invited public submissions of one-of-a-kind safety ideas for a chance to see them become a reality. We received an overwhelming response of innovative solutions. The winning concepts will go through an incubation process for further development into prototypes to stand the chance of becoming 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 managing the risk pool and reducing systemic risk.

The risk of fraud and crime directly undermines the Santam brand. This is mitigated by collaborative internal efforts. An example of this is the 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.

Santam's internal Staff Reporting Initiative provides employees with a platform for the safe reporting of misconduct through a range of whistle-blowing channels, which include an internal fraud line, hotlines (in South Africa and Namibia) and SMS, WhatsApp and email facilities. Whistle-blowers are protected so that they can make disclosures in a safe and confidential environment. The initiative dealt with 4 096 reports, reported 1 280 criminal cases and secured 329 convictions over the 11-year period since inception. Leads originated from employees, suppliers, intermediaries and clients.

Santam is also a member of the Coalition for the Promotion of Ethical Operations, which supports ethical business and good governance in the sub-Saharan African region. Due to our presence in the region through SEM, Santam is in a position to share best practices to reduce corruption, to promote training for SMEs and to engage in collaborative action.

Read more about ethics risk management on page 89, and about Santam's initiatives to align ethical cultures and leadership in "the right people" on page 59.

TREATING CUSTOMERS FAIRLY

Santam has always believed that the principles of TCF are entrenched in our values and philosophy. These principles are now also embedded in our strategy and culture as the cornerstone of the brand promise, ***Insurance good and proper***.

We apply TCF in South Africa and where we have influence in other territories. A pragmatic approach is taken for TCF implementation. It balances outcomes and fairness with business sustainability and commercial imperatives. Quarterly TCF forum meetings are held to monitor implementation and progress, and a TCF dashboard is submitted to the board quarterly.

In 2017, SAcsi rated Santam's TCF performance as the best in the industry, especially in terms of offering customised solutions to clients and treating clients with respect. As an industry leader, Santam has played a role in improving the reputation of the industry and creating an equal playing field for all insurers.

GROWTH THROUGH INNOVATION AND DIVERSIFICATION

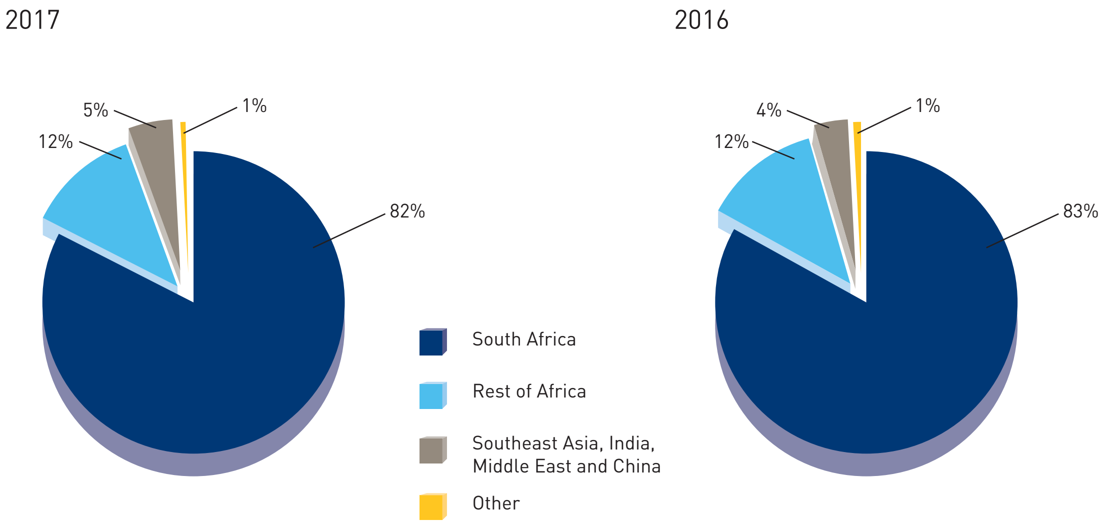
Santam is the largest South African general insurer and the most diversified among its peers. The group currently generates 17.4% of its premiums from outside South Africa and has a strategic goal to grow this contribution significantly through the Santam Emerging Markets Investments, Santam re and Santam Specialist business units.

GEOGRAPHIC DIVERSIFICATION

The group has a presence in 32 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 chief executive officer's report from page 42.

Geographic diversification (including SEM business partners) – based on gross written premiums



GROWTH THROUGH INNOVATION

Innovation in insurance can take different forms, such as new products, new channels or new risk assessment methodologies – always with the goal of creating products and services that suit the client's needs.

Technology and the availability of data create many novel insurance options, such as pay-as-you-go packages. Santam's new IT capabilities enable us to innovate, and we continually explore state-of-the-art solutions. However, the associated risks in terms of fraud and regulatory complexities can challenge the viability of these offerings.

Our acquisition of Santam Structured Insurance (SSI), previously RMB SI, has placed us in a strong position to capitalise growth by delivering bespoke insurance solutions to general insurance clients in the specialist space. The SSI team has unique skills, which will complement the existing capabilities within the Santam group.

The MiWay app and website play a key role in the MiWay client value proposition. The app offers emergency assistance with GPS location, an accident scene logger for on-the-scene information gathering, a self-inspection service, a chat feature that allows clients to instantly chat to an agent, claims submission and tracking, and policy information updating. The MiWay website offers email and text communication options, with a WhatsApp communication pilot currently underway.

Santam has conducted extensive research into international and local telematics trends and has constructed various positions to implement going forward. Some tactical elements have been introduced into various recent projects and business as usual activities.

The Sanlam Reality programme was successfully launched for Santam employees and intermediaries. It introduced significant discounts on shopping, health, wealth products, entertainment, personal services and travel benefits, depending on their status.

Santam Agriculture also launched a loyalty programme for crop insurance. Flexi-Pay offers loyal Santam Agriculture clients the benefit of scheduling the payment of premiums for summer crop insurance as it suits them, without incurring any additional costs. Depending on the number of years that clients have insured with Santam, they can qualify for one of two client loyalty levels.

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 to 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, Santam Specialist's partnership with The Box Shop, a retail learning hub providing specialist consumer financial education for entrepreneurs situated within the Vilakazi Street precinct of Soweto, has expanded to include a new outlet in the Jabulani precinct. The new outlet, Builder Box, attracts volumes of small businesses and individuals as a result of its location. The service offers interactive teaching, covering concepts such as the basics of financial planning, business budgeting, insurance DOs and DON'Ts and the risks faced by entrepreneurs.

A similar initiative helps SMMEs in the Alexandra Township, where Santam partnered with the service provider to drive consumer financial education through Alex Community Radio and the Greater Alex Chamber of Commerce (GALXCOC).

Santam continues to provide education on financial skills and risk management to emerging farmers. The main objective of the emerging farmers' support in KwaZulu-Natal is to encourage participation in the agricultural value chain and market linkages. We conducted similar consumer financial education programmes for taxi owners and employees in the Western Cape, as well as for targeted individuals and small businesses.

The development of a value proposition for the lower-income market remains challenging. We are currently assisting SASRIA with the establishment of a government-sponsored model in the agricultural sphere.

MANAGE THE RISK POOL

By 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. The risk landscape is constantly evolving as it spawns new and complex risks. Santam monitors these trends and changes that can materially impact risk profiles and claims patterns.

In the aftermath of the Knysna fire, Santam established the "Knysna fire learnings forum" so that the tragedy could be used to catalyse sensible and practical actions for better risk management in the future, starting with integrated fire management and catastrophe readiness and response.

Read more about the learnings forum on infrastructure at risk due to climate risk in the real-life story on page 33.

Claims often arise as maintenance and safety standards are compromised during tough economic times. This challenge is receiving strategic attention through expanded capacity in the areas of risk management and surveying, implementation of premium rate increases, reduced exposure to certain types of risks and increased levels of risk-sharing and risk management collaboration with our clients.

Santam's new risk assessment app enables Santam-registered intermediaries to better understand existing and prospective commercial clients' property risks. And, using the information collected, to be able to advise the client proactively on steps to take to minimise the risk of loss. The functionality enables intermediaries to easily download clients' policy information and documents while matching places and addresses with Google maps as well as a property's location risk data (e.g. proximity to police, hospital and fire services). Functionality further includes emailing client risk reports and uploading all data collected to the Santam broker portal.

Crop failures can also have a significant impact on claims patterns and impact. To manage the risk pool in agriculture, 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 plant 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 precisely. An example of responsive product development was the inclusion of extended cover for solar panel installations.

The Santam Agriculture National Silage Competition is hosted annually in cooperation with Veeplaas and Stockfarm. The purpose of the competition is to make a contribution towards the promotion of good silage practices. This is aimed at increasing agricultural efficiency, thus reducing the exposure of the sector to financial risk.

THE EVOLUTION OF P4RR

2011:
Eden Project launched – a co-financed, mutually beneficial research project with the CSIR, UCT Centre of Criminology and WWF to better understand the system dynamics between risk and resilience in a socio-economic landscape.

2011:
The Emthunzini Broad-based Black Economic Empowerment Community Trust makes funds available to support five municipalities.

2012:
Business-Adopt-A-Municipality (BAAM) established as a partnership between Santam and the Department of Cooperative Governance (CoGTA).

2013 – 2014:
First phase of BAAM rolled out, which involved the donation of firefighting equipment and training in fire assessments, fire prevention, firefighting and "train the trainer" education programmes to drive community awareness of fire risk.

2014:
Santam Risk Node Project established in the Ehlanzeni District, Mpumalanga, which focused on flood management in 10 key municipal districts.

2014 – 2015:
Second phase of BAAM rolled out, which focused on flood risk.

2015:
P4RR established to combine the efforts of BAAM and the Risk Node Project.

2016:
The Emthunzini Broad-based Black Economic Empowerment Community Trust increases funding over the next five years to expand the P4RR programme from five to 53 local municipalities.

BUILDING PARTNERSHIPS FOR RISK AND RESILIENCE

The activation of a smoke alarm in Wallacedene in the Western Cape on 12 July 2017 saved the life of a sleeping resident and limited the damage from a fire that broke out in the early hours of the morning. This is the most recent of a number of lifesaving activations of smoke alarms in the informal settlement community of Wallacedene since the installation of more than 1 400 alarms in April 2017. Every household in the community now has a smoke alarm installed.

It is frequently poorer communities that bear the brunt of fire damage and loss due to inadequate planning and training, and limited resources. Given the significant infrastructure investment needs across emerging economies, public infrastructure projects play a vital role in enhancing resilience and will have a long and lasting impact on vulnerable communities.

However, limited access to information and capacity issues at local or city level often result in unsustainable, unfinanceable and uninsurable public infrastructure projects. This inevitably impacts on service delivery for local communities. Investors and insurers are often only included in the development process once most of the major decisions have already been made, thereby limiting their potential contribution. The insurance industry is a largely underused risk management partner for city governments.

Harnessing the existing expertise of the insurance industry could help to promote improved delivery and support of public infrastructure projects. For insurers, more stable local communities would translate into potential growth in demand for insurance and other risk management products, and help to deliver better-quality, long-term investment opportunities.

Santam has heeded this approach and over the last few years has expanded its disaster risk management tactics to a more holistic shared risk management method. The P4RR initiative is one of four focus areas of Santam's ESG framework. P4RR helps municipalities develop disaster resilience through a range of pragmatic preventive measures. Done well, this can be a substantial win-win situation that reduces the likelihood of flood or fire reaching catastrophic proportions, thereby leading to fewer losses and, ultimately, fewer claims.

P4RR identifies and reduces systemic risk at municipal level through on-the-ground initiatives to protect the lives of vulnerable communities and people living in disaster-prone, high-risk areas. Through P4RR, Santam partnered with SALGA and CoGTA to determine the critical needs required to improve municipal disaster risk management.

Santam takes its role and accountability as a corporate citizen seriously by forging partnerships, building capacity, and creating sustainable solutions and practices to enhance the resilience of communities. Through the P4RR initiative, investments and interventions made by Santam, the following impacts were achieved:

Disaster risk education and awareness

- Close to 120 traditional leaders have been trained on disaster risk management, which has resulted in fewer informal settlements being built in flood-prone areas
- Over 250 high schools have participated in disaster risk reduction debating competitions, with winning schools selected twice a year. This has raised awareness among high school learners to be more responsible and prioritise proactive risk management initiatives in their communities
- More than 22 000 people have participated in community fire awareness programmes
- Numerous training courses for community volunteers in basic fire-fighting, first aid and disaster management have been sponsored
- The community disaster risk awareness programmes targeting schools, crèches and retirement homes have been invaluable and have improved responses during natural disasters

Fire risk

- The Emthunzini Broad-based Black Economic Empowerment Community Trust has donated R6 million worth of fire-fighting equipment to date, thereby enabling fire-fighters and first responders to react timeously and appropriately to all fire-related catastrophe events, thereby saving lives and assets. The goal is to continue with the provision of such resources where the municipalities lack this vital equipment
- The training of the fire-fighters empowered them to respond appropriately in line with the expected standards in fire-fighting and response procedures
- In the first phase, over 5 000 smoke alarms were rolled out in informal settlements as an early warning initiative. The intention is to roll-out these smoke alarms in all fire hotspots in South Africa, thereby saving the lives and assets of the most vulnerable

Flood risk

- We have enabled flood-risk mapping for three district municipalities. This allows the disaster risk practitioners and planners to use scientific data to make the correct decisions regarding planning and disaster risk response
- R0.4 million was spent on flood management projects during 2017. The objective is to capacitate all the disaster risk management units in key district municipalities
- We have facilitated a Geographic Information System (GIS) and decision-support tool with multiple data sets and are piloting the deployment of smart devices and data collection apps for the automated transfer of incident data to the GIS system

The P4RR initiative has now been introduced to the broader insurance industry to lobby more corporates to partner with Santam and participate in addressing systemic and ground risk for the benefit of the vulnerable communities. SASRIA is one of the insurance companies that will sign an agreement to work with Santam on joint programmes to reduce risk on the ground. Starting with the Ehlanzeni district municipality in KwaZulu-Natal, SASRIA will work in its specific areas of concern: civil and labour unrest and student protests that in many instances result in fire risk for municipalities.

P4RR has the potential to positively impact the lives of millions of South Africans through improved disaster risk management and capacitation of municipalities to improve service delivery. The programme has now been expanded to assist a total of 53 local municipalities over the next five years to reach more than five million people between now and 2020.

CSI FOR RISK SUPPORT

Investing in communities makes them more resilient and self-sufficient in the long run. This is good for business and has a positive impact on the economy. We have always recognised the potential of young people and continue to support the realisation thereof through our CSI programmes. Our CSI strategy's core focus is on the youth, which is aligned with our business strategy and our approach to prioritise developmental work. By focusing on safe and secure community schools and breaking the cycles of violence and crime, we hope to support the long-term interests of society as well as our own core business of insurance.

Santam invested R11.5 million (2016: R21 million) in CSI projects, with the majority allocated to environmental and development programmes. Besides P4RR, the activities we are currently involved in that align to our CSI strategy are as follows:

- Disaster management volunteer training offered at The South African Red Cross Society
- Waterwise programme by the National Sea Rescue Institute (NSRI) in the Sarah Baartman and Ehlanzeni Municipalities to help learners develop confidence in and around large bodies of water
- Schools debating competition in the Ehlanzeni District Municipality to help raise awareness among learners about disasters and disaster management
- A winter awareness campaign in the Sedibeng Municipality
- Installation of smoke alarms in retirement homes, children's homes and homes for people with disabilities
- Consumer financial education to help improve consumers' understanding of financial products and improve their skills and confidence to become aware of financial risks and opportunities, and to make informed choices to improve their financial well-being

Read more about Santam's CSI initiatives online at www.santam.co.za.

MANAGING CLIMATE RISKS

Santam recognises that climate change poses serious risks to the stability and quality of human society and the global economy. As South Africa's leading general insurer, we have the ability to influence the management of systemic risk associated with climate change. We are committed to building partnerships that reduce risk at its source, thereby strengthening capacity and enhancing social and ecological resilience, as well as managing risk through decision-making along the value chain.

Santam operates in a context of earnings volatility and an unpredictable climate, and the business is increasingly required to address complex social challenges. In 2009, we became the first African member of ClimateWise – the global insurance industry's leadership group driving action on climate change risk. We are a signatory to its principles, which form the basis of our policy statement. We have improved our ranking among ClimateWise members from 12th in 2016 to 11th place in 2017, and achieved an overall score of 59% (2016: 56%).

Read more about the ClimateWise principles and our aligned actions at www.santam.co.za.

We were the first African insurer to mobilise the general insurance industry in response to increasing climate and weather risk. As part of the global insurance industry, we are formalising our response to increasing climate risk and aligning our initiatives accordingly. We have signed memoranda of understanding (MOUs) with several municipalities as well as SALGA, and we collaborate with universities and public research institutions. Through research studies, we have links with the National Disaster Management Centre and the Municipal Infrastructure Support Agency.

Santam continues to engage with policymakers nationally and internationally to improve systemic resilience. We support the Code for Responsible Investing in South Africa. Santam participates as a member of the stakeholder council of the Global Infrastructure Basel (GIB) voluntary Standard for Sustainable and Resilient Infrastructure (SuRe standard) and the standards committee of the Finance Supplement of the Natural Capital Protocol. Santam is also active as a board member for the African region of the UNEP FI PSI. A key PSI project that Santam is supporting is a global research survey focusing on short-term insurance sector practices related to ESG in underwriting.

Santam hosted the launch of a ClimateWise research paper, *City Innovation Platform (CIP) for African Infrastructure Risk and Resilience*, at the UNEP FI Africa Roundtable in Johannesburg in November 2017. Through participation in a panel discussion we led the conversation in exploring opportunities for how insurers and investors can collaborate with African cities to deliver public infrastructure that is financeable and insurable, while delivering the socio-economic development required. The paper is an outcome of the proof of concept workshop held in Dar es Salaam, Tanzania in 2016. It aims to share learnings and encourage others to support collaboration between cities and the insurance sector, and so provide insights to city officials, planners, investors and developers, should they want to partner with others to explore and solve complex city-level challenges.

Read more about the UNEP FI Principles in "ESG risk profiles" on page 15.

MULTINATIONAL RISK MANAGEMENT

A substantial part of Santam's capital is invested in emerging market investments through SEM General Insurance businesses. Diversification comes with the risk of not properly understanding the risk exposures in the geographical markets where we invest. The failure rate has been high for multinationals penetrating African markets without a thorough understanding of local dynamics, skills and conditions.

Santam is building capacity to improve the understanding of these risk exposures. An understanding of market dynamics is developed through research, relationships and partnerships, 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, speaking about 2 000 languages.

Read more about how we approach responsible diversification on pages 27, 40 and 46.

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 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 clients through a variety of channels. The system has been rolled out to the personal and commercial product lines and the project will be completed in 2018.

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

Santam operates an internal capital model that assists with capital management, risk quantification and decision-making.

Read more about the internal capital model in the chief financial officer's report on page 62.

CONTINUOUSLY INCREASE EFFICIENCY

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

Santam's willingness to invest in large, long-term projects to provide data capabilities and agility for future business contexts is delivering the anticipated benefits. For example, an investment in technology of R1.7 billion over the past 10 years has enabled Santam Commercial and Personal to improve productivity measurably.

Read more about Santam's investment in new systems in "Data and systems supporting risk management" on page 57.

The individual businesses continuously embark on strategic projects to increase efficiency. Santam Specialist is investing in a finance optimisation project, which will see the consolidation of data across its various businesses to improve the efficiency of information management.

Santam Agriculture introduced new mobile risk assessment apps, the geocoding of information, geographic information system (GIS)-based rating, and a change in philosophy to move away from district rating to polygon rating.

These initiatives apply technology to improve business efficiency.

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, such as MiWay, for example, still have the option to manage their own sourcing.

Suppliers provide functional elements that include claims assessment, contact centres, drive-in centres, a variety of technical specialists and repairers, and the internal arbitrator. The robustness of the supplier network is tested for efficiency, cost effectiveness and reliability by catastrophe events, such as the large urban wildfires and storms of 2017.

The supplier network is also an area of opportunity through empowerment initiatives, and creates the potential to encourage local employment and sourcing. Santam continued its participation in the Sanlam Santam Enterprise Development Programme in partnership with ASISA in collaboration with Sanlam.

Read more about the Sanlam Santam Enterprise Development Programme in partnership with ASISA in the real-life story on page 32.

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

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

We continue to explore initiatives to contain claims costs as this contributes positively to Santam's loss ratio and supports affordable insurance premiums. Progress has been made in contracting a 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.

In September 2017, the Competition Commission issued a draft code of conduct for competition in the automotive industry. Santam management is reviewing this and liaising with SAIA and National Treasury from an industry perspective.

The Santam claims card is a flexible card mechanism for settling claims. It ensures optimal claim settlement time and use of Santam's preferred supply base, with cash-back benefits to Santam's clients, and it is functioning well. The functionality of the card mechanism has been enhanced with app-based balance enquiries and online shopping functionality. Further enhancements are planned for 2018.

Santam's internal cost management process includes quarterly expense forum meetings, which monitor expense trends and drive savings. This is approached holistically by 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

Our people have contributed to the sustainable performance and competitiveness that Santam has enjoyed over the past 100 years. Our strategic focus on "the right people" ensures that we have the ideal people in the best positions to deliver on our chosen strategies.

Santam operates in a competitive market where there is limited availability of critical skills and serious competition for those skills. However, through our committed and capable people, and the value they bring to the group, we are well positioned to continue creating value for our stakeholders. Our approach to ensuring that Santam has the capability required currently, and in the future, is multipronged and includes:

- Targeted external talent acquisition through various recruitment strategies
- Deployment of internal talent through promotions and assignments and secondments to SEM
- Internal capacity-building through various development programmes to grow the talent pipeline in the short, medium and long term

Our achievements include continual adjustment to a diverse employee complement that is suited to the contexts in which we do business and helps us meet our transformation targets.

THE RIGHT PEOPLE FOR A MULTINATIONAL CONTEXT

Santam's expansion outside South Africa requires building people's capabilities to manage increasing size, scale and complexity. The group has a growing presence in Africa, India and Malaysia. As such, we have to take the development of leadership skills beyond the traditional to include traits such as the ability to influence, cultural intelligence and an understanding of 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, and leading and managing change and innovation across different geographies and in collaboration with global partners. These programmes are designed and facilitated in partnership with external parties and business schools.

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, which is 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, on our intermediary and supplier network, on providing opportunities for non-traditional markets to access Santam's products, and on 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***.

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 develops skilled black people as intermediaries, has delivered 146 black learners since 2015. The learners have graduated from the programme with a full insurance qualification and are now contributing to the South African economy.

As part of Santam's efforts 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. Since 2015, we have placed 62% of the graduates with intermediaries.

Santam's learnership programmes for 2017 included:
- The Santam general insurance learnership programme
- The Santam Black Broker Development programme
- The Santam internship programme

A holistic plan to further diversify the intermediary network has been developed by the Santam Commercial and Personal distribution team and includes:
- Addressing the developmental needs of black intermediaries
- Engagement with additional numbers of black intermediary networks
- Growth in GWP from black intermediaries
- Additional processes that need to be in place to support black intermediaries

THE RIGHT PEOPLE FROM AN ORGANISATIONAL PERSPECTIVE

Integrated talent management, employee engagement and an enabling and inclusive work environment have led to Santam being awarded the Top Employers South Africa 2018 certification by the Top Employers Institute for a second year. Santam's certification confirms that the business's integrated people strategy is helping to build a resilient, people-focused group with a strong employee value proposition.

Attracting and retaining key 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 development opportunities as part of the business growth strategy.

Santam is also making progress with the implementation of the Strategic Resourcing Plan (SRP), which is building critical capabilities and 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 those required by 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 have 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 was undertaken 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 was implemented to support the culture of performance excellence.

Read more about performance incentives in the remuneration report online at www.santam.co.za.

Santam bWell, our wellness programme, caters for our employees' emotional, physical, professional and financial well-being by providing targeted interventions where areas of concern are identified.

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 comprised the following:

	Black				White				Total 2017	Total 2016
	Female		Male		Female		Male			
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**		
Headcount	**2 430**	2 294	**1 756**	1 592	**1 060**	1 093	**744**	770	**5 990**	5 749
Percentage	**40.57**	39.91	**29.31**	27.69	**17.70**	19.02	**12.42**	13.38	**100**	100
Terminators	**470**	505	**428**	402	**122**	113	**91**	89	**1 111**	1 109
Appointments	**791**	726	**694**	584	**87**	77	**74**	96	**1 646**	1 483
Turnover (%)	**19.34**	22.01	**24.37**	25.25	**11.51**	10.34	**12.23**	11.56	**18.55**	19.29

CHIEF FINANCIAL OFFICER'S REPORT

OVERVIEW

The group has revised the presentation of its insurance results in the following segments:

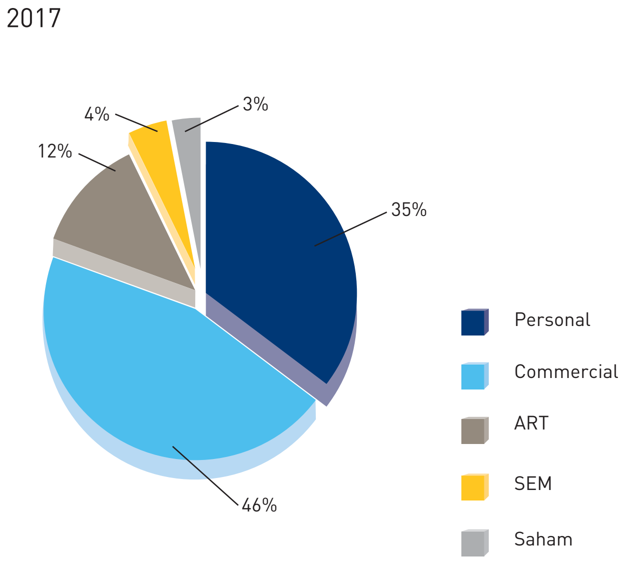
- Conventional insurance business written on insurance licences controlled by the group, consisting of Santam Commercial and Personal, Santam Specialist (niche business and agriculture), credit insurance written by the Santam Structured Insurance (SSI), Santam re and MiWay;
- Alternative Risk Transfer (ART) insurance business written on insurance licences controlled by the group; and
- Santam's share of the insurance results of the Sanlam Emerging Markets (SEM) general insurance businesses (including Saham Finances).

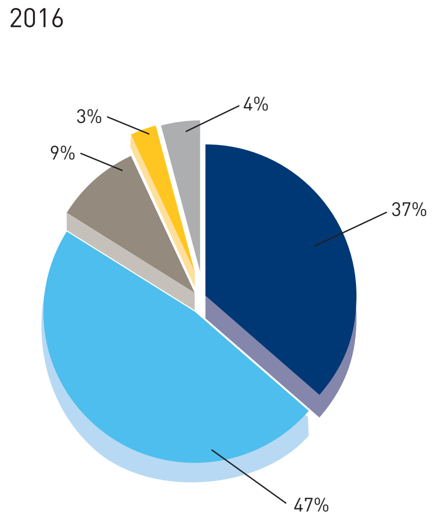
The Santam group reported excellent growth of 15%, and delivered a solid underwriting result under difficult circumstances.

The group's conventional insurance book achieved excellent gross written premium growth of 10% and a net underwriting margin of 6% (2016: 6.5%), which was at the midpoint of the group's target range of 4% to 8%. The ART insurance segment grew by 61% following the acquisition of RMB Structured Insurance (rebranded to Santam Structured Insurance) and achieved solid operating results. The SEM general insurance businesses delivered improved operating results, with good contributions from the Saham Finances Group and Shriram General Insurance in India.

Investment income, inclusive of fair value movements on financial assets and liabilities, of R1 374 million (net of return allocated to cell owners and policyholders) was significantly higher than the R832 million reported in the comparative period in 2016. The increase was mainly due to the positive fair value adjustments on the investment portfolios and the release of foreign currency gains on the winding up of Santam International.

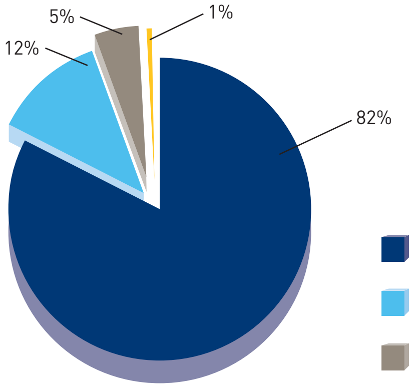
Line of business diversification



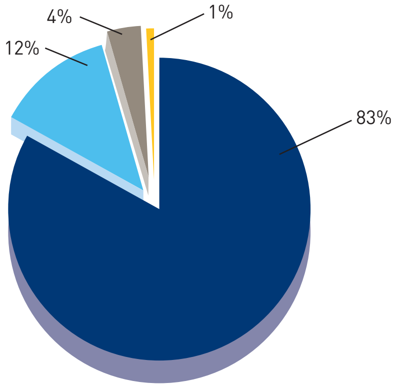


Geographic diversification

2017



2016



Cash generated from operations increased to R3.3 billion (2016: R2.2 billion) positively impacted by an improvement in investment income and working capital levels.

The key driver of the 31% increase in headline earning per share from 1 086 cps in 2016 to 1 425 cps in 2017 was the increase in investment income. A return on capital of 23.6% was achieved. The economic capital coverage ratio was 158% – slightly above the mid-point of the target range of 130% to 170%.

FINANCIAL RESULTS

A summary set of financial statements for 2017, prepared in accordance with IAS 34, is included in this integrated report. The full annual financial statements are available on our website at www.santam.co.za or in printed format on request from the company secretary.

Read more about the key financial statistics in the seven-year review on page 124.

INSURANCE RESULTS

CONVENTIONAL INSURANCE

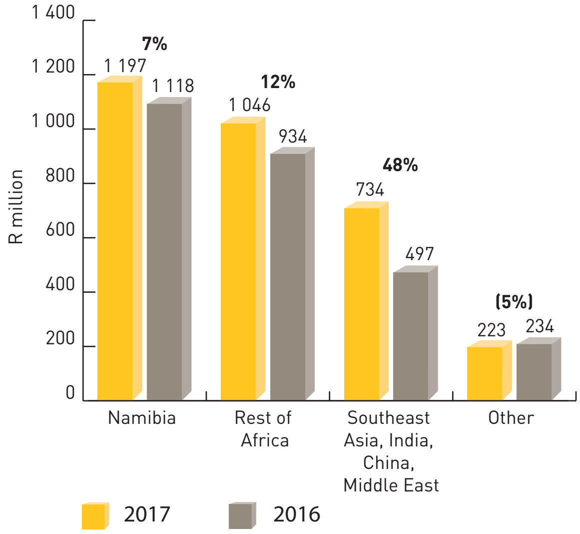
NET INSURANCE RESULT

	2017 R'm	% of NEP	2016 R'm	% of NEP	2017/ 2016	5-year average %	10-year average %
Gross written premium	25 853		23 503		**10.0**	9.0	8.0
Net earned premium	20 893	100.0	19 245	100.0	**9.0**	100.0	100.0
Claims incurred	13 753	65.8	12 482	64.9	**10.0**	64.8	65.8
Acquisition cost	5 880	28.1	5 511	28.6	**7.0**	28.3	27.6
Underwriting result	1 260	6.0	1 252	6.5	**1.0**	6.9	6.6
Investment return on insurance funds	584	2.8	558	2.9	**5.0**	2.6	2.9
Net insurance result	1 844	8.8	1 810	9.4	**2.0**	9.5	9.4
Combined ratio		94.0		93.5		93.1	93.4

The conventional insurance business reported a net underwriting margin of 6.0% compared to the 6.5% reported in 2016. The current period margin was impacted by significant catastrophe claims, as well as several large commercial fire claims during the first half of 2017. Excellent gross premium growth of 10% (2016: 6.5%) was achieved, including a book acquisition, which contributed growth of 1.0%. The focus on international diversification continued to reflect positively on growth with gross written premiums from outside of South Africa written on the Santam Ltd and Santam Namibia Ltd licences increasing by 15% to R3 200 million (2016: R2 783 million).

Conventional insurance

Gross written premium from outside SA



Excludes Santam's share of the gross written premium derived from its investments in the SEM GI and Saham Finances businesses. "Other" includes Santam re participations which are mainly originating from Europe.

The property class reported growth of 13% on the back of strong organic growth on the personal lines and commercial portfolios, as well as the acquisition of a new block of commercial business. The motor class grew by 10%, with MiWay reporting 10% growth (gross written premium of R2 319 million; 2016: R2 101 million). MiWay saw a slowdown in growth in the second half of the year due to the increased focused on profitability during 2017. The commercial and personal lines intermediated business reported strong growth in the motor class in difficult economic conditions.

The liability class came under significant competitive pressure and reported premium growth of only 2%. Engineering reported growth of 8%, despite the negative impact of fewer large construction projects.

The accident and health class reported growth of 29%, mainly driven by growth in Santam re as well as the travel insurance business. The crop business reported a contraction in premium of 16% impacted by fewer hectares being planted, given prevailing weather conditions and lower commodity prices.

On 6 June 2017, and through to 8 June 2017, a severe storm hit the Western Cape that resulted in extensive property damage in Cape Town and environs, and a devastating firestorm in the southern Cape (including large parts of Knysna) destroyed a large number of properties in its wake. Santam incurred gross claims of R823 million and R174 million on a net basis including reinsurance reinstatement premiums.

Santam's ability to support clients in trying times was again put to the test in October 2017 when severe storms hit Gauteng and KwaZulu-Natal, resulting in significant flood damage. The impact of this event on gross claims was R1 096 million with a net impact, after reinstatement premiums, of R186 million. The normalised net underwriting margin, excluding the impact of these two catastrophe events, was 7.7%.

In addition to the catastrophe events, the underwriting performance of the commercial and corporate property class came under pressure after an increase in large property claims during the first half of 2017. During tough economic times, claims often arise as maintenance and safety standards are compromised, public service delivery falters, and fraud and arson, which are often difficult to prove, increase. The poor underwriting performance of the property book has been receiving strategic focus during the second half of 2017 by expanding capacity in the areas of risk management and surveying, implementing premium rate increases, reducing exposure to certain types of risk, and increasing the level of risk sharing and risk management in collaboration with clients. These actions, as well as a lower incidence of large property claims, have resulted in an improvement of the property underwriting results during the latter part of 2017.

The motor class reported strong underwriting performance in both the intermediated and direct distribution channels. MiWay reported excellent results following an improvement in the claims ratio net of catastrophe reinsurance recoveries to 56.9% (2016: 62.7%), as it was positively impacted by disciplined underwriting. The MiWay business contributed an underwriting profit of R317 million (2016: R178 million).

The engineering class of business achieved excellent underwriting results with limited claims activity during 2017, while the guarantee class of business was negatively impacted by the challenging economic environment The liability class was impacted by a number of large claims and estimate adjustments, and reported underwriting results significantly lower than the strong results reported in 2016. The crop insurance business was negatively impacted by significant hail claims during the weekend of 30 December 2017; it, however, still achieved excellent net underwriting results of R114 million (2016: R69 million), mainly due to the low incidence of drought claims during this period.

Santam re delivered excellent growth and good underwriting results on third-party business, despite the impact of the catastrophe events on the South African book of business.

The group entered into a new reinsurance arrangement to provide sideways cover against multiple catastrophe events, which replaced the previous programme. In terms of the new arrangement, effective from May 2017, all catastrophe events that exceed R10 million (previously R50 million), capped at R100 million, are aggregated under this agreement. A deductible aggregate of R300 million (previously R100 million) applies. The total amount that can be claimed is R135 million (previously R100 million). There were no other significant changes to the group's reinsurance programme during 2017. Following the significant losses incurred by the reinsurance market during 2017, Santam's deductible per catastrophe event increased to R150 million (2017: R100 million) for the 2018 financial year.

The net acquisition cost ratio of 28.1% decreased from 28.6% in 2016. The management expense ratio decreased from 16.3% in 2016 to 16.0% in 2017, after being positively impacted by a continued focus on improved efficiencies, partially offset by the growth initiatives relating to MiWay Business Insurance and Santam Direct.

Strategic project costs, included as part of management expenses, amounted to 0.8% of net earned premium (2016: 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 most personal lines policies now being managed on the new platform, as well as a majority of new business quotes for commercial business products. The migration process for commercial business products is also well underway. Santam will maintain its focus on cost efficiencies to improve the management expense ratio over the medium term.

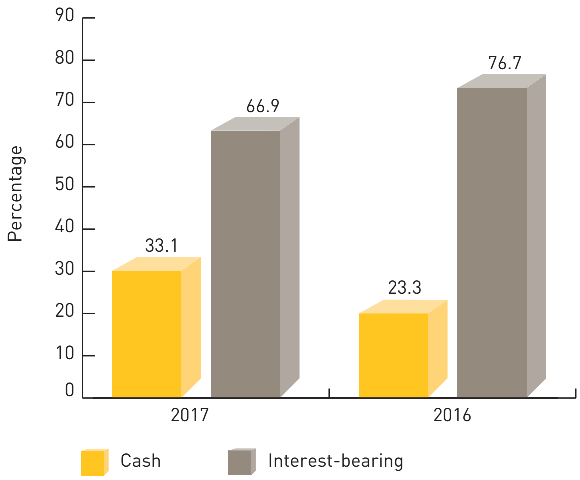
The net commission ratio was 12.1% (2016: 12.3%), positively impacted by reinsurance profit commission on treaty and facultative arrangements.

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 18.0% in 2016 to 18.5% in 2017. The key drivers for the increase were growth in business from outside South Africa, which has higher reinsurance cover, as well as reinstatement premiums paid following the significant catastrophe events in 2017.

The investment return on insurance funds increased to R584 million (2016: R558 million), supported by higher average insurance funds for the period, as well as the good investment performance of the investment portfolios backing the insurance funds.

ASSETS BACKING NET INSURANCE FUNDS %

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



Currency mix of assets backing net insurance funds (Conventional Insurance)		2017 R million	2016 R million
Cash and other short-term interest-bearing instruments	Rand	**5 320**	5 959
	US dollar	**1 177**	996
	Other currencies	**481**	324
Debt securities	Rand	**–**	–
	US dollar	**–**	391
Total		**6 978**	7 279

ALTERNATIVE RISK TRANSFER INSURANCE (ART)

ART OPERATING RESULT

	2017		2016		2017/2016	5-year average	10-year average
	R million	% of NEP	R million	% of NEP	%	%	%
Gross written premium	**3 867**		2 406		61	13.7	10.0
Net earned premium (NEP)	**437**	**100.0**	581	100.0	(25)	100.0	100.0
Claims incurred	**313**	**71.6**	429	73.8	(27)	74.0	74.8
Acquisition costs	**104**	**23.8**	136	23.4	(24)	23.4	23.9
Underwriting result	**20**	**4.6**	16	2.8	(25)	2.6	1.3
Investment return on insurance funds	**64**	**14.7**	61	10.5	5	7.1	6.7
Net insurance result	**84**	**19.3**	77	13.3	9	9.7	8.0
Other income and expenses	**–**	**–**	1	–	–	–	–
Operating result	**84**	**19.3**	78	13.3	8		

Alternative risk transfer business consists of business written on the insurance licences of Centriq and SSI. During March 2017, the Santam group acquired a shareholding of 100% (economic interest of 90%) in RMB Structured Insurance (rebranded as Santam Structured Insurance) for R193 million in cash.

The ART business reported growth of 61% with gross written premium of R3 867 million (2016: R2 406 million). Centriq reported excellent growth of 16%. The acquisition of the Santam Structured Insurance book of business contributed R1 billion to the ART business. The ART business reported solid operating results before tax of R84 million (2016: R78 million).

SANLAM EMERGING MARKETS (SEM) GENERAL INSURANCE BUSINESSES (INCLUDING SAHAM FINANCES HELD THROUGH SAN JV)

ANALYSIS OF SANTAM'S SHARE OF NET INSURANCE RESULT

	2017		2016		2017/2016
	R million	% of NEP	R million	% of NEP	%
Gross written premium	**2 382**		1 939		23
Net earned premium (NEP)	**1 790**	**100.0**	1 414	100.0	27
Claims incurred	**1 344**	**75.1**	982	69.5	37
Acquisition costs	**558**	**31.2**	490	34.6	14
Underwriting result	**(112)**	**(6.3)**	(58)	(4.1)	93
Investment return on insurance funds	**356**	**19.9**	220	15.6	62
Net insurance result	**244**	**13.6**	162	11.5	51

The emerging markets general insurance business portfolio includes investments in the Saham Finances Group in Morocco (with subsidiaries in 26 countries in Africa and the Middle East), Pacific & Orient Insurance Co. Berhad (P&O) in Malaysia, Shriram General Insurance Company Ltd (SGI) in India and a further 12 general insurance businesses throughout Africa, which are held in conjunction with SEM.

Santam's share of the gross written premium of these businesses increased by 23% (5% on a comparative basis) to R2 382 million (2016: R1 939 million) following the inclusion of the Saham Finances results for the full year (2016: 10 months), and the additional 8% investment in SGI during the second half of 2016. Good growth was achieved across the other businesses in the portfolio, with the exception of P&O. Saham Finances achieved growth in gross written premium of 8% (on an annualised GWP basis) and SGI of 24%.

Santam's share of the net insurance result of these businesses increased to R244 million compared to R162 million in 2016. The portfolio of businesses achieved a net insurance margin of 13.6% compared to the 11.5% reported in 2016. The performance of Saham Finances and SGI were in line with the business plans. Santam's share of the SGI results was also positively impacted by R33 million of net realised profits recognised on the disposal of held-to-maturity fixed interest instruments included in investment return on insurance funds. P&O continues to experience negative growth in competitive market conditions while maintaining acceptable underwriting margins.

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

Effective 10 May 2017, SEM and Santam, through SAN JV, acquired a further 16.6% interest in Saham Finances via a subscription for new shares for US$351 million (R4.8 billion). Santam's share of the purchase price, including transaction costs, was US$11 million (R152 million). Santam's ability to participate in the transaction was limited due to the size of the investment already held by Santam in SAN JV. The investment in SAN JV comprised 19.5% of Santam's shareholder funds at 31 December 2017 (2016: 17.5%), making it the largest strategic investment held by Santam. Santam's interest in SAN JV was therefore diluted to 15% (previously 25%). The dilution of Santam's interest in SAN JV did not affect any of its existing shareholder rights.

SEM INVESTMENT HOLDINGS

	Incorporated in	Santam effective holding 2017 %	Santam effective holding 2016 %
P&O	Malaysia	**15.4**	15.4
SGI	India	**15.0**	15.0
BIHL Insurance Company Ltd	Botswana	**21.2**	21.2
NICO Holdings general insurance subsidiaries	Malawi and Zambia	**19.8**	19.8
Sanlam General Insurance (Uganda) Ltd	Uganda	**28.6**	28.6
Sanlam General Insurance (Tanzania) Ltd	Tanzania	**17.4**	17.4
SORAS	Rwanda	**26.1**	26.1
SOCAR s.a. Burundi	Burundi	**8.6**	8.6
FBN General Insurance Ltd	Nigeria	**12.3**	12.3
Enterprise Insurance Company Ltd	Ghana	**–**	14.0
Sanlam General Insurance Ltd (previously Gateway Insurance Company Ltd)	Kenya	**13.7**	10.9
Botswana Insurance Company Ltd	Botswana	**10.3**	10.3
Zimnat Lion Insurance Company Ltd	Zimbabwe	**14.0**	14.0
Grand Reinsurance Company (Private) Ltd	Zimbabwe	**14.0**	14.0

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

INVESTMENT RESULTS

INVESTMENT INCOME

Listed equities achieved a return of 19.7% for the year ending 31 December 2017, relative to the SWIX benchmark of 21.2%. The lag in performance was mostly a result of the fund's overweight position in relation to Steinhoff Group.

After experiencing challenging underwriting conditions in the first half of 2017, on 31 July 2017, the group entered into a zero cost collar on equities to the value of R1.2 billion, based on the SWIX 40, providing full downside protection from the implementation level at the time, with upside participation (excluding dividends) of 2.2%. The SWIX 40 delivered a return of 7% between implementation and the maturity date of 21 December 2017 and Santam had to pay a settlement amount of R58 million. Santam's annualised equity performance, net of the hedge settlement, amounted to 15%.

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

Exchange rate volatility due to the strengthening of the rand in 2017 continued to impact the investment results resulting in a foreign exchange loss of R116 million (2016: R228 million).

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

Currency	Closing rate 2017	Closing rate 2016	Average rate 2017
US dollar	**12.34**	13.54	13.24
Pound sterling	**16.61**	16.63	17.13
Indian rupee	**0.19**	0.20	0.21
Moroccan dirham	**1.32**	1.34	1.37
Malaysian ringgit	**3.07**	3.04	3.11

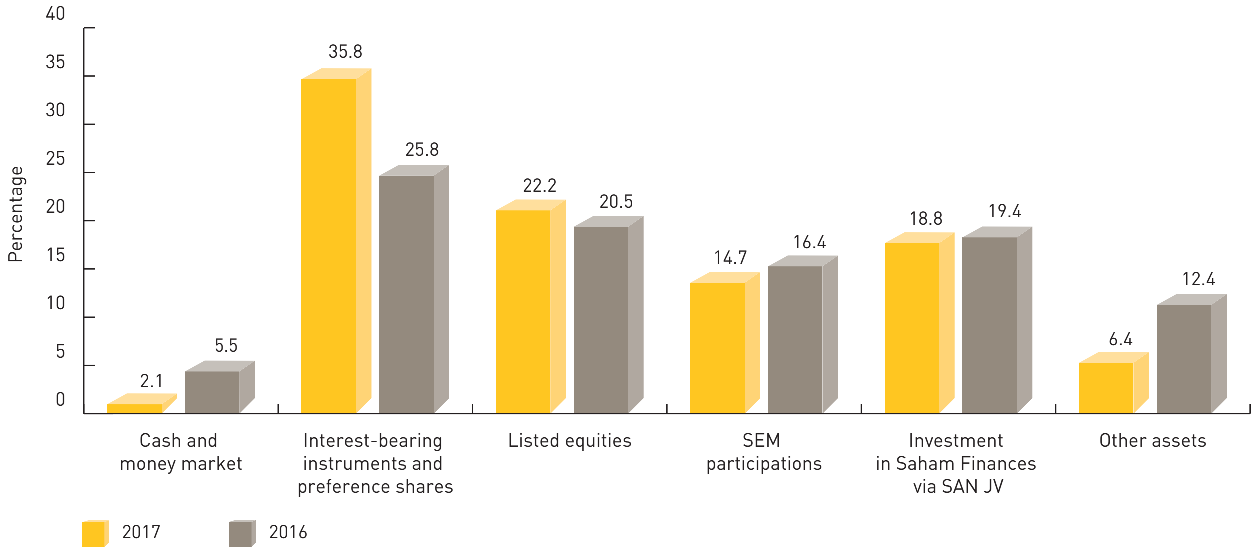
Positive fair value movements (excluding the impact of currency movements) of R121 million (2016: negative movement of R67 million) in Santam's interest in SEM's general insurance businesses in Africa, India and Southeast Asia contributed to the improved investment performance.

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

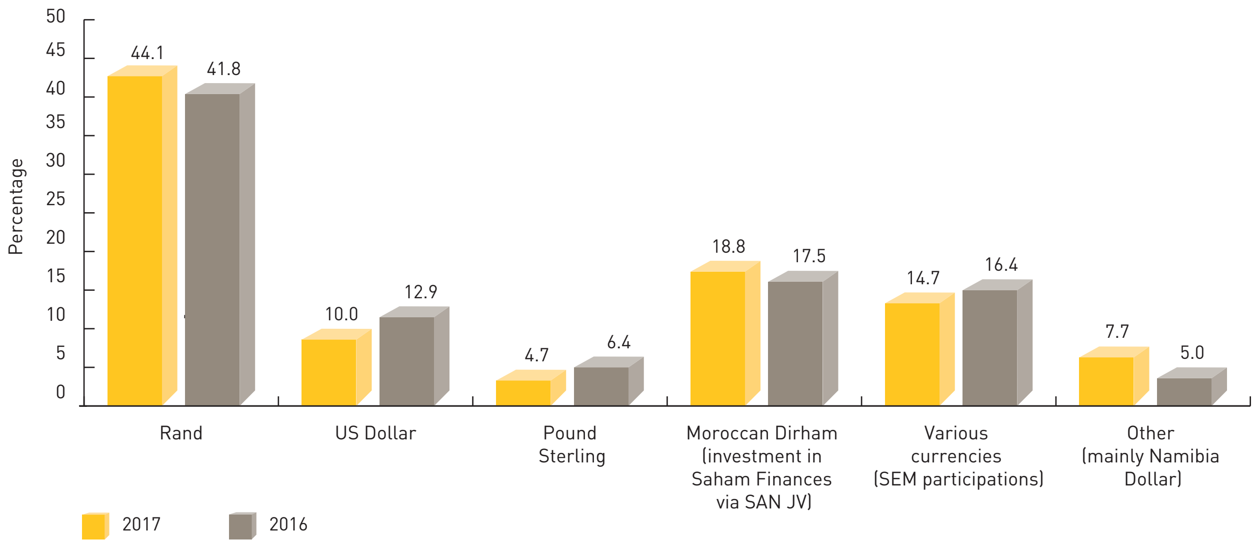
- A downward adjustment to the value of the P&O business in Malaysia of R58 million due to lower premium growth in competitive market conditions. There is a continued focus on expanding the current P&O product offering, and growth reported in non-motor business lines was positive.
- An increase in the value of SGI of R88 million was mainly attributed to good premium growth achieved in the 2017 financial year as well as the increased investment yields in India, positively impacting the projected return on insurance funds.

Net earnings from associated companies of R110 million increased from the R67 million reported in 2016 following the inclusion of the results of Saham Finances for the full year (acquired March 2016), which contributed earnings of R83 million in 2017 (2016: R43 million). The other key contributor to earnings from associated companies was Western Group Holdings Ltd.

SHAREHOLDER FUNDS ASSET MIX %



SHAREHOLDER FUNDS CURRENCY MIX %



INVESTMENT APPROACH

Santam follows a policy of managing its investment portfolios in a diversified manner. Our aim is to optimise investment income within the approved risk appetite profile. Detail on risk management practices can be found in note 3 to the annual financial statements.

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

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

As at 31 December 2017, funds to the value of R2.2 billion (2016: R1.8 billion) were invested in foreign currency bank accounts and global fixed income portfolios. These funds provide backing for insurance liabilities and capital relating to the business written in foreign currency.

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

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 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 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 2017. 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 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, increasing the issued subordinated debt to R2 billion.

During June 2017, the company successfully issued additional unsecured subordinated debt to the value of R1 billion in anticipation of the redemption of the R1 billion subordinated debt issued in 2007, which was redeemed in September 2017.

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 2017, based on the internal model, amounted to R6 billion, or an economic capital coverage ratio of 158%. Excess capital is maintained for the following reasons:

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

We remain committed to efficient capital management.

REGULATORY SOLVENCY AND CAPITAL REQUIREMENTS

One of the most important regulatory developments is the SAM that the FSB is in the process of developing for the South African long-term and general insurance industries, to correspond to international standards. SAM will adopt the principles of the Solvency II, adapted to specific South African circumstances 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 mid-2018.

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

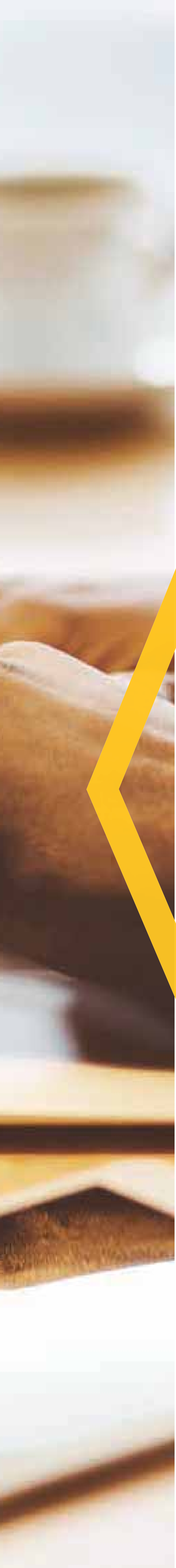
Santam is in the process of applying to the FSB to use this internal model for determining its capital requirements once SAM is enacted.

DIVIDENDS

The company paid an interim dividend of 336 cents per share, which was 8% higher than the 311 cents per share in 2016. Santam declared a final dividend of 616 cents per share for 2017 (2016: 570 cents per share), resulting in a total dividend of 952 cents per share for the year (2016: 881 cents per share). This represents an increase of 8%. A special dividend of 800 cents per share was declared in 2016.

Santam's dividend policy aims for stable dividend growth in line with the company's long-term sustainable business growth. When special dividends are being considered, we take into account capital levels, regulatory capital requirements and potential investment opportunities.

Hennie Nel
Chief financial officer



06

Protecting our reputation for serving our clients the good and proper way.

We are proud of our reputation as a leader with integrity and excellence. That is why we are fierce about protecting our good name. It is, after all, what gives our clients the reassurance that we will be there for them, whatever happens. So when a disgruntled client threatens our reputation, we do not sit back.

The client, a 32-year-old entrepreneur who holds three jobs, had his claim legitimately rejected by Santam-owned MiWay. Understandably, he was upset and publicly vented his anger on social media, where a reputation can be built or ruined overnight. However, when the incident occurred, MiWay could refer to objective statistics to counter the allegations made against them. Their ability to resolve the matter was largely due to the fact that they are committed to living up to the brand promise of ***Insurance good and proper*** – insurance that always does what is fair and in the best interest of its clients.

Read the full story on page 37.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

AT 1 MARCH 2018

GRANT GELINK

LIZÉ LAMBRECHTS

HENNIE NEL

BRUCE CAMPBELL

THEMBA GAMEDZE

IAN KIRK

DAWN MAROLE

GUGU MTETWA

MACHIEL REYNEKE

PRESTON SPECKMANN

HEINIE WERTH

BOARD PROFILES
AT 1 MARCH 2018

GG GELINK (68)
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 (67)
Independent non-executive director
BA, MBL, ACII & FCII (UK)
Appointed 4 October 2010
Director of Nicoz Diamond (Zimbabwe). Previous managing director of Mutual & Federal Insurance Holdings Ltd and previous group chief executive officer of Alexander Forbes.

BTPKM GAMEDZE (59)
Non-executive director
BA (Hons), MSc, FASSA
Appointed 16 October 2006
Director of Alt-e Technologies (Pty) Ltd, Trustee of the Government Employees Pension Fund. Past president of the Actuarial Society of South Africa.

IM KIRK (60)
Non-executive director
FCA (Ireland), CA(SA), HDip BDP (Wits)
Appointed 14 June 2007
Chief executive officer of Sanlam Ltd and Sanlam Life Insurance Ltd. Previous chief executive officer of Santam Ltd from 2007 to 2014. Director of Sanlam Capital Markets (Pty) Ltd, Sanlam Emerging Markets (Pty) Ltd, Sanlam Investment Holdings (Pty) Ltd, Shriram Capital Ltd, Afrocentric Investment Corp Ltd, chairman of Association of Savings and Investment South Africa.

L LAMBRECHTS (54)
Chief executive officer
BSc (Hons), FIA (1992), EDP (Manchester)
Appointed 1 January 2015
Director of Stalker Hutchison Admiral (Pty) Ltd, Centriq group of companies, MiWay group of companies, Emerald Risk Transfer (Pty) Ltd, Santam Structured Insurance group of companies, Saham Finances S.A., SAN JV and chairperson of SAIA.

MLD MAROLE (57)
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 (38)
Independent non-executive director
CA(SA)
Appointed 8 February 2017
Previous managing executive of finance at Vodacom South Africa. Served as management committee member and partner at PricewaterhouseCoopers. Independent non-executive director and audit committee chair of the Development Bank of Southern Africa. Independent non-executive director of Aviation Co-ordination Services (Pty) Ltd. Non-executive director of Sasfin Bank, Sasfin Holdings, Italtile and Equites. Non-executive director and audit and finance committee chair of Landbank.

HD NEL (49)
Chief financial officer, executive director
CA(SA)
Appointed 17 September 2012
Director of Centriq group of companies, MiWay group of companies, Santam Structured Insurance group of companies, Santam Specialist Underwriting Managers, Swanvest 120 (Pty) Ltd, Brolink (Pty) Ltd, Sanlam Emerging Markets (Pty) Ltd, First Bank Nigeria General Insurance Ltd, Guardian National Insurance Company Ltd, Indwe Broker Holdings Ltd and Santam Namibia Ltd.

MJ REYNEKE (60)

Independent non-executive director

CA(SA)

Appointed 26 August 2003

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

PE SPECKMANN (61)

Independent non-executive director

CA(SA)

Appointed 8 February 2017

Director of MiWay group of companies, Centriq group of companies. 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 (54)

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 (42)

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 2018


LIZÉ LAMBRECHTS


HENNIE NEL


EBRAHIM ASMAL


MOKAEDI DILOTSOTLHE


EDWARD GIBBENS


QUINTEN MATTHEW

JOHN MELVILLE

TEMBA MVUSI

RENÉ OTTO

KEVIN WRIGHT

EXECUTIVE PROFILES
AT 1 MARCH 2018

LIZÉ LAMBRECHTS (54)
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 (49)
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 (53)
Group sourcing and enterprise development
Appointed 2009 (appointed to executive management in 2012)
Responsible for group sourcing and facilities, leveraging the group's procurement spending power and scale to manage efficiency in the supply chain as well as enabling operational excellence, driving opportunities related to new initiatives, developing suppliers and developing enterprises.

MOKAEDI DILOTSOTLHE (48)
Chief marketing officer
BComm (Hons), MBA
Appointed 2016
Responsible for the overall management and reputation of the Santam Brand including corporate communication, client care, stakeholder relations and implementing strategic marketing initiatives to support the distribution channels and ensuring that the Santam brand is well positioned across all of the target market segments.

EDWARD GIBBENS (48)
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 (54)
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 (52)
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.

TEMBA MVUSI (62)

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 (59)

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 (52)

Operations and IT

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

Appointed 2014

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

GOVERNANCE STATEMENT OF COMMITMENT

Santam's board of directors provides ethical and effective leadership through high standards of ethical values and business integrity, while recognising the company's responsibility to conduct its affairs with responsibility and fairness, safeguarding the interests of all stakeholders. The board views corporate governance as being concerned with structure and process, and also with ethical consciousness and conduct. The board is accountable to stakeholders and is ultimately responsible for the implementation of sound corporate governance practices throughout the group. Santam regularly reviews its governance structures and processes to reflect best practice and to facilitate effective leadership, corporate citizenship and sustainability, thereby supporting the group's business strategy.

Santam endorses the principles contained in King IV™ and welcomes the shift towards integrated thinking and an outcomes-based approach. The board is satisfied that Santam has applied the requisite King IV™ principles during 2017. The group's corporate governance practices are reviewed on an ongoing basis to ensure alignment with internal developments and ongoing adherence to regulation and principles of good governance. The company conducted a maturity assessment to identify all areas requiring improvement and address issues where appropriate. The process to implement King IV™ principles will be rolled out to subsidiaries, joint ventures and associated companies. The board continued to focus on the application of the group governance policy and the composition of governance structures.

Details of Santam's application and explanation of the King IV™ principles are available on the website.

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

The board is of the opinion that Santam complied with the JSE Listings Requirements and Companies Act, 71 of 2008, as amended, during 2017.

GOVERNANCE APPROACH

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

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

For 2018, focus will be on the management of stakeholder risk and on establishing formal mechanisms for engagement, including the use of dispute resolution mechanisms.

The responsibility for the implementation and execution of effective stakeholder relationship management has been delegated to management, and the board exercises ongoing oversight.

The group's stakeholder universe, engagement focus areas and channels are provided in detail in the integrated report from page 30.

Santam's response to increasing levels of insurance crime is entrenched in its enterprise risk management (ERM) and is aligned to King IV™ requirements. The group's approach is further formalised in its business integrity 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 by establishing an Ethics Management Committee, approving policies on Anti-Bribery and Corruption and Facilitation Payments.

Santam advocates zero tolerance towards fraud and corruption. Employees are apprised of the latest trends in fraud and crime, locally and internationally, through Santam's Integrity publication. This helps entrench the Santam values of integrity, passion, humanity, innovation and excellence.

Santam's code of ethics prescribes strict compliance by all employees with relevant legal requirements and regulations that apply to their areas of work. The code of ethics also regulates conflicts of interest and key ethical risks in the company. To raise awareness and further enhance understanding of the ethical culture Santam aims to create, an ethics culture survey and an ethics risk and opportunity assessment were conducted during the latter half of 2017. The group's leadership is committed to entrenching an ethical culture and is in the process of addressing the recommendations of the surveys, which included the further refinement of competencies, the inclusion of the identified ethical risks in the enterprise risk management process and the establishment of an ethical management programme.

Find Santam's policy on business ethics on the website. Read more about Santam's fraud reporting details under the administration section on page 128.

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

BOARD AND COMMITTEES

The board is responsible for directing, administering and controlling the affairs of the company in a transparent, fair and responsible manner. The board recognises its responsibility to shareholders, employees and the community to uphold high standards in managing

economic, social, environmental and ethical matters and ensuring the company conducts its activities according to best practice.
The board is accountable for, inter alia:

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

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

SANTAM BOARD COMMITTEES

RISK COMMITTEE	AUDIT COMMITTEE	INVESTMENT COMMITTEE	HUMAN RESOURCES AND REMUNERATION COMMITTEE	NOMINATIONS COMMITTEE	SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE

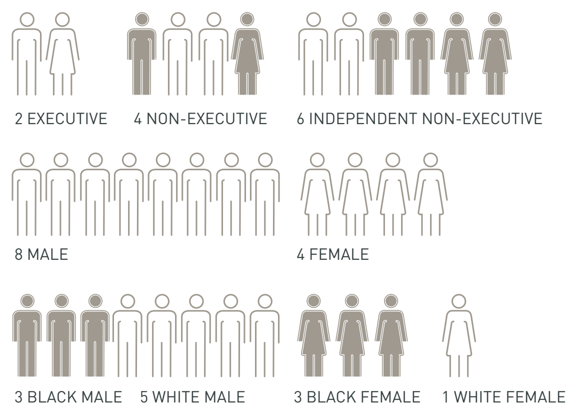
All committees are chaired by independent non-executive directors except the human resources and remuneration committee, which is chaired by Ian Kirk, a non-executive director who is not independent. Ian is the Group Chief Executive of the controlling shareholder, Sanlam, and the board is supportive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

Appointments to the board are formal and transparent and are a matter for the board of directors as a whole, assisted by the nominations committee, as required by section 3.84 of the JSE Listings Requirements. Directors are appointed, subject to re-election by the shareholders at the company's annual general meeting (AGM) and to the Companies Act provisions relating to their removal. The board charter depicts a clear balance of power and division of responsibilities and authority at board level to guarantee 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, with Grant Gelink and Lizé Lambrechts holding these positions respectively.

The board will consider the need to appoint a lead independent director during 2018. The chair's role is documented in the board charter.

DIRECTORS AT 31 DECEMBER 2017



THE SANTAM BOARD AT 31 DECEMBER 2017

Name	Executive	Non-executive	Independent Non-executive
B Campbell			✓
NV Mtetwa			✓
BTPKM Gamedze		✓	
GG Gelink (chairman)			✓
IM Kirk		✓	
L Lambrechts	✓		
MLD Marole			✓
HD Nel	✓		
PE Speckmann			✓
Y Ramiah		✓	
MJ Reyneke			✓
HC Werth		✓	

BOARD CHARTER

The board's responsibility to ensure best practice in company conduct is entrenched in the board charter, which is reviewed annually in adherence with the principles of good governance. The charter delineates the powers of the board to achieve an appropriate balance of power and authority. The board charter underwent a substantial review during 2017 to align with King IV™. The amended charter places additional emphasis on the board's ethical responsibility for effective governance and risk management within Santam and on responsible corporate citizenship. The amendments also included provision for the appointment of a lead independent director and details of the board's accountability regarding stakeholder relations.

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 IV™; and
- the Short-term Insurance Act, 53 of 1998.

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

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

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

The board is also responsible for determining the direction of responsible corporate citizenship within the company. The board has delegated the monitoring of the company's corporate citizenship to the social, ethics and sustainability committee. The company conducted an ethics culture survey and ethics opportunity and risk assessment to ascertain the ethical culture in the organisation in September and October 2017.

In 2018 there will be increased focus on stakeholder relations. Interventions to address the key ethical risks identified will be implemented and ethics training at management level will be conducted.

During 2017, the board considered and approved Santam's strategy as formulated and developed by management. The financial objectives, budgets and performance targets and required return on capital and levels of risk tolerance were reviewed. In 2018, the focus will be on monitoring the company's corporate citizenship and addressing outcomes by engaging with stakeholders and creating appropriate forums.

Through its charter, the board has reserved matters specifically for its attention to ensure it exercises full control over significant matters, including strategy, finance and compliance.

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

SALIENT FEATURES OF THE BOARD CHARTER

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

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

The matters reserved for the board include:

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

During 2017, the board approved the strategy and budget for 2018. Material issues relating to the execution of the strategy were considered. The board approved the interim and year-end financial results and the 2017 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 during the reporting period.

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 group to the chief executive officer, who may delegate some of these powers. The delegation of authority document codifies and regulates any such delegation of authority within the company. The board reviews its delegated authorities annually.

CHAIRMAN

The chairman provides overall objective leadership of the board of directors. The chairman's primary function is to preside over meetings of directors and shareholders, to enable the smooth functioning of the board and to oversee the dissemination of timely and accurate information to allow the directors to perform effectively.

CHIEF EXECUTIVE OFFICER

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

The CEO is contracted as a full-time, permanent employee for employment contracting purposes. As a standard element of these contracts, a restraint of trade (12 months) is included, which Santam has the discretion to enforce depending on the circumstances. The notice period is three months' written notice. Bonus payments and the vesting of long-term incentives that are in place at the time of the termination of service are subject to the rules of the relevant scheme with some discretion being allowed to the HRRC.

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

Ms Lambrechts is the chairperson of the South African Insurance Association. Details of the boards she serves on are contained on page 76.

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 act in the best interest of the company at all times,and do not derive any profit as a result of their fiduciary relationship with the company.

BOARD COMMITTEES

The committees assist the board in discharging its duties and responsibilities. Ultimate responsibility rests with the board and the board does not abdicate its responsibility to the committees. The committees report on their activities to the board quarterly 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 administered 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 also acts as secretary for the committees of the board.

In terms of the JSE Listings Requirements, the board is required to consider and satisfy itself, on an annual basis, as to the competence, qualifications and experience of the company secretary. The board conducted a formal evaluation of the company secretary during November 2017 and is satisfied that he has the necessary competence, qualifications and experience to carry out the required responsibilities of his position. The board is further satisfied that an arm's-length relationship has been maintained between the company secretary and the board. The company secretary is not a director of any group company. The directors are satisfied that the company secretary provides a central source of guidance and advice to the board and within the company on matters of good governance.

Read more about the company secretary's qualifications in the profile on page 75.

BOARD COMPOSITION AND MIX

As at 31 December 2017, the board comprised 12 directors, of whom two are executive directors. Of the 10 non-executive directors, six are independent. On 8 February 2017, Nomagugu Mtetwa and Preston Speckmann, both independent directors, were appointed to the board. Tantaswa Fubu and Monwabisi Fandeso resigned from the board on 2 March 2017 to focus on their executive roles. Yegs Ramiah resigned from the board on 5 January 2018 due to leaving the employ of Sanlam.

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 provide insight and add value to board meetings. It is their responsibility to exercise their judgement freely and independently.

In the board's opinion, there is no business or other relationship within the current structure that could materially interfere with the impartial judgement of any of the non-executive directors.

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

When appointing directors, the board considers its needs in terms of skills, experience, diversity, size and demographics. There is a formal, transparent board nomination process described in a policy detailing procedures for appointment to the board. This policy was reviewed in 2017. The board also revised its policy regarding gender representation in its membership and approved a policy regarding gender and race representation during the latter half of 2017. No new board appointments were made during 2017 after the policy on board race and gender diversity was revised and approved. The policy on gender diversity was applied when appointing the new directors in February 2017.

Based on the recommendation from the nominations committee, the board considers the nomination of new directors for appointment – or re-appointment in the case of existing directors – and makes recommendations to shareholders. Directors do not have a fixed term of appointment. In accordance with the company's MOI, 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 EVALUATION AND TRAINING

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

A formal, externally facilitated evaluation process is conducted at least every two years. The evaluation for 2017 was internally facilitated and included an effectiveness assessment of the board collectively and an appraisal of the board committees and the chairman. The evaluation found no significant matters or material concerns in respect of the board and board committee performance. The results indicated that the board was functioning effectively, the core board processes were working well and the board was well balanced. The directors believe that board meetings were well organised and efficiently run and all relevant aspects of the company's business were dealt with by the board and its committees. The need for the optimisation of the pre-reading material was identified.

The nominations committee conducted an informal review of the individual directors in February 2018, and no concerns were noted. The results of the evaluation were shared and discussed with the board. The board is satisfied with the performance of its members. The performance of all directors standing for election at the AGM in May 2018 has been considered by the board, and their re-election is supported.

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

DEALING IN SECURITIES

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

Directors and the company secretary must obtain prior written authorisation from the chairman to deal in company securities. The company secretary retains a record of all such share dealings and approvals. Senior management and designated employees exposed to unpublished, price-sensitive information in relation to the company's shares by virtue of their positions are prohibited from trading in Santam securities during the company's closed periods, and require written approval from the chief executive officer to deal in Santam shares at all times.

SUSTAINABILITY MATTERS

The board recognises 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.

Read more about Santam's material matters and key future drivers from page 14 of the integrated report and in the social and ethics committee report on page 89.

COMPLIANCE

Santam acknowledges the importance of compliance with legislation affecting its operations and its accountability to all stakeholders. The group has given substantial focus to legislative compliance during the year, such as improving the compliance risk management processes, preparing for regulatory changes in relation to the Protection of Personal Information Act, Conduct of Business Risks, new binder regulations and policyholder protection rules. Santam's 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 group compliance function in place, responsible for implementing the group compliance framework. The compliance function identifies legislation applicable to the group, informs the business of pertinent regulatory requirements (and amendments), analyses their impact on business operations, facilitates the introduction of controls and monitors compliance. For increased efficiency and effectiveness, the compliance function collaborates with other risk assurance providers on certain matters and works closely with other entities within the group. In implementing the compliance framework, a risk-based approach is adopted. In addition, Santam complies with mandatory industry codes.

Read more in the risk management report on page 91.

Santam has a compliance framework that involves preparing and maintaining inventories of material laws and regulations, implementing policies based on these laws and establishing procedures to supervise compliance and mitigate risks. The risk committee monitors the effectiveness of the compliance function on a regular basis. Key focus areas for 2017 included the new binder regulations that introduce more stringent compliance requirements for binder arrangements; Protection of Personal Information Act gap analyses; policyholder protection rules; and enhancement of TCF processes that assure our policyholders of fair treatment.

The Santam group compliance function adopts a risk-based approach that takes into account the nature, scale and complexity of business while enforcing good governance, efficiency and effectiveness.

BOARD AND COMMITTEE MEETINGS

The board met five times at scheduled meetings in 2017. The board meets at least once every quarter and holds a strategy meeting annually in August to approve the strategic direction of the group.

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

	Board	Audit committee	Risk committee	Human resources and remuneration committee	Nominations committee	Investment committee	Social, ethics and sustainability committee
Number of meetings held during 2017	5	4	4	4	4	4	3
B Campbell	5 (100%)	4 (100%)	4 (100%)	–	–	–	3 (100%)
PE Speckmann	5 (100%)	3 (100%)	4 (100%)	–	–	–	–
MP Fandeso	1 (100%)	1 (100%)	1 (100%)	–	–	–	–
BTPKM Gamedze	5 (100%)	–	4 (100%)	–	–	–	3 (100%)
GG Gelink	4 (80%)	3 (75%)	3 (75%)	2 (50%)	2 (50%)	2 (50%)	–
IM Kirk	5 (100%)	–	–	4 (100%)	4 (100%)	–	–
L Lambrechts	5 (100%)	–	4 (100%)	–	–	4 (100%)	–
MLD Marole	5 (100%)	–	–	4 (100%)	4 (100%)	–	3 (100%)
NV Mtetwa	5 (100%)	3 (100%)	4 (100%)	–	–		–
HD Nel	5 (100%)	–	4 (100%)	–	–	4 (100%)	–
T Fubu	0 (0%)	0 (0%)	0 (0%)	–	–	–	–
Y Ramiah	5 (100%)	–	–	–	–	–	3 (100%)
MJ Reyneke	5 (100%)	4 (100%)	4 (100%)	–	–	4 (100%)	–
HC Werth	5 (100%)	–	4 (100%)	–	–	3 (75%)	–

Key:
– *Not a member of the committee.*
Monwabisi Fandeso and Tantaswa Fubu resigned as directors effective 2 March 2017.
Nomagugu Mtetwa and Preston Speckmann were appointed as directors on 8 February 2017.

BOARD COMMITTEES

RISK COMMITTEE

The risk committee is chaired by Machiel Reyneke, an independent non-executive director. The committee assists the board in fulfilling its governance from a risk and control perspective and in executing its compliance and risk management responsibilities. The committee is responsible for identifying, evaluating and effectively managing all significant risks and for providing adequate oversight of Santam's own risk and solvency assessment and internal model processes. Compliance with relevant laws and regulations is integral to Santam's risk management process and is monitored on a continuous basis. The committee operates in terms of a formal charter approved by the Santam board.

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

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

The committee met four times during the year. Key areas of focus during 2017 included monitoring the adherence to the company's risk appetite, reviewing the measures adopted by management to address the key risks facing the organisation, including IT security, financial risk and compliance management. Future areas of focus for the committee include IT security and governance. Details of attendance at meetings are provided above. Representatives from the external auditors, internal auditors, financial risk management, enterprise risk management and compliance attend committee meetings.

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

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

There were no penalties, fines or sanctions imposed during 2017.

Read more in the risk management report on page 91.

AUDIT COMMITTEE

The audit committee is chaired by Machiel Reyneke, who is an independent non-executive director. 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. The committee is responsible for, inter alia, the company's sound financial standing and effective internal financial controls and processes. The committee reviews the overall quality and integrity of financial and integrated reporting disclosures.

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

The audit committee consists of a minimum of three independent directors and is appointed by shareholders at the AGM. During 2017, the committee consisted of five independent non-executive directors. Its primary function, in addition to those required by the Companies Act, is to help the board oversee financial matters. The committee operates by formal charter and an annual work plan approved by the board. The independent chairman of the board, Grant Gelink, is a member of the audit committee. 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 2017, exceeding the minimum recommended number of members.

The qualifications of the audit committee members are provided in the profiles from page 76. All members of the committee are independent non-executive directors. The profiles of the audit committee members recommended for re-election at the 2018 AGM are contained in the notice of AGM.

The functions of the audit committee include:

- Overseeing integrated reporting;
- Reviewing and recommending for approval by the board the annual financial statements, the interim reports, preliminary or provisional result announcements, integrated report, any other intended release of price-sensitive information and prospectuses, trading statements and similar documents;
- Reviewing and recommending the disclosure of sustainability issues in the integrated report for approval by the board to ensure that it is reliable, does not conflict with the financial information, and provides a balanced view;
- Overseeing the effectiveness of Santam's assurance functions and services;
- Recommending to the board the engagement of an external assurance provider on material sustainability issues, if relevant;
- Reviewing accounting policies and practices and considering any significant changes to or departure from accounting policies and practices;
- Reviewing the basis on which the company has been determined a going concern;
- Considering changes to the dividend policy and recommending dividend declarations to the board;
- Nominating the external auditor of the Santam group and its subsidiaries (who, in the opinion of the committee, is independent of the company) for appointment by the shareholders;
- Approving the terms of engagement and remuneration for the external audit and ensuring that the appointment of the auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors;
- Defining a policy for non-audit services to be rendered by the external auditor to the company or a related company and pre-approving the contracts for non-audit services to be rendered by the external auditor; and
- Assisting the board in carrying out its IT responsibilities.

During the year under review, the audit committee, after evaluating the performance and independence of the external auditors, confirmed the independence of the auditors from the organisation and recommended the appointment of the external auditors and audit partner at the company's annual general meeting in 2018. The prospect of mandatory audit firm rotation was also considered by the committee during 2017. The committee also considered and determined the external auditors' fees and terms of engagement. A policy and controls are in place to address the provision of non-audit services by the external auditor. During the year under review, non-audit services conducted by PwC included forensics services for the subsidiary entities, governance and risk management reviews, conduct assurance and tax compliance services. The total fees for non-audit services conducted by the external auditor amounted to R2 million. PwC and its predecessors have served as the company's auditors for 89 years. The current audit partner was appointed as the designated partner in 2015 and will rotate according to statutory requirements.

In considering the 2017 annual financial statements, significant matters considered by the committee included reviewing key judgements and the valuation of unlisted investments. The committee considered reports prepared by management to assess whether the issues were addressed appropriately. The committee has considered the relevant audit quality indicators, including the audit firm's system of quality control. It noted that PwC was subject to a review of its quality control practices in terms of International Standard on Quality control by the IRBA. No legal or disciplinary proceedings have been concluded against the firm in the past seven years. The proposed individual audit partner for the year ending 31 December 2018, Zudhi Abrahams, is a JSE-accredited auditor and does not appear on the JSE's list of disqualified auditors. No matters in terms of section 22 of the JSE Listings Requirements exist that may preclude Mr Abrahams from accepting the appointment as individual auditor. The committee was satisfied with the quality of the audit conducted.

As per the JSE Listings Requirement 3.84, the audit committee considered the expertise and experience of the executive financial director during November 2017. The committee is satisfied that the appropriate level of expertise and experience to manage the responsibilities of that position have been met, as required by the JSE. The audit committee is also satisfied with the finance function's expertise and adequacy of resources. The committee is satisfied that adequate financial reporting procedures exist and that they are functioning well.

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

The committee is satisfied with the effectiveness of the head of internal audit and with the arrangements for internal audit. The committee believes that the design and implementation of the internal financial controls is effective. The internal audit function is provided in-house.

Audit committee members are encouraged to keep up to date with developments that affect their required skill set. The audit committee has considered factors and risks that may affect the integrity of the Santam integrated report and has reviewed the disclosure of sustainability issues in the report to verify 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 84. The audit committee is satisfied that it has fulfilled its responsibility during the year in terms of its charter. The committee believes it has complied with its legal and regulatory responsibilities for the year. The committee reviewed the company's integrated report and recommended it to the board for approval.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

The human resources and remuneration committee (HRRC) is chaired by Ian Kirk. The committee comprises only non-executive directors, the majority of whom are independent. The chief executive officer and certain members of management attend committee meetings by invitation, but excuse themselves at the appropriate times. Read more about the committee members' qualifications in the profiles from page 76. During 2017, the committee comprised three non-executive directors.

The HRRC is responsible for and has the authority to consider and make recommendations on the following, among 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.
- 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 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 ascertain that 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.
- Planning for succession.
- Managing human capital imperatives.

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

The HRRC met four times during the year. Details of attendance at meetings are provided on page 84. The HRRC is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year. The company's remuneration policy and implementation report are to be tabled for shareholders to make a non-binding advisory vote at the AGM in 2018.

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

In terms of the remuneration policy, in the event of either the remuneration policy or the implementation report having been voted against by 25% of the voting rights exercised at the AGM, the board will commence an engagement process to ascertain the reasons for the dissenting votes and will address reasonable objections and concerns raised appropriately. At the 2017 AGM, 86.9% of the voting rights exercised voted in favour of the remuneration policy and the engagement process was not required.

During 2017, the HRRC considered the following matters:

- Benchmarking of remuneration levels and practices with local comparator groups for employees, executives and 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 short-term incentive plan.
- Monitoring of actions taken with regard to fit and proper requirements.
- Monitoring and approval of short-term incentives (performance bonuses) and long-term incentives.
- BBBEE transformation scorecard progress.
- Revising the remuneration report order to enhance compliance with King IV™.

NOMINATIONS COMMITTEE

The nominations committee is chaired by Grant Gelink, the chairman of the board. 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. The chief executive officer attends committee meetings by invitation. Read more about the committee members' qualifications in the profiles from page 76.

The committee met four times during the year. Details of attendance at meetings are provided on page 84. The committee shall consider and apply the policy on board race and 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. 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 effectively integrating the sustainability strategy and objectives into the business.

The committee comprised four suitably skilled and experienced directors during 2017, and is chaired by an independent non-executive director. All members of the committee are non-executive directors. Read more about the committee members' qualifications in the profiles from page 76.

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 2017. Details of attendance at meetings are provided on page 84.

In line with King IV™, the role of the committee was expanded to include oversight and reporting on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relations. 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 that 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 environmental impact.
- Monitoring changes in empowerment charters and codes.
- Monitoring functions required in terms of the Companies Act and its regulations.
- Actively managing the material matters that affect the sustainability of the company.
- Minimising the risk associated with social, economic and environmental impact, including stakeholder activism and government regulation.
- Aligning the business with legislative requirements, such as King IV™, 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; and
  - 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 the conduct of the organisation results in fair outcomes for customers.

During the period under review, the committee reviewed the strategy, plans and progress made towards achievement of 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 is passionate about the role of insurance in sustainable development and actively engaged with management to spearhead the successful integration of ESG/sustainability issues with Santam's broader strategies. During 2017, the committee focused on the completion of the group ethics survey and assessment and the expansion of P4RR. It also considered issues related to TCF and addressed environmental risk, both the current issues, such as the water shortage in Cape Town, and longer-term climate-related vulnerabilities.

The committee considered the stakeholder relations policy and strategy in February 2018 and recommended it to the Santam board for approval. The committee assessed the effectiveness of the company's stakeholder management by considering the reports from management on stakeholder activities. The committee evaluated and recommended various actions to address the issues. Future focus areas include financial services inclusion and supplier enterprise development.

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

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, sustainability, stakeholder relations, human resources 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.

INVESTMENT COMMITTEE

The investment committee is chaired by Grant Gelink, an independent non-executive director. The committee meets to evaluate and monitor the investment portfolio, excluding strategic investments, as well as the performance of investment managers. These meetings comprise quarterly feedback sessions with investment analysts and four formal investment committee meetings a year. The investment committee guides the board on the mandates of investment managers, and makes recommendations regarding the company's investment philosophy. In November 2017, the investment committee charter was revised to adequately reflect the company's intention regarding responsible investment.

The committee assists the board to practise responsible investment that promotes good governance and the creation of value by the companies in which Santam invests. The investment committee sets the direction for responsible investing. The outsourced service providers are required to report on their application of the responsible investment principles incorporated in the Santam Group Investment Policy, and the committee is tasked with reviewing these reports. The committee has recommended that management consider the need for the contracts with the service providers or the investment mandates to be amended in order to make adequate provision for responsible investment.

The committee assists the board in holding the outsourced investment service providers accountable for complying with the responsible investment principles incorporated in the Santam Group Investment Policy. To effect this, the committee requests reports from the outsourced service providers regarding their compliance with these principles.

The committee reviewed the Santam group investment policy during November 2017, which was subsequently approved by the board.

The committee met four times during the financial year. Details of attendance at meetings are provided on page 84 and details of committee members' qualifications from page 76. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

AD HOC BOARD COMMITTEES

The board has the right to appoint and authorise special ad hoc board committees to perform specific tasks from time to time. The relevant board members make up these committees. No ad hoc committees were required during 2017.

OTHER COMMITTEES
EXECUTIVE COMMITTEE

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

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

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

IT GOVERNANCE

The Santam board is responsible for technology (including digital) and information governance and acknowledges that they are critical to the business. The IT systems provide the platform on which the company does business, and, combined with technology and data, constitute a source of future business opportunities.

IT and digital technology represent a growing source of competitive advantage for the enhancement of the intellectual capital of the company. The board has mandated the executive team to implement the IT governance framework and reporting system to monitor the risks and effective control of IT and information within the group.

The Santam board manages the execution of IT governance through the IT governance charter, which describes the IT governance principles, mechanisms and responsibilities to be applied within Santam, its subsidiaries, associates, partnerships and joint ventures. More specifically the charter sets out the responsibilities of the board relating to the governance of technology; the recognition of the fiduciary duties of the board members of subsidiary companies and business entities; IT governance principles for the group; recognition of Sanlam group IT in the Santam governance model; and the various bodies that govern IT in the Santam group, which include:

– Boards of directors
– Assigning accountability for IT governance to business unit CEOs
– Audit and risk committees
– Executive management structures
– IT management committees
– Strategic IT investment structures
– Information and IT security governance structures

The information security charter expands on the IT governance charter by describing the governance of information security. This charter sets out the various information security principles, governing bodies and role players responsible for providing the board with a clear and understandable view of the state of information security and resultant risks within the group. The information security committee (chaired by the group CIO) is responsible for adherence to the information security charter and the implementation of an information security management system with the core purpose of protecting Santam's technology and information assets.

The above charters are effected through quarterly reporting to the Santam risk committee, which covers all Santam subsidiaries, associates, partnerships and joint ventures. Reporting includes the appetite for specific strategic, technical, operational and information risks, updates regarding any governance framework changes and their implementation, access governance and vulnerability management.

Cyber risk was a core focus during the year in review and cyber-risk assessments were conducted on all core Santam Commercial and Personal applications and infrastructure to identify the threat landscape. Additionally a cyber-crises simulation was held with Santam intermediaries to create further awareness of the realities related to cyber risks and their management.

Santam has various business entities currently running off-platform systems on their own managed networks. During 2017, it was decided to systematically move these entities onto the joint Sanlam/Santam network. This allows these entities to make use of the Sanlam group cyber-security centre and to host applications on centrally managed infrastructure, enabling improved governance of technology, better management of risk and enhanced levels of reporting.

Santam considers its information as a strategic asset. The group relies on standardised processes and controls to extract and exploit information for decision-making within Santam and to maintain data quality at an acceptable level. Information governance drives accountability, responsibility and effective management of business information. Santam is in the process of updating the information governance charter with a focus on adherence to King IV information governance principles and, during 2018, a detailed information governance framework will also be developed and managed by the information governance authority. The Protection of Personal Information Act (POPI) mandated the implementation of controls to protect unstructured data in Santam and its subsidiaries. Initiatives were started in prior years and are nearing completion of the first phase of implementation.

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 on increasing operating profit and reducing operational expenses. The IT strategy is aligned with this strategic focus and aims to reduce the complexity and number of applications within Santam, which should result in an overall reduction in the total cost of IT ownership by 2018.

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

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 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 within:

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

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

The board is supported by the control functions within Santam, which include the internal audit, enterprise and 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 that continuously identify specific control weaknesses that need to be addressed. Both the risk and audit units 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 during 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 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 provide 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 that had a material impact on the Santam Ltd Group annual financial statements.

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

INTERNAL ASSURANCE PROVIDERS

The main internal independent assurance provider in Santam is the internal audit unit. 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, which is approved by Santam's audit committee and reviewed annually. The charter defines the purpose, authority and responsibility of the function.

The head of internal audit provides a report at each audit committee meeting – including an annual written assessment of its scope and findings – 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 policy. In the policy, it is acknowledged that the Santam group, at any time, holds material equity investments (in terms of the level of shareholding and/or the value of the investment) in a number of entities, either through statutory (legal) entities or other corporate or business arrangements. Internal audit has developed an audit strategy for each category of entity.

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

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

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

EXTERNAL AUDIT

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

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

The policy provides guidelines for dealing with audit, audit-related, tax and other non-audit services that may be provided by the independent auditor to Santam and its entities. It also sets out the services that may not be performed by the auditor. The services rendered by the auditors are monitored by the audit committee on a quarterly basis. Non-audit services rendered by the group's external auditors amounted to R2 million. This includes R1.1 million for assurance-related services, R0.3 million for regulatory-related services and R0.7 million for other services.

The external and internal auditors attend committee meetings and have unrestricted access to the committee and its chairman at all times, ensuring that their independence is in no way impaired. Both the external and internal auditors have the opportunity to address the audit committee at each of the meetings without management being present.

OTHER ASSURANCE

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

RISK MANAGEMENT

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

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

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

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

The risk appetite process is key to the integrated strategic planning process and the continued monitoring of operations. The risk appetite is agreed and set at board level, indicating the overall limits and boundaries for the execution of strategic goals, operational activities and the parameters for implementation of liquidity risk, market risk, credit risk, reinsurance, insurance risks and operational risks. Appetite statements are aligned with the strategy and together provide direction for decision-making and execution in terms of the amount of risk management can take. Appetite statements are a combination of quantitative and qualitative measures to provide clear guidance from a top-down perspective as to how much risk the board is willing to take. These group statements are cascaded into the various business clusters, licensed entities and material subsidiaries. The various boards of these companies are responsible for their respective risk appetites, which need to remain within the overall group appetite.

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

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

In compliance with the FSB's Board Notice 158, the heads of all the required control functions remain intact at group level, and these roles are outsourced to MiWay, Centriq and Santam Structured Insurance. The heads of risk and compliance control functions are supported by relevant functional teams at MiWay, Centriq and SSI and via various "risk custodians" within the business units to ensure adequate on-the-ground expertise and knowledge of the business. The risk management and compliance policies form part of the group's governance framework and encompass the totality of its strategies, policies and procedures for identifying, measuring, monitoring, managing and reporting all material risks to which the group may be exposed.

Alignment between risk management and other assurance providers, including internal and external audit, compliance and quality assurance functions, remains a key part of the ERM plan. The combined assurance framework brings role players together to review and update significant risks and establish potential assurance or oversight gaps that are escalated to the audit committee. The key risks are also jointly assessed by the various assurance providers as input into planning priorities for 2018. Risks and key themes have been identified to ensure an effective and efficient approach is adopted to provide the relevant stakeholders with assurance over these key risks and risk themes.

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

A recent "deep dive" included an analysis of the impact of the water crisis in the Western Cape on both the insurance and operational business. Continuity plans and plans around head office facilities were reviewed and accordingly updated. Plans have been put in place to maintain the functioning of the building should water supply be disrupted. From an operational risk perspective, a deep dive was performed on the placing of facultative reinsurance given the potential exposure when reinsurance is not appropriately placed. The review highlighted some control issues that were addressed by management, thereby reducing the potential exposure across the group. The risk is closely monitored to make sure controls are adequate and effective.

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

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

The impact of regulatory change remains a concern in some areas. Continued delays in the implementation of the Solvency Assessment Management (SAM) regime have resulted in additional costs due to reporting and other processes that run in parallel. The increase in cyber attacks internationally and the MiWay incident, where MiWay was falsely accused of racist selection processes, highlighted the potential exposure of companies to brand and reputational risks. It has also become more challenging and complex to mitigate the impact of corruption on business; vigilance is necessary to avoid dealing with people or organisations associated with corruption or with specific parties assumed to be corrupt.

The use of key risk indicators has been introduced. The process was tested and updated to enable roll-out to businesses with sufficiently mature risk management processes in place. As part of the Sanlam Group, the existing risk management system is being phased out and a new system is currently being implemented across the Sanlam Group. The process will continue into 2018 and will subsequently be rolled out to all the Santam businesses.

Read more about Santam's strategic risks in the chief executive officer's report on page 46.

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 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 a productive relationship with the regulators who grant operating licences to the group's businesses.

Regulatory compliance is therefore an important operational governance focus area:

- The Santam board is ultimately responsible for regulatory compliance.
- The responsibilities of the risk committees 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 keep members of the board and these committees abreast of all legislation applicable to the group.
- Quarterly reporting also includes compliance reports that provide information on the group's overall regulatory compliance, any significant breaches detected by the group, and business unit compliance functions. The terms of reference of cluster and business unit-level boards and risk forums similarly include monitoring of regulatory compliance.
- Compliance functions with dedicated compliance officers are established at both group and licensed entity level. The terms of reference for these functions focus specifically on regulatory compliance.
- Changes in South African regulations are monitored by the group compliance function 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 for coordinating the implementation of new regulations across affected businesses. Similar functions operate within the group's operations outside South Africa. The scope of the centralised regulatory unit will be extended over time to include non-South African businesses. Regulatory compliance remains the responsibility 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 in the chief executive officer's report on page 48.

BUSINESS CONTINUITY

A key operational risk that spans Santam's business is the potential impact of a major disaster and/or disruption. The group has responded to this threat by continually improving the group-wide business continuity framework to ensure that people are prepared, crisis infrastructure is tested, and meaningful recovery plans are in place. A steering committee is responsible for overseeing, reviewing and monitoring Santam's business continuity capability, specifically the prioritisation of business recovery plans. In 2017, integrated disaster recovery and business recovery tests were conducted at Santam's off-site premises. The tests were successful and the learnings have been incorporated into business recovery plans.

Santam's crisis management plans are undergoing a major structural update around the various businesses in the group. The geographical locations of key business functions and the possibility of cyber events have been incorporated into the plans. Provision has also been made to mitigate the impact of water supply in the Western Cape becoming rationed, disrupted or running out. The water crisis may be a real test of crisis and business continuity capabilities affecting everyone. As "Day Zero" looms and the potential of taps running dry becomes a likely scenario, business continuity will be one of the highest priorities for affected businesses to deal with.

TRANSFORMATION REPORT

INTRODUCTION

The concept of inclusive economic transformation is not new, but has become a national debate in South Africa during the past year. This has resulted in calls from various political parties and other affected entities to accelerate transformation in the financial sector. The recently finalised Financial Sector Regulation Act specifically requires the sector to focus on the fair treatment and protection of financial clients, financial inclusion and the transformation of the sector. The impact for Santam is directly linked to its licence to operate.

An analysis of Santam's transformation strategy against the national debate indicates that the group is broadly in line with expectations, since the strategy and framework directly reference inclusive economic transformation. Santam recognises that a clear view of the external context is crucial to the group's understanding of where and how the company can focus its efforts and drive economic and social change.

The Santam transformation journey and the feedback in this report focus primarily on the South African market, but will include specific areas of transformation for the respective countries where the group invests in collaboration with SEM.

PRIORITIES AND PROGRESS

Corporate South Africa plays a pivotal role in growing the economy of the country. Santam identified three key priority focus areas for 2017 that are aligned to its transformation strategy where it can add most value to drive inclusive economic transformation, influence the growth of the economy and ultimately reduce unemployment:

- the SMME sector
- the agricultural sector
- creating inclusive insurance

Read more about the transformation strategy online at www.santam.co.za.

Focus	Initiatives
The SMME sector – the focus was on supplier and enterprise development.	SMME suppliers
	Investment approach: – Santam has, over a period of a few years, invested R40 million in the ASISA ED Fund, which supports current suppliers with expanded loan opportunities. – Through the fund, two sectors in the general insurance industry were earmarked: the MBR industry, and construction and plumbing. Santam works closely with ASISA to extract value for the MBR and construction industries against the R40 million invested. To date, the ASISA fund has set aside about R30 million for these two sectors, of which 56% of this ring-fenced funding has been dispensed in the form of low-interest loans.
	Development approach: – Santam has partnered with Sanlam and ASISA to develop and roll out a supplier development programme. The programme is now in its fourth year and has developed to date 27 suppliers in the Sanlam Group, at least 80% of whom are from the Santam claims procurement supplier environment. The programme runs over a 12-month period, which includes business assessment and incubation. The aim is to prepare small black businesses for targeted directional procurement spends from the group.
	Progress made in 2017: – Sixteen suppliers participated in the 2017 programme. – Eight suppliers from the previous intake continued with the "light" version of business mentoring (16 hours for the year) and a few have opted to participate in the investment arm of the ESD programme. Of the eight, four are Santam Direct claims suppliers, predominantly in the motor body repair (MBR) space. – The 2017 intake of eight suppliers kicked off in March 2017. The focus for this intake was on black women in business. Of the eight suppliers, six are black women majority-owned businesses. Six of the suppliers are in the Santam claims supply base, of which two are in MBR and four in construction.

Focus	Initiatives
The agriculture sector – the focus was on being a lead insurer to emerging farmers.	Grain SA emerging farmers: – In 2017, Santam's key collaboration was with Grain SA in supporting around 3 000 farmers. The five-year programme involved a host of collaborators of which an insurance partner was a critical component. Santam joined the programme in the third year of operation. – The aim of the programme is to advance farmers from subsistence to commercial farming by strengthening their ability to improve the yield of maize crops. Santam's role is to provide consumer financial education and guidelines on how to run effective commercial farms from an insurable risk perspective.
Inclusive insurance – the focus was on driving inclusive growth through financial and risk management education to SMMEs and the general mass market.	Consumer financial and risk management education: A well-functioning society must be economically stable. As a complement to P4RR, Santam offered training to targeted SMMEs associated with these business units: – Vulindlela (VUM) – Santam Direct – Santam Niche – Santam Agriculture To date, Santam has reached 4 170 SMMEs, mainly in Gauteng and the Eastern and Western Cape. We continue to drive consumer financial education projects that promote inclusive insurance practices, which include: – Consumer financial education and general business skills training for small businesses and individuals from the Soweto community at the Vilakazi Street Retail Box concept store and the Jabulani precinct Builder Box store. – Emerging farmer training in collaboration with a variety of Agri development partners like Grain SA. – Financial risk management training with the Taxi Association for taxi owners and their employees. – Employee forums at a variety of manufacturing businesses in the Eastern and Western Cape. – Consumer financial education training and a radio campaign focused on short-term asset risk management in Alexandra Township in Gauteng.

KEY HIGHLIGHTS FOR 2017

Santam's transformation highlights support the group's drive to transform across the entire value chain. There are improvements year-on-year and deeper commitments for 2018 and beyond.

Stakeholder	Key highlights
Employees	– Black employee representation improved to 70% (2016: 68%). – R105 million (2016: R114 million) was invested in learning and development for black employees across the group.
Suppliers	– No further investment was made for 2017 with focus to ensure that the R40 million invested in the prior years was dispersed to identified suppliers invested in supplier development through the joint Sanlam/Santam/ASISA supplier development programme. To date, a total of 231 unemployed black participants have enrolled for the black broker programme since 2015, a total of 146 completed and were deemed to be competent, of whom 108 have been employed, a 74% job placement rate.
Communities	– Socio-economic development strategy expanded to support risk management work, focusing on vulnerable communities. – R11.5 million invested in CSI for 2017 (2016: R12 million).
Clients	– R10 million (2016: R8.3 million) invested in consumer financial education programmes. – Expanded consumer financial education to the development of small businesses, including emerging farmers, and reached 4 170 SMMEs and 1 552 individuals. This will remain a focus in 2018. – Improved product offering to emerging markets by increasing the group's product offering from 12 to 15 options for this market. – Just over 172 795 total policies sold as access products in South Africa (2016: 129 577).

BBBEE PROGRESS

In 2017, Santam based its BBBEE status on the amended FSC, as developed at the time for the sector.

View the Santam group scorecard and certificate online at www.santam.co.za.

BBBEE STATUS YEAR-ON-YEAR

Year	2014	2015	2016	2017
FSC level achieved	Level 3	Level 3	Level 2	**Level 2**

SCORECARD 2017

Element	Weighting	Final score
Ownership	23+5	23.54
Management and control	8	3.85
Employment equity	12	5.97
Skills development	20+3	16.45
Preferential procurement	20+4	19.87
Supplier development	10+1	11
Enterprise development	5+3	6
Consumer education	2+1	3
Socio-economic development	3+2	3
Access to financial services	12	8.94

ELEMENT SUMMARY FEEDBACK

Element	Summary feedback
Ownership	– Santam has maintained its black-owned and black-controlled shareholding in line with the group's strategy to retain highly credible empowerment credentials. Black representivity 28% (2016: 28.73%) as per the revised scorecard. – Our community-focused initiatives received R5.5 million funding (2016: R4.5 million), driven through the P4RR initiative. – Read more on P4RR on page 55.
Management control	– Santam continues to show improvement in top management representation. – Black representation at executive level for 2017 was 44.44% (2016: 36.33%).
Employment equity	– The group made steady progress in improving its EE representation year on year. – See "The right people" for more detail. – Santam improved its score to 5.97/12 (based on recently gazetted FSC code) (2016: 8.48/15) based on the old FSC code.
Skills development	– The group showed steady progress in its skills development investment in black employees. Percentage of the group's leviable amount: 2017: 7.22% (2016: 4.23%).
Preferential procurement	– Preferential procurement increased significantly compared to previous years. This is directly related to efforts to improve preferential spend to QSEs and EMEs. – 2017: QSE: 24.35% and EME: 14.10% of total procurement spend to QSEs and EMEs (2016: 43.98%).
Enterprise and supplier development	– The group continued to invest in growing SMMEs, particularly in its supply chain. – 2017: 5.72% of net profit after tax (NPAT) (2016: 8.76%).
Consumer financial education	– Santam's focus was on educating the increasing mass middle class market, in particular emerging microbusinesses. – Investment in these markets increased: 2017: 0.83% of NPAT (2016: 0.66%).
Socio-economic development	– We continue to invest in vulnerable communities. – See "Building partnerships for risk and resilience" and "CSI for risk support" for more detail. – 2017: the business invested 0.85% of its NPAT in communities (2016: 0.95%).
Access to financial services	– Santam made progress in increasing the number of products sold in the access market from 12 to 15 products. The business achieved 8.94/12 points (2016: 10.20/12).

TRANSFORMATION GOVERNANCE

Governance of transformation is a priority for the group. It is overseen by the HRRC, reported to the social, ethics and sustainability committee and is on the agenda of the board driven by the executive committee.

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

Reporting mechanisms include, among others, the National Employment Equity Forum that focuses on consultation and implementation of diversity, EE and skills development, based on plans and targets. The newly established group transformation committee ensures implementation, monitoring and evaluation and reporting on the other business transformational indicators, which run across the business value chain.

NEEF (workforce focus – EE and skills Development) and GTC (Marketplace Transformation integration) transformation strategy for the group.

Transformation governance elements include:

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

VALUE-ADDED STATEMENT

	2017 R million	2016 R million
Gross written premium	**29 720**	25 909
Claims paid and cost of other services	**24 838**	22 022
Investment income net of fees	**1 392**	777
	6 274	4 664

VALUE ADDED

EMPLOYEE BENEFITS

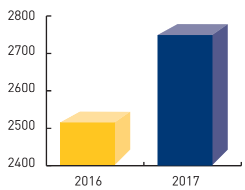
Santam paid

R2 777m

▲9%

(2016: R2 543m)

to employees in salaries, short- and long-term incentives and employee benefits



Employee benefits

GOVERNMENT

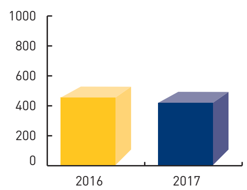
Santam paid

R489m

▼6%

(2016: R524m)

to the South African government in direct taxation on income



Government

SHAREHOLDERS

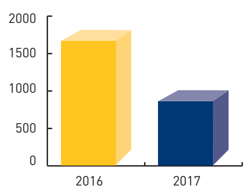
Santam paid

R1 003m

▼44.5%

(2016: R1 806m)

in the form of dividends to shareholders



Shareholders

FINANCIERS

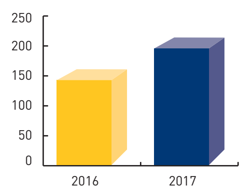
Santam paid

R213m

▲33%

(2016: R160m)

finance cost on subordinated debt



Financiers

RETAINED

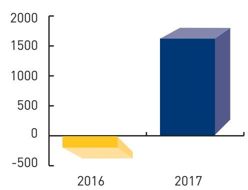
Santam retained

R1 792m

▲586%

(2016: (R369m))

for the future growth and sustainability of its business



Retained

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
28 February 2018

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
28 February 2018

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SANTAM LTD

OPINION

The summary consolidated financial statements of Santam Ltd, set out on pages 104 to 121 of the audited summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at 31 December 2017, 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 2017.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the JSE Limited's (JSE) requirements for summary financial statements, as set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 28 February 2018. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the JSE's requirements for summary financial statements, set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Director: Zuhdi Abrahams
Registered auditor
Cape Town

28 February 2018

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Audited As at 31 December 2017 R million	Audited As at 31 December 2016 R million
ASSETS			
Non-current assets			
Property and equipment		135	106
Intangible assets		841	885
Deferred income tax		91	105
Investment in associates and joint ventures		1 789	1 536
Financial assets at fair value through income	6	17 554	13 430
Reinsurance assets	7	202	140
Deposit with cell owners		129	163
Total non-current assets		20 741	16 365
Current assets			
Cell owners' and policyholders' interest		10	7
Financial assets at fair value through income	6	2 182	1 362
Reinsurance assets	7	5 622	4 349
Deposit with cell owners		45	56
Deferred acquisition costs		537	469
Loans and receivables including insurance receivables	6	5 253	3 754
Income tax assets		17	19
Cash and cash equivalents		4 321	2 887
Non-current assets held for sale	8	–	8
Total current assets		17 987	12 911
Total assets		38 728	29 276
EQUITY AND LIABILITIES			
Capital and reserves attributable to the company's equity holders			
Share capital		103	103
Treasury shares		(470)	(472)
Other reserves		(214)	(41)
Distributable reserves		7 999	7 286
		7 418	6 876
Non-controlling interest		506	469
Total equity		7 924	7 345
Non-current liabilities			
Deferred income tax		87	101
Financial liabilities at fair value through income			
Debt securities	6	2 031	2 005
Investment contracts		1 583	–
Cell owners' and policyholders' interest		3 227	1 153
Insurance liabilities	7	1 789	1 312
Reinsurance liability relating to cell owners		129	163
Total non-current liabilities		8 846	4 734
Current liabilities			
Financial liabilities at fair value through income			
Debt securities	6	25	48
Investment contracts	6	120	101
Financial liabilities at amortised cost			
Collateral guarantee contracts		130	123
Insurance liabilities	7	16 059	12 284
Reinsurance liability relating to cell owners		45	56
Deferred reinsurance acquisition revenue		326	273
Provisions for other liabilities and charges		106	71
Trade and other payables including insurance payables	6	4 953	4 093
Current income tax liabilities		194	148
Total current liabilities		21 958	17 197
Total liabilities		30 804	21 931
Total shareholders' equity and liabilities		38 728	29 276

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Audited Year ended 31 December 2017 R million	Audited Year ended 31 December 2016 R million	Change
Gross written premium		29 720	25 909	15%
Less: reinsurance written premium		8 027	6 137	
Net written premium		21 693	19 772	10%
Less: change in unearned premium				
Gross amount		648	137	
Reinsurers' share		(285)	(191)	
Net insurance premium revenue		21 330	19 826	8%
Investment income	9	1 335	777	72%
Income from reinsurance contracts ceded		1 794	1 337	
Net gains on financial assets and liabilities at fair value through income	9	427	42	
Investment income and fair value losses on financial assets held for sale	9	175	13	
Other income		127	–	
Net income		25 188	21 995	14%
Insurance claims and loss adjustment expenses		20 466	17 100	
Insurance claims and loss adjustment expenses recovered from reinsurers		(6 400)	(4 189)	
Net insurance benefits and claims		14 066	12 911	9%
Expenses for the acquisition of insurance contracts		4 218	3 716	
Expenses for marketing and administration		3 652	3 247	
Expenses for investment-related activities		67	70	
Amortisation and impairment of intangible assets		71	51	
Investment return allocated to cell owners and structured insurance products		563	–	
Total expenses		22 637	19 995	12%
Results of operating activities		2 551	2 000	28%
Finance costs		(295)	(212)	
Net income from associates and joint ventures		110	67	
Profit on sale of associates	11	5	–	
Gain on dilution of associate	11	18	–	
Reclassification of foreign currency translation reserve on dilution of associate	11	(90)	–	
Impairment of associates		(3)	–	
Profit before tax		2 296	1 855	24%
Income tax expense	10	(489)	(524)	
Profit for the year		1 807	1 331	36%
Other comprehensive income, net of tax				
Items that may subsequently be reclassified to income:				
Currency translation differences		(3)	(197)	
Release of translation differences on financial assets held for sale		(175)	–	
Share of associates' currency translation differences		(41)	(255)	
Reclassification of foreign currency translation reserve on dilution of associate		90	–	
Hedging reserve movement		6	(140)	
Total comprehensive income for the year		1 684	739	128%
Profit attributable to:				
– equity holders of the company		1 667	1 212	38%
– non-controlling interest		140	119	
		1 807	1 331	
Total comprehensive income attributable to:				
– equity holders of the company		1 544	620	149%
– non-controlling interest		140	119	
		1 684	739	
Earnings attributable to equity shareholders				
Earnings per share (cents)	12			
Basic earnings per share		1 511	1 100	37%
Diluted earnings per share		1 496	1 088	38%
Weighted average number of ordinary shares (millions)		110.30	110.21	
Weighted average number of ordinary shares for diluted earnings per share (millions)		111.43	111.37	

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 2016	**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**
Profit for the year	–	–	–	1 667	**1 667**	140	**1 807**
Other comprehensive income:							
Currency translation differences	–	–	(3)	–	**(3)**	–	**(3)**
Release of translation differences on financial assets held for sale	–	–	(175)	–	**(175)**	–	**(175)**
Share of associates' currency translation differences	–	–	(41)	–	**(41)**	–	**(41)**
Reclassification of foreign currency translation reserve on dilution of associate	–	–	90	–	**90**	–	**90**
Hedging reserve movement	–	–	6	–	**6**	–	**6**
Total comprehensive income for the year ended 31 December 2017	**–**	**–**	**(123)**	**1 667**	**1 544**	**140**	**1 684**
Issue of treasury shares in terms of share option schemes	–	78	–	(78)	**–**	–	**–**
Purchase of treasury shares	–	(76)	–	–	**(76)**	–	**(76)**
Release of contingency reserve	–	–	(50)	50	**–**	–	**–**
Share-based payment costs	–	–	–	77	**77**	–	**77**
Dividends paid	–	–	–	(1 003)	**(1 003)**	(103)	**(1 106)**
Balance as at 31 December 2017	**103**	**(470)**	**(214)**	**7 999**	**7 418**	**506**	**7 924**

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Audited Year ended 31 December 2017 R million	Audited Year ended 31 December 2016 R million
Cash flows from operating activities			
Cash generated from operations		3 289	2 171
Interest paid		(252)	(161)
Income tax paid		(543)	(681)
Net cash from operating activities		2 494	1 329
Cash flows from investing activities			
Acquisition of financial assets		(20 322)	(17 594)
Proceeds from sale of financial assets		20 054	17 764
Settlement of zero cost collar		(58)	75
Cash acquired through acquisition of business, net of cash paid	11	852	70
Cash received through sale of subsidiaries	11	–	208
Purchases of equipment		(68)	(60)
Purchases of intangible assets		(27)	(50)
Proceeds from sale of equipment		3	2
Acquisition of associates and joint ventures	11	(152)	(1 467)
Capitalisation of associates	11	(23)	(10)
Proceeds from sale of associates	11	23	–
Settlement of deferred conditional right relating to non-current assets held for sale		–	509
Net cash from/(used in) investing activities		282	(553)
Cash flows from financing activities			
Purchase of treasury shares		(76)	(98)
Proceeds from issue of unsecured subordinated callable notes		1 000	1 000
Redemption of unsecured subordinated callable notes		(1 000)	–
(Decrease)/increase in investment contract liabilities		(32)	31
(Decrease)/increase in collateral guarantee contracts		(1)	12
Dividends paid to company's shareholders		(1 003)	(1 806)
Dividends paid to non-controlling interest		(103)	(116)
Decrease in cell owners' interest		(51)	(114)
Net cash used in financing activities		(1 266)	(1 091)
Net increase/(decrease) in cash and cash equivalents		1 510	(315)
Cash and cash equivalents at the beginning of year		2 887	3 349
Exchange losses on cash and cash equivalents		(76)	(147)
Cash and cash equivalents at end of year		4 321	2 887

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 International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

2. Accounting policies

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for those referred to below:

The following new IFRSs and/or IFRICs were effective for the first time from 1 January 2017:

- Amendment to IAS 7 *Statement of Cash Flows*
- Amendment to IAS 12 *Income Taxes*
- Annual improvements 2014 – 2016

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

Of the standards that are not yet effective, management expects IFRS 9, IFRS 17 and IFRS 15 to have an impact on the group. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Based on management's assessment, the impact is not material. The summary consolidated financial statements do not include the full impact analysis and should be read in conjunction with the group's annual financial statements for the year ended 31 December 2017.

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021. The group is currently facilitating a programme to review the impact of the implementation and ensure a seamless transition.

IFRS 15 *Revenue from Contracts with Customers* introduces a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 does not apply to insurance contracts within the scope of IFRS 4 *Insurance Contracts*. Based on management's current assessment, the impact on the net results is not expected to be material.

3. Estimates

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

In preparing these summary consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated annual financial statements for the year ended 31 December 2017. There have been no changes since 31 December 2016.

4. Risk management

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

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

The summary consolidated financial statements do not include all risk management information and disclosures required in the annual financial statements and should be read in conjunction with the group's annual financial statements for the year ended 31 December 2017.

There have been no material changes to the risk management policies since 31 December 2016.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. **Segment information**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the chief executive officer, supported by the group executive committee.

The group conducts mainly insurance and investment activities.

Insurance activities:

The group has revised the presentation of its insurance results in the following segments:

- Conventional insurance business written on insurance licences controlled by the group, consisting of Santam Commercial and Personal, Santam Specialist (niche business and agriculture), credit insurance written by Santam Structured Insurance (SSI), Santam re and MiWay;
- Alternative risk transfer insurance business written on insurance licences of Centriq and SSI; and
- Santam's share of the insurance results of the Sanlam Emerging Markets (SEM) general insurance businesses, including SAN JV (Saham Finances).

Conventional insurance is further analysed by insurance class. Operating segments are aggregated based on quantitative and/or qualitative significance. The performance of insurance activities is based on gross written premium as a measure of growth, with operating result as measure of profitability.

Growth is measured for SEM GI businesses based on the gross written premium generated by the underlying businesses. With regard to the SEM and SAN JV (Saham Finances) insurance business, this information is considered to be a reallocation of fair value movements recognised on the SEM target shares as well as equity-accounted earnings on the investments in associates and joint ventures. It is also included as reconciling items in order to reconcile to the consolidated statement of comprehensive income. Overall profitability is measured based on net investment income and fair value movements from SEM target share investments and net income from associates for the investment in SAN JV.

As noted above, the presentation of insurance activities has been enhanced subsequent to the acquisition of SSI (refer to note 11). The comparative information has been restated to provide the information in the same enhanced format.

Insurance business denominated in foreign currencies is covered by foreign denominated bank accounts and investment portfolios. Foreign exchange movements on underwriting activities are therefore offset against the foreign exchange movements recognised on the bank accounts and investment portfolios.

Investment activities:

Investment activities are all investment-related activities undertaken by the group. Due to the nature of the activities conducted, investment activities are considered to be one operating segment. Investment activities are measured based on net investment income.

Given the nature of the operations, there is no single external client that provides 10% or more of the group's revenues.

The investment return on insurance funds is calculated based on the day-weighted effective return realised by the group on the assets held to cover the group's net insurance working capital requirements.

The Santam BEE transaction costs are unrelated to the core underwriting and investment performance of the group. Therefore, these costs are disclosed as unallocated activities.

Santam Ltd is domiciled in South Africa. Geographical analysis of the gross written premium and non-current assets and liabilities is based on the countries in which the business is underwritten or managed. Non-current assets comprise goodwill and intangible assets, property and equipment, investments in associates and joint ventures and SEM target shares (included in financial assets).

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. Segment information (continued)

5.1 For the year ended 31 December 2017

Business activity	Insurance Conventional R million	 Alternative risk R million	 Santam's share of SEM R million	 Total R million
Revenue	**25 853**	**3 867**	**2 382**	**32 102**
Net earned premium	20 893	437	1 790	**23 120**
Net claims incurred	13 753	313	1 344	**15 410**
Net commission	2 526	(102)	125	**2 549**
Management expenses (excluding BEE costs)[1]	3 354	206	433	**3 993**
Underwriting result	**1 260**	**20**	**(112)**	**1 168**
Investment return on insurance funds	584	64	356	**1 004**
Net insurance result	**1 844**	**84**	**244**	**2 172**
Other income[2]	84	43	–	**127**
Other expenses[2]	(86)	(43)	–	**(129)**
Operating result before non-controlling interest and tax	**1 842**	**84**	**244**	**2 170**
Reallocation of operating result[3]	–	–	(244)	**(244)**
Investment income/(losses) net of investment-related fees	–	563	84	**647**
Investment return allocated to cell owners and structured insurance products	–	(563)	–	**(563)**
Finance costs	–	–	–	**–**
Income from associates and joint ventures including profit on sale and impairment	–	–	65	**65**
Gain on dilution of associate	–	–	18	**18**
Reclassification of foreign currency translation reserve on dilution of associate	–	–	(90)	**(90)**
Santam BEE costs	–	–	–	**–**
Amortisation and impairment of intangible assets[1]	(31)	–	–	**(31)**
Income before taxation	**1 811**	**84**	**77**	**1 972**

[1] Amortisation of computer software included as part of management expenses. Santam's share of the costs to manage the SEM portfolio of R33 million has been included in management expenses.

[2] Includes other operating income and expenses not related to underwriting results.

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

For the year ended 31 December 2016 (restated)

Business activity	Insurance Conventional R million	 Alternative risk R million	 Santam's share of SEM R million	 Total R million
Revenue	**23 503**	**2 406**	**1 939**	**27 848**
Net earned premium	19 245	581	1 414	**21 240**
Net claims incurred	12 482	429	982	**13 893**
Net commission	2 374	5	121	**2 500**
Management expenses (excluding BEE costs)[1]	3 137	131	369	**3 637**
Underwriting result	**1 252**	**16**	**(58)**	**1 210**
Investment return on insurance funds	558	61	220	**839**
Net insurance result	**1 810**	**77**	**162**	**2 049**
Other income[2]	89	38	–	**127**
Other expenses[2]	(89)	(37)	–	**(126)**
Operating result before non-controlling interest and tax	**1 810**	**78**	**162**	**2 050**
Reallocation of operating result[3]	–	–	(162)	**(162)**
Investment income/(losses) net of investment-related fees	–	202	(213)	**(11)**
Investment return allocated to cell owners and structured insurance products	–	(202)	–	**(202)**
Finance costs	–	–	–	**–**
Income from associates including profit on sale	–	–	43	**43**
Santam BEE costs	–	–	–	**–**
Amortisation and impairment of intangible assets[1]	(21)	–	–	**(21)**
Income before taxation	**1 789**	**78**	**(170)**	**1 697**

[1] Amortisation of computer software included as part of management expenses. Santam's share of the costs to manage the SEM portfolio of R22 million has been included in management expenses.

[2] Includes other operating income and expenses not related to underwriting results.

[3] Reconciling items consist of the reallocation of net insurance results relating to the underlying investments SEM and SAN JV (Saham Finances) for management reporting purposes.

Investment R million	Total R million	Reconciling and unallocated R million	IFRS Total R million
689	32 791	(3 071)	29 720
–	23 120	(1 790)	21 330
–	15 410	(1 344)	14 066
–	2 549	(125)	2 424
–	3 993	(433)	3 560
–	1 168	112	1 280
–	1 004	(356)	648
–	2 172	(244)	1 928
–	127	–	127
–	(129)	–	(129)
–	2 170	(244)	1 926
–	(244)	244	–
575	1 222	–	1 222
–	(563)	–	(563)
(295)	(295)	–	(295)
47	112	–	112
–	18	–	18
–	(90)	–	(90)
–	–	(3)	(3)
–	(31)	–	(31)
327	2 299	(3)	2 296

Investment R million	Total R million	Reconciling and unallocated R million	IFRS Total R million
449	28 297	(2 388)	25 909
–	21 240	(1 414)	19 826
–	13 893	(982)	12 911
–	2 500	(121)	2 379
–	3 637	(369)	3 268
–	1 210	58	1 268
–	839	(220)	619
–	2 049	(162)	1 887
–	127	–	127
–	(126)	–	(126)
–	2 050	(162)	1 888
–	(162)	162	–
355	344	–	344
–	(202)	–	(202)
(212)	(212)	–	(212)
24	67	–	67
–	–	(9)	(9)
–	(21)	–	(21)
167	1 864	(9)	1 855

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. **Segment information** (continued)

5.2 **Additional information on insurance activities**

	2017 Gross written premium R million	2017 Underwriting result R million	2016 Gross written premium R million	2016 Underwriting result R million
Insurance activities				
The group's conventional insurance activities are spread over various classes of general insurance.				
Accident and health	482	58	374	49
Crop	829	114	984	69
Engineering	1 290	296	1 196	196
Guarantee	182	(18)	86	(31)
Liability	1 227	85	1 202	301
Miscellaneous	4	2	9	(3)
Motor	12 125	860	11 004	622
Property	9 000	(165)	7 972	22
Transportation	714	28	676	27
Total	25 853	1 260	23 503	1 252
Comprising:				
Commercial insurance	14 589	513	13 330	735
Personal insurance	11 264	747	10 173	517
Total	25 853	1 260	23 503	1 252

5.3 **Additional information on investment activities**

	2017 R million	2016 R million
Investment activities		
The group's return on investment-related activities can be analysed as follows:		
Investment income	557	158
Net gains on financial assets and liabilities at fair value through income	85	267
Income from associates and joint ventures	47	24
Investment-related revenue	689	449
Expenses for investment-related activities	(67)	(70)
Finance costs	(295)	(212)
Net total investment-related transactions	327	167

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

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5.4 **Additional information on Santam's share of SEM**

The group's return on Santam's share of SEM activities can be analysed as follows:

For the year ended 31 December 2017

	SEM R million	SAN JV (Saham Finances) R million	Total R million
Revenue	**1 267**	**1 115**	**2 382**
Net earned premium	881	909	**1 790**
Net claims incurred	723	621	**1 344**
Net commission	30	95	**125**
Management expenses (excluding BEE costs)	236	197	**433**
Underwriting result	**(108)**	**(4)**	**(112)**
Investment return on insurance funds	234	122	**356**
Net insurance result/operating result	**126**	**118**	**244**
Reallocation of operating result[1]	(126)	(118)	**(244)**
Investment income net of investment-related fees	84	–	**84**
Income from associates and joint ventures	–	65	**65**
Gain on dilution of associate	–	18	**18**
Reclassification of foreign currency translation reserve on dilution of associate	–	(90)	**(90)**
Income/(loss) before taxation	**84**	**(7)**	**77**

[1] *Reconciling items consist of the reallocation of net insurance results relating to the underlying investments SEM and SAN JV (Saham Finances) for management reporting purposes.*

For the year ended 31 December 2016

	SEM R million	SAN JV (Saham Finances) R million	Total R million
Revenue	**962**	**977**	**1 939**
Net earned premium	665	749	**1 414**
Net claims incurred	484	498	**982**
Net commission	32	89	**121**
Management expenses (excluding BEE costs)	184	185	**369**
Underwriting result	**(35)**	**(23)**	**(58)**
Investment return on insurance funds	119	101	**220**
Net insurance result/operating results	**84**	**78**	**162**
Reallocation of operating result[1]	(84)	(78)	**(162)**
Investment loss net of investment-related fees	(213)	–	**(213)**
Income from associates including profit on sale	–	43	**43**
(Loss)/income before taxation	**(213)**	**43**	**(170)**

[1] *Reconciling items consist of the reallocation of net insurance results relating to the underlying investments SEM and SAN JV (Saham Finances) for management reporting purposes.*

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

5. Segment information (continued)

5.5 Geographical analysis

	Gross written premium	
	31 December 2017	31 December 2016
	R million	R million
South Africa	**26 520**	23 126
Rest of Africa[1]	**3 810**	3 479
Southeast Asia, India, Middle East and China[2]	**1 549**	1 009
Other[3]	**223**	234
	32 102	27 848
Reconciling items[4]	**(2 382)**	(1 939)
Group total	**29 720**	25 909

	Non-current assets	
	31 December 2017	31 December 2016
	R million	R million
South Africa	**1 125**	1 126
Rest of Africa	**1 967**	1 670
Southeast Asia, India, Middle East and China	**886**	857
	3 978	3 653

[1] *Includes gross written premium of R1 197 million (Dec 2016: R1 118 million) relating to Namibia.*
[2] *Includes gross written premium of R119 million (Dec 2016: R116 million) relating to China.*
[3] *Includes gross written premium predominantly relating to Europe.*
[4] *Reconciling items relate to the underlying investments SEM and SAN JV (Saham Finances) for management reporting purposes.*

	Audited As at 31 December 2017 R million	Audited As at 31 December 2016 R million
6. Financial assets and liabilities		
The group's financial assets are summarised below by measurement category.		
Financial assets		
Financial assets at fair value through income	**19 736**	14 792
Loans and receivables	**5 253**	3 754
	24 989	18 546
Financial liabilities		
Financial liabilities at fair value through income	**3 759**	2 154
Financial liabilities at amortised cost	**130**	123
Trade and other payables	**4 953**	4 093
	8 842	6 370

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 2016. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Input other than quoted prices included within level 1 that is observable for the asset or liability, either directly (that is, by prices) or indirectly (that is, derived from prices). The fair value of level 2 instruments 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 during the second half of 2016 based on management's assessment of an active market for debt instruments. There were no significant transfers between level 1 and level 2 during the current 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.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 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	2 086	9	–	**2 095**
Irredeemable preference shares	2	–	–	**2**
Unquoted	–	36	1 143	**1 179**
Total equity securities	**2 088**	**45**	**1 143**	**3 276**
Debt securities				
Quoted				
Government and other bonds	–	3 776	–	**3 776**
Collateralised securities	–	541	–	**541**
Money market instruments more than one year	–	4 094	–	**4 094**
Unquoted				
Government and other bonds	–	184	–	**184**
Money market instruments more than one year	–	3 367	–	**3 367**
Redeemable preference shares	–	157	25	**182**
Total debt securities	**–**	**12 119**	**25**	**12 144**
Unitised investments				
Quoted				
Underlying equity securities	–	1 765	–	**1 765**
Underlying debt securities	–	369	–	**369**
Total unitised investments	**–**	**2 134**	**–**	**2 134**
Derivative instruments				
Exchange traded futures	–	8	–	**8**
Interest rate swaps[1]	–	–	–	**–**
Total derivative instruments	**–**	**8**	**–**	**8**
Short-term money market instruments	**–**	**2 174**	**–**	**2 174**
Total financial assets at fair value through income	**2 088**	**16 480**	**1 168**	**19 736**

[1] *Carrying value as at 31 December 2017 is less than R1 million.*

Financial liabilities at fair value through income				
Debt securities	**–**	**2 056**	**–**	**2 056**
Investment contracts	**–**	**1 703**	**–**	**1 703**
Total financial liabilities at fair value through income	**–**	**3 759**	**–**	**3 759**

31 December 2016 Financial assets at fair value through income				
Equity securities				
Quoted				
Listed	1 321	–	–	**1 321**
Irredeemable preference shares	2	–	–	**2**
Unquoted	–	–	1 181	**1 181**
Total equity securities	**1 323**	**–**	**1 181**	**2 504**
Debt securities				
Quoted				
Government and other bonds	–	2 469	–	**2 469**
Collateralised securities	–	407	–	**407**
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	**–**	**10 552**	**29**	**10 581**
Unitised investments				
Quoted				
Underlying equity securities	–	77	–	**77**
Underlying debt securities	–	268	–	**268**
Total unitised investments	**–**	**345**	**–**	**345**
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.*

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
6. Financial assets and liabilities (continued)				
31 December 2016 (continued)				
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

The following table presents the changes in level 3 instruments:

31 December 2017	Equity securities R million	Debt securities R million	Short-term money market instruments R million	Derivatives R million	Total R million
Opening balance	1 181	29	–	–	**1 210**
Acquisitions	2	–	–	–	**2**
Business combination	–	(4)	–	–	**(4)**
Disposals	(106)	–	–	–	**(106)**
Settlements	–	–	–	58	**58**
Gains/(losses) recognised in profit or loss	66	–	–	(58)	**8**
Closing balance	**1 143**	**25**	**–**	**–**	**1 168**
31 December 2016					
Opening balance	1 019	65	44	(1)	**1 127**
Acquisitions	376	–	–	–	**376**
Disposals	(2)	–	–	–	**(2)**
Settlements	–	–	–	(75)	**(75)**
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**

The unquoted equity instruments recognised as level 3 instruments consist mainly of the participation target shares issued by Sanlam Emerging Markets (Pty) Ltd (SEM). The Sanlam group entered into agreements in June 2017 to dispose of its various interests in the Enterprise Group in Ghana. In terms of the co-investment arrangement with SEM, Santam, which had an economic interest of 14% in Enterprise Insurance Company Ltd (EIC), disposed of its interest in EIC for R105 million.

Of the R66 million gain (Dec 2016: R212 million loss) recognised on equity securities, a R65 million gain (Dec 2016: R212 million loss) relates to the SEM target shares, of which R57 million (Dec 2016: R145 million) relates to foreign exchange losses, and R122 million to an increase (Dec 2016: R67 million to a decrease) 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 Pacific & Orient Insurance Co. Berhad (P&O) business in Malaysia of R58 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.
- An increase in the value of Shriram General Insurance Company Ltd of R88 million was mainly attributed to good performance 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 2016: R140 million) or increase by R211 million (Dec 2016: R213 million), respectively. If the relative foreign exchange rates increase or decrease by 10%, the cumulative fair values will increase or decrease by R86 million (Dec 2016: R85 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 R93 million (Dec 2016: R91 million) or decrease by R93 million (Dec 2016: R90 million), respectively.

At 31 December 2017, the group had exchange traded futures with an exposure value of R235 million (Dec 2016: R345 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 2017 of R33 million (Dec 2016: R27 million) and R33 million (Dec 2016: R27 million) respectively.

As at 31 December 2016, the interest rate derivative liabilities represented the fair value of interest rate swaps effected on a total of R100 million of fixed interest securities held in the investment portfolio underlining the subordinated callable notes. The interest rate swaps had 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 matured on 12 June 2017. The gross exposure asset and liability at 31 December 2016 amounted to R3 million and R3 million respectively.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

During 2007, the company issued unsecured subordinated callable notes to the value of R1 billion in two tranches. The fixed effective rate for the R600 million issue was 8.6% and 9.6% for the second tranche of R400 million, representing the R203 companion bond plus an appropriate credit spread at the time of the issues. The fixed coupon rate, based on the nominal value of the issues, amounts to 8.25% and for both tranches the optional redemption date was 15 September 2017. Between the optional redemption date and final maturity date of 15 September 2022, a variable interest rate (JIBAR-based plus additional margin) would have applied. Both tranches were, however, redeemed on 15 September 2017, resulting in the realisation of the initial discount of R45 million.

During April 2016, the company issued additional unsecured subordinated callable notes to the value of R1 billion in two equal tranches of fixed and floating rate notes. The effective rate for the floating rate notes represents the three-month JIBAR plus 245 basis points, while the rate for the fixed rate notes amounted to 11.77%. The floating rate notes have an optional redemption date of 12 April 2021 with a final maturity date of 12 April 2026, and the fixed rate notes an optional redemption date of 12 April 2023 with a final maturity date of 12 April 2028.

During June 2017, the company issued additional unsecured subordinated callable floating rate notes to the value of R1 billion in anticipation of the redemption of the R1 billion subordinated debt issued in 2007. The effective interest rate for the floating rate notes represents the three-month JIBAR plus 210 basis points. The notes have an optional redemption date of 27 June 2022 with a final maturity date of 27 June 2027.

Per the conditions set by the Financial Services Board, 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 May 2016, a zero cost collar 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.

On 31 July 2017, a zero cost collar structure on equities to the value of R1.2 billion was entered into based on the SWIX 40, providing full downside protection from the implementation level of 10 972, with upside participation (excluding dividends) of 2.2%. The structure matured on 21 December 2017 (resulting in a realised loss of R58 million) and was not renewed.

		Audited As at 31 December 2017 R million	Audited As at 31 December 2016 R million
7.	**Insurance liabilities and reinsurance assets**		
	Gross insurance liabilities		
	Long-term insurance contracts		
	– claims reported and loss adjustment expenses	**75**	25
	– claims incurred but not reported	**62**	42
	General insurance contracts		
	– claims reported and loss adjustment expenses	**8 273**	6 789
	– claims incurred but not reported	**2 310**	1 873
	– unearned premiums	**7 128**	4 867
	Total gross insurance liabilities	**17 848**	13 596
	Non-current liabilities	**1 789**	1 312
	Current liabilities	**16 059**	12 284
	Recoverable from reinsurers		
	Long-term insurance contracts		
	– claims reported and loss adjustment expenses	**18**	6
	– claims incurred but not reported	**15**	12
	General insurance contracts		
	– claims reported and loss adjustment expenses	**3 918**	2 835
	– claims incurred but not reported	**496**	329
	– unearned premiums	**1 377**	1 307
	Total reinsurers' share of insurance liabilities	**5 824**	4 489
	Non-current assets	**202**	140
	Current assets	**5 622**	4 349
	Net insurance liabilities		
	Long-term insurance contracts		
	– claims reported and loss adjustment expenses	**57**	19
	– claims incurred but not reported	**47**	30
	General insurance contracts		
	– claims reported and loss adjustment expenses	**4 355**	3 954
	– claims incurred but not reported	**1 814**	1 544
	– unearned premiums	**5 751**	3 560
	Total net insurance liabilities	**12 024**	9 107

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

8. Non-current assets held for sale

Santam Ltd initially set up the Santam International group in 2002 to facilitate its 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 a distribution of R115 million. The remaining balance of R8 million was realised during the first half of 2017. The winding up of the Santam International group resulted in the release of the foreign currency translation reserve relating to the investment in Santam International of R175 million (refer to note 9).

	Audited As at 31 December 2017 R million	Audited As at 31 December 2016 R million
Assets that are classified as held for sale		
Financial assets at fair value through income		
Loans and receivables including insurance receivables	**–**	8
	–	8
Opening balance	**8**	541
Settlements	**(8)**	(509)
Dividend income	**–**	394
Foreign exchange losses	**–**	(37)
Net fair value losses	**–**	(381)
Closing balance	**–**	8

	Audited Year ended 31 December 2017 R million	Audited Year ended 31 December 2016 R million
9. Investment income and net gains/(losses) on financial assets and liabilities		
Investment income	**1 335**	777
Dividend income	**131**	64
Interest income	**1 320**	941
Foreign exchange differences	**(116)**	(228)
Net gains on financial assets and liabilities at fair value through income	**427**	42
Net realised gains on financial assets	**121**	284
Net fair value gains/(losses) on financial assets designated as at fair value through income	**286**	(300)
Net realised/fair value (losses)/gains on derivative instruments	**(34)**	75
Net fair value (losses)/gains on short-term money market instruments	**(3)**	14
Net fair value gains/(losses) on financial liabilities designated as at fair value through income	**57**	(31)
Net fair value gains/(losses) on debt securities	**19**	(31)
Net realised losses on debt securities	**(45)**	–
Net realised gains on investment contracts	**83**	–
Investment income and net losses on financial assets held for sale[1]	**175**	13
Dividend income	**–**	394
Net fair value losses	**–**	(381)
Foreign exchange differences	**175**	–
	1 937	832

[1] *The release of the foreign currency translation reserve of R175 million for the group relates to Santam International. Dividend income for the group in prior periods 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. Please refer to note 8 for more detail.*

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

		Audited Year ended 31 December 2017 R million	Audited Year ended 31 December 2016 R million
10.	**Income tax**		
	Normal taxation		
	Current year	535	553
	Prior year	32	(8)
	Recovered from cell owners	(80)	(89)
	Foreign taxation – current year	88	56
	Total income taxation for the year	575	512
	Deferred taxation		
	Current year	(34)	12
	Prior year	(52)	–
	Total deferred taxation for the year	(86)	12
	Total taxation as per statement of comprehensive income	489	524
	Reconciliation of taxation rate (%)		
	Normal South African taxation rate	28.0	28.0
	Adjusted for:		
	Disallowable expenses	0.3	0.6
	Foreign tax differential	0.4	0.4
	Exempt income	(2.4)	(1.4)
	Investment results	(1.1)	(0.5)
	Change in CGT inclusion rate[1]	–	2.4
	Income from associates and joint ventures	(1.5)	(1.1)
	Exempt foreign currency translation differences	(1.0)	–
	Previous years' overprovision	(0.8)	(0.4)
	Non-current assets held for sale and discontinued operations	(0.4)	–
	Other permanent differences	(0.4)	0.1
	Other taxes	0.2	0.1
	Net (reduction)/increase	(6.7)	0.2
	Effective rate (%)	21.3	28.2

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

11. Corporate transactions

2017

Acquisitions

Santam Structured Insurance (Pty) Ltd

During March 2017, the Santam group acquired a shareholding of 100% in RMB-SI Investments (Pty) Ltd (now Santam Structured Insurance (Pty) Ltd (SSI)) for R193 million in cash. Key SSI management obtained a 10% economic participation interest in SSI at the acquisition date for R20 million. The 10% participatory interest is included as a liability under provisions.

	R million
Details of the assets and liabilities acquired (based on provisional purchase price allocation) are as follows:	
Property and equipment	15
Investment in associates and joint ventures	17
Financial assets at fair value through income	4 341
Reinsurance assets	391
Deferred acquisition costs	9
Loans and receivables including insurance receivables	519
Cash and cash equivalents	1 045
Deferred income tax	(86)
Cell owners' and policyholders' interest	(1 849)
Financial liabilities at fair value through income	(1 551)
Insurance liabilities	(2 242)
Deferred reinsurance acquisition revenue	(2)
Provisions for other liabilities and charges	(30)
Trade and other payables including insurance payables	(350)
Current income tax liabilities	(14)
Net asset value acquired	213
Long-term incentive provision	(20)
Purchase consideration paid	193

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

11. **Corporate transactions** (continued)

SAN JV (RF) (Pty) Ltd

Effective 10 May 2017, SEM and Santam, through its investment in SAN JV (RF) (Pty) Ltd (SAN JV), acquired a further 16.6% interest in Saham Finances via a subscription for new shares for US$351 million (R4.8 billion). Santam's share of the purchase price, including transaction costs, was US$11 million (R152 million). Santam's interest in SAN JV therefore diluted to 15% (previously 25%). As a result of the dilution, R90 million of the foreign currency translation reserve relating to SAN JV was released to profit or loss. An R18 million gain on dilution was also recognised.

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

During March, June, September and December 2017, pro rata recapitalisations took place in terms of which Santam injected a further total of R23 million into the company.

Disposals

Paladin Underwriting Managers (Pty) Ltd

During January 2017, the group sold its 40% shareholding in Paladin Underwriting Managers (Pty) Ltd for R23 million. The net profit realised was R5 million and capital gains tax of R2 million was recognised.

2016

Acquisitions

SAN JV (RF) (Pty) Ltd

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 for the period ended 31 December 2016, 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 received	**13**

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.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

	Audited Year ended 31 December 2017 R million	Audited Year ended 31 December 2016 R million
Goodwill reconciliation		
Opening balance	595	598
Impairment	(9)	(3)
Closing balance	586	595

		Audited Year ended 31 December 2017	Audited Year ended 31 December 2016
12.	**Earnings per share**		
	Basic earnings per share		
	Profit attributable to the company's equity holders (R million)	1 667	1 212
	Weighted average number of ordinary shares in issue (million)	110.30	110.21
	Earnings per share (cents)	1 511	1 100
	Diluted earnings per share		
	Profit attributable to the company's equity holders (R million)	1 667	1 212
	Weighted average number of ordinary shares in issue (million)	110.30	110.21
	Adjusted for share options	1.13	1.16
	Weighted average number of ordinary shares for diluted earnings per share (million)	111.43	111.37
	Diluted basic earnings per share (cents)	1 496	1 088
	Headline earnings per share		
	Profit attributable to the company's equity holders (R million)	1 667	1 212
	Adjusted for:		
	Impairment of goodwill and other intangible assets	8	3
	Impairment of associate	3	–
	Reclassification of foreign currency translation reserve on dilution of associate	90	–
	Gain on dilution of associate	(18)	–
	Profit on sale of associates	(5)	–
	Tax charge on profit on sale of associates	2	–
	Capital gains tax overprovision on sale of associates	–	(18)
	Foreign currency translation reserve reclassified to profit and loss	(175)	–
	Headline earnings (R million)	1 572	1 197
	Weighted average number of ordinary shares in issue (million)	110.30	110.21
	Headline earnings per share (cents)	1 425	1 086
	Diluted headline earnings per share		
	Headline earnings (R million)	1 572	1 197
	Weighted average number of ordinary shares for diluted headline earnings per share (million)	111.43	111.37
	Diluted headline earnings per share (cents)	1 411	1 075
13.	**Dividend per share**		
	Dividend per share (cents)	952	881
	Special dividend per share (cents)	–	800

14. Events after the reporting period

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

ANALYSIS OF SHAREHOLDERS

Analysis of shareholders	Number of shareholders	% of total shareholders	Number of shares	% Interest
1 – 100 shares	1 235	21.01%	79 974	0.07%
101 – 1 000 shares	2 805	47.71%	1 193 091	1.04%
1 001 – 50 000 shares	1 721	29.27%	10 125 114	8.79%
50 001 – 100 000 shares	57	0.97%	4 005 958	3.48%
100 001 – 10 000 000 shares	60	1.02%	31 897 976	27.71%
More than 10 000 000 shares	1	0.02%	67 829 304	58.91%
Total	**5 879**	**100.00%**	**115 131 417**	**100.00%**
Type of shareholder				
Individuals	3 808	64.77%	3 702 655	3.22%
Companies	570	9.70%	84 494 104	73.39%
Growth funds/unit trusts	234	3.98%	13 219 758	11.48%
Nominee companies or trusts	1 047	17.81%	3 550 940	3.08%
Pension and retirement funds	220	3.74%	10 163 960	8.83%
Total	**5 879**	**100.00%**	**115 131 417**	**100.00%**

	Shareholders in South Africa		Shareholders other than in South Africa		Total shareholders	
Shareholder spread	**Nominal number**	**% Interest**	**Nominal number**	**% Interest**	**Nominal number**	**% Interest**
Public shareholders	5 686	26.73%	176	100.00%	5 862	30.65%
Directors	11	0.03%	–	–	11	0.03%
Guardian National Insurance Ltd[1]	1	4.07%	–	–	1	3.81%
Trustees of employees' share scheme[1]	2	1.46%	–	–	2	1.30%
Holdings of 5% or more	2	67.71%	–	–	2	64.21%
Sanlam Ltd	1	62.26%	–	–	1	58.94%
Government Employees Pension Fund	1	5.45%	–	–	1	5.27%
Total	**5 702**	**100.00%**	**176**	**100.00%**	**5 878**	**100.00%**

The analysis includes the shares held as treasury shares.

[1] *Owners of treasury shares.*

ANALYSIS OF BONDHOLDERS

Analysis of debt security holders	Number of debt security holders	% of total debt security holders	Number of units	% Interest
1 – 50 000 units	–	0.00%	–	0.00%
50 001 – 100 000 units	5	2.07%	500 000	0.03%
100 001 – 1 000 000 units	71	29.33%	36 611 949	1.83%
1 000 001 – 10 000 000 units	129	53.31%	540 796 963	27.04%
More than 10 000 000 units	37	15.29%	1 422 091 088	71.10%
Total	**242**	**100.00%**	**2 000 000 000**	**100.00%**

Type of debt security holder				
Banks	2	0.83%	4 800 000	0.24%
Brokers	1	0.41%	9 000 000	0.45%
Endowment funds	1	0.41%	1 800 000	0.09%
Insurance companies	12	4.96%	42 163 000	2.10%
Investment companies	7	2.89%	35 341 949	1.77%
Medical aid schemes	22	9.09%	94 560 000	4.73%
Mutual funds	136	56.21%	1 297 399 278	64.87%
Pension funds	57	23.55%	475 830 685	23.79%
Private companies	3	1.24%	30 555 088	1.53%
Public companies	1	0.41%	8 550 000	0.43%
Total	**242**	**100.00%**	**2 000 000 000**	**100.00%**

Debt security holder spread	Nominal number	% Interest
Government Employees Pension Fund	250 000 000	12.50%
Nedgroup Investments Flexible Income Fund	230 000 000	11.50%
Investec Cautious Managed Fund	143 700 000	7.19%
Atlantic BCI Stable Income Fund	100 000 000	5.00%
Other	1 276 300 000	63.81%
Total	**2 000 000 000**	**100.00%**

SEVEN-YEAR REVIEW

		SEVEN-YEAR COMPOUND GROWTH %/AVERAGE	2017	2016	2015	2014	2013	2012	2011
PERFORMANCE PER ORDINARY SHARE									
Cents per share									
Headline earnings		2.7	**1 425**	1 086	1 844	1 446	1 033	995	1 216
Dividends		8.0	**952**	881	816	742	675	640	555
Special dividends			**–**	800	–	–	–	–	850
Net asset value			**6 722**	6 237	7 338	6 115	5 360	4 840	5 329
INSURANCE ACTIVITIES									
Net claims paid and provided (%)	Avg	65.4	**65.9**	65.1	62.1	63.1	69.3	68.3	64.2
Cost of acquisition (%)	Avg	28.1	**28.1**	28.5	28.3	28.2	27.9	27.7	28.1
Net commission paid (%)	Avg	12.1	**11.4**	12.0	10.8	10.9	12.7	13.0	13.7
Management expenses (%)	Avg	16.0	**16.7**	16.5	17.5	17.3	15.2	14.7	14.4
Combined ratio (%)	Avg	93.5	**94.0**	93.6	90.4	91.3	97.2	96.0	92.3
Underwriting result (%)	Avg	6.5	**6.0**	6.4	9.6	8.7	2.8	4.0	7.7
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			**1 148**	889	1 041	683	635	722	554
Net gain on financial assets and liabilities at fair value through income			**261**	42	235	286	449	480	189
RETURN AND PRODUCTIVITY									
Earnings expressed as % of average shareholders' funds (%)	Avg	23.0	**23.6**	15.9	32.5	24.7	20.0	19.3	25.0
Pre-tax return on total assets (%)	Avg	8.4	**5.9**	6.3	12.1	9.0	6.5	8.6	10.1
Effective tax rate (%)	Avg	26.8	**21.3**	28.2	26.9	28.4	20.4	36.7	25.7
Gross premium per employee (R'000)*			**4 316**	4 088	4 154	4 020	3 913	3 680	3 608
* *Alternative Risk Transfer premiums excluded.*									
SOLVENCY AND LIQUIDITY									
Dividend cover (times)	Avg	2.3	**1.9**	1.4	2.9	2.1	1.5	3.9	2.2
Economic capital coverage ratio (%)			**158.0**	155.0	177.0	–	–	–	–
OTHER STATISTICS									
Number of permanent employees			**5 990**	5 749	5 313	5 163	4 779	4 696	4 375
Staff composition (% of black employees)			**69.9**	67.6	62.9	60.8	59.9	59.8	56.8
Number of shareholders			**5 879**	6 414	5 859	5 268	5 530	5 565	5 169
Corporate social investment spend (% of NPAT)**			**0.8**	0.9	0.8	0.8	1.2	1.5	0.8
** *dti codes from 2009 to 2012; Financial Services Sector Charter 2013.*									
SANTAM SHARE PERFORMANCE AND RELATED INDICATORS									
Market price per share (cents)									
Closing			**26 704**	23 400	18 950	21 500	18 628	19 025	14 231
Highest			**28 250**	24 997	24 500	22 000	19 074	20 112	15 500
Lowest			**23 115**	17 350	16 750	19 700	18 291	13 950	11 707
Market capitalisation (R million)			**29 471**	25 799	20 868	24 647	21 306	21 651	17 555
Santam share price index***			**3 461**	3 020	2 427	2 767	2 384	2 437	1 967
FTSE – JSE financial index***			**1 387**	1 193	1 183	1 184	953	821	597
Closing price/earnings (times)			**18.7**	21.5	10.3	14.9	18.0	19.1	12.7
Closing price/equity per share (times)			**4.0**	3.8	2.6	3.5	3.5	3.9	2.9
Closing dividend yield (%)			**3.3**	3.8	4.3	3.5	3.6	5.5	3.6
Number of shares issued (million)			**110.4**	110.3	110.1	114.6	114.4	113.8	113.3
Number of shares traded (million)			**13.6**	19.6	25.8	8.6	13.4	12.1	12.6
Number of shares traded as a % of total number of shares in issue			**12.3**	17.7	23.4	7.5	11.7	10.6	11.1
Value of shares traded (R million)			**3 385.9**	4 325.4	5 597.4	1 651.2	2 538.8	2 018.6	1 674.4
*** *Base year 1992.*									

	SEVEN-YEAR COMPOUND GROWTH %/AVERAGE	2017	2016	2015	2014	2013	2012	2011
STATEMENTS OF COMPREHENSIVE INCOME								
Gross premium income	9.0	**29 720**	25 909	24 319	22 710	20 631	19 386	17 707
Net premium income	6.7	**21 693**	19 772	18 884	17 635	16 900	15 822	14 674
Underwriting result	1.3	**1 280**	1 268	1 779	1 494	477	623	1 186
Investment return on insurance funds		**648**	619	499	425	374	415	388
Net insurance result		**1 928**	1 887	2 278	1 919	851	1 038	1 574
Investment income and associated companies		**402**	(2)	1 258	601	752	827	440
BEE costs		**(3)**	(9)	(71)	(82)	(30)	(57)	(55)
Amortisation of intangible asset/impairment of goodwill		**(31)**	(21)	(93)	(111)	(100)	(108)	(68)
Income before taxation		**2 296**	1 855	3 372	2 327	1 473	1 700	1 891
Taxation		**489**	524	908	660	300	624	486
Non-controlling interest		**140**	119	116	88	53	49	29
Net income attributable to equity holders	3.2	**1 667**	1 212	2 348	1 579	1 120	1 027	1 376
STATEMENTS OF FINANCIAL POSITION								
Property and equipment		**135**	106	90	117	95	99	80
Intangible assets		**841**	885	827	1 086	1 072	990	994
Deferred tax asset		**91**	105	140	161	188	221	207
Investments in associates and joint ventures		**1 789**	1 536	252	355	318	261	274
Other non-current assets		**129**	163	187	–	–	–	–
Financial assets	11.9	**19 746**	14 799	14 740	13 634	12 757	10 538	10 057
Technical assets		**6 361**	4 958	4 203	3 963	2 713	2 095	1 832
Current assets		**9 636**	6 716	6 878	5 440	5 058	5 533	5 245
Non-current assets held for sale		**–**	8	541	428	415	–	–
Total assets		**38 728**	29 276	27 858	25 184	22 616	19 737	18 689
Shareholders' funds	4.3	**7 924**	7 345	8 547	7 440	6 532	5 617	6 141
Non-current liabilities		**7 057**	3 422	2 249	2 329	2 252	2 030	1 723
Technical provisions		**18 174**	13 869	12 944	12 274	10 862	9 805	8 577
Current liabilities, provisions		**5 573**	4 640	4 118	3 141	2 970	2 285	2 248
Total equity and liabilities		**38 728**	29 276	27 858	25 184	22 616	19 737	18 689
STATEMENTS OF CASH FLOW								
Cash generated from operating activities after finance costs	4.0	**3 037**	2 010	3 546	2 350	1 498	2 256	2 403
Income tax paid		**(543)**	(681)	(1 002)	(420)	(221)	(521)	(813)
Net cash from operating activities		**2 517**	1 329	2 544	1 930	1 277	1 735	1 590
Cash generated/(utilised) in investment activities		**(326)**	245	(696)	(781)	(945)	935	201
Net (acquisition)/disposal of associated companies		**(152)**	(1 467)	(2)	–	(25)	(6)	–
Acquisition of business/subsidiaries		**852**	70	–	(28)	(105)	–	(343)
Cash (disposed through sale)/acquired through acquisition of subsidiary		**–**	208	(183)	3	15	–	3
BBBEE staff trust acquired		**–**	–	132	–	–	–	–
Cash utilised in additions to property and equipment and intangible assets		**(92)**	(108)	(124)	(167)	(106)	(93)	(66)
(Acquisition)/disposal of book of business		**–**	–	–	–	(9)	(81)	–
Proceeds from sale of associated companies		**23**	–	625	–	–	–	–
Capitalisation of associated companies		**(23)**	(10)	(28)	(16)	–	–	–
Cash proceeds from unwinding of non-current assets held for sale		**–**	509	–	–	–	–	–
Net cash (used in)/from investing activities		**282**	(553)	(276)	(989)	(1 175)	755	(205)
Proceeds from issuance of ordinary shares		**–**	–	–	–	–	–	–
Purchase of treasury shares		**(76)**	(98)	–	(37)	–	–	(33)
Repurchase of shares		**–**	–	(801)	–	–	–	–
Proceeds from issuance of target shares		**–**	–	–	–	277	–	–
Increase in debt securities		**–**	1 000	–	–	–	–	–
Increase/(decrease) in investment contract liabilities		**(32)**	31	(35)	(21)	29	(17)	(413)
Increase/(decrease) in collateral guarantee contracts		**(1)**	12	11	6	7	(39)	–
Dividends paid		**(1 106)**	(1 922)	(951)	(853)	(782)	(1 674)	(618)
(Decrease)/increase in cell owners' interest		**(51)**	(114)	16	110	111	90	26
Purchase of subsidiary from non-controlling interest		**–**	–	–	–	–	–	–
Net cash used in financing activities		**(1 266)**	(1 091)	(1 760)	(795)	(358)	(1 640)	(1 038)
Net increase/(decrease) in cash and cash equivalents		**1 510**	(315)	508	146	(256)	850	347
Cash and cash equivalents at the beginning of the year		**2 887**	3 349	2 561	2 343	2 471	1 598	1 143
Translation gains/(losses) on cash and cash equivalents		**(76)**	(147)	280	72	128	23	108
Cash and cash equivalents at the end of the year		**4 321**	2 887	3 349	2 561	2 343	2 471	1 598

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)	Insurance business written on insurance licences controlled by the group.
ASISA	Association for Savings and Investment South Africa
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.
Change management	A systematic approach to dealing with rapid change.
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.
CoGTA	Department of Cooperative Governance and Traditional Affairs
Conventional insurance	Insurance business written on insurance licences controlled by the group, consisting of Santam Commercial and Personal, Santam Specialist (niche business and agriculture), credit insurance written by the Santam Structured Insurance (SSI), Santam re and MiWay.
CSI	Corporate Social Investment
Deferred acquisition costs	Acquisition costs relating to unearned premiums, disclosed as a separate asset on an insurer's statement of financial position.
Earned premium	The proportions of premium attributable to the periods of risk that relate to the current accounting period. It represents written premium adjusted by the unearned premium provision at the beginning and end of the accounting period.
ECB	European Central Bank
Economic capital coverage ratio	The economic capital coverage ratio is equal to the available capital resources, comprising shareholder's funds and subordinated debt, divided by the solvency capital requirement as determined by Santam's internal model.
FIA	Financial Intermediaries Association of Southern Africa
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.
FSB	Financial Services Board
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.
IoT	Internet of Things
Net written premium	Gross premium written or received on all business less return premium and premium ceded to reinsurers.
OSTI	Ombudsman for Short-Term Insurance
P4RR	Partnerships for risk and resilience
RDR	Retail Distribution Review
Reinsurance	A form of insurance cover for insurance companies where an insurance company transfers a portion of its risks to the reinsurer.
Reinsurance premium	The premium paid by the ceding company to the reinsurer in consideration for the liability assumed by the reinsurer.
SAcsi	South African customer satisfaction index
SAIA	South African Insurance Association
SALGA	South African Local Government Association
Salvage	The amount received by an insurer from the sale of (usually damaged) property on which he has paid a total loss to the insured.
SAMBRA	South African Motor Body Repairers Association
SARB	South African Reserve Bank
SDGs	United Nations Sustainable Development Goals
SEM	Sanlam Emerging Markets
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.
SRI fund	Santam Resilient Investment fund
SSI	Santam Structured Insurance
Sustainable insurance	A strategic approach by which all activities in the insurance value chain are performed in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with ESG issues.
Treating Customers Fairly (TCF)	An outcomes-based regulatory and supervisory approach designed to ensure that specific, clearly articulated fairness outcomes for financial services consumers are delivered by regulated financial firms.
Underwriting	The process of examining, accepting, or rejecting insurance risks, and classifying or segmenting those selected, to charge the proper premium for each.
Underwriting result	The underwriting profit or loss calculated by deducting claims incurred, net of commission and management expenses from premiums earned.
Unearned premium provision	The portion of premiums attributable to the periods of risk that relate to subsequent accounting periods and which are carried forward to such subsequent accounting periods.
UNEP FI	United Nations Environment Programme Finance Initiative
UNEP PSI	United Nations Environment Programme Principles for Sustainable Insurance

ADMINISTRATION

AT 1 MARCH 2018

NON-EXECUTIVE DIRECTORS

B Campbell, BTPKM Gamedze, GG Gelink (chairman), IM Kirk, MLD Marole, NV Mtetwa, MJ Reyneke, PE Speckmann, HC Werth

EXECUTIVE DIRECTORS

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

SPONSOR

Investec Bank Ltd

TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, South Africa
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Fax: 011 688 7721
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COMPANY SECRETARY

M Allie

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