

CAPITAL MANAGEMENT AND SOLVENCY CAPITAL MANAGEMENT PHILOSOPHY

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

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

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

DISCRETIONARY CAPITAL AND SOLVENCY LEVEL

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

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

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

We remain committed to efficient capital management.

REGULATORY SOLVENCY AND CAPITAL REQUIREMENTS

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

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

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

DIVIDENDS

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

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

Hennie Nel

Chief financial officer