ANNUAL FINANCIAL STATEMENTS | 17

santam

100 YEARS OF INSURANCE GOOD AND PROPER

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HOW TO NAVIGATE THE ANNUAL FINANCIAL STATEMENTS

The format of the annual financial statements for 2017 is consistent with that of 2016. All key information relating to a financial line item is grouped in one note.

PRIMARY STATEMENTS

The primary statements are included in the beginning of the annual financial statements and include note references to specific underlying detailed notes.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements consist of insurance-specific, financial instrument-specific and risk management notes first followed by less significant notes thereafter.

ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and company financial statements are included in the specific notes to which they relate and are indicated with a grey background.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and company financial statements, are included in the specific notes to which they relate and are indicated with a yellow border.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF SANTAM LTD

RESPONSIBILITY FOR AND APPROVAL OF THE GROUP AND COMPANY ANNUAL 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 financial statements fairly present the financial position, the results of the operations and cash flows in accordance with relevant accounting policies, based on International Financial Reporting Standards (IFRS).

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

The financial statements were authorised for issue and publication by the board and signed on their behalf by:

GG Gelink
Chairman

L Lambrechts
Chief executive officer

28 February 2018

PREPARATION AND PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The preparation of the annual financial statements was supervised by the chief financial officer of Santam Ltd, HD Nel.

SECRETARIAL CERTIFICATION

In accordance with section 88(2)(e) of the Companies Act, 71 of 2008 (the Act), it is hereby certified that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act and that such returns are true, correct and up to date.

M Allie
Company secretary

28 February 2018

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SANTAM LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Santam Limited (the Company) and its subsidiaries (together the Group) as at 31 December 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

WHAT WE HAVE AUDITED:

Santam Limited's consolidated and separate financial statements set out on pages 14 to 120 comprise:

- the consolidated and separate statements of financial position as at 31 December 2017;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

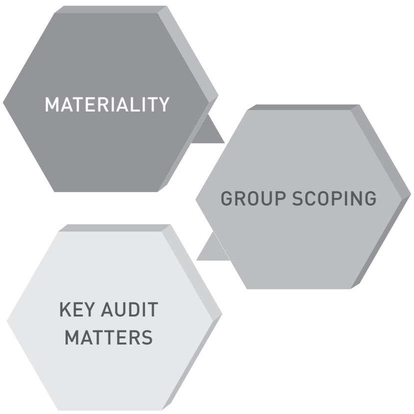
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

OUR AUDIT APPROACH

Overview



Overall group materiality

- Overall group materiality: R114.8 million, which represents 5% of the consolidated profit before tax.

Group audit scope

- Full scope audits have been performed in respect of the Company and material subsidiaries in the Group.

Key audit matters

- Assessment of the Incurred But Not Reported (IBNR) liability; and
- The fair value of the unlisted investments in Sanlam Emerging Markets (SEM) target shares.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITOR'S REPORT

MATERIALITY

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R114.8 million
How we determined it	5% of consolidated profit before tax
Rationale for the materiality benchmark applied	We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-orientated companies in this sector.

HOW WE TAILORED OUR GROUP AUDIT SCOPE

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Based on the relative contribution of the Company and each of the subsidiaries to the Group's profit before tax, we scoped in the Company and four subsidiaries with active insurance licences. An additional group of entities (Santam Structured Insurance Company) was scoped in for the purpose of the current year audit as we determined that it is likely to include significant risks of material misstatement to the consolidated financial statements. Full scope audits were performed on these entities. Furthermore, we included subsidiaries within our overall scope where such subsidiaries contributed materially to gross written premium, profit before tax or the total asset value of the Group.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, or component auditors from the PwC network firm or component auditors from other PwC network firms or other firms operating under our instructions. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis of our opinion on the consolidated financial statements as a whole.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Assessment of the incurred but not reported (IBNR) liability	
The total value of the Group's gross incurred but not reported claims (IBNR) at 31 December 2017 was R2 372 million as disclosed in note 4 – Insurance liabilities and reinsurance assets (page 33) (Santam Ltd – R1 914 million). The calculation of this insurance liability is subject to inherent uncertainty and significant estimation is required. Due to the magnitude of the liability and the significance of estimation required, the assessment of the IBNR is considered a matter of most significance to our audit. There is substantial uncertainty regarding the ultimate outcome of claims that have occurred but had not yet been reported by the reporting date. Management has applied stochastic reserving techniques to ensure that the IBNR reserve includes an appropriate margin for volatility in experience. In line with the accounting policy, management performs stochastic simulations so as to obtain a distribution of all possible reserve outcomes, with the margin set such that there is at least a 75% probability that the reserves will be sufficient to cover IBNR claims and direct claim-related expenses.	Our audit procedures included testing relevant internal controls over the data used in the calculation of the insurance liabilities. The procedures included tests over both manual controls as well as IT controls. The reasonability of previous estimates of reported claims was assessed by comparing the run off actually experienced between initial recognition of the claims and the ultimate settlement of the claims. This procedure was performed to assess the sufficiency of the processes implemented by management with regard to the estimation. Based on the results of our procedures on the historical run off, the reserves calculated at year end were accepted as sufficient. The model used to calculate the IBNR was assessed using our actuarial expertise. The methodology that was applied was compared to the methodology applied by other companies in the industry. Estimated claims development factors used in the model were recalculated based on historical data. The data used in calculating the actuarial reserves to determine the sufficiency of the net technical reserves was tested on a sample basis by comparing the data to the claims information (date of loss, gross claim amount paid, claim number, etc.), on the underlying system to test the validity, accuracy and completeness of the data. To assess the validity of the claims information recorded on the system (e.g. loss event, claim estimate, and item being claimed) and the valuation of the claims, a sample of claims was selected. Claim values were assessed against assessor reports, and the claims were traced to claim documentation which detailed the loss event. The claims were also compared to the information for the underlying policy recorded on the system to test if the claims were related to valid policies (e.g. if the item being claimed was included on the original policy and if the premium has been paid up). We also performed independent stochastic simulations to inform our view of management's proposed estimate (i.e. best estimate plus margin). We noted that the methods used are in line with standard industry practice. Our independent testing of the estimates did not highlight any material exceptions.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
The fair value of the unlisted investments in Sanlam Emerging Markets (SEM) target shares	
The Company subscribes from time to time in separate classes of target shares issued by SEM in terms of a Participation Transaction, with each separate class linked to a participatory interest in the target companies. The fair value of the SEM target shares (R1 089 million at 31 December 2017) as disclosed in note 5.1 – Financial assets at fair value through income (page 49) is predominantly determined using discounted cash flow models. The most significant assumptions used in these models are the discount rate, exchange rate and net insurance margin expectations. The SEM investments are in non-South African markets and this adds to the uncertainty of the assumptions and discount rates used. Due to the size of the investment, the estimation uncertainties in the assumptions, and the amount of judgement required, the assessment of the fair value is considered a matter of most significance to our audit. The different businesses that Santam participates in as a result of the SEM target shares are included in note 5 on page 51.	The reasonability of the fair values assigned to the unlisted investments in SEM was assessed on a sample basis using our valuation expertise. Models applied by management were assessed for appropriateness based on the nature of the investments and were accepted as appropriate. The assumptions used in the model were tested by comparing these assumptions to our independently derived expectations. The discount rates used in the models (on a sample basis) were compared to a range of discount rates independently calculated based on the markets in which the businesses (in which SEM has invested) operate, taking into account the nature of the individual businesses. The discount rates used were found to be within a reasonable range of our independently calculated discount rates. In order to assess the reasonability of the forecasted cash flows used in the models, previous budgets were compared to the actual experience of the businesses. For the net insurance margin expectations the key drivers, namely claims loss ratios and premium growth, were compared to our independent expectations, which are based on historical experience of the businesses as well as expectations for the markets in which the individual businesses operate. Exchange rates used in the valuations were compared to those quoted in the market. Using independently determined discount rates and assumptions, a range of fair values was calculated and compared to the fair value calculated by management. The fair value of the unlisted investments in the SEM target shares was found to be within a reasonable range.

The key audit matters above are applicable to both the consolidated and separate financial statements.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Financial Statements for the year ended 31 December 2017, which includes the Directors' Report, the Report of the Audit Committee and the Secretarial Certification as required by the Companies Act of South Africa, and the Integrated Report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc has been the auditor of Santam Ltd for 89 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Director: Z Abrahams
Registered auditor
Cape Town

28 February 2018

REPORT OF THE AUDIT COMMITTEE

COMPOSITION AND CHARTER

The Santam audit committee appointed to hold office until the conclusion of the annual general meeting (AGM) on 30 May 2018, comprises five independent non-executive directors of the company. Messrs MJ Reyneke, B Campbell, PE Speckmann, GG Gelink and Ms NV Mtetwa were elected to the committee by the company's shareholders at the AGM on 31 May 2017. The qualifications of the members of the committee are listed on page 74 of the integrated report. The members possess the necessary expertise to direct the committee in the execution of its duties.

The audit committee of Santam acts as such for the following companies of the group where an audit committee is required in terms of the Companies Act, 71 of 2008, as amended: Santam Ltd, MiWay Insurance Ltd, Centriq Insurance Company Ltd, Centriq Life Insurance Company Ltd, Nova Risk Partners Ltd, Santam Structured Insurance Ltd and Santam Structured Life Ltd. The committee has a charter, approved by the board, dealing, inter alia, with its membership, frequency of meetings and responsibilities. The charter is reviewed annually and was updated during November 2017. The committee has a formal work plan to structure the execution of its responsibilities. The committee reviews reports from the external and internal auditors and the chairman of the committee reports on the findings at board meetings.

FUNCTIONS

The responsibility and functions of the audit committee includes the review of financial reporting (and their recommendation for approval to the board), regulatory compliance matters and monitoring litigation. The audit committee also has the responsibility of reviewing the basis on which the company has been determined a going concern and is responsible for considering changes to the dividend policy and recommending dividend declarations to the board. The committee's charter allows it to consult with external consultants to assist it with the performance of its functions, subject to a board approval process.

INTERNAL AND EXTERNAL AUDIT

The committee nominates the independent external auditor to the Santam group and its subsidiaries for appointment by the shareholders and approves the terms of engagement and remuneration for the external audit engagement. The head of internal audit functionally reports to the chairman of the audit committee and the audit committee is responsible to review and approve the internal audit charter, the internal audit coverage, as well as resource and financial plans of the internal audit department. The committee also evaluates and promotes the independence of internal audit. The committee ensures a combined assurance model is applied to provide a coordinated approach to all assurance activities in the Santam group.

MEETINGS

The committee held four scheduled meetings during the year under review. The required quorum was present at all meetings held. During the year the audit committee reviewed communication from the external auditors and, after conducting its own review, confirmed the independence of the auditors. The committee also considered and determined the fees and terms of engagement of the external auditors. Furthermore, the nature and extent of all non-audit services provided by PricewaterhouseCoopers Inc and the fees in connection therewith were reviewed and approved by the committee.

CHIEF FINANCIAL OFFICER

As required by the JSE Listings Requirement 3.84, the audit committee has considered the expertise and experience of the financial director, Mr HD Nel, and concluded that the appropriate requirements have been met. The committee is satisfied that the expertise, resources and experience of the company's finance function is satisfactory.

INTEGRATED REPORT AND ANNUAL FINANCIAL STATEMENTS

The audit committee reviewed the 2017 Santam Ltd integrated report and considered factors and risks that may impact on the integrity of the report. The audit committee also reviewed the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information. The audit committee has not recommended the engagement of an external assurance provider on material sustainability issues to the board as it is of the view that the assurance provided is adequate, given the maturity of the processes in place. The committee has recommended the integrated report and annual financial statements to the board for approval.

EFFECTIVENESS OF INTERNAL FINANCIAL CONTROLS

The audit committee has confirmed that effective systems of internal control and risk management are being maintained. There were no breakdowns in the functioning of the internal financial control systems during the year, which had a material impact on the Santam Ltd Group annual financial statements. The board is satisfied that the annual financial statements fairly present the financial position, changes in equity, the results of operations and cash flows for the group in accordance with International Financial Reporting Standards and supported by reasonable and prudent judgements consistently applied.

The committee is satisfied that it had fulfilled its responsibilities in terms of its charter during the year under review and believes that it complied with its legal, regulatory and other responsibilities for the year.

MJ Reyneke
Chairman of the audit committee

28 February 2018

DIRECTORS' REPORT

ACTIVITIES

Santam Ltd (a public company incorporated in South Africa) and its subsidiaries transact all classes of general insurance. Certain licensed subsidiaries conduct individual life and investment-linked business.

FINANCIAL REVIEW

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

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 consists 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 (ART) insurance consists of business written on the insurance licences of Centriq Insurance and Santam Structured Insurance.
- Santam's share of the insurance results of the Sanlam Emerging Markets (SEM) general insurance businesses (including Saham Finances).

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.

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 earnings 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.

Conventional insurance

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).

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 focus 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 less 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 on gross claims of this event 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.

DIRECTORS' REPORT

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.

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 of personal lines policies now being managed on the new platform, as well as 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.

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.

Alternative Risk Transfer (ART) insurance

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 and minority interests of R84 million (2016: R78 million).

Sanlam Emerging Markets (SEM) General Insurance Businesses (including Saham Finances held through SAN JV)

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: ten 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 the 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 economic interest of 14% in Enterprise Insurance Company (EIC), disposed of its interest in EIC with a carrying value of R68 million for R105 million.

Investment results

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 as a result of the fund's overweight position in relation to the Steinhoff Group.

DIRECTORS' REPORT

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).

Positive fair value movements (excluding the impact of currency movements) of R122 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.

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 R65 million in 2017 (2016: R43 million). The other key contributor to earnings from associated companies was Western Group Holdings Ltd.

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.

ORDINARY SHARES ISSUED

The shares in issue remained at 115 131 417 (2016: 115 131 417) shares of no par value (including 4 770 066 (2016: 4 878 063) treasury shares). In terms of the deferred share plan (DSP) implemented in 2007 and the performance deferred share plan (PDSP), 340 682 (2016: 433 213) shares were granted to employees on a deferred delivery basis during the year, 54 243 (2016: 36 119) shares lapsed as a result of resignations and 332 404 (2016: 335 155) treasury shares were issued in terms of the DSP and PDSP. Full details are set out in note 18 to the annual financial statements.

A subsidiary in the group holds a total of 4 391 161 (2016: 4 423 617) Santam shares. The shares are held as "Treasury shares". Furthermore, since the unwinding of the Central Plaza structure in 2015, the Emthunzini BBBEE staff trust is under the control of Santam Ltd, resulting in 378 905 (2016: 454 446) shares being recognised as treasury shares as at 31 December 2017 (refer to notes 17 and 18.1 for further details).

CAPITAL STRUCTURE

Debt securities

For details on debt securities, refer to note 6.1 to the financial statements.

Share capital

For details on ordinary shares issued, refer to note 17 to the financial statements.

ORDINARY DIVIDENDS

	Group	
	2017 R million	2016 R million
The following dividends were paid and are proposed:		
Interim dividend of 336 cents per share (2016: 311 cents)	**387**	358
Final dividend of 616 cents per share (2016: 570 cents)	**709**	656
	1 096	1 014

SPECIAL DIVIDEND

A special dividend of 800 cents per share was declared in August 2016.

SUBSIDIARIES

Details of the company's direct and indirect interests in subsidiaries are set out in note 10.1 to the financial statements.

The following changes in shareholding took place during the year:

- During March 2017, the Santam group acquired a shareholding of 100% in RMB Structured Insurance (now Santam Structured Insurance) for R193 million in cash. Key SSI management obtained a 10% economic participation interest in SSI at acquisition date for R20 million.
- Santam International group is in the process of being liquidated. Refer to note 15.
- On 31 December 2017, Santam Ltd acquired one share in Insurance Broker Resource Centre (Pty) Ltd. The group has an effective 100% shareholding before and after the transaction.

DIRECTORS' REPORT

ASSOCIATED COMPANIES AND JOINT VENTURES

Details of the holding company's interest in associated companies and joint ventures are set out in note 12.1 to the financial statements.
The following changes in shareholding took place during the year:

- Effective 10 May 2017, SAN JV acquired a further 16.6% interest in Saham Finances for R4.8 billion. Santam's contribution to this acquisition was R152 million. Due to Santam's participation in the transaction, Santam's interest in SAN JV diluted from 25% to 15%.
- Santam Ltd holds 49% of Professional Provident Society Short-term Insurance Company Ltd. During March, June, September and December 2017, pro rata recapitalisations took place in terms of which Santam injected a further R23 million into the company. No dilution in shareholding took place.
- During January 2017, the group sold its 40% shareholding in Paladin Underwriting Managers (Pty) Ltd for R23 million.

RELATED PARTIES

Related-party relationships exist between the company, subsidiaries, associated companies, joint ventures, Sanlam group, company directors and key management. All material intergroup transactions have been eliminated from the group's financial statements.

For related-party transactions and key management personnel, refer to notes 10.2 (transactions with subsidiaries in the Santam group), 12.2 (transactions with associated companies and joint ventures in the Santam group), 21.1 (transactions with key management, directors and prescribed officers) and 28 (transactions with Santam group entities) to the annual financial statements.

Details of directors' remuneration and their interest in the company's shares appear in notes 17.1 (interest in the shares of the company), 18.1 (deferred share plan), 21.1 (remuneration received from company) and 28 (remuneration received from other companies in the group) to the annual financial statements.

HOLDING COMPANY

Sanlam Ltd, the company's holding company, holds 61.5% (2016: 61.5%) of the total issued ordinary share capital, net of treasury shares.

SEGMENT INFORMATION

Refer to note 2 in the notes to the financial statements for the segmental report.

DIRECTORATE AND COMPANY SECRETARY AT 31 DECEMBER 2017

Committee memberships	Risk committee	Audit committee	Human resources and remuneration committee	Nominations committee	Social, ethics and sustainability committee	Investment committee
Non-executive directors						
B Campbell	✓	✓			✓	
BTPKM Gamedze	✓				✓	
GG Gelink (chairman)	✓	✓	✓	✓		✓
IM Kirk			✓	✓		
MLD Marole			✓	✓	✓	
NV Mtetwa	✓	✓				
Y Ramiah					✓	
MJ Reyneke	✓	✓				✓
PE Speckmann	✓	✓				
HC Werth	✓					✓
Executive directors						
L Lambrechts (chief executive officer)	✓					✓
HD Nel (chief financial officer)	✓					✓

The following changes took place on the company's board of directors during the year:

NV Mtetwa	–	Appointed to the board on 8 February 2017
PE Speckmann	–	Appointed to the board on 8 February 2017
MP Fandeso	–	Resigned from the board on 2 March 2017
T Nyoka	–	Resigned from the board on 2 March 2017

The following changes took place on the company's board of directors subsequent to 31 December 2017:

Y Ramiah	–	Resigned from the board on 5 January 2018

DIRECTORS' REPORT

Company secretary
M Allie

Registered office for company secretary
PO Box 3881, Tyger Valley 7536
Santam Ltd, 1 Sportica Crescent, Bellville 7530

Mr M Allie was in the position for the whole financial year.

AUDITORS

PricewaterhouseCoopers Inc will continue in office in accordance with section 90(1) of the Companies Act, 71 of 2008.

SPECIAL RESOLUTIONS PASSED

The following special resolutions were passed by Santam Ltd at the annual general meeting on 31 May 2017:

- Approval of directors' remuneration.
- General authority to the directors, in accordance with the JSE Listings Requirements and Companies Act, to repurchase the company's shares.
- General authority to provide direct or indirect financial assistance to related companies or persons (or inter-related companies or corporations).
- General authority to grant financial assistance to any related party established for the benefit of employees of the group in connection with the purchase of securities.

NOTICE IN TERMS OF SECTION 45(5) OF THE COMPANIES ACT, 2008 (THE ACT)

The company is from time to time, as an essential part of conducting the business of the group, required to provide financial assistance to group companies as part of its day-to-day operations in the form of loan funding, guarantees or general financial assistance as contemplated in section 45 of the Act. In accordance with section 45(5) of the Act this serves to give notice that the Santam board, in line with existing practice, approved that the company may, in accordance with and subject to the provisions of section 45 of the Act and in terms of the special resolution passed at the company's annual general meeting in 2017, provide such direct or indirect financial assistance to related and inter-related companies and corporations as described in section 45 of the Act. The amount and format of financial assistance which may be granted pursuant to the resolution is subject to ongoing review by the Santam board and may in total exceed the reporting threshold of 0.1% of the Santam group's net asset value provided for in the Act.

STATEMENT OF FINANCIAL POSITION

	Notes	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
ASSETS					
Non-current assets					
Property and equipment	16	**135**	106	**61**	64
Intangible assets	13	**841**	885	**283**	324
Deferred income tax	23	**91**	105	**–**	–
Investment in subsidiaries	10	**–**	–	**1 125**	1 355
Investment in associates and joint ventures	12	**1 789**	1 536	**1 652**	1 477
Financial assets at fair value through income	5.1	**17 554**	13 430	**9 269**	9 776
Reinsurance assets	4.1	**202**	140	**166**	118
Deposit with cell owner	9.3	**129**	163	**–**	–
Total non-current assets		**20 741**	16 365	**12 556**	13 114
Current assets					
Cell owners' and policyholders' interest	9.1, 9.2	**10**	7	**–**	–
Investment in subsidiaries	10	**–**	–	**–**	538
Financial assets at fair value through income	5.1, 5.2	**2 182**	1 362	**1 162**	900
Reinsurance assets	4.1	**5 622**	4 349	**5 002**	3 791
Deposit with cell owner	9.3	**45**	56	**–**	–
Deferred acquisition costs	4.1.2	**537**	469	**490**	437
Loans and receivables including insurance receivables	4.2, 5.6	**5 253**	3 754	**4 748**	3 470
Current income tax assets		**17**	19	**–**	–
Cash and cash equivalents	5.7	**4 321**	2 887	**2 026**	1 610
Non-current assets held for sale	15	**–**	8	**–**	–
Total current assets		**17 987**	12 911	**13 428**	10 746
Total assets		**38 728**	29 276	**25 984**	23 860
EQUITY					
Capital and reserves attributable to the company's equity holders					
Share capital	17	**103**	103	**103**	103
Treasury shares	17	**(470)**	(472)	**–**	–
Other reserves	19.1	**(214)**	(41)	**–**	(6)
Distributable reserves	19.2	**7 999**	7 286	**6 980**	6 552
		7 418	6 876	**7 083**	6 649
Non-controlling interest	11	**506**	469	**–**	–
Total equity		**7 924**	7 345	**7 083**	6 649
LIABILITIES					
Non-current liabilities					
Deferred income tax	23	**87**	101	**14**	42
Financial liabilities at fair value through income					
Debt securities	6.1	**2 031**	2 005	**2 031**	2 005
Investment contracts	6.3	**1 583**	–	**–**	–
Cell owners' and policyholders' interest	9.1, 9.2	**3 227**	1 153	**–**	–
Insurance liabilities	4.1	**1 789**	1 312	**1 482**	1 275
Reinsurance liability relating to cell owners	9.4	**129**	163	**–**	–
Total non-current liabilities		**8 846**	4 734	**3 527**	3 322
Current liabilities					
Financial liabilities at fair value through income					
Debt securities	6.1	**25**	48	**25**	48
Investment contracts	6.3	**120**	101	**–**	–
Financial liabilities at amortised cost					
Collateral guarantee contracts	6.5	**130**	123	**130**	123
Insurance liabilities	4.1	**16 059**	12 284	**10 947**	9 465
Reinsurance liability relating to cell owners	9.4	**45**	56	**–**	–
Deferred reinsurance acquisition revenue	4.1.2	**326**	273	**284**	247
Provisions for other liabilities and charges	20	**106**	71	**39**	38
Trade and other payables including insurance payables	4.3, 6.6	**4 953**	4 093	**3 796**	3 847
Current income tax liabilities		**194**	148	**153**	121
Total current liabilities		**21 958**	17 197	**15 374**	13 889
Total liabilities		**30 804**	21 931	**18 901**	17 211
Total shareholders' equity and liabilities		**38 728**	29 276	**25 984**	23 860

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Gross written premium		**29 720**	25 909	**24 500**	22 469
Less: reinsurance written premium		**8 027**	6 137	**4 808**	4 368
Net written premium		**21 693**	19 772	**19 692**	18 101
Less: change in unearned premium					
Gross amount	4.1.1	**648**	137	**148**	(43)
Reinsurers' share	4.1.1	**(285)**	(191)	**(137)**	(21)
Net insurance premium revenue		**21 330**	19 826	**19 681**	18 165
Investment income	5.10	**1 335**	777	**1 465**	832
Income from reinsurance contracts ceded		**1 794**	1 337	**1 200**	1 103
Net gains/(losses) on financial assets and liabilities at fair value through income	5.11	**427**	42	**199**	(5)
Investment income and fair value losses on financial assets held for sale	5.12	**175**	13	**(95)**	–
Other income		**127**	–	**–**	–
Net income		**25 188**	21 995	**22 450**	20 095
Insurance claims and loss adjustment expenses	4.4	**20 466**	17 100	**17 775**	15 268
Insurance claims and loss adjustment expenses recovered from reinsurers	4.4	**(6 400)**	(4 189)	**(4 767)**	(3 435)
Net insurance benefits and claims		**14 066**	12 911	**13 008**	11 833
Expenses for the acquisition of insurance contracts	21	**4 218**	3 716	**4 354**	3 916
Expenses for marketing and administration	21	**3 652**	3 247	**2 717**	2 540
Expenses for investment-related activities	21	**67**	70	**38**	44
Amortisation and impairment of intangible assets	13, 21	**71**	51	**41**	27
Investment return allocated to cell owners and structured insurance products		**563**	–	**–**	–
Expenses		**22 637**	19 995	**20 158**	18 360
Results of operating activities		**2 551**	2 000	**2 292**	1 735
Finance costs	6.7	**(295)**	(212)	**(286)**	(210)
Net income from associates and joint ventures	12	**110**	67	**–**	–
Impairment on net investments and loans of subsidiaries	10	**–**	–	**(230)**	–
Profit on sale of associates	12, 14	**5**	–	**–**	–
Gain on dilution of associate		**18**	–	**–**	–
Reclassification of foreign currency translation reserve on dilution of associate	14	**(90)**	–	**–**	–
Impairment of associate	12	**(3)**	–	**–**	–
Profit before tax		**2 296**	1 855	**1 776**	1 525
Income tax expense	22	**(489)**	(524)	**(302)**	(427)
Profit for the year		**1 807**	1 331	**1 474**	1 098
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)	**6**	(140)
Total comprehensive income for the year		**1 684**	739	**1 480**	958
Profit attributable to:					
– equity holders of the company		**1 667**	1 212	**1 474**	1 098
– non-controlling interest		**140**	119	**–**	–
		1 807	1 331	**1 474**	1 098
Total comprehensive income attributable to:					
– equity holders of the company		**1 544**	620	**1 480**	958
– non-controlling interest		**140**	119	**–**	–
		1 684	739	**1 480**	958
Earnings attributable to equity holders	24				
Basic earnings per share (cents)		**1 511**	1 100		
Diluted earnings per share (cents)		**1 496**	1 088		
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		

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
GROUP							
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)**
Transfer to reserves	–	–	(50)	50	**–**	–	**–**
Share-based payment costs	–	–	–	77	**77**	–	**77**
Dividends paid	–	–	–	(1 003)	**(1 003)**	(103)	**(1 106)**
Balance as at 31 December 2017	**103**	**(470)**	**(214)**	**7 999**	**7 418**	**506**	**7 924**
COMPANY							
Balance as at 1 January 2016	**103**	**–**	**134**	**7 330**	**7 567**	**–**	**7 567**
Profit for the year	–	–	–	1 098	**1 098**	–	**1 098**
Other comprehensive income:							
Hedging reserve movement	–	–	(140)	–	**(140)**	–	**(140)**
Total comprehensive income for the year ended 31 December 2016	**–**	**–**	**(140)**	**1 098**	**958**	**–**	**958**
Share-based payment costs	–	–	–	88	**88**	–	**88**
Loss on delivery of shares in terms of share scheme	–	–	–	(77)	**(77)**	–	**(77)**
Dividends paid	–	–	–	(1 887)	**(1 887)**	–	**(1 887)**
Balance as at 31 December 2016	**103**	**–**	**(6)**	**6 552**	**6 649**	**–**	**6 649**
Profit for the year	–	–	–	1 474	**1 474**	–	**1 474**
Other comprehensive income:							
Hedging reserve movement	–	–	6	–	**6**	–	**6**
Total comprehensive income for the year ended 31 December 2017	**–**	**–**	**6**	**1 474**	**1 480**	**–**	**1 480**
Share-based payment costs	–	–	–	79	**79**	–	**79**
Loss on delivery of shares in terms of share scheme	–	–	–	(82)	**(82)**	–	**(82)**
Dividends paid	–	–	–	(1 043)	**(1 043)**	–	**(1 043)**
Balance as at 31 December 2017	**103**	**–**	**–**	**6 980**	**7 083**	**–**	**7 083**

STATEMENT OF CASH FLOWS

	Notes	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Cash flows from operating activities					
Cash generated from operations	26	**3 289**	2 171	**1 575**	2 045
Interest paid		**(252)**	(161)	**(246)**	(161)
Income tax paid	27	**(543)**	(681)	**(300)**	(632)
Net cash from operating activities		**2 494**	1 329	**1 029**	1 252
Cash flows from investing activities					
Acquisition of financial assets		**(20 322)**	(17 594)	**(14 549)**	(14 530)
Proceeds from sale of financial assets		**20 054**	17 764	**14 861**	14 617
Settlement of zero cost collar		**(58)**	75	**(58)**	75
Cash acquired through acquisition of business, net of cash paid	14	**852**	70	**–**	70
Cash received through sale of subsidiaries	14	**–**	208	**–**	72
Capital distribution from subsidiary		**–**	–	**443**	–
Purchases of equipment		**(68)**	(60)	**(28)**	(38)
Purchases of intangible assets		**(27)**	(50)	**–**	(17)
Proceeds from sale of equipment		**3**	2	**1**	2
Acquisition of associates and joint ventures	14	**(152)**	(1 467)	**(152)**	(1 467)
Capitalisation of associates	14	**(23)**	(10)	**(23)**	(10)
Proceeds from sale of associates	14	**23**	–	**–**	–
Settlement of deferred conditional right relating to non-current assets held for sale		**–**	509	**–**	–
Net cash from/(used in) investing activities		**282**	(553)	**495**	(1 226)
Cash flows from financing activities					
Purchase of treasury shares		**(76)**	(98)	**–**	–
Proceeds from issue of unsecured subordinated callable notes		**1 000**	1 000	**1 000**	1 000
Redemption of unsecured subordinated callable notes		**(1 000)**	–	**(1 000)**	–
(Decrease)/increase in investment contract liabilities	6.3	**(32)**	31	**–**	–
(Decrease)/increase in collateral guarantee contracts	6.5	**(1)**	12	**(1)**	12
Dividends paid to company's shareholders		**(1 003)**	(1 806)	**(1 043)**	(1 887)
Dividends paid to non-controlling interest		**(103)**	(116)	**–**	–
Decrease in cell owners' and policyholders' interest	9.1, 9.2	**(51)**	(114)	**–**	–
Net cash used in financing activities		**(1 266)**	(1 091)	**(1 044)**	(875)
Net increase/(decrease) in cash and cash equivalents		**1 510**	(315)	**480**	(849)
Cash and cash equivalents at beginning of year		**2 887**	3 349	**1 610**	2 519
Exchange losses on cash and cash equivalents		**(76)**	(147)	**(64)**	(60)
Cash and cash equivalents at end of year		**4 321**	2 887	**2 026**	1 610

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and company financial statements are included in the specific notes to which they relate. These policies have been consistently applied to all the years presented.

1.1 Statement of compliance

The financial statements are prepared in accordance with the JSE Ltd Listings Requirements and the requirements of the Companies Act. The Listings Requirements require annual reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the IFRS Interpretations Committee interpretations and the SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council.

1.2 Basis of preparation

The financial statements have been prepared under the historical cost convention, modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through income and the application of the equity method of accounting for investments in associates and joint ventures.

Refer to note 32 for new standards, amendments and interpretations effective and not yet effective in 2017, as well as a detailed analysis of the expected impact of the standards that are not yet effective. Management expects IFRS 17, IFRS 9 and IFRS 15 to have a future impact on the group and company. A detailed analysis relating to the implementation of IFRS 9 is provided in note 32. The group did not early adopt any of the IFRS standards.

IFRS 17 addresses the establishment of principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. This is to effect a measurement model for insurance liabilities relating to policyholder contracts as well as related accounting treatments. The group is currently facilitating a programme to review how IFRS 17 will impact existing accounting processes and thereby ensure a seamless transition in the future once applicable.

IFRS 9 addresses the classification and measurement of financial assets and liabilities 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. The impact of IFRS 9 is not material to the group.

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.

All amounts in the financial statements are presented in South African rand, rounded to the nearest million, unless otherwise stated.

1.3 Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group and company's accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are highlighted below with more detail provided in the specific notes to which they relate:

- Claims incurred but not reported (IBNR) – note 4.1
- Fair value of financial instruments that are not listed or quoted – note 5.3

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

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

The group conducts mainly insurance 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 the insurance licences of Centriq and SSI; and
- Santam's share of the insurance results of the Sanlam Emerging Markets (SEM) general insurance businesses, including SAN JV (Saham Finances).

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

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 14). 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 are 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 ANNUAL FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (continued)

2.1 Segmental report

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 SEM and SAN JV (Saham Finances) 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.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 ANNUAL FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (continued)

2.2 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**

2.3 Additional information on investment activities

Investment activities

The group's return on investment-related activities can be analysed as follows:

	2017 R million	2016 R million
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 ANNUAL FINANCIAL STATEMENTS

2.4 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 before non-controlling interest and tax	**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 before non-controlling interest and tax	**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 ANNUAL FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (continued)

2.5 Geographical analysis (restated)

	Gross written premium	
	31 December 2017 R million	31 December 2016 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 R million	31 December 2016 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.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. RISK AND CAPITAL MANAGEMENT

3.1 Objective and framework

As an insurance group, Santam Ltd and its subsidiaries are exposed to various insurance and financial risks. These risks cause uncertainty and therefore the challenge for management is to determine what level of uncertainty is acceptable for each business unit as it strives to enhance stakeholder value.

Santam has adopted an enterprise risk management (ERM) approach and framework that enables management to effectively deal with uncertainty and thus enhance the capacity to build value by efficiently and effectively deploying resources in pursuit of achieving the group's objectives. The ERM process adopted is considered appropriate to the nature, scale and complexity of the group and company's business and risks. The Santam approach is aligned with the principles of King IV, ISO 31000, SAM requirements as well as the requirements of our majority shareholder, Sanlam.

Santam's ERM framework and process is designed to assist the board in ensuring that management continually monitors risk and reports back to the risk committee on the status of these risks. ISO 31000 was adopted to ensure that a structured and practical approach to risk management is implemented throughout the business. Santam believes that its ERM process is well defined and businesses are responsible and accountable for integrating ERM in the operations. ERM adds value by being aligned to the business strategy and objectives. More information relating to the overall enterprise risk management and governance process is available in the integrated report at www.santam.co.za.

3.2 Risk assessment process

A key component of the ERM framework is the risk assessment process. Santam's risk assessment process aims to identify, analyse, evaluate and manage those risks that are relevant to the company and group's strategic objectives. Risks are identified from a top down (strategic) and bottom up (operational) perspective to create and maintain an integrated view of material risk exposures. The top down approach is undertaken at an executive and senior management level and considers strategic risks affecting Santam in the medium to long term. In parallel, the bottom up approach is undertaken by enterprise, risk and compliance management (ERCM) at a business unit or specialist unit level to assess all categories of risks from their perspectives with specific focus on underwriting, reinsurance and financial risks.

The risk identification process is used to build an aggregated view of all significant risks faced by the organisation. This, together with the risk categories and knowledge base is translated into the Santam risk universe. The risk universe is a summary of the most common risk themes across all categories of risk within the company and group and assists management in understanding and effectively managing the relevant risks.

Risk analysis provides an input to risk evaluation and informs decisions on how the risks need to be treated. Risk analysis involves consideration of the causes and sources of risk, their positive and negative consequences and the likelihood that those consequences may occur.

Santam analyses quantifiable risks by using an internally developed economic capital model. The model covers the following risk categories:

- underwriting risk
- reinsurance risk
- credit risk
- market risk
- operational risk

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. RISK AND CAPITAL MANAGEMENT (continued)

3.2 Risk assessment process (continued)

A number of risks faced by Santam are not modelled in the internal model, namely: strategic liquidity, conduct, reputational, political, regulatory, compliance, sovereign downgrade, legal and outsourcing risks. These risks are analysed individually by management and appropriate measures are implemented to monitor and mitigate these risks.

Once the relevant risks are better understood, the risk appetite framework governs how the risks should be managed within the group. Santam has formulated a risk appetite policy which aims to quantify the amount of capital the company and group is willing to put at risk in the pursuit of value creation. It is within this risk appetite framework that Santam has selected its asset allocation and reinsurance programme which are among the most important determinants of risk and hence capital requirements within the organisation. The internal model allows for the measurement of Santam's expected performance relative to the risk appetite assessment criteria agreed to by Santam's board. The risk appetite process also includes the assessment of non-financial measures in determining the overall capital requirements. These assessments are presented to the risk and investment committees as well as the board on a quarterly basis for consideration.

The group issues contracts that transfer insurance risk or financial risk or both (refer to note 4 for the general terms of insurance contracts). Insurance risk (i.e. underwriting and reinsurance risk) and investment risk (i.e. market and credit risk) impacts the balances and transactions reported in a financial period. The discussions that will follow provide more detail on how Santam and its subsidiaries manage insurance and investment risk from a financial reporting perspective. The table below is a summary of all the financial balances that are affected by insurance and/or investment risk. It provides a summary of all balances that management considers to be either directly or indirectly exposed to foreign currency risk. For this reason, the investment in SAN JV (Saham Finances) is also included in the table although it is not a financial or insurance instrument.

		Group total		Group foreign	
Financial and insurance assets	Notes	**2017 R million**	2016 R million	**2017 R million**	2016 R million
Equity securities					
Quoted		**2 097**	1 323	**177**	28
Unquoted		**1 179**	1 181	**1 137**	1 138
Total equity securities	5.1, 5.4	**3 276**	2 504	**1 314**	1 166
Debt securities					
Quoted		**8 411**	5 712	**1 202**	960
Unquoted		**3 733**	4 869	**92**	84
Total debt securities	5.1, 5.5, 5.8	**12 144**	10 581	**1 294**	1 044
Unitised funds					
Quoted					
Underlying equity securities		**1 765**	77	**39**	–
Underlying debt securities		**369**	268	**–**	–
Total unitised funds	5.1	**2 134**	345	**39**	–
Derivatives	5.2, 5.5	**8**	1	**8**	1
Short-term money market instruments	5.1, 5.5, 5.8	**2 174**	1 361	**295**	20
Receivables due from contract holders/intermediaries	4.2, 4.5, 4.7	**3 593**	2 896	**821**	736
Reinsurance receivables	4.2, 4.6, 4.7	**686**	305	**12**	14
Other loans and receivables	5.6, 5.8	**974**	553	**–**	9
Total loans and receivables including insurance receivables		**5 253**	3 754	**833**	759
Cell owners' and policyholders' interest	9.1, 9.2	**10**	7	**–**	–
Reinsurance assets	4.1, 4.6	**5 824**	4 489	**931**	1 072
Deposit with cell owner	9.3	**174**	219	**–**	–
Deferred acquisition costs	4.1.2, 4.5	**537**	469	**–**	–
Cash and cash equivalents	5.5, 5.7, 5.8	**4 321**	2 887	**1 448**	1 673
Total financial and insurance assets		**35 855**	26 617	**6 162**	5 735
Investment in associates and joint ventures		**1 789**	1 536	**1 638**	1 401
Non-current assets held for sale		**–**	8	**–**	8
Total assets with direct or indirect foreign currency exposure		**37 644**	28 161	**7 800**	7 144
Financial and insurance liabilities					
Debt securities	6.1, 6.2	**2 056**	2 053	**–**	–
Investment contracts	6.3	**1 703**	101	**–**	–
Cell owners' and policyholders' interest	9.1, 9.2	**3 227**	1 153	**–**	–
Collateral guarantee contracts	6.5	**130**	123	**–**	–
Insurance liabilities	4.1, 4.5	**17 848**	13 596	**2 573**	2 494
Reinsurance liability relating to cell owners	9.4	**174**	219	**–**	–
Deferred reinsurance acquisition revenue	4.1.2, 4.6	**326**	273	**–**	–
Payables due to contract holders/intermediaries	4.3	**3 010**	2 488	**773**	836
Other payables	6.6	**1 943**	1 605	**7**	–
Total trade and other payables including insurance payables		**4 953**	4 093	**780**	836
Total financial and insurance liabilities		**30 417**	21 611	**3 353**	3 330

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Financial and insurance assets	Notes	Company total 2017 R million	Company total 2016 R million	Company foreign 2017 R million	Company foreign 2016 R million
Equity securities					
Quoted		**1 420**	1 199	**–**	–
Unquoted		**1 143**	1 181	**1 101**	1 138
Total equity securities	5.1, 5.4	**2 563**	2 380	**1 101**	1 138
Debt securities					
Quoted		**4 936**	4 439	**1 069**	892
Unquoted		**1 560**	2 723	**–**	–
Total debt securities	5.1, 5.5, 5.8	**6 496**	7 162	**1 069**	892
Unitised funds					
Quoted					
Underlying equity securities		**59**	56	**–**	–
Underlying debt securities		**151**	178	**–**	–
Total unitised funds	5.1	**210**	234	**–**	–
Derivatives	5.2, 5.5	**8**	1	**8**	1
Short-term money market instruments	5.1, 5.5, 5.8	**1 153**	899	**266**	–
Receivables due from contract holders/ intermediaries	4.2, 4.5, 4.7	**3 447**	2 744	**821**	696
Reinsurance receivables	4.2, 4.6, 4.7	**575**	64	**12**	9
Other loans and receivables	5.6, 5.8	**726**	662	**–**	–
Total loans and receivables including insurance receivables		**4 748**	3 470	**833**	705
Reinsurance assets	4.1, 4.6	**5 168**	3 909	**684**	824
Deferred acquisition costs	4.1.2, 4.5	**490**	437	**–**	–
Cash and cash equivalents	5.5, 5.7, 5.8	**2 026**	1 610	**1 138**	943
Total financial and insurance assets		**22 862**	20 102	**5 099**	4 503
Investment in associates and joint ventures		**1 652**	1 477	**1 565**	1 201
Total assets with direct and indirect foreign currency exposure		**24 514**	21 579	**6 664**	5 704
Financial and insurance liabilities					
Debt securities	6.1, 6.2	**2 056**	2 053	**–**	–
Collateral guarantee contracts	6.5	**130**	123	**–**	–
Insurance liabilities	4.1, 4.5	**12 429**	10 740	**2 136**	2 076
Deferred reinsurance acquisition revenue	4.1.2, 4.6	**284**	247	**–**	–
Payables due to contract holders/intermediaries	4.3	**2 627**	2 018	**645**	565
Other payables	6.6	**1 169**	1 829	**6**	429
Total trade and other payables including insurance payables		**3 796**	3 847	**651**	994
Total financial and insurance liabilities		**18 695**	17 010	**2 787**	3 070

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. RISK AND CAPITAL MANAGEMENT (continued)

3.2 Risk assessment process (continued)

3.2.1 UNDERWRITING RISK

Underwriting risk results from fluctuations in the timing, frequency and severity of insured events. It includes the risk that premium provisions turn out to be insufficient to compensate expected future claims, that the claims provisions raised for both reported and unreported claims are inadequate as well as the risk resulting from the volatility of expense payments.

The group manages underwriting risk through its underwriting strategy and proactive claims handling. The underwriting strategy aims to ensure that the portfolio of insurance contracts issued is well diversified and reasonably priced. Claims costs are actively managed to ensure that the impact of factors such as the volatility of the rand is adequately addressed.

In order to determine the underwriting risk faced by Santam and its subsidiaries, a stochastic simulation of Santam's claims is performed at a line of business level. Assumptions for each line of business are determined based on more than ten years' worth of historic data. The results of this analysis are then used to identify where underwriting action is required. These actions can include, but is not limited to, changes to the pricing of insurance policies or adjustments to the reinsurance programme.

Refer to note 4.5 for detail on these risks and the way the group manages those risks.

3.2.2 REINSURANCE RISK

Reinsurance risk is the risk that the reinsurance cover placed is inadequate and/or inefficient relative to the group and company's risk management strategy and objectives. The group and company obtain third-party reinsurance cover to reduce risks from single events or accumulations of risk that could have a significant impact on the current year's earnings or the company's capital.

Refer to note 4.6 for detail on these risks and the way the group manages those risks.

3.2.3 CREDIT RISK

Credit risk reflects the financial impact of the default of one or more of Santam's counterparties.

Santam is exposed to financial risks caused by a loss in the value of financial assets due to counterparties failing to meet all or part of their obligations. Key areas where Santam is exposed to credit default risk are:

- Failure of an asset counterparty to meet their financial obligations (note 5.8)
- Reinsurer default on presentation of a large claim (note 4.7)
- Reinsurers default on their share of Santam's insurance liabilities (note 4.7)
- Default on amounts due from insurance contract intermediaries (note 4.7)

Santam determines the credit quality for each of its counterparties by reference to ratings from independent rating agencies such as Standard & Poor's (S&P) and Moody's. Santam measures the probability of default on the basis of assessments made by the rating agencies over a one-year time horizon and the resulting loss given default. The underlying default probabilities are based on the credit migration models developed by S&P and Moody's which incorporate up to ninety years' worth of credit default information. For default risk Santam uses a model which is largely based on Basel II regulations.

The credit risk analysis is used by management to determine the level of risk capital that should be held for the following types of exposures:

- Risk-based assets such as bonds and bank deposits
- Outstanding premiums due from intermediaries and reinsurance receivables due from reinsurers
- Reinsurance claims provisions
- Exposure to potential reinsurance recoveries based on the losses generated by the internal model

Refer to note 4.7 and 5.8 as indicated above for detail on credit risk.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3.2.4 MARKET RISK

Market risk arises from the level or volatility of the market prices of financial instruments. Exposure to market risk is measured by the impact of movements in the level of financial variables such as interest rates, equity prices and exchange rates. The following financial and insurance assets, disclosed based on similar characteristics, are affected by market risk:

- Equity securities
- Debt securities
- Receivables due from contract holders/intermediaries
- Reinsurance receivables
- Reinsurance assets
- Other loans and receivables
- Cash and cash equivalents
- Short-term money market instruments
- Cell owners' and policyholders' interest
- Derivatives

The group uses a number of sensitivity or stress-test-based risk management tools to understand the impact of the above risks on earnings and capital in both normal and stressed conditions. These stress tests combine deterministic shocks, analysis of historical scenarios and stochastic modelling using the internal economic capital model to inform the group's and company's decision-making and planning process and also for identification and management of risks within the business units.

Each of the major components of market risk faced by Santam is described in more detail below.

3.2.4.1 Price risk

The group and company is subject to price risk due to the impact that volatility in the market has on the value of its equity portfolios resulting in either a positive or negative effect on the net asset value of the group and company.

Santam has a well-defined investment strategy, including return objectives, asset allocation, portfolio construction and asset manager selection. The strategy has been translated into various specialist mandates which in turn have been outsourced mostly to Sanlam Investment Management (SIM). The total level of equity investments, both listed and unlisted, is closely monitored by the investment committee and the board. The internal economic capital model is used to model the asset mix and absolute level of equity exposure on at least a quarterly basis and to compare the results to Santam's risk appetite. The analysis is presented to the investment committee for consideration in terms of required actions.

Refer to note 5.4 for detail on price risk.

3.2.4.2 Interest rate risk

Interest rate risk arises from the net effect on assets and liabilities due to a change in the level of interest rates. The market value of bonds and other fixed interest-bearing financial instruments are dependent on the level of interest rates. This includes movements in fixed income prices reflecting changes in expectations of credit losses, changes in investor risk aversion, or price changes caused by market liquidity. The income received from floating rate interest-bearing financial instruments is also affected by changes in interest rates.

The impact of a change in the interest rate on the asset mix as well as the economic capital requirements is determined using the internal economic capital model. The result of this analysis is presented to the investment committee on at least a quarterly basis for consideration and approval of required actions.

Refer to notes 5.5 and 6.2 for detail on interest rate risk.

3.2.4.3 Currency risk

Foreign currency risk is the risk that Santam will be negatively impacted by changes in the level or volatility of currency exchange rates relative to the South African rand.

In accordance with Santam's international diversification strategy, Santam is entering into various transactions where there is an underlying foreign currency risk such as the investments in SEM target shares and SAN JV. Santam is also expanding its reinsurance offerings to predominantly other countries in Africa as well as South East Asia, India and China. Furthermore Santam has established an international investment portfolio to ensure adequate asset liability matching in terms of the claims process and capital requirements.

Santam has a well-defined foreign currency management policy which is used to ensure adequate overall asset liability matching. Santam applies hedge accounting only when approved by the investment committee.

Refer to note 7 for detail on foreign currency risk.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. RISK AND CAPITAL MANAGEMENT (continued)

3.2 Risk assessment process (continued)

3.2.5 LIQUIDITY RISK

Liquidity risk is the risk that Santam will encounter difficulty in raising funds to meet the commitments associated with its financial obligations as a result of assets not being available in a form that can immediately be converted into cash.

Santam manages liquidity requirements by matching the underlying risk profile of the assets invested to the corresponding liabilities. For example, the net insurance liabilities are covered by investments with limited capital risk (i.e. cash and short-duration interest-bearing investments) while the subordinated debt security obligations are covered by longer-duration interest-bearing investments and interest rate swaps to ensure that the interest rate risk is almost perfectly aligned. Shareholder funds are invested in a combination of financial instruments (i.e. interest-bearing instruments, preference shares, listed and unlisted shares).

Refer to note 8 for more detail on liquidity risk.

3.2.6 OPERATIONAL RISK

Operational risk is the risk of direct or indirect losses resulting from human factors, external events and inadequate or failed internal processes and systems. Operational risks are inherent in the group's and company's operations and are typical of any large enterprise. Major sources of operational risk can include operational process reliability, information security, outsourcing of operations, dependence on key suppliers, implementation of strategic and operational change, integration of acquisitions, fraud, human error such as not placing the necessary facultative reinsurance, client service quality, inadequacy of business continuity arrangements, recruitment, training and retention of employees, and social and environmental impact.

The group and company manage operational risk by a comprehensive system of internal controls. From a risk governance perspective, the three lines of defence approach are used to identify the various levels of controls, oversight and assurance, including consideration of role-player independence. Risk management processes for oversight include using a range of techniques and tools to identify, monitor and mitigate its operational risk in accordance with the group's risk appetite. These tools include Risk and Control Self Assessments and questionnaires, Key Risk Indicators (e.g. fraud and service indicators), Scenario Analyses and Loss Reporting. In addition, the group and company have developed a number of contingency plans including Incident Management and Business Continuity Plans. Quantitative analysis of operational risk exposures material to the group and company are used to inform decisions on controls and the overall amount of capital held for potential risk exposures. A compulsory annual internal control declaration are completed by senior and executive management and results reported to the Risk and Audit Committee. The outcome of the declaration is reviewed to ensure material control breakdowns have been noted and appropriately addressed. The declaration process support the Board in their assessment of the system of internal controls.

3.3 Solvency and capital management

Capital adequacy risk is the risk that the group and company are holding insufficient reserves to cover the variations in actual future experience that is worse than what has been assumed in the setting of the general insurance technical provisions as well as in the financial soundness valuation of its long-term insurance business.

The group and company must maintain a capital balance that will be at least sufficient to meet obligations in the event of substantial deviations, such as a 1-in-200-year event, from the main risk assumptions affecting the group's and company's business.

The overall capital management objectives of the group and company are:

- to comply with the requirements set by the regulators of the insurance markets where the group and company operates;
- to protect policyholders against adverse results that may affect the solvency of the group and company and therefore its ability to meet its financial obligations;
- to retain sufficient capital to fund the strategic objectives of the group and company; and
- to provide an adequate return for shareholders and benefits for other various stakeholders.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

The material components to the capital management process are described in more detail below.

3.3.1 CAPITAL APPETITE

The group's and company's objective is to maintain sufficient capital (including foreign capital), which comprises shareholders' equity and subordinated debt capital, to meet its strategic business plan and objectives. This represents sufficient surpluses for both regulatory and economic capital. To assist in managing its capital position, the group and company has set an internal coverage ratio band for its economic capital requirement while at all times achieving specific threshold levels for its regulatory capital requirement.

The internal economic capital model is the preferred measure of capital sufficiency used to support, inform and improve decision-making across the group. It is used to determine the group's optimum capital structure, its investment strategy, its reinsurance programme and to determine the pricing and target returns for each portfolio. The economic capital analysis compares available capital with the economic capital assessment.

When determining capital requirements, Santam uses a risk measure of value-at-risk at the 99.5th percentile confidence level over a one-year time period. This means that the threshold economic and regulatory coverage ratios use a 1-in-200 year worst case event as their base.

The group economic capital requirement at 31 December 2017 based on the internal economic model amounted to R6.0 billion (2016: R5.8 billion) or an economic capital coverage ratio of 158% (2016: 155%).

3.4 Regulatory and compliance risk management

Regulatory and compliance risk is the risk that Santam will be negatively impacted by a change in regulations or will fall foul of regulations or non-compliance with internal policies which are already in place resulting in either penalties or fines and significantly impacting Santam's reputation.

Over the past few years there have been several changes in the group's regulatory and compliance business landscape. These changes are primarily driven by larger regulatory projects, which will continue to impact the group in the foreseeable future. It is expected that the group's solvency requirements, system requirements, financial reporting and the way it conducts its business will be impacted by the implementation of these projects.

The Santam board of directors and management are actively monitoring the changes. The possible implications for the business plans and governance structures going forward is analysed on a continuous basis and the necessary changes are implemented where deemed reasonable. The group and its subsidiaries seek constructive engagement with their various regulators and policymakers. This is done through appropriate participation in industry forums.

During 2017, the regulator's focus on market conduct practises continued. Towards the end of 2017 progress on a number of regulatory developments have taken place. Some of the more material developments that have taken place under the Retail Distribution Review (RDR) include the release of the amended regulations under the Long-term and Short-term Insurance Acts relating to binder arrangements and the amended Policyholder Protection Rules under the Long-term and Short-term Insurance Acts which seek to provide greater policyholder protection.

From a market conduct perspective, insurers submitted the first and second Conduct of Business Returns (CBRs) in respect of personal lines business. The CBR requires insurers to provide information at class, sub-class and cover type levels. The submission dates for the third and fourth CBRs have also been released and are 31 August 2018 and 30 November 2018 respectively.

With regard to the Santam Treating Customers Fairly Programme (TCF Programme), Santam continued its refinement of its processes across the group to ensure that it is able to demonstrate fair treatment of its clients. Progress continues in improving on the Claims and Complaints Management processes, Management Information (MI), measurements and tolerance levels. The work conducted under the TCF Programme complements the information required by the regulator under the CBR as well as the management of conduct risk within Santam.

Santam management continues to engage with the regulator and to participate at industry level to influence changes to legislation.

In each country in which the group issues insurance contracts, the local insurance regulator specifies the minimum amount and the type of capital that must be held by each of the subsidiaries, in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the year.

The group has complied with the local solvency regulations for regulated entities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. RISK AND CAPITAL MANAGEMENT (continued)

3.5 Conduct risk

Conduct risk is the risk that a firm's behaviour may result in unfair treatment of its clients. These risks can manifest through various distributional channels adopted by firms, conflicts of interest between distribution channels that may arise in the distribution of insurance products and remuneration strategies adopted by firms. To this end the South African regulator has introduced the TCF initiative as a precursor to conduct risk, which is primarily based on the UK approach.

Santam constituted a TCF committee, consisting of key stakeholders, to monitor the manner in which TCF outcomes are evidenced within Santam and the Santam group. This committee meets on a quarterly basis. Quarterly reports are also submitted to the Santam Social, Ethics and Sustainability (SES) Committee, the Risk Committee and a summary to the board touching on the relevant information, progress and risk profile pertaining to TCF outcomes. The Conduct Framework is also being formalised and was presented to the SES Committee. Business, Risk and Compliance processes are being reviewed and aligned to the Conduct Framework and this will continue with the development of the Conduct Regulator and as certain principles and precedents are set and better understood.

4. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	Notes	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Insurance liabilities	4.1	**17 848**	13 596	**12 429**	10 740
Reinsurance assets	4.1	**(5 824)**	(4 489)	**(5 168)**	(3 909)
Receivables arising from insurance and reinsurance contracts	4.2	**(4 279)**	(3 201)	**(4 022)**	(2 808)
Payables arising from insurance and reinsurance contracts	4.3	**3 010**	2 488	**2 627**	2 018
		10 755	8 394	**5 866**	6 041

Risk management

Refer to note 4.5 for detail on risks relating to insurance liabilities and reinsurance assets, and the management thereof.

4.1 Insurance liabilities and reinsurance assets

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Gross				
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	**7 462**	6 190
– claims incurred but not reported	**2 310**	1 873	**1 914**	1 631
– unearned premiums	**7 128**	4 867	**3 053**	2 919
Total insurance liabilities – gross	**17 848**	13 596	**12 429**	10 740
Non-current	**1 789**	1 312	**1 482**	1 275
Current	**16 059**	12 284	**10 947**	9 465
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	**3 663**	2 620
– claims incurred but not reported	**496**	329	**352**	246
– unearned premiums	**1 377**	1 307	**1 153**	1 043
Total reinsurers' share of insurance liabilities	**5 824**	4 489	**5 168**	3 909
Non-current	**202**	140	**166**	118
Current	**5 622**	4 349	**5 002**	3 791
Net				
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	**3 799**	3 570
– claims incurred but not reported	**1 814**	1 544	**1 562**	1 385
– unearned premiums	**5 751**	3 560	**1 900**	1 876
Total insurance liabilities – net	**12 024**	9 107	**7 261**	6 831

Amounts due from reinsurers in respect of claims already paid by the group on the contracts that are reinsured, are included in note 4.2.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.1 Insurance liabilities and reinsurance assets (continued)

Accounting policy – Insurance and investment contracts – classification

The group issues contracts that transfer insurance risk, financial risk or both.

Contracts under which the group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk (refer to note 6.3).

Insurance contracts

Insurance contracts are classified into three main categories, depending on the type of insurance risk exposure, namely general, long-term and cell insurance (refer to note 9 for detail on cell insurance).

a) GENERAL INSURANCE

General insurance provides benefits under general insurance policies, which include engineering, guarantee, liability, miscellaneous, motor, accident and health, property, transportation and crop policies, or a contract comprising a combination of any of those policies. General insurance contracts are further classified into the following categories:

- Personal insurance, consisting of insurance provided to individuals and their personal property
- Commercial insurance, providing cover on the assets and liabilities of business enterprises

RECOGNITION AND MEASUREMENT

i) **Gross written premium**

Gross premiums exclude value added tax and any other foreign indirect taxes. Premiums are accounted for as income when the risk related to the insurance policy incepts and are spread over the risk period of the contract by using an unearned premium provision. This also includes premiums received in terms of inward reinsurance arrangements. All premiums are shown before deduction of commission payable to intermediaries.

ii) **Provision for unearned premiums**

The provision for unearned premiums represents the portion of the current year's premiums that relate to risk periods extending into the following year. Unearned premium is calculated using a method which approximates the 365th method, except for insurance classes where allowance is made for uneven exposure which consist of crop and alternative risk business.

iii) **Provision for unexpired risk**

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims-handling fees and related administrative costs. This liability adequacy test is performed annually to ensure the adequacy of general insurance liabilities.

iv) **Provision for claims**

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The company's own assessors or contracted external assessors individually assess claims. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges. Claims provisions are not discounted.

v) **Provision for claims incurred but not reported (IBNR)**

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the company at that date. This provision is calculated using actuarial modelling (refer note 4.5).

vi) **Deferred acquisition costs (DAC)**

Commissions that vary with and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and recognised as a current asset. All other costs are recognised as expenses when incurred.

vii) Reinsurance contracts held

Contracts entered into by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts as detailed above, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Income received from insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) is included with premium income.

The benefits to which the group is entitled under its reinsurance contracts held are recognised as assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) on settled claims, as well as estimates (classified as reinsurance assets) that are calculated based on the gross outstanding claims and IBNR provisions. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred. Amounts that the group is required to pay under financial reinsurance contracts held are recognised as reinsurance liabilities ("reinsurance liability relating to cell owners").

The reinsurer's share of unearned premiums represents the portion of the current year's outward reinsurance premiums that relate to risk periods covered by the related reinsurance contracts extending into the following year. The reinsurers' share of unearned premium is calculated using the 365th method except in the case of non-proportional treaties where unearned premiums on minimum and deposit premiums are calculated using the 12th method. For uneven risk business the reinsurers' share of unearned premium follow the same basis used for calculating gross unearned premium.

Income from reinsurance contracts ceded, that varies with and is related to obtaining new reinsurance contracts and renewing existing reinsurance contracts, is deferred over the period of the related reinsurance contract and is recognised as a current liability.

The group assesses its reinsurance assets for impairment on a six-monthly basis. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive income. The group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

viii) Salvage reimbursements

Some insurance contracts permit the group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). The impact of salvage recoveries on claims development is factored into the determination of total insurance liabilities. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in determining the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

b) LONG-TERM INSURANCE

These contracts provide long-term benefits usually associated with insured events such as death or retirement. Long-term insurance contracts underwritten mainly consist of funeral policies with limited exposure to group life risks. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

The liabilities under life insurance contracts are valued in terms of the Financial Soundness Valuation (FSV) basis containing a discounted cash flow valuation based on best estimates of future cash flows plus margins for adverse deviation as prescribed by SAP 104 issued by the Actuarial Society of South Africa and are reflected as "Insurance liabilities" in the statement of financial position. The operating surpluses or losses arising from life insurance contracts are determined by the annual valuation. These surpluses or losses are arrived at after taking into account the movement within the policyholder liabilities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.1 Insurance liabilities and reinsurance assets (continued)

4.1.1 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

a) Claims and loss adjustment expenses

Year ended 31 December	2017 Gross R million	2017 Re-insurance R million	2017 Net R million	2016 Gross R million	2016 Re-insurance R million	2016 Net R million
GROUP						
Notified claims	**6 814**	**(2 841)**	**3 973**	6 279	(2 223)	4 056
Incurred but not reported	**1 915**	**(341)**	**1 574**	1 597	(279)	1 318
Total at the beginning of the year	**8 729**	**(3 182)**	**5 547**	7 876	(2 502)	5 374
Cash paid for claims settled in the year	**(18 823)**	**5004**	**(13 819)**	(16 112)	3 304	(12 808)
Increase in liabilities						
– arising from current year claims	**20 466**	**(6 400)**	**14 066**	17 100	(4 189)	12 911
– arising from portfolio transfer	**(113)**	**105**	**(8)**	–	–	–
– arising from foreign currency adjustments	**(121)**	**(16)**	**(137)**	(202)	165	(37)
– business combinations	**582**	**(361)**	**221**	67	–	67
Transfer to cell owners' and policyholders' interest	**–**	**403**	**403**	–	40	40
Total at the end of the year	**10 720**	**(4 447)**	**6 273**	8 729	(3 182)	5 547
Notified claims	**8 348**	**(3 936)**	**4 412**	6 814	(2 841)	3 973
Incurred but not reported	**2 372**	**(511)**	**1 861**	1 915	(341)	1 574
Total at the end of the year	**10 720**	**(4 447)**	**6 273**	8 729	(3 182)	5 547
COMPANY						
Notified claims	**6 190**	**(2 620)**	**3 570**	5 675	(2 019)	3 656
Incurred but not reported	**1 631**	**(246)**	**1 385**	1 351	(200)	1 151
Total at the beginning of the year	**7 821**	**(2 866)**	**4 955**	7 026	(2 219)	4 807
Cash paid for claims settled in the year	**(16 136)**	**3 635**	**(12 501)**	(14 338)	2 624	(11 714)
Increase in liabilities						
– arising from current year claims	**17 775**	**(4 767)**	**13 008**	15 268	(3 435)	11 833
– arising from foreign currency adjustments	**(84)**	**(17)**	**(101)**	(202)	164	(38)
– business combinations	**–**	**–**	**–**	67	–	67
Total at the end of the year	**9 376**	**(4 015)**	**5 361**	7 821	(2 866)	4 955
Notified claims	**7 462**	**(3 663)**	**3 799**	6 190	(2 620)	3 570
Incurred but not reported	**1 914**	**(352)**	**1 562**	1 631	(246)	1 385
Total at the end of the year	**9 376**	**(4 015)**	**5 361**	7 821	(2 866)	4 955

b) Provision for unearned premiums

Year ended 31 December	2017 Gross R million	2017 Re-insurance R million	2017 Net R million	2016 Gross R million	2016 Re-insurance R million	2016 Net R million
GROUP						
At the beginning of the year	**4 867**	**(1 307)**	**3 560**	4 788	(1 176)	3 612
Charged to the statement of comprehensive income	**648**	**(285)**	**363**	137	(191)	(54)
Foreign currency movement	**(13)**	**26**	**13**	(74)	21	(53)
Business combinations	**1 660**	**(30)**	**1 630**	16	–	16
Other	**(34)**	**40**	**6**	–	–	–
Transfer to cell owners' and policyholders' interest	**–**	**179**	**179**	–	39	39
Total at the end of the year	**7 128**	**(1 377)**	**5 751**	4 867	(1 307)	3 560
COMPANY						
At the beginning of the year	**2 919**	**(1 043)**	**1 876**	3 021	(1 044)	1 977
Charged to the statement of comprehensive income	**148**	**(137)**	**11**	(43)	(21)	(64)
Foreign currency movement	**(14)**	**27**	**13**	(75)	22	(53)
Business combinations	**–**	**–**	**–**	16	–	16
Total at the end of the year	**3 053**	**(1 153)**	**1 900**	2 919	(1 043)	1 876

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
4.1.2 MOVEMENTS IN DEFERRED ACQUISITION COSTS AND DEFERRED REINSURANCE ACQUISITION REVENUE				
a) Deferred acquisition costs				
At the beginning of the year	**469**	525	**437**	484
Movement for the period (included in "Expenses for the acquisition of insurance contracts")	**59**	(56)	**53**	(47)
Business combinations	**9**	–	**–**	–
Total at the end of the year	**537**	469	**490**	437
b) Deferred reinsurance acquisition revenue				
At the beginning of the year	**273**	280	**247**	250
Movement for the period (included in "Income from reinsurance contracts ceded")	**51**	(7)	**37**	(3)
Business combinations	**2**	–	**–**	–
Total at the end of the year	**326**	273	**284**	247

INSURANCE LIABILITIES CALCULATIONS

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of the insurance company, principally in respect of the insurance liabilities of the company.

Insurance liabilities include the provisions for unearned premiums (including an evaluation of the necessity for an unexpired risk provision), outstanding claims and incurred but not reported (IBNR) claims.

Process to determine significant assumptions

Insurance risks are unpredictable and the group recognises that it is not always possible to forecast, with absolute precision, future claims payable under existing insurance contracts. Over time, the group has developed a methodology that is aimed at establishing insurance provisions that have an above-average likelihood of being adequate to settle all its insurance obligations.

i) Unearned premium provision

Unearned premiums represent the proportion of premiums written in the current year, which relate to risks that have not expired by the end of the financial year.

The group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. Most of the group's insurance contracts have an even risk profile. Therefore, the unearned premium provision is released evenly over the period of insurance using a time proportion basis. For the remainder of the insurance portfolio, which consists of crop and alternative risk business, the unearned premium is released on a basis consistent with the increasing, decreasing or uneven risk profile of the contracts involved. This risk profile is determined based on a historic time-based analysis of the incurred claims.

The provision for unearned premiums is first determined on a gross level and thereafter the reinsurance impact is separately recognised based on the relevant reinsurance contract. Deferred acquisition costs and reinsurance commission revenue is recognised on a basis that is consistent with the related provision for unearned premiums.

At each reporting date an assessment is made of whether the provisions for unearned premiums are adequate. A separate provision can be made, based on information available at the reporting date, for any estimated future underwriting losses relating to unexpired risks (unexpired risk provision).

ii) Unexpired risk provision

If the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to those policies, after deduction of any deferred commission expenses, management assesses the need for an unexpired risk provision.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.1 Insurance liabilities and reinsurance assets (continued)

4.1.2 MOVEMENTS IN DEFERRED ACQUISITION COSTS AND DEFERRED REINSURANCE ACQUISITION REVENUE (continued)

INSURANCE LIABILITIES CALCULATIONS (continued)

ii) Unexpired risk provision (continued)

The need for an unexpired risk provision is assessed on the basis of information available at the reporting date. Claims events occurring after the statement of financial position date in relation to the unexpired period of policies in force at that time are not taken into account in assessing the need for an unexpired risk provision.

Management will base the assessment on the expected outcome of those contracts on a portfolio basis, including the available evidence of claims experience on similar contracts in the past year, as adjusted for known differences, events not expected to recur, and the normal level of seasonal claims.

iii) Outstanding claims

Outstanding claims represent the group's estimate of the cost of settlement of claims that have occurred and were reported by the reporting date, but that have not yet been finally settled.

Claims provisions are determined based on previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on the interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard for the specific circumstances, information available from the insured and/or loss adjuster, past experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions. The group employs employees experienced in claims handling and rigorously applies standardised policies and procedures to claims assessment.

The ultimate cost of reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Therefore, case estimates are reviewed regularly and updated when new information becomes available.

The provision for outstanding claims is initially estimated at a gross level. A separate calculation is performed to estimate reinsurance recoveries. The calculation of reinsurance recoveries considers the type of risk underwritten, the year in which the loss claim occurred, under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or formed part of a catastrophe reinsurance claim.

iv) Claims incurred but not reported (IBNR)

There is also considerable uncertainty concerning the eventual outcome of claims that have occurred but had not yet been reported to the insurer by the reporting date. The IBNR provision relates to these events.

The stochastic chain-ladder methodology assists in developing a greater understanding of the trends inherent in the data being projected to estimate the ultimate cost of claims. This process is performed separately for each line of business.

Stochastic chain-ladder methodology

The basic technique involves analysing historical claims development factors, net of reinsurance, and selecting estimated development factors based on this historical pattern. The selected development factors are applied to cumulative internal claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

It is the nature of this technique that a weighted average of claims inflation within the past data will be projected into the future. A stochastic process is applied to the choice of development factors for each accident year in accordance with standard statistical practices. Numerous simulations are performed to obtain a distribution of the ultimate claims cost.

The claims provisions are subject to close scrutiny both within the group's business units and at a company level. In addition, for major insurance classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw on their specialist expertise and a broader knowledge of current industry trends in claims development. The results of these reviews are considered when establishing the appropriate levels of provisions for the outstanding claims and unexpired periods of risk.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

The IBNR reserve is held so as to be at least sufficient at the 75th percentile of the ultimate cost distribution.

IBNR is considered to be the most sensitive to changes in assumptions; therefore a sensitivity analysis is performed. In the southern African operations, excluding alternative risk business, a 5% upward adjustment in the level of sufficiency of the IBNR reserve would result in an additional charge of approximately R60 million (2016: R68 million), while a 5% downward adjustment in the level of sufficiency would result in a release of reserves in the statement of comprehensive income of approximately R54 million (2016: R62 million) (before taxation).

As this method uses historical claims development information, it assumes that the historical claims development pattern will occur again in future. There are reasons why this may not be the case. Such reasons include:
- change in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends;
- changes in mix of business; and
- random fluctuations, including the impact of large losses.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder. There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim.

The establishment of insurance liabilities is an inherently uncertain process and as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims can vary substantially from the initial estimates, particularly for the group's long tail lines of business. The group seeks to provide appropriate levels of claims provisions taking the known facts and experience into account. It should be emphasised that the estimation techniques for the determination of insurance liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate.

v) Unexpired risk reserve

An unexpired risk reserve (URR) is required if a company believes that its unearned premium provision will prove insufficient to cover the unexpired risk on its books at the valuation date. An actuarial review indicated that there is no need for a URR.

	Group		Company	
	2017 R million	2016 R million	**2017 R million**	2016 R million
4.2 Receivables arising from insurance and reinsurance contracts				
Due from contract holders/intermediaries	**3 593**	2 896	**3 447**	2 744
Due from reinsurers	**742**	357	**630**	112
Less provision for impairment of receivables from reinsurers	**(56)**	(52)	**(55)**	(48)
Total	**4 279**	3 201	**4 022**	2 808
Reconciliation of provisions for impairment of receivables from reinsurers				
At the beginning of the year	**52**	60	**48**	59
Charge to the statement of comprehensive income:				
– Increase in provisions	**7**	3	**7**	–
– Provisions reversed	**(3)**	(11)	**–**	(11)
Total at the end of the year	**56**	52	**55**	48

The estimated fair values of receivables are the discounted amounts of the estimated future cash flows expected to be received.

The carrying value of receivables approximates fair value. Provisions for impairment are based on the recoverability of individual loans and receivables.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.2 Receivables arising from insurance and reinsurance contracts (continued)

Accounting policy – Receivables arising from insurance and reinsurance contracts

Receivables are recognised when due. These include amounts due from agents, intermediaries and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of comprehensive income. The group gathers objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated according to the same method used for these financial assets.

4.3 Payables arising from insurance and reinsurance contracts

	Group		Company	
	2017 R million	2016 R million	**2017 R million**	2016 R million
Amounts due to intermediaries	**1 086**	642	**1 060**	614
Amounts due to reinsurers	**1 849**	1 731	**1 567**	1 404
Amounts due to policyholders	**75**	115	**–**	–
Total	**3 010**	2 488	**2 627**	2 018

The carrying value of payables approximates fair value.

Accounting policy – Payables arising from insurance and reinsurance contracts

Payables are recognised when due. These include amounts due to agents, intermediaries and insurance contract holders.

4.4 Insurance benefits and claims

	Gross R million	Reinsurance R million	Net R million
2017			
GROUP			
Claims paid	18 823	(5 004)	13 819
Movement in the expected cost of outstanding claims	1 643	(1 396)	247
Total claims and loss adjustment expenses	**20 466**	**(6 400)**	**14 066**
COMPANY			
Claims paid	16 136	(3 635)	12 501
Movement in the expected cost of outstanding claims	1 639	(1 132)	507
Total claims and loss adjustment expenses	**17 775**	**(4 767)**	**13 008**
2016			
GROUP			
Claims paid	16 112	(3 304)	12 808
Movement in the expected cost of outstanding claims	988	(885)	103
Total claims and loss adjustment expenses	**17 100**	**(4 189)**	**12 911**
COMPANY			
Claims paid	14 338	(2 624)	11 714
Movement in the expected cost of outstanding claims	930	(811)	119
Total claims and loss adjustment expenses	**15 268**	**(3 435)**	**11 833**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4.4.1 CLAIMS DEVELOPMENT TABLES

The presentation of the claims development tables for the Santam group, is based on the actual date of the event that caused the claim (accident year basis). The claims development tables represent the development of actual claims paid for continuing operations.

PAYMENT DEVELOPMENT

GROUP		Claims paid in respect of								
– General insurance claims – gross	**Total R million**	**2017 R million**	**2016 R million**	**2015 R million**	**2014 R million**	**2013 R million**	**2012 R million**	**2011 R million**	**2010 R million**	**2009 and prior R million**
Reporting year										
Actual claims costs:										
– 2017	**18 823**	13 623	4 032	534	438	104	68	16	8	–
– 2016	**16 112**	–	11 087	3 909	506	380	111	93	18	8
– 2015	**14 019**	–	–	9 786	3 388	354	247	112	86	46
– 2014	**13 556**	–	–	–	9 031	3 578	493	173	188	93
– 2013	**13 148**	–	–	–	–	9 152	3 411	250	154	181
– 2012	**11 340**	–	–	–	–	–	8 176	2 366	370	428
– 2011	**10 327**	–	–	–	–	–	–	7 767	2 141	419
– 2010	**9 999**	–	–	–	–	–	–	–	7 144	2 855
– 2009	**10 016**	–	–	–	–	–	–	–	–	10 016
– 2008	**8 996**	–	–	–	–	–	–	–	–	8 996
– 2007	**7 971**	–	–	–	–	–	–	–	–	7 971
Cumulative payments to date		13 623	15 119	14 229	13 363	13 568	12 506	10 777	10 109	31 013

– General insurance claims – net										
Reporting year										
Actual claims costs:										
– 2017	**13 819**	10 852	2 359	242	196	91	68	10	1	–
– 2016	**12 808**	–	9 865	2 386	212	153	98	85	7	2
– 2015	**11 476**	–	–	8 734	2 239	171	172	75	71	14
– 2014	**11 040**	–	–	–	7 927	2 489	323	131	108	62
– 2013	**11 335**	–	–	–	–	8 423	2 493	168	127	124
– 2012	**9 904**	–	–	–	–	–	7 616	1 743	250	295
– 2011	**8 989**	–	–	–	–	–	–	7 082	1 673	234
– 2010	**8 710**	–	–	–	–	–	–	–	6 401	2 309
– 2009	**8 805**	–	–	–	–	–	–	–	–	8 805
– 2008	**7 727**	–	–	–	–	–	–	–	–	7 727
– 2007	**6 672**	–	–	–	–	–	–	–	–	6 672
Cumulative payments to date		10 852	12 224	11 362	10 574	11 327	10 770	9 294	8 638	26 244

COMPANY										
– General insurance claims – gross										
Reporting year										
Actual claims costs:										
– 2017	**16 136**	12 114	3 056	412	402	85	59	8	–	–
– 2016	**14 338**	–	10 414	2 996	400	343	93	85	7	–
– 2015	**12 335**	–	–	9 009	2 708	262	191	89	70	6
– 2014	**11 901**	–	–	–	8 539	2 645	357	137	166	57
– 2013	**11 525**	–	–	–	–	8 539	2 576	184	107	119
– 2012	**9 755**	–	–	–	–	–	7 505	1 744	226	280
– 2011	**8 917**	–	–	–	–	–	–	7 106	1 575	236
– 2010	**8 996**	–	–	–	–	–	–	–	6 333	2 663
– 2009	**8 833**	–	–	–	–	–	–	–	–	8 833
– 2008	**7 673**	–	–	–	–	–	–	–	–	7 673
– 2007	**6 740**	–	–	–	–	–	–	–	–	6 740
Cumulative payments to date		12 114	13 470	12 417	12 049	11 874	10 781	9 353	8 484	26 607

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.4 Insurance benefits and claims (continued)

4.4.1 CLAIMS DEVELOPMENT TABLES (continued)

COMPANY		Claims paid in respect of								
– General insurance claims – net	Total R million	2017 R million	2016 R million	2015 R million	2014 R million	2013 R million	2012 R million	2011 R million	2010 R million	2009 and prior R million
Reporting year										
Actual claims costs:										
– 2017	**12 501**	9 935	2 049	194	176	79	62	6	–	–
– 2016	**11 714**	–	9 208	2 032	165	137	87	79	6	–
– 2015	**10 399**	–	–	8 053	1 894	152	159	70	66	5
– 2014	**10 021**	–	–	–	7 354	2 118	284	122	91	52
– 2013	**10 446**	–	–	–	–	7 740	2 335	167	97	107
– 2012	**9 157**	–	–	–	–	–	7 173	1 563	157	264
– 2011	**8 308**	–	–	–	–	–	–	6 681	1 424	203
– 2010	**8 199**	–	–	–	–	–	–	–	6 010	2 189
– 2009	**8 188**	–	–	–	–	–	–	–	–	8 188
– 2008	**7 124**	–	–	–	–	–	–	–	–	7 124
– 2007	**6 142**	–	–	–	–	–	–	–	–	6 142
Cumulative payments to date		9 935	11 257	10 279	9 589	10 226	10 100	8 688	7 851	24 274

4.4.2 REPORTING DEVELOPMENT

GROUP		Financial year in which claim occurred								
– General insurance claims provision – gross	Total R million	2017 R million	2016 R million	2015 R million	2014 R million	2013 R million	2012 R million	2011 R million	2010 R million	2009 and prior R million
Reporting year										
Provision raised:										
– 2017	**8 348**	5 240	1 541	493	506	201	125	132	110	–
– 2016	**6 814**	–	3 870	1 143	895	297	171	135	181	122
– 2015	**6 279**	–	–	3 100	1 577	758	208	193	223	220
– 2014	**6 240**	–	–	–	4 069	844	410	206	257	454
– 2013	**5 523**	–	–	–	–	3 267	788	376	462	630
– 2012	**4 948**	–	–	–	–	–	3 133	599	434	782
– 2011	**4 192**	–	–	–	–	–	–	2 448	652	1 092
– 2010	**3 777**	–	–	–	–	–	–	–	2 325	1 452
– 2009	**4 288**	–	–	–	–	–	–	–	–	4 288
– 2008	**4 075**	–	–	–	–	–	–	–	–	4 075
– 2007	**3 774**	–	–	–	–	–	–	–	–	3 774
– General insurance claims provision – net										
Reporting year										
Provision raised:										
– 2017	**4 442**	3 031	451	252	170	171	104	169	94	–
– 2016	**3 973**	–	2 334	512	312	234	157	173	138	113
– 2015	**4 056**	–	–	2 291	581	348	197	257	193	189
– 2014	**3 968**	–	–	–	2 337	448	325	239	221	398
– 2013	**4 207**	–	–	–	–	2 459	568	331	298	551
– 2012	**3 971**	–	–	–	–	–	2 550	466	326	629
– 2011	**3 273**	–	–	–	–	–	–	1 919	509	845
– 2010	**2 896**	–	–	–	–	–	–	–	1 813	1 083
– 2009	**2 952**	–	–	–	–	–	–	–	–	2 952
– 2008	**2 699**	–	–	–	–	–	–	–	–	2 699
– 2007	**2 444**	–	–	–	–	–	–	–	–	2 444

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COMPANY		Financial year in which claim occurred								
– General insurance claims provision – gross	**Total R million**	**2017 R million**	**2016 R million**	**2015 R million**	**2014 R million**	**2013 R million**	**2012 R million**	**2011 R million**	**2010 R million**	**2009 and prior R million**
Reporting year										
Provision raised:										
– 2017	**7 462**	4 396	1 523	503	516	200	115	109	100	–
– 2016	**6 191**	–	3 431	1 068	890	269	164	161	122	86
– 2015	**5 675**	–	–	2 782	1 442	705	191	217	170	168
– 2014	**5 711**	–	–	–	3 768	741	375	231	203	393
– 2013	**5 038**	–	–	–	–	3 101	676	389	326	546
– 2012	**4 523**	–	–	–	–	–	2 915	586	370	652
– 2011	**3 711**	–	–	–	–	–	–	2 256	508	947
– 2010	**3 360**	–	–	–	–	–	–	–	2 023	1 337
– 2009	**3 842**	–	–	–	–	–	–	–	–	3 842
– 2008	**3 492**	–	–	–	–	–	–	–	–	3 492
– 2007	**3 371**	–	–	–	–	–	–	–	–	3 371
– General insurance claims provision – net										
Reporting year										
Provision raised:										
– 2017	**3 829**	2 495	435	241	158	163	100	150	87	–
– 2016	**3 570**	–	2 208	405	250	209	135	199	99	65
– 2015	**3 656**	–	–	2 104	487	317	174	280	153	141
– 2014	**3 556**	–	–	–	2 122	374	289	256	177	338
– 2013	**3 865**	–	–	–	–	2 279	502	354	245	485
– 2012	**3 696**	–	–	–	–	–	2 391	468	278	559
– 2011	**2 953**	–	–	–	–	–	–	1 795	404	754
– 2010	**2 611**	–	–	–	–	–	–	–	1 607	1 004
– 2009	**2 681**	–	–	–	–	–	–	–	–	2 681
– 2008	**2 446**	–	–	–	–	–	–	–	–	2 446
– 2007	**2 261**	–	–	–	–	–	–	–	–	2 261

4.5 Insurance risk

In general, the group issues personal, commercial and cell insurance policies that include the following terms and conditions:

ENGINEERING – Provides cover for risks relating to:

- the possession, use or ownership of machinery or equipment, other than a motor vehicle, in the carrying on of a business;
- the erection of buildings or other structures or the undertaking of other works; and
- the installation of machinery or equipment.

GUARANTEE – A contract whereby the insurer assumes an obligation to discharge the debts or other obligations of another person in the event of the failure of that person to do so.

LIABILITY – Provides cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.

MOTOR – Covers risks relating to the possession, use or ownership of a motor vehicle. This cover can include risks relating to vehicle accident, theft or damage to third-party property or legal liability arising from the possession, use or ownership of the insured vehicle.

ACCIDENT AND HEALTH – Provides cover for death, disability and certain health events. This excludes the benefits to the provider of health services and is linked directly to the expenditure in respect of health services.

PROPERTY – Covers risks relating to the use, ownership, loss of or damage to movable or immovable property other than a risk covered more specifically under another insurance contract.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.5 Insurance risk (continued)

TRANSPORTATION – Covers risks relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water. It also covers risks relating to the storage, treatment or handling of goods that are conveyed.

CROP – Provides indemnity for crops while still on the field against hail, drought and excessive rainfall. Cover ceases as soon as harvesting has taken place.

ALTERNATIVE RISK TRANSFER (ART) – The use of techniques, other than traditional insurance, that include at least an element of insurance risk, to provide entities with risk coverage or protection.

Insurance risk results from fluctuations in the timing, frequency and severity of insured events. Insurance risk also includes the risk that either premium or claims provisions turn out to be insufficient to compensate claims as well as the risk resulting from the volatility of expense payments. Expense risk is implicitly included as part of the insurance risk.

In order to quantify the insurance risk faced by Santam, a stochastic simulation of Santam's claims is performed at a line of business level within Santam's internal economic capital model. Assumptions for each line of business are determined based on more than 15 years' worth of historic data. The expected claims liabilities are modelled for specific lines of business, which are then split into the appropriate sub-classes. For each sub-class of business, three types of losses are modelled, namely attritional losses, individual large losses and catastrophe losses. Each of the sub-classes is modelled based on its own assumptions whose methodology and calibration are thoroughly documented in the internal model documentation.

The attritional losses are modelled as a percentage of the premium. The large losses are modelled by fitting separate distributions to the claims frequency and the claim severity.

Santam also models various catastrophes and the losses from each catastrophe are allocated to multiple classes of business. The following catastrophes are modelled: Earthquake, Storm (small), Storm (large), Hail (excluding crop damage), Marine (cargo), Aviation (hull/liability), Conflagration (property), Conflagration (liability), Utility Failure, Latent Liability and Economic Downturn.

The net claims ratio for the group, which is important in monitoring insurance risk, has developed as follows over the past seven years:

Loss history	2017	2016	2015	2014	2013	2012	2011
Net claims paid and provided %[1]	65.9	65.1	62.1	63.1	69.3	68.3	64.2

[1] *Expressed as a percentage of net earned premiums.*

Pricing for the group's products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes trended forward to recognise anticipated changes in claims patterns. While claims remain the group's principal cost, the group also makes allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance and for a profit loading that adequately covers the cost of the capital.

Underwriting limits are set for business units, underwriting managers and intermediaries to ensure that this policy is consistently applied. Underwriting performance is monitored continuously and the pricing policy is revised accordingly. Risk factors considered as part of the review would typically include factors such as age of the insured person, past loss experiences, past insurance history, type and value of asset covered, security measures taken to protect the asset and major use of the covered item. The group has the right to reprice and change the conditions for accepting risks on renewal and/or 30 days.

Expenses are monitored by each business unit based on an approved budget and business plan.

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The underwriting strategy aims to ensure that the risks underwritten are well diversified in terms of type and amount of risk, size and geography. The Santam group has a sufficiently diversified portfolio based on insurance classes as demonstrated in the segmental report. The group is currently focusing on obtaining international geographical diversification through the business written by Santam re and the Santam Specialist business. The current geographical allocation of premium income is provided in the segmental report.

Insurance risk is further mitigated by ensuring that reserve and reinsurance risk is adequately managed.

Reserve risk relates to the risk that the claim provisions held for both reported and unreported claims as well as their associated expenses may prove insufficient.

Santam currently calculates its technical reserves on two different methodologies, namely the "percentile approach" and the "cost-of-capital approach". The "percentile approach" is used to evaluate the adequacy of technical reserves for financial reporting purposes, while the "cost-of-capital approach" is used as one of the inputs for regulatory reporting purposes.

PERCENTILE APPROACH

Under this methodology, reserves are held to be at least sufficient at the 75th percentile of the ultimate loss distribution.

The first step in the process is to calculate a best-estimate reserve. Being a best-estimate, there is an equally likely chance that the actual amount needed to pay future claims will be higher or lower than this calculated value.

The next step is to determine a risk margin. The risk margin is calculated such that there is now at least a 75% probability that the reserves will be sufficient to cover future claims. For more detail on the reserving techniques used in this approach, refer to critical accounting estimates and judgements in note 4.

COST-OF-CAPITAL APPROACH

The cost-of-capital approach to reserving is aimed at determining a market value for the liabilities on the statement of financial position. This is accomplished by calculating the cost of transferring the liabilities, including their associated expenses, to an independent third party.

The cost of transferring the liabilities off the statement of financial position involves calculating a best-estimate of the expected future cost of claims, including all related run-off expenses, as well as a margin for the cost of capital that the independent third party would need to hold to back the future claims payments.

Two key differences between the percentile and cost-of-capital approaches are that under the cost-of-capital approach, reserves must be discounted using a term-dependent interest rate structure and that an allowance must be made for unallocated loss adjustment expenses.

The cost-of-capital approach will result in different levels of sufficiency per class underwritten so as to capture the differing levels of risk inherent within the different classes. This is in line with the principles of risk-based solvency measurement.

Refer to section 3.3 for more detail on the capital management process.

Santam is not significantly exposed to seasonality due to the broad range of insurance contracts that the group writes. Motor and Property contains an element of seasonality e.g. hail storms in the summer, however, there may not be a direct correlation between that seasonality and the group's financial results. There is an element of seasonality attached to Crop, however, the group's exposure is limited.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.6 Reinsurance risk

Santam has an extensive reinsurance programme that has developed over a number of years to suit the risk management needs of the business.

The internal model is used to evaluate the type and quantum of reinsurance to purchase within Santam's risk appetite framework. The reinsurance programme is placed into both the local and international reinsurance markets. Reinsurance arrangements in place include proportional, excess of loss, stop loss and catastrophe coverage.

The core components of the reinsurance programme comprised:

- Individual excess-of-loss cover for property, liability, engineering, aviation and marine risks, which provides protection to limit losses to the range of R25 million to R50 million per risk, excluding reinstatement premiums due as a result of the claim against the cover. In 2016 the range was increased to a maximum of R85 million per risk through participations by Santam re on selected group reinsurance programmes.
- Catastrophe cover to the extent of approximately 1.1% of the total exposure of the significant geographical areas, amounting to protection of up to R8.8 billion (2016: R8.8 billion) per event with a deductible point of R150 million. These balances include catastrophe cover of R1.2 billion for each year included in the alternative risk transfer quota share arrangement as described below. At the same time catastrophe protection for an aggregate of losses from events above R10 million where such aggregated losses exceed R300 million was put in place in 2017. This cover expires on 30 April 2018 and the group will purchase this cover subject to acceptable commercial terms. The cover was for an amount of R135 million in excess of a R300 million aggregate deductible.
- Our agriculture portfolio is protected through a 60% proportional and a non-proportional reinsurance arrangement with non-proportional cover set at levels offering protection from extreme loss events.
- Santam re purchases retrocession protection on its international portfolio. This protection is in the form of a 50% quota share on specified territories and catastrophe excess of loss cover with a gross deductible of US$10 million (US$5 million net after the quota share). There is, in addition, per risk protection for individual exposures in excess of R25 million.

Santam has implemented arrangements to support growth in territories outside South Africa in situations where this is dependent on Santam's S&P international rating scale rating. In 2016, Santam entered into an agreement with Munich Reinsurance Company of Africa Ltd (Munich Re of Africa) in terms of which selected Santam business units will be able to use the reinsurer's S&P A- credit rating to write inwards international reinsurance business on Munich Re of Africa's licence where an international credit rating of A- or better is required. The agreement between Santam and Munich Re of Africa is effective 1 January 2017.

The agreement with Munich Re of Africa replaces the credit rating agreement which expired on 31 December 2016. Santam has decided to retain the alternative risk transfer (ART) reinsurance quota share programme, which was linked to the expired credit rating agreement. A number of key international reinsurers participated in the programme from 1 January 2017 with an annual reinsurance quota share premium of R1 billion. The agreement also reduces Santam's net catastrophe exposure.

The board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is placed with external reinsurers that have an international credit rating of no less than A- from S&P or AM Best, unless specific approval is obtained from the board to use reinsurers with ratings lower than the agreed benchmark.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4.7 Insurance-related credit risk

Key insurance-related areas where Santam is exposed to credit default risk are:

- Reinsurer default on presentation of a large claim
- Reinsurers default on their share of Santam's insurance liabilities
- Default on amounts due from insurance contract intermediaries

For default risk Santam uses a model which is largely based on the Basel II regulation.

Credit risk capital is held for the following type of exposure:

- Outstanding premiums due from intermediaries and reinsurance receivables due from reinsurers
- Reinsurance claims provisions
- Exposure to potential reinsurance recoveries based on the losses generated by the internal model

The group is protected by guarantees provided by the Intermediary Guarantee Facility for the non-payment of premiums collected by intermediaries. The protected portion of receivables due from contract holders and intermediaries amounts to 43.3% (2016: 48.3%). For the company, this amounts to 42.0% (2016: 48.3%). Debtors falling into the "Not rated" category are managed by the internal credit control department on a daily basis to ensure recoverability of amounts. Historically, no material defaults occurred on the insurance debtor book.

Santam uses a large panel of secure reinsurance companies. The credit risk of reinsurers included in the reinsurance programme is considered annually by reviewing their financial strength as part of the renewal process. The group's largest reinsurance counterparty is SCOR (2016: Allianz). The credit risk exposure is further monitored throughout the year to ensure that changes in credit risk positions are adequately addressed.

The following table provides information regarding the aggregated credit risk exposure for insurance assets:

31 December 2017

GROUP	AA R million	AA- R million	A+ R million	A R million	A- R million	BBB+ R million	BB R million	Not rated R million	Carrying value R million
Receivables due from contract holders/intermediaries	–	–	–	–	–	98	37	3 458	3 593
Reinsurance receivables	37	24	118	111	116	–	–	280	686
Total	**37**	**24**	**118**	**111**	**116**	**98**	**37**	**3 738**	**4 279**
COMPANY									
Receivables due from contract holders/intermediaries	–	–	–	–	–	98	37	3 312	3 447
Reinsurance receivables	37	9	81	109	98	–	–	241	575
Total	**37**	**9**	**81**	**109**	**98**	**98**	**37**	**3 553**	**4 022**

31 December 2016

GROUP	AA R million	AA- R million	A+ R million	A R million	A- R million	BBB+ R million	BBB- R million	Not rated R million	Carrying value R million
Receivables due from contract holders/intermediaries	41	13	–	33	–	–	33	2 776	2 896
Reinsurance receivables	38	28	3	–	12	–	–	224	305
Total	**79**	**41**	**3**	**33**	**12**	**–**	**33**	**3 000**	**3 201**
COMPANY									
Receivables due from contract holders/intermediaries	41	13	–	33	–	–	33	2 624	2 744
Reinsurance receivables	37	–	–	–	–	–	–	27	64
Total	**78**	**13**	**–**	**33**	**–**	**–**	**33**	**2 651**	**2 808**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)

4.7 Insurance-related credit risk (continued)

AGEING OF INSURANCE-RELATED RECEIVABLES

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

The due date for receivables due from contract holders or intermediaries, where premiums are collected via intermediaries, is based on the agreement with the contract holders or intermediaries. In terms of the agreement, payment is due 15 days after the month in which it is collected in accordance with the Short-term Insurance Act.

		Financial assets that are past due but not impaired						
31 December 2017 GROUP	**Neither past due nor impaired R million**	**0 – 3 months R million**	**3 – 6 months R million**	**6 months – 1 year R million**	**Greater than 1 year R million**	**Financial assets that have been impaired R million**	**Impair-ment R million**	**Carrying value R million**
Receivables due from contract holders/intermediaries	2 850	386	198	101	58	20	(20)	3 593
Reinsurance receivables	393	118	96	52	27	56	(56)	686
Total	**3 243**	**504**	**294**	**153**	**85**	**76**	**(76)**	**4 279**
COMPANY								
Receivables due from contract holders/intermediaries	2 847	307	134	101	58	–	–	3 447
Reinsurance receivables	359	107	31	52	26	55	(55)	575
Total	**3 206**	**414**	**165**	**153**	**84**	**55**	**(55)**	**4 022**
31 December 2016								
GROUP								
Receivables due from contract holders/intermediaries	2 453	335	66	42	–	–	–	2 896
Reinsurance receivables	180	41	60	7	17	52	(52)	305
Total	**2 633**	**376**	**126**	**49**	**17**	**52**	**(52)**	**3 201**
COMPANY								
Receivables due from contract holders/intermediaries	2 397	263	42	42	–	–	–	2 744
Reinsurance receivables	9	32	4	6	13	48	(48)	64
Total	**2 406**	**295**	**46**	**48**	**13**	**48**	**(48)**	**2 808**

	Notes	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million

5. FINANCIAL ASSETS

The group's financial assets are summarised below.

	Notes	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Financial assets at fair value through income (excluding derivatives)	5.1	**19 728**	14 791	**10 422**	10 675
Derivative assets	5.2	**8**	1	**8**	1
Loans and receivables excluding insurance receivables	5.6	**1 004**	553	**756**	662
Cash and cash equivalents	5.7	**4 321**	2 887	**2 026**	1 610
Financial assets		**25 061**	18 232	**13 212**	12 948

Risk management

Refer to the following notes for detail on risks relating to financial assets and the management thereof:

- Fair value of financial assets – note 5.3
- Price risk – note 5.4
- Interest rate risk – note 5.5
- Credit risk – note 5.8
- Impairment – note 5.9
- Currency risk – note 7
- Liquidity risk – note 8

5.1 Financial assets at fair value through income (excluding derivatives)

The group's financial assets at fair value through income are summarised below by measurement category.

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Equity securities				
– quoted	**2 097**	1 323	**1 420**	1 199
– unquoted SEM target shares	**1 089**	1 127	**1 089**	1 127
– unquoted other	**90**	54	**54**	54
	3 276	2 504	**2 563**	2 380
Debt securities				
– quoted				
government and other bonds	**3 776**	2 469	**2 180**	2 064
collateralised securities	**541**	407	**373**	303
money market instruments (long-term instruments)	**4 094**	2 592	**2 383**	1 828
equity-linked notes	**–**	244	**–**	244
	8 411	5 712	**4 936**	4 439
– unquoted				
government and other bonds	**184**	151	**167**	134
collateralised securities	**–**	10	**–**	10
money market instruments (long-term instruments)	**3 367**	4 516	**1 236**	2 416
redeemable preference shares	**182**	192	**157**	163
	3 733	4 869	**1 560**	2 723
Total debt securities	**12 144**	10 581	**6 496**	7 162
Unitised investments				
– quoted underlying equity securities	**1 765**	77	**59**	56
underlying debt securities	**369**	268	**151**	178
	2 134	345	**210**	234
Short-term money market instruments	**2 174**	1 361	**1 153**	899
Financial assets at fair value through income	**19 728**	14 791	**10 422**	10 675

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.1 Financial assets at fair value through income (excluding derivatives) (continued)

Accounting policy – Financial assets at fair value through income

a) CLASSIFICATION

This category has two subcategories: financial assets held for trading and those designated at fair value through income at inception.

A financial asset is classified into the "financial assets at fair value through income" category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Derivatives are also classified as held for trading except when designated as hedges.

Financial assets designated as at fair value through income at inception are the following:

– Those that are held in funds to match investment contract liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through income eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases.
– Those that are managed and whose performance is evaluated on a fair value basis.

Information about these financial assets is provided internally on a fair value basis to the group's key management personnel. The group's investment strategy is to invest in equity and debt securities, and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through income.

b) RECOGNITION AND MEASUREMENT

Purchases and sales of investments are recognised on trade date – the date on which the group commits to purchase or sell the asset.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

SEM TARGET SHARES

Santam subscribes from time to time in separate classes of target shares issued by SEM in terms of a Participation Transaction, with each separate class linked to a participatory interest in the target companies listed below. The fair value of these instruments at year-end was R1 089 million (2016: R1 127 million). The shares were classified as unquoted equity securities.

	Incorporated in	Type of business	Santam effective holding 2017 %	Santam effective holding 2016 %
Pacific & Orient Insurance Co. Berhad (P&O)[1]	Malaysia	P&O is a niche general insurer based in Kuala Lumpur, Malaysia.	**15.4**	15.4
Shriram General Insurance Company Ltd (SGI)[1]	India	SGI is the general insurance business of the Shriram group, a financial conglomerate based in India.	**15.0**	15.0
BIHL Insurance Company Ltd (BIHL Sure)	Botswana	BIHL Sure is a subsidiary of Botswana Insurance Holdings Ltd, a company listed on the Botswana Stock Exchange. BIHL Sure is a start-up general insurer providing a variety of insurance products.	**21.2**	21.2
NICO Holdings general insurance subsidiaries	Malawi, Zambia	The NICO subsidiaries offer predominantly personal and commercial insurance products.	**19.8**	19.8
Sanlam General Insurance (Uganda) Ltd	Uganda	The company offers predominantly personal and commercial insurance products.	**28.6**	28.6
Sanlam General Insurance (Tanzania) Ltd	Tanzania	The company offers predominantly personal and commercial insurance products.	**17.4**	17.4
SORAS Assurance Générales Ltd	Rwanda	The company offers motor, medical, fire, goods in transit, weather index and other miscellaneous insurance products.	**26.1**	26.1
SOCAR s.a. Burundi	Burundi	Forms part of the SORAS group and offers general insurance products.	**8.6**	8.6
FBN General Insurance Ltd	Nigeria	FBN General Insurance Ltd offers a wide range of general insurance products.	**12.3**	12.3
Enterprise Insurance Company Ltd	Ghana	Enterprise Insurance Company Ltd offers general insurance products.	**–**	14.0
Sanlam General Insurance Ltd	Kenya	Sanlam General Insurance Ltd offers a wide range of general insurance products.	**13.7**	10.9
Zimnat Lion Insurance Company Ltd	Zimbabwe	Zimnat Lion Insurance Company Ltd offers a wide range of general insurance products.	**14.0**	14.0
Grand Reinsurance Company (Private) Ltd (Grand Re)	Zimbabwe	Grand Re provides reinsurance solutions to cover all general insurance business.	**14.0**	14.0
Botswana Insurance Company Ltd	Botswana	Botswana Insurance Company Ltd offers a wide range of general insurance products.	**10.3**	10.3

[1] *These are currently the more material investments.*

STRUCTURED ENTITIES

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls it. The group considers collective investment schemes and other unit-linked investments to be structured entities. The following note provides information on significant unconsolidated structured entities in which the group holds an interest. Collective investment schemes are categorised into equity, property or interest-bearing instruments based on a minimum of 55% per category of the underlying asset composition of the fund by value. In the event no one category meeting this threshold, it is classified as a mixed class. Money market collective investment schemes are categorised as such.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.1 Financial assets at fair value through income (excluding derivatives) (continued)

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Collective investment schemes				
Local and foreign				
Property	**214**	77	**59**	56
Money market	**222**	254	**77**	178
Equity	**1 624**	40	**74**	40
Mixed	**74**	14	**–**	–
Total investment in unconsolidated structured entities	**2 134**	385	**210**	274

5.2 Derivative assets

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Financial assets – at fair value through income				
Exchange traded futures	**8**	1	**8**	1
Over the counter				
Interest rate swaps[1]	**–**	–	**–**	–
	8	1	**8**	1

[1] *Carrying value as at 31 December 2017 and 31 December 2016 is less than R1 million.*

At 31 December 2017, the group had exchange traded futures with an exposure value of R235 million (2016: R345 million).

At 31 December 2017 the group also had interest rate swaps as part of the international bond portfolio. The fair value of the swap is disclosed on a net basis in the statement of financial position as well as the statement of comprehensive income due to the contractual right to settle the instrument on a net basis. They are classified as level 3 per the fair value hierarchy. The gross exposure asset and liability at year-end amounted to R33 million (2016: R27 million) and R33 million (2016: R27 million) respectively.

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 gain of R58 million) and was not renewed.

Accounting policy – Derivatives

Derivatives are initially recognised in the statement of financial position at fair value on the date on which the contract is entered into and subsequently measured at their fair value. These derivatives are regarded as non-hedge derivatives. Changes in the fair value of such derivative instruments are recognised immediately in the statement of comprehensive income. Quoted derivative instruments are valued at quoted market prices, while unquoted derivatives are valued independently using valuation techniques such as discounted cash flow models and option models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a current legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5.3 Fair value

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following financial instruments are measured at fair value. The table below analyses these financial instruments per valuation method. There were no significant changes in the valuation methods applied since 31 December 2016.

The valuation methods are categorised 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, as prices) or indirectly (that is, derived from prices). The fair value of level 2 instruments is predominantly determined using discounted cash flow models using market observable input.
- Level 3: Input for the asset or liability that is not based on observable market data (that is, unobservable input).

During 2016, all government and corporate bonds were transferred from level 1 to level 2 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. The group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

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

31 December 2017 **GROUP** **Financial assets**	**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 > 1 year	–	4 094	–	4 094
Unquoted				
Government and other bonds	–	184	–	184
Money market instruments > 1 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**
Derivatives				
Exchange traded futures	–	8	–	8
Interest rate swaps[1]	–	–	–	–
Total derivatives	**–**	**8**	**–**	**8**
Short-term money market instruments	**–**	**2 174**	**–**	**2 174**
	2 088	**16 480**	**1 168**	**19 736**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.3 Fair value (continued)

31 December 2017 COMPANY Financial assets	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	1 415	3	–	1 418
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	1 143	1 143
Total equity securities	**1 417**	**3**	**1 143**	**2 563**
Debt securities				
Quoted				
Government and other bonds	–	2 180	–	2 180
Collateralised securities	–	373	–	373
Money market instruments > 1 year	–	2 383	–	2 383
Unquoted				
Government and other bonds	–	167	–	167
Collateralised securities	–	–	–	–
Money market instruments > 1 year	–	1 236	–	1 236
Redeemable preference shares	–	157	–	157
Total debt securities	**–**	**6 496**	**–**	**6 496**
Unitised investments				
Quoted				
Underlying equity securities	–	59	–	59
Underlying debt securities	–	151	–	151
Total unitised investments	**–**	**210**	**–**	**210**
Derivatives				
Exchange traded futures	–	8	–	8
Interest rate swaps[1]	–	–	–	–
Total derivatives	**–**	**8**	**–**	**8**
Short-term money market instruments	**–**	**1 153**	**–**	**1 153**
	1 417	**7 870**	**1 143**	**10 430**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 December 2016 GROUP Financial assets	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
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 > 1 year	–	2 592	–	2 592
Equity-linked notes	–	244	–	244
Unquoted				
Government and other bonds	–	151	–	151
Collateralised securities	–	10	–	10
Money market instruments > 1 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**
Derivatives				
Exchange traded futures	–	1	–	1
Interest rate swaps[1]	–	–	–	–
Total derivatives	**–**	**1**	**–**	**1**
Short-term money market instruments	**–**	**1 361**	**–**	**1 361**
	1 323	**12 259**	**1 210**	**14 792**

31 December 2016 COMPANY Financial assets	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Equity securities				
Quoted				
Listed	1 197	–	–	1 197
Irredeemable preference shares	2	–	–	2
Unquoted	–	–	1 181	1 181
Total equity securities	**1 199**	**–**	**1 181**	**2 380**
Debt securities				
Quoted				
Government and other bonds	–	2 064	–	2 064
Collateralised securities	–	303	–	303
Money market instruments > 1 year	–	1 828	–	1 828
Equity-linked notes	–	244	–	244
Unquoted				
Government and other bonds	–	134	–	134
Collateralised securities	–	10	–	10
Money market instruments > 1 year	–	2 416	–	2 416
Redeemable preference shares	–	163	–	163
Total debt securities	**–**	**7 162**	**–**	**7 162**
Unitised investments				
Quoted				
Underlying equity securities	–	56	–	56
Underlying debt securities	–	178	–	178
Total unitised investments	**–**	**234**	**–**	**234**
Derivatives				
Exchange traded futures	–	1	–	1
Interest rate swaps[1]	–	–	–	–
Total derivatives	**–**	**1**	**–**	**1**
Short-term money market instruments	**–**	**899**	**–**	**899**
	1 199	**8 296**	**1 181**	**10 676**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.3 Fair value (continued)

LEVEL 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from the stock exchange or pricing service, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the closing price. These instruments are included in level 1 and comprise mainly equity instruments classified as trading securities that are listed on the JSE or Namibian Stock Exchange.

LEVEL 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant input required to fair value an instrument is observable, the instrument is included in level 2. Level 2 instruments comprise the following:

- Collective investments schemes
- Derivative, debt and short-term money market instruments where the value is determined by using market observable input, e.g. JIBAR, prime rate, foreign currency rates, listed bond rates of similar instruments, without significant adjustments

LEVEL 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value level 3 financial instruments include:

- Unquoted equity instruments
  - Fair value (excluding SEM target shares) is determined based on valuation techniques where the input is determined by management, e.g. multiples of net asset value, and is not readily available in the market or where market observable input is significantly adjusted. Valuations are generally based on price/earnings multiples ranging between 1 and 11.
  - 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 rates, exchange rates and net insurance margin expectations. A sensitivity analysis was performed for the material SEM holdings to determine the impact of a 10% change in these assumptions. Should the discount rates increase or decrease by 10%, the cumulative value of the most significant target shares would decrease by R140 million (2016: R140 million) or increase by R211 million (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 (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 (2016: R91 million) or decrease by R93 million (2016: R90 million), respectively.
- Derivatives
  - The zero cost collar structures are valued by the respective commercial banks using option models with the SWIX 40 index as reference point. Refer to page 52 for detail regarding derivative zero cost collar structures.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Accounting policy – Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair values of quoted investments are based on current stock exchange prices at the close of business on the statement of financial position date. If the market for a financial asset is not active or if it is unquoted, the group establishes fair value by using valuation techniques. These include discounted cash flow analysis, recent arm's length transactions, premium/discount to net asset value and price-earnings techniques. The group's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data.

The fair values of unit-linked investment contracts are measured with reference to their respective underlying assets. Debt securities are measured at fair value based on the market rate of an equivalent non-convertible bond. Unit trusts are measured at fair value based on the quoted repurchase prices.

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from the stock exchange or pricing service, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the closing price. These instruments are included in level 1 and comprise mainly equity instruments classified as trading securities that are listed on the JSE or Namibian Stock Exchange.

Critical accounting estimates and judgements – Fair value of financial instruments that are not listed or quoted

The fair value of financial assets and liabilities that are not listed or quoted in an active market are determined using valuation techniques. The assumptions used in these valuation techniques are described as part of the fair value hierarchy analysis included in this note.

The following table presents the changes in level 3 instruments for the year ended 31 December 2017:

31 December 2017 GROUP	Equity securities R million	Debt securities 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**
COMPANY				
Opening balance	1 181	–	–	**1 181**
Acquisitions	2	–	–	**2**
Disposals	(106)	–	–	**(106)**
Settlements	–	–	58	**58**
Gains/(losses) recognised in profit or loss	66	–	(58)	**8**
Closing balance	**1 143**	**–**	**–**	**1 143**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.3 Fair value (continued)

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

Of the 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 following table presents the changes in level 3 instruments for the year ended 31 December 2016:

31 December 2016 GROUP	Equity securities R million	Debt securities R million	Short-term money market instruments R million	Total R million
Opening balance	1 019	65	44	**1 128**
Acquisitions	376	–	–	**376**
Disposals/settlements	(2)	–	–	**(2)**
Transfers between asset classes	–	44	(44)	**–**
Transfers to level 1 and/or 2	–	(90)	–	**(90)**
(Losses)/gains recognised in profit or loss	(212)	10	–	**(202)**
Closing balance	**1 181**	**29**	**–**	**1 210**
COMPANY				
Opening balance	1 019	35	36	**1 090**
Acquisitions	376	–	–	**376**
Disposals/settlements	(2)	–	–	**(2)**
Transfers between asset classes	–	36	(36)	**–**
Transfers to level 1 and/or 2	–	(80)	–	**(80)**
(Losses)/gains recognised in profit or loss	(212)	9	–	**(203)**
Closing balance	**1 181**	**–**	**–**	**1 181**

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5.4 Price risk

The group is subject to price risk due to daily changes in the market values of its equity portfolios. The group is not directly exposed to commodity price risk.

Each of the following investments has an individual value of more than 1.5% of the total direct listed equity investment portfolio. Details of the investments below 1.5%, summarised as "Other", are open to inspection at the registered office of the company.

	Group				Company			
	2017		2016		**2017**		2016	
	Number of shares	**Market value R million**	Number of shares	Market value R million	**Number of shares**	**Market value R million**	Number of shares	Market value R million
Direct listed equity exposure								
Naspers Ltd	**115 570**	**399**	102 230	206	**92 884**	**320**	91 314	184
British American Tobacco Plc	**145 429**	**121**	98 993	77	**92 093**	**76**	88 863	69
Sasol Ltd	**247 973**	**106**	149 746	60	**133 255**	**57**	133 255	53
Standard Bank Group Ltd	**527 451**	**103**	375 480	57	**344 484**	**67**	335 834	51
Old Mutual Plc	**2 147 336**	**82**	1 259 691	43	**1 341 991**	**51**	1 259 691	43
MTN Group Ltd	**554 550**	**76**	477 613	60	**426 673**	**58**	426 673	54
Remgro Ltd	**261 804**	**62**	182 421	41	**165 830**	**39**	165 830	37
Anglo American Plc	**208 036**	**53**	190 485	37	**171 738**	**44**	171 738	34
Barclays Group Africa Ltd	**258 283**	**47**	164 883	28	**218 374**	**40**	150 414	25
Intuprop Plc	**1 019 624**	**43**	773 577	36	**773 576**	**32**	773 577	36
BHP Billiton Plc	**164 397**	**41**	154 559	34	**131 220**	**33**	141 970	31
Bid Corporation Ltd	**115 714**	**35**	116 724	29	**106 800**	**32**	106 800	26
RMB Holdings Ltd	**428 454**	**34**	399 254	27	**390 913**	**31**	390 913	26
Compagnie Financière Richemont SA	**283 048**	**32**	279 795	25	**234 518**	**26**	251 858	23
Investec Plc[1]	**345 080**	**31**	–	–	**231 435**	**21**	–	–
Aspen Pharmacare Holdings Ltd[2]	**99 667**	**28**	59 831	17	**87 155**	**24**	58 765	17
Other		**802**		544		**467**		488
		2 095		1 321		**1 418**		1 197
Irredeemable preference shares		**2**		2		**2**		2
		2 097		1 323		**1 420**		1 199
Indirect listed equity exposure								
Unitised funds		**1 765**		77		**59**		56

1 *In the prior year, these investments did not exceed 1.5% of the total quoted equity investment portfolio.*
2 *This investment does not exceed 1.5% on a group level.*

The group takes a long-term view when agreeing investment mandates with the relevant portfolio managers and looks to build value over a sustained period of time rather than utilising high levels of purchases and sales in order to generate short-term gains from its equity holdings.

Equity price risk arises from the negative effect that a fall in the market value of equities can have on Santam's net asset value. The group's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling methods. The group sets appropriate risk limits to ensure that no significant concentrations in individual companies arise. The group's largest investment in any one company comprises 19.0% (2016: 15.6%) of the total direct listed equities and 1.0% (2016: 0.7%) of the total assets. The company's largest investment in any one company comprises 22.5% (2016: 15.3%) of the total quoted equities and 1.2% (2016: 0.8%) of the total assets.

SENSITIVITY ANALYSIS ON LISTED EQUITY SECURITIES, UNITISED FUNDS AND DERIVATIVES

At 31 December 2017, the group's quoted equities and unitised funds were recorded at their fair value of R3 862 million (2016: R1 400 million). A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R386 million (2016: R140 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.4 Price risk (continued)

SENSITIVITY ANALYSIS ON LISTED EQUITY SECURITIES, UNITISED FUNDS AND DERIVATIVES (continued)

The company's quoted equities and unitised funds were recorded at their fair value of R1 479 million (2016: R1 255 million). A 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R148 million (2016: R126 million).

The group makes use of derivative products as appropriate to manage equity exposure and to protect the portfolio from losses outside of its risk appetite. A 1% increase in the discount rate used to value the swap would, for both 2017 and 2016, result in an insignificant increase in the fair value of these instruments, and a 1% decrease in the discount rate would result in an insignificant decrease (2016: insignificant decrease) in the fair value, resulting in opposite decreases and increases in investment income.

5.5 Interest rate risk – financial assets

Exposure to interest rate risk is monitored through several methods that include scenario testing and stress testing using measures such as duration. The bond returns are modelled based on the historic performance of the individual bonds held in the portfolio, and adjusted to reflect the current interest rates and inflation environment. The risk-free rate used for modelling is 9% as at 31 December 2017 (2016: 9%).

SENSITIVITY ANALYSIS ON INTEREST-BEARING INSTRUMENTS

Interest-bearing instruments with a fixed rate give rise to fair value interest rate risk, while interest-bearing instruments with a floating rate give rise to cash flow interest rate risk.

The following table provides an indication of the impact of a 1% change in interest rates on the net income before tax as well as the net comprehensive income of the group and the company:

	2017		2016	
GROUP	1% increase R million	1% decrease R million	1% increase R million	1% decrease R million
Financial assets – fixed rate				
Debt securities				
Quoted	**(83)**	**80**	(66)	66
Unquoted	**(17)**	**17**	(30)	31
Unitised investments				
Quoted with underlying debt securities	**–**	**–**	–	–
Short-term money market instruments	**(2)**	**2**	(1)	1
Derivative instruments	**13**	**(13)**	13	(14)
Financial assets – variable rate				
Cash and cash equivalents	**35**	**(35)**	21	(21)
Debt securities				
Quoted	**32**	**(33)**	25	(24)
Unquoted	**11**	**(12)**	19	(19)
Unitised investments				
Quoted with underlying debt securities	**–**	**–**	–	–
Short-term money market instruments	**8**	**(8)**	8	(8)
Total change in investment income, finance cost and net fair value movements before tax	**(3)**	**(2)**	(11)	12
COMPANY				
Financial assets – fixed rate				
Debt securities				
Quoted	**(69)**	**65**	(50)	52
Unquoted	**(9)**	**9**	(19)	20
Unitised investments				
Quoted with underlying debt securities	**–**	**–**	–	–
Short-term money market instruments	**(1)**	**1**	–	–
Derivative instruments	**13**	**(13)**	13	(14)
Financial assets – variable rate				
Cash and cash equivalents	**12**	**(12)**	8	(8)
Debt securities				
Quoted	**28**	**(28)**	22	(22)
Unquoted	**10**	**(10)**	18	(18)
Unitised investments				
Quoted with underlying debt securities	**–**	**–**	–	–
Short-term money market instruments	**7**	**(7)**	8	(8)
Total change in investment income, finance cost and net fair value movements before tax	**(9)**	**5**	–	2

Included in debt securities are financial assets relating to cell owners and investment contracts. Interest on these instruments accrues to the cell owners and investment contract holders and therefore does not affect profit before tax.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Group		Company	
	2017 R million	2016 R million	**2017 R million**	2016 R million
5.6 Loans and receivables excluding insurance receivables				
Loans and receivables	**1 103**	668	**533**	424
Less provision for impairment	**(129)**	(115)	**(117)**	(102)
Loans to subsidiaries (refer to note 10.1)	**–**	–	**310**	378
Less provision for impairment of loans to subsidiaries	**–**	–	**–**	(38)
Total	**974**	553	**726**	662
Reconciliation of provisions for impairment of other receivables				
At the beginning of the year	**115**	101	**140**	126
Charge to the statement of comprehensive income:				
– Increase in provisions	**14**	14	**15**	14
– Provisions reversed	**–**	–	**(38)**	–
Total at the end of the year	**129**	**115**	**117**	140

The estimated fair values of loans and receivables are the discounted amounts of the estimated future cash flows expected to be received.

The carrying value of loans and receivables approximates fair value. Provisions for impairment are based on the recoverability of individual loans and receivables.

Accounting policy – Loans and receivables

CLASSIFICATION

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the group intends to sell in the short term or that it has designated as at fair value through income.

RECOGNITION AND MEASUREMENT

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective-interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to their original terms.

IMPAIRMENT

Refer to note 5.9.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.7 Cash and cash equivalents

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Cash at bank and in hand	**4 321**	2 887	**2 026**	1 610
	4 321	2 887	**2 026**	1 610

The carrying value of cash and cash equivalents approximates fair value.

Included in the group and company cash and cash equivalents balance as at 31 December 2016 was an amount of US$10 million (R137 million) that was designated to fund an additional investment in SAN JV.

Accounting policy – Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held on call with banks.

5.8 Credit risk

Santam continuously monitors its exposure to its counterparties for financial statement as well as regulatory reporting purposes. It has therefore established a number of criteria in its risk appetite statement to monitor concentration risk and provide feedback to management and the risk committee on at least a quarterly basis.

Santam determines the credit quality for each of its counterparties by reference to the probability of default on the basis of assessments made by the rating agency over a one-year time horizon and the resulting loss given default. The underlying default probabilities are based on the credit migration models developed by S&P and Moody's which incorporate up to 90 years' worth of credit default information.

Credit risk capital is held for exposure to risk-based assets such as bonds and bank deposits.

For concentration risk Santam uses the proposed Solvency Assessment and Management (SAM) methodology. The calculation is performed in four steps:

- Determine the exposure by counterparty
- Calculate the excess exposure above a specified threshold level
- Apply a charge to this excess exposure
- Aggregate the individual charges to obtain an overall capital requirement for concentration risk

Santam seeks to avoid concentration of credit risk to groups of counterparties, business sectors, product types and geographical segments. The group's financial instruments, except for Santam's exposure to the four large South African banks, do not represent a concentration of credit risk. In terms of Santam's internal risk appetite framework no more than 15% of total portfolio assets are generally invested in any one of the four major South African banks. Accounts receivable is spread over a number of major companies and intermediary parties, clients and geographic areas. The group assesses concentration risk for debt securities, money market instruments and cash collectively. The group does not have concentrations in these instruments to any one company exceeding 15% of total debt securities, money market instruments or cash. Santam's exposure to Absa amounted to 16.5% (2016: 16.1%) on 31 December 2017 and was managed down to 14.2% on 2 January 2018 in accordance with the risk appetite framework.

The following table provides information regarding the aggregated credit risk exposure for financial assets. The credit ratings provided in this table were determined as follows: Sanlam Investment Management (SIM) provided management with reports generated from their credit system on a quarterly basis, detailing all counterparty, duration and credit risk. These reports include international, national and internal ratings. SIM also provides management with a conversion table that is then applied to standardise the ratings to standardised international long-term rates. For assets held by subsidiaries and not managed by SIM, a process is agreed with the subsidiaries to align the credit rating analysis with group requirements.

31 December 2017 GROUP	Credit rating AA R million	AA- R million	A+ R million	A- R million	BBB+ R million	BBB R million	BBB- R million	BB+ R million	BB R million	BB- R million	Below BB- R million	Not rated R million	Carrying value R million
Debt securities													
Quoted	–	–	–	–	–	1 784	3 913	377	1 484	229	38	586	8 411
Unquoted	–	15	–	–	–	741	2 601	160	41	159	16	–	3 733
Total debt securities	**–**	**15**	**–**	**–**	**–**	**2 525**	**6 514**	**537**	**1 525**	**388**	**54**	**586**	**12 144**
Unitised investments													
Quoted with underlying debt securities	–	–	–	–	–	–	151	–	–	–	–	218	369
Total unitised investments	**–**	**–**	**–**	**–**	**–**	**–**	**151**	**–**	**–**	**–**	**–**	**218**	**369**
Short-term money market instruments	**–**	**–**	**2**	**–**	**–**	**426**	**1 515**	**61**	**79**	**48**	**33**	**10**	**2 174**
Other loans and receivables	**1**	**9**	**2**	**7**	**10**	**48**	**105**	**7**	**34**	**4**	**–**	**747**	**974**
Cash and cash equivalents	**302**	**320**	**29**	**2**	**101**	**1 229**	**893**	**1**	**1 430**	**–**	**–**	**14**	**4 321**
Total	**303**	**344**	**33**	**9**	**111**	**4 228**	**9 178**	**606**	**3 068**	**440**	**87**	**1 575**	**19 982**
COMPANY													
Debt securities													
Quoted	–	–	–	–	–	1 358	3 058	242	7	176	–	95	4 936
Unquoted	–	15	–	–	–	257	1 000	93	41	138	–	16	1 560
Total debt securities	**–**	**15**	**–**	**–**	**–**	**1 615**	**4 058**	**335**	**48**	**314**	**–**	**111**	**6 496**
Unitised investments													
Quoted with underlying debt securities	–	–	–	–	–	–	151	–	–	–	–	–	151
Total unitised investments	**–**	**–**	**–**	**–**	**–**	**–**	**151**	**–**	**–**	**–**	**–**	**–**	**151**
Short-term money market instruments	**–**	**–**	**–**	**–**	**–**	**206**	**841**	**16**	**41**	**16**	**–**	**33**	**1 153**
Other loans and receivables	**1**	**1**	**–**	**–**	**–**	**24**	**69**	**4**	**2**	**3**	**–**	**622**	**726**
Cash and cash equivalents	**244**	**272**	**29**	**–**	**–**	**1 038**	**426**	**–**	**–**	**–**	**–**	**17**	**2 026**
Total	**245**	**288**	**29**	**–**	**–**	**2 883**	**5 545**	**355**	**91**	**333**	**–**	**783**	**10 552**

31 December 2016 GROUP	Credit rating AA R million	AA- R million	A+ R million	A R million	BBB+ R million	BBB R million	BBB- R million	BB+ R million	BB R million	BB- R million	B+ R million	Not rated R million	Carrying value R million
Debt securities													
Quoted	–	–	–	244	61	3 399	1 466	256	188	24	63	11	5 712
Unquoted	–	15	–	–	–	4 193	266	215	20	75	45	40	4 869
Total debt securities	**–**	**15**	**–**	**244**	**61**	**7 592**	**1 732**	**471**	**208**	**99**	**108**	**51**	**10 581**
Unitised investments													
Quoted with underlying debt securities	–	–	–	–	–	–	178	–	–	–	–	90	268
Total unitised investments	**–**	**–**	**–**	**–**	**–**	**–**	**178**	**–**	**–**	**–**	**–**	**90**	**268**
Short-term money market instruments	**–**	**–**	**–**	**–**	**10**	**1 067**	**259**	**–**	**2**	**18**	**–**	**5**	**1 361**
Other loans and receivables	**2**	**1**	**–**	**–**	**–**	**157**	**25**	**5**	**4**	**–**	**2**	**357**	**553**
Cash and cash equivalents	**241**	**47**	**18**	**–**	**–**	**1 340**	**1 229**	**–**	**–**	**–**	**–**	**12**	**2 887**
Total	**243**	**63**	**18**	**244**	**71**	**10 156**	**3 423**	**476**	**214**	**117**	**110**	**515**	**15 650**
COMPANY													
Debt securities													
Quoted	–	–	–	244	33	2 632	1 117	199	130	24	53	7	4 439
Unquoted	–	15	–	–	–	2 292	149	95	20	67	45	40	2 723
Total debt securities	**–**	**15**	**–**	**244**	**33**	**4 924**	**1 266**	**294**	**150**	**91**	**98**	**47**	**7 162**
Unitised investments													
Quoted with underlying debt securities	–	–	–	–	–	–	178	–	–	–	–	–	178
Total unitised investments	**–**	**–**	**–**	**–**	**–**	**–**	**178**	**–**	**–**	**–**	**–**	**–**	**178**
Short-term money market instruments	**–**	**–**	**–**	**–**	**10**	**687**	**184**	**–**	**1**	**12**	**–**	**5**	**899**
Other loans and receivables	**1**	**–**	**–**	**–**	**–**	**78**	**21**	**3**	**3**	**–**	**1**	**555**	**662**
Cash and cash equivalents	**185**	**47**	**18**	**–**	**–**	**1 246**	**105**	**–**	**–**	**–**	**–**	**9**	**1 610**
Total	**186**	**62**	**18**	**244**	**43**	**6 935**	**1 754**	**297**	**154**	**103**	**99**	**616**	**10 511**

The carrying amount of assets included on the statement of financial position represents the maximum credit exposure. There are no material financial assets that would have been past due or impaired had the terms not been renegotiated.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.9 Impairment of assets

Accounting policy – Financial assets carried at amortised cost

The group assesses at each statement of financial position date whether there is objective evidence that a financial asset should be impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the group about one or more of the following events:

- Significant financial difficulty of the issuer or debtor
- A breach of contract, such as a default or delinquency in payments
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- The disappearance of an active market for that financial asset because of financial difficulties
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective-interest rate. The amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective-interest rate determined under contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the impairment account. The amount of the reversal is recognised in the statement of comprehensive income.

IMPAIRMENT HISTORY

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

31 December 2017 GROUP	Neither past due nor impaired R million	Financial assets that are past due but not impaired	Financial assets that have been impaired R million	Impair-ment R million	Carrying value R million
Debt securities					
Quoted	8 411	–	–	–	8 411
Unquoted	3 733	–	–	–	3 733
Total debt securities	**12 144**	**–**	**–**	**–**	**12 144**
Unitised investments					
Quoted with underlying debt securities	369	–	–	–	369
Total unitised investments	**369**	**–**	**–**	**–**	**369**
Short-term money market instruments	**2 174**	**–**	**–**	**–**	**2 174**
Other loans and receivables	**974**	**–**	**129**	**(129)**	**974**
Cash and cash equivalents	**4 321**	**–**	**–**	**–**	**4 321**
COMPANY					
Debt securities					
Quoted	4 936	–	–	–	4 936
Unquoted	1 560	–	–	–	1 560
Total debt securities	**6 496**	**–**	**–**	**–**	**6 496**
Unitised investments					
Quoted with underlying debt securities	151	–	–	–	151
Total unitised investments	**151**	**–**	**–**	**–**	**151**
Short-term money market instruments	**1 153**	**–**	**–**	**–**	**1 153**
Other loans and receivables	**726**	**–**	**117**	**(117)**	**726**
Cash and cash equivalents	**2 026**	**–**	**–**	**–**	**2 026**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 December 2016 GROUP	Neither past due nor impaired R million	Financial assets that are past due but not impaired: 0 – 3 months R million	3 – 6 months R million	Financial assets that have been impaired R million	Impairment R million	Carrying value R million
Debt securities						
Quoted	5 712	–	–	–	–	5 712
Unquoted	4 869	–	–	–	–	4 869
Total debt securities	**10 581**	**–**	**–**	**–**	**–**	**10 581**
Unitised investments						
Quoted with underlying debt securities	268	–	–	–	–	268
Total unitised investments	**268**	**–**	**–**	**–**	**–**	**268**
Short-term money market instruments	**1 361**	**–**	**–**	**–**	**–**	**1 361**
Other loans and receivables	**520**	**18**	**15**	**115**	**(115)**	**553**
Cash and cash equivalents	**2 887**	**–**	**–**	**–**	**–**	**2 887**
COMPANY						
Debt securities						
Quoted	4 439	–	–	–	–	4 439
Unquoted	2 723	–	–	–	–	2 723
Total debt securities	**7 162**	**–**	**–**	**–**	**–**	**7 162**
Unitised investments						
Quoted with underlying debt securities	178	–	–	–	–	178
Total unitised investments	**178**	**–**	**–**	**–**	**–**	**178**
Short-term money market instruments	**899**	**–**	**–**	**–**	**–**	**899**
Other loans and receivables	**662**	**–**	**–**	**140**	**(140)**	**662**
Cash and cash equivalents	**1 610**	**–**	**–**	**–**	**–**	**1 610**

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
5.10 Investment income				
Dividend income	**131**	64	**790**	115
Quoted	**93**	59	**44**	42
Unquoted	**38**	5	**746**	73
Interest income	**1 320**	941	**769**	788
Quoted	**710**	440	**421**	395
Unquoted	**610**	501	**348**	393
Foreign exchange differences	**(116)**	(228)	**(94)**	(71)
	1 335	777	**1 465**	832

Unquoted dividend income for the company for 2017 consists mainly of dividends received from subsidiaries.

5.11 Net gains/(losses) on financial assets and liabilities at fair value through income

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Net realised gains on financial assets	**121**	284	**33**	267
Net fair value gains/(losses) on financial assets at fair value through income	**286**	(300)	**228**	(325)
Net realised/fair value (losses)/gains on derivatives	**(34)**	75	**(34)**	75
Net fair value (losses)/gains on short-term money market instruments	**(3)**	14	**(2)**	9
Net gains on financial assets at fair value through income	**370**	73	**225**	26
Net fair value gains/(losses) on financial liabilities designated as at fair value through income	**57**	(31)	**(26)**	(31)
Net fair value gains/(losses) on debt securities	**19**	(31)	**19**	(31)
Net realised losses on debt securities	**(45)**	–	**(45)**	
Net realised gains on investment contracts	**83**	–	**–**	–
	427	42	**199**	(5)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (continued)

5.11 Net gains/(losses) on financial assets and liabilities at fair value through income (continued)

Accounting policy – Investment income and net gains/(losses) on financial assets and liabilities at fair value through income

Gains and losses arising from changes in the fair value of the "financial instruments at fair value through income" category are included in the statement of comprehensive income in the period in which they arise. Dividend income and interest accrued from financial assets at fair value through income is recognised in the statement of comprehensive income as part of investment income when the group's right to receive payments is established. Realised gains on instruments at fair value through income are calculated as the difference between proceeds received and cost. Realised gains are recognised as part of net loss/gain on financial assets and liabilities at fair value through income. Interest is accrued on financial assets at fair value through income on the effective yield basis.

	Notes	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
5.12 Investment income and net losses on financial assets held for sale					
Dividend income		**–**	394	**–**	–
Net fair value losses		**–**	(381)	**(95)**	–
Foreign currency translation reserve reclassified to profit and loss		**175**	–	**–**	–
		175	13	**(95)**	–

The release of the foreign currency translation reserve of R175 million for the group related to Santam International. Dividend income for the group in 2016 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 15 for more detail.

6. FINANCIAL LIABILITIES

The group's financial liabilities are summarised below.

	Notes	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Financial liabilities at fair value through income					
Debt securities	6.1	**2 056**	2 053	**2 056**	2 053
Investment contracts	6.3	**1 703**	101	**–**	–
Derivative liabilities	6.4	**–**	–	**–**	–
Financial liabilities at amortised cost					
Collateral guarantee contracts	6.5	**130**	123	**130**	123
Trade and other payables excluding insurance payables	6.6	**1 943**	1 605	**1 169**	1 829
Financial liabilities		**5 832**	3 882	**3 355**	4 005

Risk management

Refer to the following notes for detail on risks relating to financial assets and the management thereof:

- Interest rate risk – note 6.2
- Currency risk – note 7
- Liquidity risk – note 8

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

6.1 Debt securities

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
At the beginning of the year	**2 005**	974	**2 005**	974
Cash movements				
New debt securities issued	**1 000**	1 000	**1 000**	1 000
Debt securities redeemed	**(1 000)**	–	**(1 000)**	–
Non-cash movements				
Net fair value losses on debt securities	**26**	31	**26**	31
	2 031	2 005	**2 031**	2 005
Accrued interest	**25**	48	**25**	48
	2 056	2 053	**2 056**	2 053
Non-current liabilities	**2 031**	2 005	**2 031**	2 005
Current liabilities	**25**	48	**25**	48
Estimated redemption value on maturity date	**2 000**	2 000	**2 000**	2 000

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, amounted 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.

Per the conditions set by the Regulator, Santam is required to maintain liquid assets equal to the value of the callable notes until their maturity. The callable notes are therefore measured at fair value to minimise undue volatility in the statement of comprehensive income. The fair value of the fixed 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. They are all classified as level 2 (2016: level 2) in the fair value hierarchy.

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.

Santam's national credit rating remained unchanged during the year, irrespective of the negative impact that the sovereign downgrade had on Santam's international rating. The movement in the fair value of the unsecured subordinated callable notes therefore mainly represents the market movement.

Refer to page 122 for the Analysis of bondholders.

Accounting policy – Debt securities

Debt securities issued by the group comprise subordinated debt instruments fair valued against similar quoted debt instruments. Debt securities are designated as at fair value through income. The designation of these liabilities to be at fair value through income eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases.

Fair value movements are recognised in the statement of comprehensive income. Interest accruals are recognised as finance costs in the statement of comprehensive income. Financial liabilities are derecognised when all obligations have been met.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

6. FINANCIAL LIABILITIES (continued)

6.2 Interest rate risk – financial liabilities

Interest rate risk arises from the net effect on assets and liabilities of a change in the level of interest rates.

The assets backing the subordinated debt are managed within a mandate to ensure that adequate cover is provided for the related liabilities i.e. the market value of the subordinated debt and the market value of the assets backing the debt react the same way to changes in interest rates.

Interest rate risk is also managed using derivative instruments, such as swaps, to provide a degree of hedging against unfavourable market movements in interest rates. At 31 December 2016, the group had an interest rate swap agreement to partially mitigate the effects of potential adverse interest rate movements on financial assets underlying the unsecured subordinated callable notes. The interest rate derivatives 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 note. 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.

SENSITIVITY ANALYSIS ON INTEREST-BEARING INSTRUMENTS

General insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing. Interest-bearing instruments with a fixed rate give rise to fair value interest rate risk, while interest-bearing instruments with a floating rate give rise to cash flow interest rate risk.

The following table provides an indication of the impact of a 1% change in interest rates on the net income before tax as well as the net comprehensive income of the group and the company:

	2017		2016	
GROUP	**1% increase R million**	**1% decrease R million**	1% increase R million	1% decrease R million
Financial liabilities – fixed rate				
Debt securities – quoted	**21**	**(21)**	28	(29)
Derivative instruments	**–**	**–**	–	–
Financial liabilities – variable rate				
Debt securities – quoted	**(15)**	**15**	(5)	5
Total change in finance cost and net fair value movements before tax	**6**	**(6)**	23	(24)
COMPANY				
Financial liabilities – fixed rate				
Debt securities – quoted	**21**	**(21)**	28	(29)
Derivative instruments	**–**	**–**	–	–
Financial liabilities – variable rate				
Debt securities – quoted	**(15)**	**15**	(5)	5
Total change in finance cost and net fair value movements before tax	**6**	**(6)**	23	(24)

	Group		Company	
	2017	2016	**2017**	2016
	R million	R million	**R million**	R million
6.3 Investment contracts				
At the beginning of the year	**101**	70		
Cash movements				
Investment contracts issued	**84**	84		
Investment contracts sold/matured	**(116)**	(53)		
Business combinations	**1 551**	–		
Non-cash movements				
Net fair value gains	**83**	–		
Investment contracts	**1 703**	101		
Non-current liabilities	**1 583**	–		
Current liabilities	**120**	101		

The net fair value movements on investment contracts are equal to the net fair value movements on the linked financial assets at fair value through income. The movement in the net fair value of the linked assets and liabilities are included in "Net gains/(losses) on financial assets and liabilities at fair value through income" in the statement of comprehensive income. The maturity values of these financial liabilities are determined by the fair values of the linked assets. They are classified as level 2 per the fair value hierarchy.

Accounting policy – Investment contracts

The group recognises the following investment contracts:

a) FIRST-PARTY CELLS

First-party cell captive arrangements are arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies. The cell shareholder and the policyholder are considered the same person. Where more than one contract is entered into with a single counterparty, it shall be considered a single contract, and the shareholder and insurance agreement are considered together for risk transfer purposes. As these contracts are considered a single contract, there is no significant risk transfer and, as such, cell captive facilities are accounted for as investment contract liabilities.

b) POLICIES WITH NO SIGNIFICANT RISK TRANSFER

A risk is a significant risk if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding those that lack commercial substance and is assessed on a contract by contract basis except in circumstances where there is a relatively homogeneous book of small contracts which are known to transfer risk. Should an insurance contract not result in significant risk transfer, the contract will be accounted for as an investment contract.

Investment contract liabilities are recognised when the group becomes party to the contractual provisions of the instrument. It is initially recognised at fair value. The fair value is determined using the fair value of the underlying financial assets linked to the financial liability.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

6. FINANCIAL LIABILITIES (continued)

6.4 Derivative liabilities

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Financial liabilities – at fair value through income				
Over the counter				
Interest rate swaps[1]	**–**	–	**–**	–
	–	–	**–**	–

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

The interest rate derivatives represented the fair value of interest rate swaps effected on a portion R100 million of fixed interest securities held in the investment portfolio underlining the subordinated callable note (refer to note 6.1). 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 interest rate swaps were valued using Sanlam Investment Managers' (SIM) swap curve to separately discount (i.e. calculate the present value of) the future flows of the fixed and floating leg. The market value of the swap was the sum of these two present values. The fair value of the swap was disclosed on a net basis in the statement of financial position as well as the statement of comprehensive income due to the contractual right to settle the instrument on a net basis. They were classified as level 3 per the fair value hierarchy. The gross exposure asset and liability at 31 December 2016 amounted to R3 million and R3 million respectively.

Accounting policy – Derivatives

Derivatives are initially recognised in the statement of financial position at fair value on the date on which the contract is entered into and subsequently measured at their fair value. These derivatives are regarded as non-hedge derivatives. Changes in the fair value of such derivative instruments are recognised immediately in the statement of comprehensive income. Quoted derivative instruments are valued at quoted market prices, while unquoted derivatives are valued independently using valuation techniques such as discounted cash flow models and option models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a current legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or counterparty.

6.5 Collateral guarantee contracts

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
At the beginning of the year	**123**	105	**123**	105
Cash movements				
New contracts entered into	**27**	30	**27**	30
Contracts ended	**(28)**	(18)	**(28)**	(18)
Non-cash movements				
Interest	**8**	6	**8**	6
	130	123	**130**	123

Santam issues guarantees on behalf of its corporate clients covering various risks such as mining rehabilitation. The guarantees are issued on the back of full collateral guarantees in the form of moneys deposited with Santam. These assets are included in financial assets, debt securities, at fair value through income and cash, and amounted to R130 million (2016: R123 million) as at 31 December. As a result, the transaction is not recorded as an insurance transaction in terms of IFRS 4, but as a financial instrument in terms of IAS 39.

The carrying value of collateral guarantee contracts approximates fair value.

Accounting policy – Collateral guarantee contracts

Collateral guarantee contracts are initially recognised at fair value and subsequently measured at amortised cost using the effective-interest method. Interest accruals are recognised as finance costs in the statement of comprehensive income.

6.6 Trade and other payables excluding insurance payables

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Amounts due to subsidiaries (refer to note 10.2)	**–**	–	**346**	899
Trade payables and accrued expenses	**1 808**	1 477	**729**	838
Employee benefits	**135**	128	**94**	92
Total	**1 943**	1 605	**1 169**	1 829

The carrying value of trade and other payables approximates fair value.

Accounting policy – Trade and other payables

Trade and other payables, including accruals, are recognised when the group has a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the group. Trade and other payables are carried at amortised cost.

6.7 Finance costs

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Interest expense				
– interest on collateral guarantee	**8**	6	**8**	6
– banks and other	**74**	45	**65**	43
– subordinated callable note	**213**	160	**213**	160
– revenue authorities	**–**	1	**–**	1
	295	212	**286**	210

Accounting policy – Finance costs

Finance costs are recognised using the effective-interest method.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

7. CURRENCY RISK

The group incurs exposure to currency risk in two ways:

- Operational currency risk – by underwriting liabilities in currencies other than the currency of the primary environment in which the business units operate (non-functional currencies)
- Structural currency risk – by mainly investing in SEM target shares and SAN JV

These risks affect both the value of Santam's assets as well as the cost of claims, particularly for imported motor parts, directly and indirectly. The fair value of the investments in the SEM target shares is impacted by changes in the foreign exchange rates of the underlying operations. Santam is also pursuing international diversification in underwriting operations through the business written by Santam re and the specialist underwriting managers. Any changes in foreign exchange rates relating to the investment in SAN JV are recognised directly in the foreign currency translation reserve in the statement of changes in equity. These movements will only be released to profit or loss should the investment in SAN JV be disposed of.

The group does not take cover on foreign currency balances, but evaluates the need for cover on transactions on a case-by-case basis.

During November 2015, agreements were concluded whereby Santam acquired a 25% interest in SAN JV (with SEM acquiring 75%). SAN JV subsequently acquired 30% in Saham Finances. The total cash consideration, including transaction costs, was US$400 million.

The transaction was finalised during the first quarter of 2016.

In terms of Santam's risk management strategy, foreign currency risks can be assessed on a case by case basis to determine whether specific hedging requirements exists. The transaction with SAN JV was therefore assessed and it was concluded by the investment committee and the board that the foreign currency risk relating to this transaction should be appropriately hedged.

The hedging strategy that was approved consisted of obtaining funding from the following internal capital resources:

- US$35 million was purchased in the market in November 2015; and
- The balance was obtained from existing US dollar assets.

The dedicated capital resources mentioned above were designated as the hedging instrument and the proposed acquisition as described above was identified as the hedged item. The implementation date of the hedge was 24 November 2015. The impact of this was that the foreign currency gains of R140 million, recognised on the dedicated cash balances since the designation date, were not recognised in profit or loss but were recognised in equity, and thereafter accounted for as part of the investment in SAN JV in 2016.

Effective 10 May 2017, SEM and Santam made a further investment in SAN JV, and 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 therefore decided to implement another hedging arrangement similar to the one applied in 2015 by purchasing US$10 million before 31 December 2016. The currency losses recognised as part of the cash flow hedge reserve amounted to R6 million. It was subsequently accounted for as part of the investment in SAN JV in 2017.

The tables presented on pages 73 and 74 provide a summary of the foreign exposures (including structured currency risk) relating to assets and liabilities included in the statement of financial position at the reporting date. Only the material currencies held at the reporting date are disclosed in the table. The exposure disclosed in rand value does, however, represent the group and the company's total exposure to all currencies held at the reporting date irrespective of whether it was separately disclosed in the table. The foreign currency exposure for reinsurance assets disclosed in the table only includes reinsurance contracts denominated in foreign currencies. Structured currency risk relating to the investment in SAN JV is included in Investments in associates and joint ventures.

Any exposure to Namibian dollar was not included in the tables as there is currently no impact on profit or loss and/or the net asset value of the group.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Assets and liabilities denominated in foreign currencies included in the statement of financial position.

31 December 2017 GROUP	Euro € million	United States dollar US$ million	British pound £ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Total exposure R million
Debentures, insurance policies, public sector stocks and other loans	1.46	72.73	24.52	–	–	–	–	**1 068.55**
Cash, deposits and similar securities	11.42	79.74	(0.42)	–	–	–	–	**1 137.84**
Reinsurance assets	0.05	43.38	–	17.95	–	85.83	–	**684.30**
Trade and other receivables	4.88	41.48	0.06	3.54	11.06	177.65	3 709.28	**832.32**
Insurance liabilities	(15.53)	(98.19)	(3.49)	(20.15)	(30.19)	(735.15)	(6 124.32)	**(2 136.34)**
Trade and other payables	0.02	(43.61)	(0.06)	–	(18.53)	(32.47)	(2 061.12)	**(644.52)**
Total foreign currency exposure relating to insurance business (excluding alternative risk)	**2.30**	**95.53**	**20.61**	**1.34**	**(37.66)**	**(504.14)**	**(4 476.16)**	**942.15**
Cash, deposits and similar securities:								
– relating to alternative risk business	–	9.48	–	–	–	–	–	**118.80**
– relating to net investment in Santam International	–	–	0.13	–	–	–	–	**2.20**
Trade and other payables:								
– relating to alternative risk business	–	(9.31)	–	–	–	–	–	**(116.70)**
– relating to net investment in Santam International	–	–	(0.13)	–	–	–	–	**(2.20)**
Equity securities[1]	2.68	11.62	–	–	–	–	–	**1 102.99**
Derivatives instruments	–	0.57	–	–	–	–	–	**7.67**
Investments in associates and joint ventures	–	–	–	1 086.15	–	–	–	**1 395.56**
Foreign currency exposure	**4.98**	**107.32**	**20.61**	**1 087.49**	**(37.66)**	**(504.14)**	**(4 476.16)**	**3 450.47**
COMPANY								
Debentures, insurance policies, public sector stocks and other loans	1.46	72.73	24.52	–	–	–	–	**1 068.55**
Cash, deposits and similar securities	11.42	78.72	(0.42)	–	–	–	–	**1 137.84**
Reinsurance assets	0.05	43.38	–	17.95	–	85.83	–	**684.30**
Trade and other receivables	4.88	41.47	0.06	3.54	11.06	177.65	3 709.28	**832.32**
Insurance liabilities	(15.53)	(98.19)	(3.49)	(20.15)	(30.19)	(735.15)	(6 124.32)	**(2 136.34)**
Trade and other payables	0.02	(43.57)	(0.06)	–	(18.53)	(32.47)	(2 061.12)	**(644.52)**
Total foreign currency exposure relating to insurance business	**2.30**	**94.54**	**20.61**	**1.34**	**(37.66)**	**(504.14)**	**(4 476.16)**	**942.15**
Equity securities[1]	–	–	–	–	–	–	–	**1 088.70**
Derivatives instruments	–	0.57	–	–	–	–	–	**7.67**
Investments in associates and joint ventures	–	–	–	1 185.27	–	–	–	**1 564.55**
Foreign currency exposure	**2.30**	**95.11**	**20.61**	**1 186.61**	**(37.66)**	**(504.14)**	**(4 476.16)**	**3 603.07**
Exchange rates:								
Closing rate	14.75	12.34	16.61	1.32	1.91	0.19	0.01	
Average rate	14.81	13.24	17.13	1.37	1.96	0.21	0.01	

[1] *Consists predominantly of SEM target shares with exposure to various foreign currencies.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

7. CURRENCY RISK (continued)

31 December 2016 GROUP	Euro € million	United States dollar US$ million	British pound £ million	Moroccan dirham MAD million	Chinese yuan CNY million	Indian rupee INR million	South Korean won KRW million	Total exposure R million
Debentures, insurance policies, public sector stocks and other loans	0.49	63.39	1.70	–	–	–	–	**891.55**
Cash, deposits and similar securities	7.72	50.46	0.75	–	–	–	–	**807.51**
Reinsurance assets	0.04	40.84	0.01	–	0.87	49.50	–	**823.55**
Trade and other receivables	2.41	33.63	0.33	–	10.42	168.11	4 363.88	**705.09**
Insurance liabilities	(10.47)	(85.38)	(2.49)	–	(31.36)	(623.37)	(5 629.02)	**(2 075.68)**
Trade and other payables	(0.08)	(33.71)	(0.04)	–	(13.20)	(12.47)	(2 784.59)	**(565.06)**
Total foreign currency exposure relating to insurance business (excluding alternative risk)	**0.11**	**69.23**	**0.26**	**–**	**(33.27)**	**(418.23)**	**(4 049.73)**	**586.96**
Cash, deposits and similar securities:								
– designated for hedging purposes	–	10.00	–	–	–	–	–	**135.38**
– relating to alternative risk business	–	9.31	–	–	–	–	–	**128.14**
– relating to net investment in Santam International	–	–	25.61	–	–	–	–	**433.37**
Trade and other payables:								
– relating to alternative risk business	–	(9.21)	–	–	–	–	–	**(126.78)**
– relating to net investment in Santam International	–	–	(25.93)	–	–	–	–	**(434.47)**
Trade and other receivables relating to net investment in Santam International	–	–	25.80	–	–	–	–	**433.58**
Unquoted equity securities[1]	–	–	–	–	–	–	–	**1 126.50**
Derivative instruments	–	0.09	–	–	–	–	–	**1.25**
Investment in associates and joint ventures	–	–	–	884.32	–	–	–	**1 201.00**
Non-current assets held for sale	–	–	0.45	–	–	–	–	**7.53**
Foreign currency exposure	**0.11**	**79.42**	**26.19**	**884.32**	**(33.27)**	**(418.23)**	**(4 049.73)**	**3 492.46**
COMPANY								
Debentures, insurance policies, public sector stocks and other loans	0.49	63.39	1.70	–	–	–	–	**891.55**
Cash, deposits and similar securities	7.72	50.46	0.75	–	–	–	–	**807.51**
Reinsurance assets	0.04	40.84	0.01	–	0.87	49.50	–	**823.55**
Trade and other receivables	2.41	33.63	0.33	–	10.42	168.11	4 363.88	**705.09**
Insurance liabilities	(10.47)	(85.38)	(2.49)	–	(31.36)	(623.37)	(5 629.02)	**(2 075.68)**
Trade and other payables	(0.08)	(33.71)	(0.04)	–	(13.20)	(12.47)	(2 784.59)	**(565.06)**
Total foreign currency exposure relating to insurance business	**0.11**	**69.23**	**0.26**	**–**	**(33.27)**	**(418.23)**	**(4 049.73)**	**586.96**
Cash, deposits and similar securities:								
– designated for hedging purposes	–	10.00	–	–	–	–	–	**135.38**
Trade and other payables:								
– relating to net investment in Santam International	–	–	(25.80)	–	–	–	–	**(433.58)**
Unquoted equity securities[1]	–	–	–	–	–	–	–	**1 126.50**
Derivative instruments	–	0.09	–	–	–	–	–	**1.25**
Investment in associates and joint ventures	–	–	–	884.32	–	–	–	**1 201.00**
Foreign currency exposure	**0.11**	**79.32**	**(25.54)**	**884.32**	**(33.27)**	**(418.23)**	**(4 049.73)**	**2 617.51**
Exchange rates:								
Closing rate	14.28	13.54	16.63	1.36	1.96	0.20	0.01	
Average rate	16.05	14.60	19.89	1.48	2.22	0.22	0.01	

[1] *Consists predominantly of SEM target shares with exposure to various foreign currencies.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Accounting policy – Foreign currency translation

a) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand, which is the group's presentation currency.

b) TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the closing exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences on non-monetary items, such as equities held at fair value through income, are reported as part of the fair value gain or loss.

c) GROUP COMPANIES

The results and financial position of all group entities (none of which uses a currency linked to a hyperinflationary economy) that use a functional currency other than the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position.

(ii) Income and expenses for each statement of comprehensive income presented are translated at average exchange rates during each period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

(iii) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as the foreign entity's assets or liabilities and are translated at the closing rate.

A 10% change in the rand exchange rate against USD, GBP (2017) and INR (2016) would have the following impact on income before taxation:

31 December 2017	10% strengthening in rand/GBP R million	10% weakening in rand/GBP R million	10% strengthening in rand/USD R million	10% weakening in rand/USD R million
GROUP				
Impact on profit or loss	**(34.23)**	**34.23**	**(132.39)**	**132.39**
COMPANY				
Impact on profit or loss	**(34.01)**	**34.01**	**(116.63)**	**116.63**

31 December 2016	10% strengthening in rand/INR R million	10% weakening in rand/INR R million	10% strengthening in rand/USD R million	10% weakening in rand/USD R million
GROUP				
Impact on profit or loss	8.40	(8.40)	(107.40)	107.40
COMPANY				
Impact on profit or loss	8.40	(8.40)	(107.26)	107.26

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

7. CURRENCY RISK (continued)

The impact of a 10% change in the rand exchange rate against the euro, British pound (2016), Chinese yuan, Indian rupee (2017), South Korean won and Moroccan dirham is not disclosed as it is not material for the group or the company for the current year.

The foreign exchange profits or losses arising from the translation of international business unit statements of financial position from their functional currencies into rand are recognised in the currency translation reserve. These movements in exchange rates therefore have no impact on profit. On disposal of the foreign companies, the reserve is realised and released to profit or loss.

Exchange rate profits or losses relating to the SEM target shares are included in the fair value movements of the instruments.

DERIVATIVE RISK

The group uses derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates and equity prices. The group does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. The policy on use of derivatives is approved by the investment committee and the board. Refer to notes 5.2 and 6.4 for more detail on the derivatives held by the group.

Over-the-counter derivative contracts and exchange traded futures are entered into only with approved counterparties, in accordance with group policies, effectively reducing the risk of credit loss. The group applies strict requirements to the administration and valuation process it uses, and has a control framework that is consistent with market and industry practice for the activity that it has undertaken.

8. LIQUIDITY RISK

Santam manages the liquidity requirements by matching the duration of the assets invested to the corresponding liabilities. The net insurance liabilities are covered by cash and very liquid interest-bearing instruments while Santam's subordinated debt obligation is covered by matching cash and interest-bearing instruments (including interest rate swaps).

The cash mandates include market risk limitations (average duration and maximum duration per instrument) to ensure adequate availability of liquid funds to meet Santam's payment obligations.

Santam's shareholders funds are invested in a combination of interest-bearing instruments, preference shares, listed equities and unlisted investments. The listed equity portfolio is a well-diversified portfolio with highly liquid shares.

The following table summarises the contractual repricing or maturity dates (whichever is earlier) for financial assets and liabilities that are subject to fixed and variable interest rates. Insurance contract liabilities are also presented and are analysed by remaining estimated duration until settlement. Insurance and financial liabilities are presented on an undiscounted contractual cash flow basis.

31 December 2017 GROUP	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
Financial and insurance assets					
Equity securities					
Quoted	–	–	–	2 097	**2 097**
Unquoted	–	–	–	1 179	**1 179**
Total	**–**	**–**	**–**	**3 276**	**3 276**
Debt securities					
Quoted	2 175	5 140	1 096	–	**8 411**
Unquoted	47	3 560	–	126	**3 733**
Total	**2 222**	**8 700**	**1 096**	**126**	**12 144**
Unitised investments					
Quoted					
Underlying equity securities	–	–	–	1 765	**1 765**
Underlying debt securities	–	–	–	369	**369**
Total	**–**	**–**	**–**	**2 134**	**2 134**
Short-term money market instruments	**2 174**	**–**	**–**	**–**	**2 174**
Receivables due from contract holders/ intermediaries	3 593	–	–	–	**3 593**
Reinsurance receivables	686	–	–	–	**686**
Cell owners' and policyholders' interest	10	–	–	–	**10**
Other loans and receivables	974	–	–	–	**974**
Reinsurance assets (incl DAC)	5 250	860	185	66	**6 361**
Deposit with cell owner	45	105	24	–	**174**
Total	**10 558**	**965**	**209**	**66**	**11 798**
Cash and cash equivalents	**4 321**	**–**	**–**	**–**	**4 321**
Total financial and insurance assets	**19 275**	**9 665**	**1 305**	**5 602**	**35 847**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Financial and insurance liabilities				
Debt securities	199	1 231	1 993	**3 423**
Investment contracts	120	–	1 583	**1 703**
Cell owners' and policyholders' interest	–	3 227	–	**3 227**
Collateral guarantee contracts	130	–	–	**130**
Insurance liabilities (incl Reinsurance DAC)	15 655	2 077	442	**18 174**
Reinsurance liability relating to cell owners	45	105	24	**174**
Trade and other payables	4 953	–	–	**4 953**
Total	21 102	6 640	4 042	**31 784**

	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
COMPANY					
Financial and insurance assets					
Equity securities					
Quoted	–	–	–	1 420	**1 420**
Unquoted	–	–	–	1 143	**1 143**
Total	**–**	**–**	**–**	**2 563**	**2 563**
Debt securities					
Quoted	215	4 040	681	–	**4 936**
Unquoted	39	1 395	–	126	**1 560**
Total	**254**	**5 435**	**681**	**126**	**6 496**
Unitised investments					
Quoted					
Underlying equity securities	–	–	–	59	**59**
Underlying debt securities	–	–	–	151	**151**
Total	**–**	**–**	**–**	**210**	**210**
Short-term money market instruments	**1 153**	**–**	**–**	**–**	**1 153**
Receivables due from contract holders/ intermediaries	3 447	–	–	–	**3 447**
Reinsurance receivables	575	–	–	–	**575**
Other loans and receivables	726	–	–	–	**726**
Reinsurance assets (incl DAC)	4 589	880	189	–	**5 658**
Total	**9 337**	**880**	**189**	**–**	**10 406**
Cash and cash equivalents	**2 026**	**–**	**–**	**–**	**2 026**
Total financial and insurance assets	**12 770**	**6 315**	**870**	**2 899**	**22 854**

	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Financial and insurance liabilities	199	1 231	1 993	**3 423**
Debt securities	130	–	–	**130**
Collateral guarantee contracts	10 230	2 044	439	**12 713**
Insurance liabilities (incl Reinsurance DAC)	3 796	–	–	**3 796**
Trade and other payables	**14 355**	**3 275**	**2 432**	**20 062**
Total				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

8. LIQUIDITY RISK (continued)

31 December 2016 GROUP	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
Financial and insurance assets					
Equity securities					
Quoted	–	–	–	1 323	**1 323**
Unquoted	–	–	–	1 181	**1 181**
Total	**–**	**–**	**–**	**2 504**	**2 504**
Debt securities					
Quoted	530	4 404	778	–	**5 712**
Unquoted	101	4 726	11	31	**4 869**
Total	**631**	**9 130**	**789**	**31**	**10 581**
Unitised investments					
Quoted					
Underlying equity securities	–	–	–	77	**77**
Underlying debt securities	–	–	–	268	**268**
Total	**–**	**–**	**–**	**345**	**345**
Short-term money market instruments	**1 361**	**–**	**–**	**–**	**1 361**
Receivables due from contract holders/intermediaries	2 896	–	–	–	**2 896**
Reinsurance receivables	305	–	–	–	**305**
Cell owners' and policyholders' interest	7	–	–	–	**7**
Other loans and receivables	553	–	–	–	**553**
Reinsurance assets (incl DAC)	4 168	661	129	–	**4 958**
Deposit with cell owner	56	125	38	–	**219**
Total	**7 985**	**786**	**167**	**–**	**8 938**
Cash and cash equivalents	**2 887**	**–**	**–**	**–**	**2 887**
Total financial and insurance assets	**12 864**	**9 916**	**956**	**2 880**	**26 616**

	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Financial and insurance liabilities				
Debt securities	1 190	907	588	**2 685**
Investment contracts	101	–	–	**101**
Cell owners' and policyholders' interest	1 153	–	–	**1 153**
Collateral guarantee contracts	123	–	–	**123**
Insurance liabilities (incl Reinsurance DAC)	11 624	1 882	363	**13 869**
Reinsurance liability relating to cell owners	56	125	38	**219**
Trade and other payables	4 093	–	–	**4 093**
Total	**18 340**	**2 914**	**989**	**22 243**

	< 1 year R million	1 to 5 years R million	> 5 years R million	Open ended R million	Carrying value R million
COMPANY					
Financial and insurance assets					
Equity securities					
Quoted	–	–	–	1 199	**1 199**
Unquoted	–	–	–	1 181	**1 181**
Total	**–**	**–**	**–**	**2 380**	**2 380**
Debt securities					
Quoted	507	3 453	479	–	**4 439**
Unquoted	93	2 592	7	31	**2 723**
Total	**600**	**6 045**	**486**	**31**	**7 162**
Unitised investments					
Quoted					
Underlying equity securities	–	–	–	56	**56**
Underlying debt securities	–	–	–	178	**178**
Total	**–**	**–**	**–**	**234**	**234**
Short-term money market instruments	**899**	**–**	**–**	**–**	**899**
Receivables due from contract holders/intermediaries	2 744	–	–	–	**2 744**
Reinsurance receivables	64	–	–	–	**64**
Other loans and receivables	662	–	–	–	**662**
Reinsurance assets (incl DAC)	3 538	676	132	–	**4 346**
Total	**7 008**	**676**	**132**	**–**	**7 816**
Cash and cash equivalents	**1 610**	**–**	**–**	**–**	**1 610**
Total financial and insurance assets	**10 117**	**6 721**	**618**	**2 645**	**20 101**

	Within 1 year R million	1 to 5 years R million	More than 5 years R million	Total R million
Financial and insurance liabilities				
Debt securities	1 190	907	588	**2 685**
Collateral guarantee contracts	123	–	–	**123**
Insurance liabilities (incl Reinsurance DAC)	8 782	1 846	359	**10 987**
Trade and other payables	3 847	–	–	**3 847**
Total	**13 942**	**2 753**	**947**	**17 642**

9. CELL OWNERS' AND POLICYHOLDERS' INTEREST AND OTHER ASSETS AND LIABILITIES RELATING TO CELLS

9.1 Reconciliation of cell owners' interest

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
At the beginning of the year	**1 146**	974		
Cash movements				
Net increase/(decrease) in cell owners' interest	**(40)**	(55)		
Preference shares issued by subsidiary	**10**	13		
Redemption of preference shares	**(7)**	(1)		
Dividends paid to preference shareholders	**(54)**	(71)		
Business combination	**251**	–		
Non-cash movements				
Net increase in cell owners' interest	**246**	286		
	1 552	1 146		
Amounts owed by cell owners	**10**	7		
	1 562	1 153		
Non-current liabilities	**1 562**	1 153		
Current liabilities	**–**	–		

Amounts owed by cell owners are unrated and neither past due nor impaired.

In the event that claims incurred by the cell captive exceed the related assets, the group will be exposed to the credit risk of the related cell owners until the solvency requirements of the cell captives have been met by the cell owner. Cell owners' credit risk is evaluated before new cell arrangements are established. Solvency levels of cells are assessed on a regular basis.

Accounting policy – Liabilities to cell shareholders

The group offers cell captive facilities to clients. A cell captive is a contractual arrangement entered into by the group with a cell shareholder, whereby the risks and rewards associated with certain insurance activities accrue to the cell shareholder. Cell captives allow clients to purchase non-convertible preference shares in the registered insurance company which undertakes the professional insurance management of the cell, including: underwriting, reinsurance, claims management, actuarial and statistical analysis, investment and accounting services. The terms and conditions are governed by the shareholders' agreement. There are currently two distinct types of cell captive arrangements: a) first party and b) third party.

- First-party cell captive arrangements: refer to note 6.3
- Third-party cell captive arrangements are arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. The insurance company is the principle to the insurance contract, although the business is underwritten on behalf of the cell shareholder. The shareholder's agreement, however, determines that the cell shareholders remain responsible for the solvency of the cell captive arrangements. In substance, the insurance company therefore reinsures this business to the cell shareholder as the cell shareholder remains responsible for the solvency of the cell captive arrangement.

The cell shareholder's interest represents the cell shareholder's funds, in respect of the insurance business conducted in the cell structures, held by the insurer and is included under liabilities due to cell shareholders. The carrying value of amounts due to cells is the consideration received for preference shares plus the accumulated funds in respect of business conducted in the cells less repayment to cells.

The premiums and claims relating to first-party cells have been excluded from the statement of comprehensive income and are accounted for directly in the liability. The premiums and claims payments relating to contracts in third-party cells have been included in the statement of comprehensive income but, as the third-party cell shareholder, in substance, is the reinsurer, the net result is accounted for as part of the reinsurance contract liability.

9.2 Reconciliation of policyholders' interest

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
At the beginning of the year	**–**	–		
Cash movement				
Business combinations	**1 598**	–		
Non-cash movement				
Net increase in policyholders' interest	**67**	–		
	1 665	–		
Non-current liabilities	**1 665**	–		
Current liabilities	**–**	–		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

9. CELL OWNERS' INTEREST AND OTHER ASSETS AND LIABILITIES RELATING TO CELLS (continued)

9.2 Reconciliation of policyholders' interest (continued)

Accounting policy – Liabilities to policyholders

Policyholder liabilities that originated from unit-linked contracts are measured with reference to the respective underlying assets of these contracts.

Policyholders' entitlement to participation in operating results remains contingent until the termination of the agreement with the client or until contractually determined. During the duration of the profit-sharing agreement, the estimated entitlement to profit or losses by clients is determined annually and transferred to the policyholders' interest liability. Increases and decreases in the estimated entitlement to operating result that may become apparent in future periods are transferred from or to the operating result of that period.

	Group 2017 R million	Group 2016 R million
9.3 Reconciliation of deposit with cell owner		
At the beginning of the year	**219**	254
Movement for the year (refer to note 9.4)	**(45)**	(35)
	174	219
Non-current assets	**129**	163
Current assets	**45**	56
9.4 Reconciliation of reinsurance liability relating to cell owners		
At the beginning of the year	**219**	254
Impact of discounting (unwinding)	**13**	21
Exits during the period (lapses and death)	**(4)**	(51)
Repayments	**(47)**	(57)
New tranches written	**–**	55
Other	**(7)**	(3)
	174	219
Non-current liabilities	**129**	163
Current liabilities	**45**	56

During 2015, Centriq Life Insurance Company Ltd (Centriq Life) entered into a financial reinsurance agreement whereby the profit in respect of a book of business reinsured, was paid up front by the reinsurer to the cell owner. Centriq Life's reinsurance liability due to the reinsurer was recognised as a "Reinsurance liability relating to cell owners". The payment made to the cell owner is regarded by Centriq Life as the upfront payment of profits to the cell owner in terms of the cell shareholder agreement and is therefore recognised as a "Deposit with cell owner". The deposit is classified as unrated and is neither past due nor impaired.

10. INVESTMENT IN SUBSIDIARIES

	Company 2017 R million	Company 2016 R million
At the beginning of the year	**1 893**	1 893
Settlement	**(538)**	–
Impairment	**(230)**	–
Unlisted shares at cost price less impairment	**1 125**	1 893
Non-current assets	**1 125**	1 355
Current assets	**–**	538

To the extent that capital is remitted from offshore subsidiaries, the carrying value is adjusted to keep in line with net asset value.

During March 2017, Swanvest 120 (Pty) Ltd, a 100%-owned subsidiary of Santam Ltd, acquired a shareholding of 100% in RMB-SI Investments (Pty) Ltd (now Santam Structured Insurance (Pty) Ltd (SSI)) for R193 million in cash (refer to note 14). Key SSI management obtained a 10% economic participation interest in SSI at acquisition date for R20 million. The 10% participatory interest is included as a liability under provisions (refer to note 20).

Santam International group is in the process of being liquidated. Refer to note 15. A capital distribution of £26 million was received during the year, resulting in the recognition of a fair value loss. Refer to note 5.12.

Management performed an impairment review on all investments in subsidiaries. The carrying values of dormant companies were adjusted to align with the current net asset values.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Accounting policy – Consolidation

a) SUBSIDIARIES AND BUSINESS COMBINATIONS

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss, or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

The company accounts for its investments in subsidiaries at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

b) CHANGES IN OWNERSHIP INTERESTS WITHOUT CHANGE OF CONTROL

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

c) DISPOSAL OF SUBSIDIARIES

When the group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

10. INVESTMENT IN SUBSIDIARIES (continued)

10.1 Analysis of investments in subsidiaries

INVESTMENT IN SUBSIDIARIES

UNLISTED COMPANIES

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2017	Proportion held by the company 2016	Book value R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Direct								
Aegis Insurance Company Ltd	Insurance	RSA	7 600 000	100.0%	100.0%	7	13	–
Centriq Insurance Holdings Ltd	Holding co.	RSA	102 330 000	100.0%	100.0%	150	–	13
Guardian National Insurance Company Ltd	Insurance	RSA	178 603 840	100.0%	100.0%	624	185	–
Insurance Broker Resource Centre (Pty) Ltd[2]	Underwriting	RSA	38 172 012	100.0%	100.0%	–	–	–
Main Street 409 (Pty) Ltd	Holding co.	RSA	850	100.0%	100.0%	33	50	–
Mirabilis Engineering Underwriting Managers (Pty) Ltd	Underwriting	RSA	84 000 850	55.0%	55.0%	84	–	–
Riscor Underwriting Managers (Pty) Ltd	Underwriting	RSA	37 500 100	100.0%	100.0%	–	–	–
Santam International Ltd	Holding co.	Guernsey	692 505 672	100.0%	100.0%	–	–	–
Santam Namibia Holdings (Pty) Ltd	Holding co.	RSA	445 000 001	100.0%	100.0%	168	–	–
Sentinel Insurance Corporation Ltd	Investments	RSA	1 000 000	100.0%	100.0%	1	1	–
Swanvest 120 (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	–	–	269
Thebe Risk Services Holdings (Pty) Ltd	Holding co.	RSA	1 000	100.0%	100.0%	47	57	–
Travest Investments (Pty) Ltd	Investments	RSA	6 680 860	100.0%	100.0%	11	–	12
						1 125	**306**	**294**
Indirect								
Admiral Professional Underwriting Agency (Pty) Ltd	Underwriting	RSA	2 270 403	100.0%	100.0%	12	–	–
Africa Group Financial Services (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	–	–	–
Beyonda Group (Pty) Ltd	Insurance	RSA	200	87.5%	87.5%	15	–	–
Brolink (Pty) Ltd	Administration co.	RSA	1 000	100.0%	100.0%	26	–	–
Centriq Insurance Company Ltd	Insurance	RSA	55 000 084	100.0%	100.0%	102	–	–
Centriq Life Insurance Company Ltd	Insurance	RSA	15 000 000	100.0%	100.0%	16	–	–
C-Sure Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	100.0%	100.0%	–	–	1
Echelon Private Client Solutions (Pty) Ltd	Underwriting	RSA	1 000	60.0%	60.0%	–	–	12
Emerald Risk Transfer (Pty) Ltd	Underwriting	RSA	2 000 174	100.0%	100.0%	94	–	–
H&L Underwriting Managers (Pty) Ltd	Underwriting	RSA	100	100.0%	100.0%	–	–	–
Just I-Insure Consultants (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	–	–	–
Misty Sea Trading 267 (Pty) Ltd	Investments	RSA	11 200 952	100.0%	100.0%	–	–	–
MiWay Group Holdings (Pty) Ltd	Holding co.	RSA	211 101 111	100.0%	100.0%	257	–	–
Multiplex Investment Holding Company (Pty) Ltd[3]	Holding co.	RSA	20 700	100.0%	0.0%	–	–	3
Nautical Underwriting Managers (Pty) Ltd	Underwriting	RSA	200	62.0%	62.0%	–	–	–
Nova Risk Partners Ltd	Insurance	RSA	3 000 000	100.0%	100.0%	3	–	–
Santam Namibia Ltd	Insurance	Namibia	8 307 000	60.0%	60.0%	5	12	–
Santam SI Investments (Pty) Ltd[1]	Insurance	RSA	78 551 000	100.0%	0.0%	193	–	–
Santam Structured Insurance Ltd	Insurance	RSA	10 000 364	100.0%	0.0%	145	–	–
Santam Structured Life Ltd	Insurance	RSA	4	100.0%	0.0%	40	–	–
Santam SI Investments Mauritius Ltd (Mauritius)	Insurance	Mauritius	12	100.0%	0.0%	–	–	–
Santam Structured Insurance Ltd PCC	Insurance	Mauritius	7	100.0%	0.0%	8	–	–
Santam Structured Reinsurance Ltd PCC	Insurance	RSA	3 540 000	100.0%	0.0%	906	–	–
Santam Financial Services Ltd DAC	Insurance	Ireland	5 038 450	100.0%	0.0%	6	–	–
Credit Innovation (Pty) Ltd	Insurance	RSA	428 571	60.0%	0.0%	–	–	–
Santam UK Ltd	Holding co.	United Kingdom	100 006 588	100.0%	100.0%	–	–	–
Stalker Hutchison Admiral (Pty) Ltd	Underwriting	RSA	7 914 393	100.0%	100.0%	53	–	–
Travel Insurance Consultants (Pty) Ltd	Underwriting	RSA	13 988 239	100.0%	100.0%	24	28	–
Wheatfields Investments No 136 (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	–	–	–
						1 905	**40**	**16**
TOTAL INVESTMENTS IN SUBSIDIARIES						**3 030**	**346**	**310**

[1] *During March 2017, the Santam group acquired a shareholding of 100% in RMB-SI Investments (Pty) Ltd (now Santam Structured Insurance (Pty) Ltd (SSI)) for R193 million in cash. Key SSI management obtained a 10% economic participation interest in SSI at acquisition date for R20 million. The 10% participatory interest is included as a liability under provisions.*

[2] *On 31 December 2017, Santam Ltd acquired one share in Insurance Broker Resource Centre (Pty) Ltd. The group has an effective 100% shareholding before and after the transaction.*

[3] *On 14 June 2016, Swanvest 120 (Pty) Ltd purchased 100% shareholding in Multiplex Investment Holding Company (Pty) Ltd.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

10.2 Transactions with entities in the group

During the year the company and its subsidiaries in the ordinary course of business entered into various transactions with other group companies.

The company has several intercompany balances owed by and to subsidiaries in the group as at the end of the year. Loans to subsidiaries with outside shareholders are interest-bearing and are repayable on demand. Loans to wholly-owned subsidiaries are interest free and repayable on demand. The loan to MiWay Group Holdings (Pty) Ltd was provided as additional capital and is managed as part of the investment in subsidiary. These inter-Santam group balances have been eliminated on consolidation (for detail on balances, refer to the table on the previous page).

In 2013 Santam entered into a contingent capital facility with Centriq Insurance Company Ltd of R50 million. A facility fee of 0.5% of the contingent capital facility is charged. The capital facility ensures appropriate economic capital levels for the prudential management of the entity. The contingent capital facility remained in place for 2017.

	Company	
	2017	2016
	R million	R million
The following is a summary of transactions and balances with subsidiaries:		
a) Insurance contracts and other services		
– MiWay Group Holdings Ltd (for insurance premiums)	**1 970**	1 888
– Centriq Insurance Holdings Ltd (for insurance premiums)	**142**	102
– Santam Namibia Ltd (for insurance premiums)	**46**	65
– other subsidiaries (for administration services)	**25**	23
– subsidiaries (for administration services)	**(410)**	(361)
– subsidiaries (for brokerage commission)	**(798)**	(623)
– MiWay Group Holdings Ltd (for insurance claims paid)	**(1 166)**	(1 225)
– Centriq Insurance Holdings Ltd (for insurance claims paid)	**(83)**	(96)
– Santam Namibia Ltd (for insurance claims paid)	**(36)**	(172)
– Santam Namibia Ltd (for reinsurance services)	**(43)**	(63)
– Santam Namibia Ltd (for reinsurance claims)	**37**	54
– Santam Namibia Ltd (for reinsurance commission)	**12**	18
b) Year-end balances with related parties		
Emthunzini Black Economic Empowerment Staff Trust	**39**	11

11. NON-CONTROLLING INTEREST IN SUBSIDIARIES

The following table summarises the information relating to the group's subsidiaries that have material non-controlling interests (NCI), before any intra-group eliminations.

	Group	
	2017	2016
	R million	R million
Santam Namibia Ltd	**478**	454
Mirabilis Engineering Underwriting Managers (Pty) Ltd	**29**	19
Other	**(1)**	(4)
Total	**506**	469

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

11. NON-CONTROLLING INTEREST IN SUBSIDIARIES (continued)

	Mirabilis Engineering Underwriting Managers (Pty) Ltd		Santam Namibia Ltd	
	2017 R million	2016 R million	**2017 R million**	2016 R million
Ownership and voting right	**45.0%**	45.0%	**40.0%**	40.0%
Target share interest			**37.4%**	37.4%
Current assets	**73**	43	**653**	563
Non-current assets	**9**	7	**493**	427
Current liabilities	**17**	8	**732**	614
Non-current liabilities	**–**	–	**26**	19
Net assets	**65**	42	**388**	357
Carrying amount of NCI	**29**	19	**478**	454
SEM target shares	**–**	–	**322**	311
Ordinary shareholders	**29**	19	**156**	143
Revenue	**126**	90	**1 197**	1 118
Profit after tax	**50**	31	**145**	134
Total comprehensive income	**50**	31	**145**	134
Profit allocated to NCI	**23**	14	**112**	104
Cash flows from operating activities	**38**	43	**142**	127
Cash flows from investing activities	**–**	–	**18**	13
Cash flows from financing activities, before dividends to NCI	**(17)**	(23)	**(115)**	(66)
Cash flows from financing activities – cash dividends to NCI	**(14)**	(19)	**(46)**	(44)
Net increase/(decrease) in cash and cash equivalents	**7**	1	**(1)**	30

Santam set up a wholly-owned subsidiary, Santam Namibia Holdings (Pty) Ltd (Namibian HoldCo), in December 2013. Namibian HoldCo purchased the 60% of the issued ordinary shares of Santam Namibia Ltd (Santam Namibia) that was held by Santam Ltd. SEM subscribed for target shares to the value of R277 million in Santam Namibia HoldCo linked to a 37.4% participatory interest in Santam Namibia. The target shares issued to SEM are also disclosed as part of non-controlling interest. Santam Ltd's effective participation in Santam Namibia is therefore 22.6%. However, Santam Ltd retains control over Santam Namibia by way of a service level agreement and representation on board committees, the duration of which is under the control of Santam Ltd.

Accounting policy – Non-controlling interest

The group recognises any non-controlling interest in an acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

12. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	Group	
	2017 R million	2016 R million
At the beginning of the year	**1 536**	252
Capitalisation	**23**	10
Acquisitions	**152**	1 467
Share of results after tax	**110**	67
Share of results before tax	**136**	80
Share of tax	**(26)**	(13)
Dividends received from associates and joint ventures	**(5)**	(5)
Impairment	**(3)**	–
Disposals	**(18)**	–
Business combinations	**17**	–
Gain on dilution	**18**	–
Foreign currency translation	**(41)**	(255)
At the end of the year	**1 789**	1 536

During March 2016, Santam Ltd acquired 25% of the shareholding in SAN JV for R1 412 million. SAN JV subsequently acquired a 30% interest in Saham Finances (refer to note 14). Effective 10 May 2017, SAN JV, acquired a further 16.6% interest in Saham Finances for R4.8 billion. Due to Santam Ltd's limited participation in the transaction of R152 million, Santam Ltd's interest in SAN JV diluted from 25% to 15%.

During March 2016, Santam Ltd acquired 49% of the shareholding in Professional Provident Society Short-term Insurance Company Ltd 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. During March, June, September and December 2017, pro rata recapitalisations took place in terms of which Santam injected a further R23 million into the company.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

During January 2017, the group sold its 40% shareholding in Paladin Underwriting Managers (Pty) Ltd for R23 million.

	Company	
	2017	2016
	R million	R million
At the beginning of the year	**1 477**	–
Capitalisation	**23**	10
Acquisitions	**152**	1 467
At the end of the year	**1 652**	1 477
Dividend income received from associates	**–**	–
Total income from associates	**–**	–

Accounting policy – Equity accounted investees

The group's interest in equity accounted investees comprises interests in associates and joint ventures. Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities over which the group has joint control with other investors. Investments in associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates and joint ventures includes goodwill identified on acquisition (see note 13).

If the ownership interest in an equity accounted investee is reduced, but significant influence or joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group's share of its equity accounted investees' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an equity accounted investee equals or exceeds its interest in the equity accounted investee, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the equity accounted investee.

On consolidation exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

The group determines at each reporting date whether there is any objective evidence that the investment in associates and joint ventures is impaired. If this is the case, the group calculates the amount of the impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and recognises the amount adjacent to share of profit or loss of associates and joint ventures in the statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the group and its associates and joint ventures are recognised in the group's financial statements only to the extent of unrelated investors' interests in the associates and joint ventures. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates and joint ventures are recognised in the statement of comprehensive income.

Equity accounting is discontinued when the group no longer has significant influence or joint control over the investment.

The company accounts for its investment in associates and joint ventures at cost less provision for impairment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

12. INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

The aggregate assets, liabilities, revenues and profits/(losses) of the principal associates and joint ventures, all of which are unlisted, were as follows:

	Indwe Broker Holdings Group (Pty) Ltd (joint venture) R million	Professional Provident Society Short-term Insurance Company Ltd (associate) R million	SAN JV (RF) (Pty) Ltd (associate) R million	Western Group Holdings Ltd[1] (associate) R million	Other (associates) R million	Total R million
2017						
Revenue	290	142	–	888	29	**1 349**
Depreciation and amortisation	10	4	–	–	(2)	**12**
Interest income	12	5	–	41	–	**58**
Interest expense	–	–	–	–	–	**–**
Income tax expense	10	(12)	–	(23)	(1)	**(26)**
Profit/(loss) from continuing operations	21	(20)	448	69	–	**518**
Total comprehensive income	21	(20)	(160)	69	–	**(90)**
Current assets	176	111	19	453	7	**766**
Non-current assets	89	51	10 119	558	19	**10 836**
Current liabilities	(143)	(47)	(7)	(86)	(3)	**(286)**
Non-current liabilities	(21)	–	–	(428)	(10)	**(459)**
Net asset value	101	115	10 131	497	13	**10 857**
Calculated carrying value	66	69	1 396	188	8	**1 727**
Intangible assets recognised in the carrying value of associates	–	–	–	54	8	**62**
Carrying value	**66**	**69**	**1 396**	**242**	**16**	**1 789**
2016						
Revenue	256	83	–	482	35	**856**
Depreciation and amortisation	9	1	–	–	1	**11**
Interest income	9	2	–	22	–	**33**
Interest expense	–	–	–	–	–	**–**
Income tax expense	9	–	–	12	2	**23**
Profit/(loss) from continuing operations	23	(32)	172	39	7	**209**
Total comprehensive income	23	(32)	231	39	2	**263**
Current assets	160	30	44	478	9	**721**
Non-current assets	96	68	5 349	449	17	**5 979**
Current liabilities	(120)	(27)	(21)	(81)	(8)	**(257)**
Non-current liabilities	(13)	–	–	(474)	(3)	**(490)**
Net asset value	123	71	5 372	372	15	**5 953**
Calculated carrying value	65	50	1 201	146	12	**1 474**
Intangible assets recognised in the carrying value of associates	–	–	–	54	8	**62**
Carrying value	**65**	**50**	**1 201**	**200**	**20**	**1 536**

[1] *Western Group Holdings has a financial period ending 28 February. The information included in the summary is based on the interim financial statements for the six months ended 31 August 2017 (2016: six months ended 31 August 2016).*

	Indwe Broker Holdings Group (Pty) Ltd R million
Additional information regarding joint ventures is as follows:	
2017	
Cash and cash equivalents	**159**
Current liabilities (excluding trade and other payables and provisions)	**19**
Non-current liabilities (excluding trade and other payables and provisions)	**12**
2016	
Cash and cash equivalents	153
Current liabilities (excluding trade and other payables and provisions)	3
Non-current liabilities (excluding trade and other payables and provisions)	7

	Up to 1 year R million	Between 1 to 5 years R million	More than 5 years R million	Total R million
The group's share of future aggregate minimum lease payments under operating leases of joint ventures are as follows:				
2017				
Offices	4	5	–	**9**
	4	**5**	**–**	**9**
2016				
Offices	3	4	–	**7**
	3	**4**	**–**	**7**

12.1 Analysis of investments in associates and joint ventures

INVESTMENT IN ASSOCIATES AND JOINT VENTURES
UNLISTED COMPANIES

	Nature of business	Country of incorporation	Issued capital R	Proportion held by the company 2017	Proportion held by the company 2016	Carrying value including equity accounted earnings R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
Direct								
Professional Provident Society Short-term Insurance Company Ltd[1]	Insurance	RSA	37 663	49.0%	49.0%	69	–	–
SAN JV (RF) (Pty) Ltd[2]	Insurance	RSA	10 998 268 236	15.0%	25.0%	1 396	–	–
South African Nuclear Pool Administrators (Pty) Ltd	Insurance	RSA	120	25.0%	25.0%	–	–	–
						1 465	**–**	**–**
Indirect								
HCV Underwriting Managers (Pty) Ltd[3]	Insurance	RSA	300	30.0%	0.0%	13	–	–
Indwe Broker Holdings Group (Pty) Ltd	Intermediary	RSA	28 552 225	24.0%	24.0%	66	–	–
Paladin Underwriting Managers (Pty) Ltd[4]	Insurance	RSA	3 008 000	0.0%	40.0%	–	–	–
Risk Guard Alliance (Pty) Ltd[3]	Insurance	RSA	100	23.2%	0.0%	–	–	–
RTS Construction and Engineering (Pty) Ltd[3]	Industrial Technologies	RSA	100	30.0%	0.0%	–	–	–
STRIDE South Africa (RF) (Pty) Ltd	IT Company	RSA	25 140 000	33.3%	33.3%	–	–	–
Vulindlela Underwriting Managers (Pty) Ltd	Underwriting	RSA	800	47.0%	47.0%	3	–	–
Western Group Holdings Ltd	Insurance	Namibia	31 919 643	40.0%	40.0%	242	–	–
						324	**–**	**–**
Total investments in associates and joint ventures						**1 789**	**–**	**–**

[1] *During March 2016, Santam Ltd acquired 49% of the shareholding in 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. 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.*

[2] *During March 2016, Santam Ltd acquired 25% of the shareholding in SAN JV for R1 412 million. SAN JV subsequently acquired 30% of Saham Finances. Effective, 10 May 2017, Santam Ltd, through SAN JV, acquired a further 16.6% interest in Saham Finances for R152 million. Due to SEM's participation in the transaction, Santam Ltd's interest in SAN JV diluted from 25% to 15%.*

[3] *During March 2017, the Santam group acquired a shareholding of 100% in RMB-SI Investments (now Santam Structured Insurance). RMB Structured Insurance had existing investments in these associates at the time of the Santam group acquisition.*

[4] *During January 2017, the group sold its 40% shareholding in Paladin Underwriting Managers (Pty) Ltd for R23 million.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

12. INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

12.2 Transactions with entities in the group

During the year, the company in the ordinary course of business entered into various transactions with associates and joint ventures.

	Company 2017 R million	Company 2016 R million
The following is a summary of transactions and balances with associates and joint ventures:		
a) Insurance contracts and other services		
– associates and joint ventures (for administration services)	**(66)**	(64)
– associates and joint ventures (for brokerage commission)	**(90)**	(92)
– associates (for outward reinsurance contracts)	**(183)**	(177)
– associates (for outward reinsurance claims covered)	**116**	108
– associates (for outward reinsurance commissions covered)	**20**	20
– associates (for inward reinsurance contracts)	**110**	74
– associates (for inward reinsurance claims covered)	**(82)**	(51)
– associates (for inward reinsurance commissions covered)	**(34)**	(21)
b) Year-end balances with related parties		
Western National Insurance	**6**	(1)

13. INTANGIBLE ASSETS

	Goodwill R million	Computer software R million	Brand, trademark and trade names R million	Key business relationships R million	Total R million
GROUP					
At 1 January 2016					
Cost	688	389	31	136	**1 244**
Accumulated impairment/amortisation	(90)	(179)	(31)	(117)	**(417)**
Net book amount	**598**	**210**	**–**	**19**	**827**
Year ended 31 December 2016					
Opening net book amount	598	210	–	19	**827**
Acquisitions	–	50	–	–	**50**
Impairment	(3)	–	–	–	**(3)**
Amortisation	–	(30)	–	(18)	**(48)**
Business combinations	–	–	–	59	**59**
Closing net book amount	595	230	–	60	**885**
At 31 December 2016					
Cost	688	417	31	195	**1 331**
Accumulated impairment/amortisation	(93)	(187)	(31)	(135)	**(446)**
Net book amount	**595**	**230**	**–**	**60**	**885**
Year ended 31 December 2017					
Opening net book amount	595	230	–	60	**885**
Acquisitions	–	27	–	–	**27**
(Impairment)/reversal of impairment	(9)	–	–	1	**(8)**
Amortisation	–	(40)	–	(23)	**(63)**
Closing net book amount	586	217	–	38	**841**
At 31 December 2017					
Cost	688	444	31	195	**1 358**
Accumulated impairment/amortisation	(102)	(227)	(31)	(157)	**(517)**
Net book amount	**586**	**217**	**–**	**38**	**841**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Goodwill R million	Computer software R million	Brand, trademark and trade names R million	Key business relationships R million	Total R million
COMPANY					
At 1 January 2016					
Cost	76	244	1	34	**355**
Accumulated amortisation	–	(55)	(1)	(24)	**(80)**
Net book amount	**76**	**189**	**–**	**10**	**275**
Year ended 31 December 2016					
Opening net book amount	76	189	–	10	**275**
Acquisitions	–	17	–	–	**17**
Amortisation	–	(16)	–	(11)	**(27)**
Business combinations	–	–	–	59	**59**
Closing net book amount	76	190	–	58	**324**
At 31 December 2016					
Cost	76	239	1	93	**409**
Accumulated amortisation	–	(49)	(1)	(35)	**(85)**
Net book amount	**76**	**190**	**–**	**58**	**324**
Year ended 31 December 2017					
Opening net book amount	76	190	–	58	**324**
Amortisation	–	(22)	–	(19)	**(41)**
Closing net book amount	76	168	–	39	**283**
At 31 December 2017					
Cost	76	239	1	93	**409**
Accumulated amortisation	–	(71)	(1)	(54)	**(126)**
Net book amount	**76**	**168**	**–**	**39**	**283**

COMPUTER SOFTWARE

Additional software acquired by the group during the year consists of external software of R6 million (2016: R33 million) and internally developed software of R21 million (2016: R17 million). Additional software acquired by the company in 2016 consisted of internally developed software. The internally developed software forms part of a strategic project to develop a new underwriting and product management system. Implementation of phase 1 of the project commenced in 2015 and phase 2 in 2016. It is expected that the useful life of the technology will be 10 years from the implementation date for each phase.

KEY BUSINESS RELATIONSHIPS

Key business relationships consist of client lists acquired and key intermediary or other relationships acquired as part of business combinations and capitalised. During 2016, key intermediary and other relationships to the value of R60 million were acquired as part of business combinations.

The valuation of key intermediary or other relationships is based on discounted cash flow models. Discount rates between 15% and 17% (2016: 15% and 17%) are used as significant input.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

13. INTANGIBLE ASSETS (continued)

Accounting policy – Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures; it represents the excess of the consideration transferred over the group's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree at the acquisition date.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs) that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the group at which goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less cost to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures is included in the carrying amount of investments in associates and joint ventures.

IMPAIRMENT

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

IMPAIRMENT TESTS OF GOODWILL

In accordance with the accounting policy stated above, the group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined by estimating the future cash flows expected to arise from the cash-generating unit and a suitable discount rate to calculate the present value. Refer to the tables on the previous two pages for impairment of goodwill recognised.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

	Group	
	2017	2016
	R million	R million
Crop	**19**	19
Alternative risk	**17**	17
Policy administration	**40**	46
Engineering	**28**	28
MiWay group	**319**	319
Liability	**87**	90
Accident and health	**76**	76
	586	595

All CGUs were tested for impairment. When testing for impairment, the recoverable amount of a CGU, based on the fair value less cost of disposal, is determined using discounted cash flow projections. The input into the fair value measurement is classified as level 3 in terms of the fair value hierarchy. The cash flow projections are based on budgets approved by management. The impairment tests are applied using the following internal processes:

- Comparing original budgets to updated forecasts and aligning projected cash flows when deemed necessary.
- Current changes in operations are assessed to determine whether it will have an impact on the valuation.
- The discount rates applied in the cash flow projections are reassessed.

The nature of goodwill mainly relates to employee skill and industry knowledge. In 2016 and 2017, goodwill on dormant companies amounting to R3 million was impaired. In 2017, goodwill of R6 million relating to the policy administration business was also impaired.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Discount rates between 14% and 19% (2016: 15% and 19%) were applied in the recoverable amount valuation. As discount rates are considered a significant input in the valuation of these entities, a sensitivity analysis was performed on the valuation outcome of the most significant CGU. If discount rates increase by 10% the valuations would decrease on average by 9% (2016: 9%). Should the discount rates decrease by 10% the valuations would increase on average by 10% (2016: 11%). These sensitivities and other relevant factors were considered in the overall impairment testing and it was concluded that no further impairment would be required.

Accounting policy – Other intangible assets

COMPUTER SOFTWARE

Computer software is recognised at cost less amortisation and impairment charges. Computer software packages acquired are initially recognised at fair value. Cost associated with maintaining computer software programmes are recognised as an expense when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, which do not exceed ten years.

BRANDS, TRADEMARKS AND TRADE NAMES

Separately acquired brands, trademarks and trade names are shown at historical cost. Brands, trademarks and trade names acquired in a business combination are recognised at fair value at the acquisition date. Brands, trademarks and trade names have a definite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of brands, trademarks and trade names over their estimated useful lives of three to five years.

KEY BUSINESS RELATIONSHIPS

Key business relationships acquired in a business combination are recognised at fair value at the acquisition date. The key business relationships have a definite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the estimated useful life of three to six years of the key business relationship.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

14. 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 acquisition date for R20 million. The 10% participatory interest is included as a liability under provisions.

	R million
Details of the assets and liabilities acquired are as follows:	
Property and equipment	15
Investment in associates and joint ventures	17
Financial assets at fair value through income	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**

SAN JV (RF) (Pty) Ltd

Effective 10 May 2017, SEM and Santam, through its investment in SAN JV (RF) (Pty) Ltd (SAN JV), acquired a further 16.6% interest in Saham Finances via a subscription for new shares for US$351 million. Santam's share of the purchase price, including transaction costs, was US11 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 (Saham Finances)

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

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 paid	**–**

The purchase consideration was received in 2016.

Accounting policy – Business combinations

Refer to note 10(a).

The group makes acquisitions and disposes of businesses as part of its normal operations. All acquisitions are made after due diligence, which will include, among other matters, assessment of the adequacy of claims reserves, assessment of the recoverability of reinsurance balances, inquiries with regard to outstanding litigation and inquiries of local regulators and taxation authorities. Consideration is also given to potential costs, risks and issues in relation to the integration of any proposed acquisitions with existing group operations. The group will seek to receive the benefit of appropriate contractual representations and warranties in connection with any acquisition and, where necessary, additional indemnifications in relation to specific risks, although there can be no guarantee that these processes and any such protection will be adequate in all circumstances. The group may also provide relevant representations, warranties and indemnities to counterparties on any disposal. These clauses are customary in such contracts and may from time to time lead to the group receiving claims from counterparties.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

15. NON-CURRENT ASSETS HELD FOR SALE

	Group 2017 R million	2016 R million
Group 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

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

The deferred conditional rights relating to Cardrow were realised during the first half of 2016 when it paid a dividend of R394 million. The deferred conditional rights relating to Beech Hill were substantially realised during the second half of 2016 with the receipt of 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 5.12).

The investment in Santam International as well as the loan to Santam International have been classified as current assets on a company level.

Accounting policy – Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if the carrying amount will be recovered principally through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the assets or disposal groups are available for immediate sale in their present condition and management is committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of the classification.

Immediately prior to being classified as held for sale, the carrying amount of the non-current assets or disposal groups is measured in accordance with the applicable IFRS. After classification as held for sale, it is measured at the lower of the carrying amount or fair value less costs to sell. An impairment loss is recognised in profit or loss for any initial and subsequent write-down of the asset and disposal group to fair value less costs to sell. A gain for any subsequent increase in fair value less costs to sell is recognised in profit or loss to the extent that it is not in excess of the cumulative impairment loss previously recognised.

Non-current assets or disposal groups that are classified as held for sale are not depreciated.

16. PROPERTY AND EQUIPMENT

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and other assets R million	Total R million
GROUP				
At 1 January 2016				
Cost or valuation	2	208	132	**342**
Accumulated depreciation	(1)	(166)	(85)	**(252)**
Net book amount	**1**	**42**	**47**	**90**
Year ended 31 December 2016				
Opening net book amount	1	42	47	**90**
Additions	–	44	16	**60**
Depreciation charge	–	(30)	(14)	**(44)**
Closing net book amount	1	56	49	**106**
At 31 December 2016				
Cost or valuation	2	212	145	**359**
Accumulated depreciation	(1)	(156)	(96)	**(253)**
Net book amount	**1**	**56**	**49**	**106**
Year ended 31 December 2017				
Opening net book amount	1	56	49	**106**
Additions	27	30	11	**68**
Disposals	(1)	–	(2)	**(3)**
Depreciation charge	(1)	(41)	(9)	**(51)**
Business combinations	3	12	–	**15**
Closing net book amount	29	57	49	**135**
At 31 December 2017				
Cost or valuation	33	260	128	**421**
Accumulated depreciation	(4)	(203)	(79)	**(286)**
Net book amount	**29**	**57**	**49**	**135**
COMPANY				
At 1 January 2016				
Cost or valuation	1	128	74	**203**
Accumulated depreciation	–	(99)	(52)	**(151)**
Net book amount	**1**	**29**	**22**	**52**
Year ended 31 December 2016				
Opening net book amount	1	29	22	**52**
Additions	–	33	5	**38**
Depreciation charge	–	(20)	(6)	**(26)**
Closing net book amount	1	42	21	**64**
At 31 December 2016				
Cost or valuation	1	122	79	**202**
Accumulated depreciation	–	(80)	(58)	**(138)**
Net book amount	**1**	**42**	**21**	**64**
Year ended 31 December 2017				
Opening net book amount	1	42	21	**64**
Additions	–	20	8	**28**
Disposals	–	–	(1)	**(1)**
Depreciation charge	–	(25)	(5)	**(30)**
Closing net book amount	1	37	23	**61**
At 31 December 2017				
Cost or valuation	1	130	61	**192**
Accumulated depreciation	–	(93)	(38)	**(131)**
Net book amount	**1**	**37**	**23**	**61**

Depreciation expense has been included in "Expenses for marketing and administration" in the statement of comprehensive income (refer to note 21).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

16. PROPERTY AND EQUIPMENT (continued)

Accounting policy – Property and equipment

a) PROPERTY

All owner-occupied buildings are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the building. Land is not depreciated. Buildings are depreciated on a straight-line basis to allocate the cost over the estimated useful life (50 years) of the building. The residual values and useful lives of buildings are reviewed at each statement of financial position date and adjusted accordingly.

b) EQUIPMENT

Equipment is stated at cost less accumulated depreciation and impairment charges. Depreciation is calculated on the difference between the cost and residual value of the asset and is charged to the statement of comprehensive income over the estimated useful life of each significant part of an item of equipment, using the straight-line basis.

Estimated useful lives are as follows:

Computer equipment	3 years
Furniture and equipment	3 – 6 years
Motor vehicles	Up to 5 years

The assets' residual values and useful lives are reviewed at each statement of financial position date and adjusted if appropriate. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assets and are included in profit or loss before tax.

Repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits from the existing asset will flow to the group.

17. SHARE CAPITAL

	Group and Company Ordinary shares		Group Treasury shares	
	Number of shares (thousands)	Stated capital R million	Number of shares (thousands)	Stated capital R million
At 1 January 2016	115 131	103	5 009	450
Purchase of treasury shares	–	–	434	98
Reissue of treasury shares	–	–	(565)	(76)
At 31 December 2016	**115 131**	**103**	**4 878**	**472**
Purchase of treasury shares	–	–	309	76
Reissue of treasury shares	–	–	(416)	(78)
At 31 December 2017	**115 131**	**103**	**4 771**	**470**

The total authorised number of ordinary shares is 150 million shares of no par value and 12 million non-redeemable, non-participating, non-cumulative no par value preference shares. All issued shares are fully paid. Subject to the restrictions imposed by the Companies Act, the authorised and unissued shares are under the control of the directors until the forthcoming annual general meeting.

In 2007 a subsidiary in the group acquired 6 972 940 Santam shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. During 2017 the subsidiary acquired an additional 308 500 (2016: 434 000) shares to utilise as part of the DSP, while 339 790 (2016: 335 371) shares were reissued in terms of the deferred share plan (DSP). The net amount of these transactions has been deducted from shareholders' equity. The shares are held as 'Treasury shares'.

Since the unwinding of the Central Plaza structure in 2015, the Emthunzini BBBEE staff trust is under the control of Santam Ltd. During 2017 the staff trust distributed 75 541 (2016: 230 036) shares.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Accounting policy – Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the company's equity holders net of any directly attributable incremental transaction costs and the related income tax effects.

Where such shares are subsequently reissued for no consideration to employees under long-term incentive schemes, the cost of these shares when acquired as treasury shares is transferred from treasury shares to distributable reserves.

17.1 Directors' and prescribed officers' interest in the shares of the company

At 31 December 2017, the directors of the company held direct and indirect interests, including family interests, in 47 648 of the company's issued ordinary shares (2016: 36 816). Details of shares held per individual director are listed below. A total of 78 188 (2016: 84 034) deferred shares are allocated to directors in terms of the company's employee share schemes. No material changes occurred between the reporting date and the date of approval of the financial statements.

	Direct		Indirect		
2017	**Beneficial**	**Non-beneficial**	**Beneficial**	**Non-beneficial**	**Total**
Executive directors and prescribed officers					
L Lambrechts	–	–	–	–	**–**
HD Nel	9 271	–	–	–	**9 271**
Non-executive directors					
B Campbell	8 370	–	–	–	**8 370**
BTPKM Gamedze	200	–	–	–	**200**
GG Gelink	–	–	–	–	**–**
IM Kirk	16 663	–	–	–	**16 663**
MLD Marole	–	–	–	–	**–**
NV Mtetwa	–	–	–	–	**–**
Y Ramiah	1 433	–	–	–	**1 433**
MJ Reyneke	–	–	10 711	–	**10 711**
PE Speckmann	1 000	–	–	–	**1 000**
HC Werth	–	–	–	–	**–**
	36 937	**–**	**10 711**	**–**	**47 648**
2016					
Executive directors and prescribed officers					
L Lambrechts	–	–	–	–	**–**
HD Nel	6 370	–	–	–	**6 370**
Non-executive directors					
B Campbell	8 370	–	–	–	**8 370**
MP Fandeso	103	–	–	–	**103**
BTPKM Gamedze	200	–	–	–	**200**
GG Gelink	–	–	–	–	**–**
IM Kirk	9 741	–	–	–	**9 741**
MLD Marole	–	–	–	–	**–**
T Nyoka (née Fubu)	–	–	–	–	**–**
Y Ramiah	1 321	–	–	–	**1 321**
MJ Reyneke	–	–	10 711	–	**10 711**
HC Werth	–	–	–	–	**–**
	26 105	**–**	**10 711**	**–**	**36 816**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. SHARE INCENTIVE SCHEMES

(i) Deferred share plan (DSP) and performance deferred share plan (PDSP)

Deferred share plan (DSP)

Awards granted under the DSP are conditional rights to acquire shares for no consideration subject to vesting conditions being satisfied. The vesting conditions are that the individual remains employed by the group throughout the vesting period and maintains agreed individual performance hurdles. The vesting period is five years and staggered vesting occurs in year three to five as follows:
a) After three years – 40%
b) After four years – 70% less any portion that vested earlier; and
c) After five years – 100% less any portion that vested earlier.

A rule change in the DSP and PDSP schemes has been approved by the HRRC for implementation in 2017 to address shareholder concerns around vesting. All new share awards from 2017 are subject to the following measurement of performance conditions:

- 40% of the award to be measured after three years since the date of grant, and to the extent that the performance hurdle is not achieved the entitlement to the DSP shares will lapse;
- 30% of the award to be measured after four years since the date of grant, and to the extent that the performance hurdle is not achieved, the entitlement to the DSP shares will lapse; and
- 30% of the award to be measured after five years since the date of grant, and to the extent that the performance hurdle is not achieved the entitlement to the DSP shares will lapse.

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

Performance deferred share plan (PDSP)

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

In addition to the individual remaining employed by the group throughout the measurement period and maintaining agreed individual performance hurdles, the vesting of a Santam PDSP award is also subject to the condition that the Santam group's Return on Capital (ROC) exceeds its cost of capital for the relevant measurement period, as finally determined by the directors.

For Sanlam PDSP awards in addition to continued employment by the group throughout the measurement period and maintaining agreed individual performance hurdles, the vesting of the PDSP is also subject to the condition that the Sanlam group's RoGEV (Return on Group Embedded Value) exceeds the cost of capital for the measurement period by an agreed margin.

The use of relevant performance conditions is considered appropriate as these are the key drivers of the Santam and Sanlam groups' strategies. The use of these measures creates a direct link between the LTI reward, group strategy and shareholders' interests.

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

Allocations were made as follows during the year:

Allocations in respect of:

	Number of participants		Number of shares	
	2017	2016	**2017**	2016
Santam DSP	**283**	297	**332 332**	377 312
Santam PDSP	**9**	9	**8 985**	19 931
			341 317	**397 243**
Sanlam DSP	**9**	8	**38 280**	40 155
Sanlam PDSP	**9**	8	**14 290**	21 496
			52 570	**61 651**

The fair value of the grants on grant date, calculated in terms of IFRS 2, amounted to R76 million (2016: R89 million) and is expensed in the statement of comprehensive income over the vesting period of five years. The fair value is based on the Santam share price on grant date, adjusted for dividends not accruing to participants during the vesting period and the probability that the service and performance conditions will be met in part.

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2016

The following shares were awarded and the delivery thereof deferred to a predetermined future date.

Date awarded	Latest irreversible date	Grant price	Number of shares
1 June 2012	31 May 2017	R151.80	90 723
17 September 2012	31 May 2017	R164.69	4 552
21 September 2016	31 May 2017	R209.78	3 735
1 June 2013	31 May 2018	R166.57	188 256
21 September 2016	31 May 2018	R205.76	7 453
1 June 2014	31 May 2019	R193.60	329 021
21 September 2016	31 May 2019	R198.91	13 401
1 June 2015	31 May 2020	R196.54	347 443
21 September 2016	31 May 2020	R191.21	14 725
1 June 2016	31 May 2021	R206.57	375 038
21 September 2016	31 May 2021	R183.88	16 587
			1 390 934

Movements during the period	Average price	Number of shares
As at 1 January 2016	R175.92	1 328 995
Shares awarded in 2016	R206.57	397 243
Shares awarded in lieu of special dividend	R194.06	35 970
Awarded shares lapsed due to resignations	R181.32	(36 119)
Accelerated vesting and issued	R156.98	(1 710)
Shares issued	R148.72	(333 445)
As at 31 December 2016	R191.37	**1 390 934**

2017

The following shares were awarded and the delivery thereof deferred to a predetermined future date.

Date awarded	Latest irreversible date	Grant price	Number of shares
21 September 2016	31 May 2017	R209.78	312
1 June 2013	31 May 2018	R166.57	85 169
21 September 2016	31 May 2018	R205.76	7 453
1 June 2014	31 May 2019	R193.60	190 871
21 September 2016	31 May 2019	R198.91	13 401
1 June 2015	31 May 2020	R196.54	331 515
21 September 2016	31 May 2020	R191.21	14 725
1 June 2016	31 May 2021	R206.57	355 824
21 September 2016	31 May 2021	R183.88	16 587
1 June 2017	31 May 2022	R223.30	329 112
			1 344 969

Movements during the period	Average price	Number of shares
As at 1 January 2017	R191.37	1 390 934
Shares awarded in 2017	R223.30	341 317
Awarded shares lapsed due to resignations	R197.05	(54 878)
Shares issued	R173.60	(332 404)
As at 31 December 2017	R203.44	**1 344 969**

Accounting policy – Deferred share plans

In terms of the DSP and PDSP, Santam undertakes to deliver a fixed number of shares to selected employees on predetermined dates in the future, in accordance with the terms and conditions of the plans detailed above.

The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date, the fact that employees will not be entitled to dividends until the shares vest, as well as an assumption on the actual percentage of shares that will be delivered. The fair value on grant date is recognised in the statement of comprehensive income on a straight-line basis over the vesting period of the equity instruments, adjusted to reflect actual levels of vesting, with a corresponding increase in equity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. SHARE INCENTIVE SCHEMES (continued)

(ii) The Emthunzini Black Economic Empowerment Staff Trust (the Staff Trust)

The Staff Trust is one of three components of a structured entity which hosted the Santam BBBEE scheme that unwound during 2015. Refer to note 18.1 for further information on the structured entity. Units were allocated to new black employees that joined the Santam group and to black employees that were promoted since the previous allocation. These units were allocated on a deferred delivery basis over a seven-year period. The fair value used in determining the allocation was based on the unit price on grant date, adjusted for expected employee attrition over the vesting period. The unit price reflected the number of Santam shares held in the Staff Trust. The total unit allocation costs for the Staff Trust amounting to R5 million (2016: R9 million) has been included in the statement of comprehensive income.

2016

The following units were awarded and the delivery thereof deferred to a predetermined future date.

Date awarded	Latest irreversible date	Grant price	Number of units
1 September 2009	31 August 2016	R8.00	1 180
1 September 2010	31 August 2017	R31.05	21 276
1 September 2011	31 August 2018	R53.65	51 417
1 September 2012	31 August 2019	R97.90	84 465
1 January 2013	31 December 2019	R87.48	111 014
1 September 2013	31 August 2020	R80.44	90 810
1 December 2013	30 November 2020	R84.47	7 300
1 September 2014	31 August 2021	R87.97	156 060
1 December 2014	30 November 2021	R88.94	12 368
1 July 2015	30 June 2022	R105.10	3 425
1 September 2015	31 August 2022	R105.10	2 855
1 September 2016	31 August 2023	R220.00	12 543
			554 713

Movements during the period	Average price	Number of units
As at 1 January 2016	R76.03	1 092 529
Units awarded in 2016	R220.00	12 543
Units awarded in lieu of specific contract changes	R36.54	990
Awarded units lapsed due to resignations	R82.65	(55 228)
Accelerated vesting and issued	R74.37	(2 468)
Units issued	R67.93	(493 653)
As at 31 December 2016	R85.77	**554 713**

2017

The following units were awarded and the delivery thereof deferred to a predetermined future date.

Date awarded	Latest irreversible date	Grant price	Number of units
1 September 2010	31 August 2017	R31.05	112
1 September 2011	31 August 2018	R53.65	22 754
1 September 2012	31 August 2019	R97.90	50 394
1 January 2013	31 December 2019	R87.48	68 549
1 September 2013	31 August 2020	R80.44	58 301
1 December 2013	30 November 2020	R84.47	5 475
1 September 2014	31 August 2021	R87.97	82 792
1 December 2014	30 November 2021	R88.94	12 368
1 July 2015	30 June 2022	R105.10	3 425
1 September 2015	31 August 2022	R105.10	2 855
1 September 2016	31 August 2023	R220.00	12 543
1 September 2017	31 August 2024	R259.00	6 564
			326 132

Movements during the period	Average price	Number of units
As at 1 January 2017	R85.77	554 713
Units awarded in 2017	R259.00	6 564
Awarded units lapsed due to resignations	R82.97	(52 114)
Accelerated vesting and issued	R53.65	(172)
Units issued	R77.31	(182 859)
As at 31 December 2017	R94.47	**326 132**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Accounting policy – The Emthunzini Black Economic Empowerment (BEE) Scheme

In terms of the BBBEE scheme, Central Plaza (a structured entity within the Sanlam group), undertook to deliver a specified number of units to selected black Santam employees or strategic business partners on predetermined dates in the future. Employees still need to be in the employment of Santam on or by those dates. Vesting occurs based on the contracts with employees or the strategic business partners but does not exceed a period of seven years.

The Central Plaza structure unwound on 28 February 2015. Unvested and unallocated units relating to black Santam employees were transferred to the Emthunzini Black Economic Empowerment staff trust (the Staff Trust) that is controlled by Santam Ltd. The Staff Trust is consolidated. All units relating to strategic business partners were settled as part of the unwinding process. The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date, the cost of funding, as well as an assumption on the actual percentage of shares that will be delivered. The fair value on grant date is recognised in the statement of comprehensive income on a straight-line basis over the vesting period of the equity instruments, adjusted to reflect actual levels of vesting, with a corresponding increase in equity.

18.1 Shares granted under the deferred share plan and performance deferred share plan to executive directors and prescribed officers

The deferred share plan (DSP) has been implemented during 2007, in terms of which shares are granted to employees on a deferred delivery basis over a five-year period. In addition to the DSP, a performance deferred share plan (PDSP) is also in place. Refer to note 18 for details on these plans.

DSP and PDSP – directors' and prescribed officers' participation

2017	As at 31 December 2016	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2017
Santam shares						
IM Kirk[1]	1 965	–	(1 965)	R245.54	01/06/12	–
	11 456	–	(5 951)	R245.54	01/06/13	5 505
	11 263	–	(4 686)	R245.54	01/06/14	6 577
	24 684	–	(12 602)			12 082
L Lambrechts	29 169	–	–	–	01/06/15	29 169
	1 221	–	–	–	21/09/16	1 221
	13 411	–	–	–	01/06/16	13 411
	584	–	–	–	21/09/16	584
	–	7 740	–	–	01/06/17	7 740
	44 385	7 740	–			52 125
HD Nel	4 552	–	(4 552)	R245.54	17/09/12	–
	174	–	(174)	R245.54	21/09/16	–
	376	–	(195)	R245.54	01/06/13	181
	15	–	–	–	21/09/16	15
	941	–	(393)	R245.54	01/06/14	548
	38	–	–	–	21/09/16	38
	6 007	–	–	–	01/06/15	6 007
	252	–	–	–	21/09/16	252
	4 694	–	–	–	01/06/16	4 694
	205	–	–	–	21/09/16	205
	–	4 356	–	–	01/06/17	4 356
	17 254	4 356	(5 314)			16 296
Y Ramiah[2]	200	–	(200)	R245.54	01/06/12	–
	200	–	(200)			–
Total	**86 523**	**12 096**	**(18 116)**			**80 503**

[1] Shares were received in position of chief executive officer prior to 1 January 2015 and will vest in due course. No new shares will be awarded.
[2] Shares were received in position of executive director prior to 2 March 2016 and will vest in due course. No new shares will be awarded.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. SHARE INCENTIVE SCHEMES (continued)

18.1 Shares granted under the deferred share plan and performance deferred share plan to executive directors and prescribed officers (continued)

DSP and PDSP – directors' and prescribed officers' participation (continued)

2016	As at 31 December 2015	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2016
Santam shares						
IM Kirk[1]	3 114	–	(3 114)	R233.07	01/06/11	–
	3 930	–	(1 965)	R233.07	01/06/12	1 965
	19 092	–	(7 636)	R233.07	01/06/13	11 456
	11 263	–	–	–	01/06/14	11 263
	37 399	–	(12 715)			24 684
L Lambrechts[2]	29 169	–	–	–	01/06/15	29 169
	–	1 221	–	–	21/09/16	1 221
	–	13 411	–	–	01/06/16	13 411
	–	584	–	–	21/09/16	584
	29 169	15 216	–			44 385
HD Nel[2]	9 104	–	(4 552)	R233.07	17/09/12	4 552
	–	174	–	–	21/09/16	174
	625	–	(249)	R233.07	01/06/13	376
	–	15		–	21/09/16	15
	941	–	–	–	01/06/14	941
	–	38		–	21/09/16	38
	6 007	–	–	–	01/06/15	6 007
	–	252		–	21/09/16	252
	–	4 694	–	–	01/06/16	4 694
	–	205	–	–	21/09/16	205
	16 677	5 378	(4 801)			17 254
Y Ramiah[3]	520	–	(520)	R233.07	01/06/11	–
	398	–	(198)	R233.07	01/06/12	200
	918	–	(718)			200
Total	**84 163**	**20 594**	**(18 234)**			**86 523**

[1] *Shares were received in position of chief executive officer prior to 1 January 2015 and will vest in due course. No new shares will be awarded.*
[2] *Adjusted for shares awarded in lieu of special dividend.*
[3] *Shares were received in position of executive director prior to 2 March 2016 and will vest in due course. No new shares will be awarded.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18.2 Shares granted under the deferred share plans to executive directors and prescribed officers

2017	As at 31 December 2016	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2017
Sanlam shares						
L Lambrechts	–	12 310	–	–	01/06/17	12 310
	–	12 310	–	–	01/06/17	12 310
IM Kirk[1]	4 269	–	(4 266)	R64.83	01/06/12	3
	19 260	–	(9 630)	R64.83	01/06/13	9 630
	16 991	–	(6 797)	R64.83	01/06/14	10 194
	40 520	–	(20 693)			19 827
HD Nel	9 608	–	(9 608)	R64.83	01/10/12	–
	630	–	(315)	R64.83	01/06/13	315
	1 420	–	(568)	R64.83	01/06/14	852
	8 225	–	–	–	01/06/15	8 225
	7 303	–	–	–	01/06/16	7 303
	–	6 929	–	–	01/06/17	6 929
	27 186	6 929	(10 491)			23 624
Total	**67 706**	**19 239**	**(31 184)**			**55 761**

2016	As at 31 December 2015	Number of shares awarded during year	Number of shares vested during year	Gain per share on vesting	Date awarded	As at 31 December 2016
Sanlam shares						
IM Kirk[1]	5 861	–	(5 861)	R61.55	01/06/11	–
	8 535	–	(4 266)	R61.55	01/06/12	4 269
	32 099	–	(12 839)	R61.55	01/06/13	19 260
	16 991	–	–	–	01/06/14	16 991
	63 486	–	(22 966)			40 520
HD Nel	19 216	–	(9 608)	R61.55	01/10/12	9 608
	1 051	–	(421)	R61.55	01/06/13	630
	1 420	–	–	–	01/06/14	1 420
	8 225	7 303	–	–	01/06/15	15 528
	–	7 303	–	–	01/06/16	7 303
	29 912	7 303	(10 029)			27 186
Y Ramiah[2]	965	–	(965)	R61.55	01/06/11	–
	965	–	(965)			–
Total	**94 363**	**7 303**	**(33 960)**			**67 706**

[1] *Shares were received in position of chief executive officer prior to 1 January 2015 and will vest in due course. No new shares will be awarded.*
[2] *Shares were received in position of executive director prior to 2 March 2016 and will vest in due course. No new shares will be awarded.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

19. RESERVES

19.1 Other reserves

	Translation reserve R million	Contingency reserve R million	Capital contribution reserve R million	Hedging reserve R million	Total R million
GROUP					
Balance as at 1 January 2016	**358**	**47**	**9**	**134**	**548**
Currency translation differences	(197)	–	–	–	**(197)**
Share of associates' currency translation differences	(255)	–	–	–	**(255)**
Transfer from retained earnings	–	3	–	–	**3**
Movement for the year	–	–	–	(140)	**(140)**
Balance as at 31 December 2016	**(94)**	**50**	**9**	**(6)**	**(41)**
Currency translation differences	(3)	–	–	–	**(3)**
Release of translation differences on financial assets held for sale	(175)	–	–	–	**(175)**
Share of associates' currency translation differences	(41)	–	–	–	**(41)**
Reclassification of foreign currency translation reserve on dilution of associate	90	–	–	–	**90**
Release of contingency reserve	–	(50)	–	–	**(50)**
Movement for the year	–	–	–	6	**6**
Balance as at 31 December 2017	**(223)**	**–**	**9**	**–**	**(214)**
COMPANY					
Balance as at 1 January 2016				**134**	**134**
Movement for the year				(140)	**(140)**
Balance as at 31 December 2016				**(6)**	**(6)**
Movement for the year				6	**6**
Balance as at 31 December 2017				**–**	**–**

Exchange differences, resulting from the translation of the financial statements of foreign operations with a presentation currency different to that of the group, are taken to the translation reserve on consolidation to form part of equity. On disposal of such a foreign operation the translation differences are recognised in the statement of comprehensive income as part of the profit or loss on disposal.

The contingency reserve that was maintained for Santam Namibia in terms of NAMFISA regulations is no longer required. The reversal of this provision was not recognised in the statement of comprehensive income, but instead was transferred directly in equity.

The capital contribution reserve reflects the reserves of the Emthunzini BBBEE staff trust that came under control of Santam Ltd as a result of the unwinding of the Central Plaza structure in 2015.

The hedging reserve represents the cumulative foreign currency movements on the cash resources designated for the funding of the additional investment in SAN JV in 2016. Refer to notes 5.7 and 7 for more detail.

19.2 Distributable reserves

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Share-based payment reserve				
At the beginning of the year	**573**	494	**121**	110
Transfer from retained earnings	**78**	79	**79**	88
Loss on delivery of shares in terms of share scheme	**–**	–	**(82)**	(77)
At the end of the year	**651**	573	**118**	121
Retained earnings	**7 348**	6 713	**6 862**	6 431
Total distributable reserves	**7 999**	7 286	**6 980**	6 552

The obligation that flows from an agreement between the entity and another party to enter into a share-based payment transaction, which entitles the other party to receive benefits in terms of the agreement, is recognised as a share-based payment expense in the statement of comprehensive income. A release of this reserve will not be recognised in profit or loss.

Accounting policy – Hedging activities

The group can designate certain non-derivative financial instruments as hedges of foreign currency risk relating to highly probable forecast transactions (cash flow hedges).

When such hedging opportunities are identified, the group documents the relationship between hedging instrument and the hedged item, as well as its risk management objective and strategy for undertaking the hedge transaction at the inception of the hedging transaction. The group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the hedging instrument that will be used in the hedging transaction is and will continue to be highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the foreign currency value of the hedging instrument that will be designated and qualifies as a cash flow hedge, is recognised in other comprehensive income and accumulates in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within investment income (if applicable). The tax charge on the accumulated foreign currency movements is also recognised in equity.

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss. When the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset (for example, the acquisition of an associate) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss when the relating asset is impaired or sold.

When the highly probable forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk, in this case the foreign currency risk associated with a forecast transaction, and could affect profit or loss. For a forecast transaction, the key criterion for hedge accounting purposes is that the forecast transaction must be "highly probable". In 2016, management performed an assessment relating to the proposed acquisition of a further interest in SAN JV and concluded that hedge accounting can be applied. Refer to note 7 for more information on hedge transactions.

20. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Group		Company	
	2017 R million	2016 R million	**2017 R million**	2016 R million
At the beginning of the year	**71**	122	**38**	43
Charged to statement of comprehensive income:				
– additional provisions	**26**	4	**6**	3
– reversal of provisions	**–**	(5)	**–**	(5)
Used during the year	**(21)**	(50)	**(5)**	(3)
Business combinations	**30**	–	**–**	–
Year ended 31 December	**106**	71	**39**	38

The balance consists of the cash-settled share-based payment liability in Santam Ltd, the provision for the MiWay deferred bonus plan and key SSI management's 10% economic participation interest in SSI. Participants to the MiWay deferred bonus scheme can redeem their units at any time from their respective vesting dates. In addition, there is a compulsory redemption upon the completion of the fifth year of issue of the units.

Accounting policy – Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21. EXPENSES BY NATURE

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Auditor's remuneration	**29**	22	**12**	14
Audit fees				
– Current year	**25**	16	**11**	10
– Prior year	**3**	2	**–**	–
– Non-audit services	**1**	4	**1**	4
Depreciation	**51**	44	**30**	26
Amortisation of intangible assets	**63**	48	**41**	27
Impairment of intangible assets	**8**	3	**–**	–
Employee benefit expense	**2 777**	2 543	**1 892**	1 799
Operating lease rentals	**411**	380	**337**	318
– Offices	**178**	162	**113**	109
– Computer equipment	**208**	194	**208**	193
– Furniture and mechanical equipment	**7**	7	**–**	–
– Motor vehicles	**18**	17	**16**	16
Research and development costs	**65**	48	**65**	48
Commission expenses	**4 218**	3 716	**4 354**	3 916
Investment-related activities	**67**	70	**38**	44
Other expenses[1]	**319**	210	**381**	335
Total expenses	**8 008**	7 084	**7 150**	6 527

[1] *Includes allocation of claims handling costs to claims costs.*

Accounting policy – Leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income in equal instalments over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

21.1 Employee benefit expense

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
Wages, salaries and bonus	**2 337**	2 159	**1 528**	1 473
Social security costs	**148**	129	**143**	125
Long-term incentive scheme costs	**132**	114	**73**	71
Pension costs – defined-contribution plans	**155**	132	**143**	121
BBBEE cost	**5**	9	**5**	9
	2 777	2 543	**1 892**	1 799

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Accounting policy – Employee benefits

a) Pension obligations

The group only has defined-contribution pension plans. A defined-contribution plan is a pension plan under which the group pays a fixed contribution into a separate entity. The group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined-contribution plans the group pays contributions to publicly and privately administered pension insurance plans on a mandatory basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Long-term incentive and retention bonus plan

Certain employees were paid retention bonuses in terms of the long-term incentive and retention bonus plan. These beneficiaries - including executive directors, executive management, senior and middle management – are subject to retention periods. Should the beneficiary be in breach of the retention period, a certain amount is subject for repayment. The costs associated with the long-term incentive and retention bonus plan are recognised in the statement of comprehensive income over the retention period.

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to: either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

d) Performance bonus plans

The group recognises a liability and an expense for bonuses based on a formula that takes into consideration the net insurance result after certain adjustments as well as growth targets. The group recognises an accrual where contractually obliged or where there is a past practice that has created a constructive obligation.

e) Leave pay

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the statement of financial position date.

21.1.1 Transactions with key management

Remuneration is paid to key management (executive committee members) of the group.

Key management also have general insurance contracts with the company in their private capacity. Premiums on these contracts are not material.

	Company 2017 R million	2016 R million
Key management compensation paid		
Salaries and other short-term employee benefits paid	**60**	56
Share-based payments and long-term deferred bonus schemes	**21**	34

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21. EXPENSES BY NATURE (continued)

21.1 Employee benefit expense (continued)

21.1.2 Transactions with directors and prescribed officers

Remuneration is paid to directors and prescribed officers in the form of fees to non-executive directors and remuneration to executive directors of the company. All directors of Santam Ltd have notified that they did not have a material interest in any contract of significance with the company or any of its subsidiaries, which could have given rise to a conflict of interest during the year.

Certain directors have general insurance contracts with the company in their private capacity. These contracts are not material.

Directors' and prescribed officers' emoluments

The group human resources committee considers the remuneration of all executive directors as well as the fees paid to all non-executive directors. Fees payable to directors are recommended by the board to the annual general meeting for approval. This note reflects the total of executive and non-executive directors' earnings, other benefits and costs incurred by the company, in accordance with the requirements of the Companies Act and Listings Requirements introduced by the JSE Ltd.

	Salary R000	Performance bonus[1] R000	Outperformance plan[4] R000	Company contribution[2, 3] R000	Total R000
Executive directors and prescribed officers					
2017					
Paid by the company					
L Lambrechts	5 000	6 300	19 000	201	30 501
HD Nel	2 870	3 000	–	285	6 155
	7 870	**9 300**	**19 000**	**486**	**36 656**
2016					
Paid by the company					
L Lambrechts	4 515	5 725	–	289	10 529
HD Nel	2 675	2 750	–	302	5 727
	7 190	**8 475**	**–**	**591**	**16 256**

1 *Bonus in respect of 2017 paid in 2018 (2016 paid in 2017).*
2 *Includes retirement funding benefits. During 2017 R201 200 (2016: R288 848) was paid in respect of L Lambrechts and R249 380 (2016: R266 154) was paid in respect of HD Nel.*
3 *Adjusted to exclude company costs.*
4 *Refer to detail on page 109.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21.1.2 Transactions with directors and prescribed officers (continued)

	Directors' fees	
	2017 R000	2016 R000
Non-executive directors		
Paid by the company		
CB Booth	**–**	113
B Campbell	**682**	666
MD Dunn	**–**	597
MP Fandeso	**124**	415
BTPKM Gamedze	**551**	542
GG Gelink	**951**	895
IM Kirk[1]	**572**	459
MLD Marole	**628**	522
JP Möller[1]	**–**	397
NV Mtetwa	**590**	–
T Nyoka	**40**	604
MJ Reyneke[2]	**791**	823
Y Ramiah[1]	**420**	277
PE Speckmann[2]	**679**	–
HC Werth[1]	**550**	167
	6 578	6 477
Total directors' remuneration	**43 234**	22 733

[1] *Fees were paid to the holding company, Sanlam Ltd.*
[2] *Fees include amounts paid by subsidiaries of the group.*

Outperformance plan (OPP)

The Santam Ltd human resources committee has extended an OPP effective 1 January 2015 to the chief executive officer (three year measurement period) and to certain senior leaders (5 year measurement period) to reward superior performance over the measurement periods. No payments are made under the OPP unless operational targets are outperformed and growth in net insurance results exceeds the hurdle set for the Santam group for the respective periods. Full payments are only made if the stretch performance targets are met. There are no interim measurement periods. The maximum payment that can be made under the OPP to the chief executive officer is 6 times her 2017 total guaranteed package, payable in April 2018. The actual performance targets met for the three-year period to 31 December 2017 resulted in an OPP bonus of 3.58 times her 2017 TGP being payable, amounting to R19 million. The maximum payment under the senior leaders OPP is 4.9 times the 2019 total guaranteed package of a participant, payable in two equal tranches in April and November 2020.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

22. INCOME TAX EXPENSE

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
South African normal taxation				
Current year	**535**	553	**330**	464
– Charge for the year	**533**	552	**329**	463
– Other taxes	**2**	1	**1**	1
Prior year	**32**	(8)	**(2)**	(8)
Recovered from cell owners	**(80)**	(89)	**–**	–
Foreign taxation – current year	**88**	56	**–**	–
Income taxation for the year	**575**	512	**328**	456
Deferred taxation	**(86)**	12	**(26)**	(29)
Current year	**(34)**	12	**(26)**	(29)
Prior year	**(52)**	–	**–**	–
Deferred taxation for the year	**(86)**	12	**(26)**	(29)
Total taxation as per the statement of comprehensive income	**489**	524	**302**	427

	Group 2017	Group 2016	Company 2017	Company 2016
Reconciliation of taxation rate (%)				
Normal South African taxation rate	**28.0**	28.0	**28.0**	28.0
Adjusted for				
– Disallowable expenses	**0.3**	0.6	**0.2**	0.5
– Foreign tax differential	**0.4**	0.4	**–**	–
– Exempt income[1]	**(2.4)**	(1.4)	**(12.6)**	(2.4)
– Investment results	**(1.1)**	(0.5)	**(1.4)**	(0.6)
– Change in CGT inclusion rate[2]	**–**	2.4	**–**	3.0
– Income from associates and joint ventures	**(1.5)**	(1.1)	**(0.1)**	(0.1)
– Exempt from foreign currency translation differences	**(1.0)**	–	**–**	
– Previous years' overprovision	**(0.8)**	(0.4)	**(0.1)**	(0.5)
– Non-current assets held for sale and discontinued operations	**(0.4)**	–	**(0.6)**	–
– Impairment of subsidiaries and associates	**–**	–	**3.6**	–
– Other permanent differences	**(0.4)**	0.1	**–**	0.1
– Other taxes	**0.2**	0.1	**–**	–
Net increase/(reduction)	**(6.7)**	0.2	**(11.0)**	0.0
Effective rate (%)	**21.3**	28.2	**17.0**	28.0

[1] *Exempt income on a company level consists mainly of dividends received from subsidiaries.*
[2] *The increase in the CGT inclusion rate resulted in an increase in the deferred tax provision on fair value movements of R45 million in 2016.*

Accounting policy – Income tax

The tax expense for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised directly in equity.

a) Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company, its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

b) Withholding tax on dividends

Withholding taxes are measured at the amount expected to be paid to the relevant tax authorities in the country from which dividend income originates. The tax rates and tax laws used to compute the amount are those that are enacted when the dividend was declared.

23. DEFERRED TAX

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
The amounts are as follows:				
Deferred tax assets	**(91)**	(106)	**–**	–
Deferred tax liabilities	**87**	103	**14**	42
Total net deferred income tax account	**(4)**	(3)	**14**	42
Deferred tax is made up as follows:				
Unrealised appreciation of investments	**155**	196	**155**	187
Provisions and accruals	**(198)**	(185)	**(116)**	(117)
Tax losses carried forward	**(18)**	(44)	**–**	–
Other differences	**57**	30	**(25)**	(28)
	(4)	(3)	**14**	42
Movement of deferred tax				
Balance as at 1 January	**(3)**	(33)	**42**	60
Charge to the statement of comprehensive income	**(86)**	12	**(26)**	(29)
Unrealised depreciation of investments	**(41)**	(27)	**(32)**	(35)
Provisions and accruals	**(9)**	9	**1**	(1)
Tax losses carried forward	**42**	19	**–**	–
Other differences	**(78)**	11	**5**	7
Business combinations	**86**	16	**–**	16
Tax credited directly to equity	**(1)**	2	**(2)**	(5)
Balance as at 31 December	**(4)**	(3)	**14**	42

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 28% (2016: 28%) in South Africa and the official tax rates in the foreign subsidiaries where applicable.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The group has unrecognised tax losses of R13.0 million (2016: R17.7 million).

Accounting policy – Deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle the balances on a net basis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

24. EARNINGS PER SHARE

24.1 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	Group 2017	2016
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 (millions)	**110.30**	110.21
Earnings per share (cents)	**1 511**	1 100

24.2 Diluted earnings per share

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. In the diluted earnings per share calculation for the shares granted to employees under the deferred share plan, a calculation is done to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding shares. This calculation serves to determine the "unpurchased" shares to be added to the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to net profit.

	2017	2016
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 (millions)	**110.30**	110.21
Adjusted for share options	**1.13**	1.16
Weighted average number of ordinary shares for diluted earnings per share	**111.43**	111.37
Diluted basic earnings per share (cents)	**1 496**	1 088

24.3 Headline earnings per share

For the calculation of headline earnings per share, the profit attributable to equity holders of the company is adjusted with items excluded from headline earnings per share as listed below, divided by the normal weighted average number of ordinary shares in issue.

	2017	2016
Headline earnings per share		
Profit attributable to the company's equity holders (R million)	**1 667**	1 212
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 (millions)	**110.30**	110.21
Headline earnings per share (cents)	**1 425**	1 086

24.4 Diluted headline earnings per share

	2017	2016
Headline earnings (R million)	**1 572**	1 197
Weighted average number of ordinary shares for diluted earnings per share (millions)	**111.43**	111.37
Diluted headline earnings per share (cents)	**1 411**	1 075

25. DIVIDENDS PER SHARE

	2017	2016
Ordinary dividend per share		
Interim of 336 cents per share (2016: 311 cps)	**387**	358
Proposed final of 616 cents per share (2016: 570 cps)	**709**	656
	1 096	1 014

A special dividend of 800 cents per share was also declared in August 2016.

Accounting policy – Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the board of directors approves the dividend.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Group 2017 R million	Group 2016 R million	Company 2017 R million	Company 2016 R million
26. CASH GENERATED FROM OPERATIONS				
Profit before tax	**2 296**	1 855	**1 776**	1 525
Adjustments for:				
Non-cash items	**473**	107	**378**	141
– Profit on sale of associates	**(5)**	–	**–**	–
– Reclassification of foreign currency translation reserve on dilution of associate	**90**	–	**–**	–
– Gain on dilution of associate	**(18)**	–	**–**	–
– Foreign currency translation reserve reclassified to profit and loss	**(175)**	–	**–**	–
– Share-based payment costs	**77**	79	**77**	88
– Amortisation of intangible assets	**63**	48	**41**	27
– Impairment of goodwill and other intangible assets	**8**	3	**–**	–
– Depreciation	**51**	44	**30**	26
– Impairment on net investments and loans in associated companies	**3**	–	**–**	–
– Income from associates and joint ventures	**(110)**	(67)	**–**	–
– Impairment of subsidiary	**–**	–	**230**	–
– Cell owners' and policyholders' interest and investment contracts	**489**	–	**–**	–
Investment income, realised and fair value gains	**(1 762)**	(832)	**(1 569)**	(827)
Finance costs	**295**	212	**286**	210
Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)	**529**	(162)	**(261)**	98
Reinsurance assets	**(912)**	(992)	**(1 321)**	(827)
Deferred acquisition costs	**(57)**	56	**(55)**	47
Loans and receivables including insurance receivables	**(977)**	(952)	**(1 251)**	(498)
Insurance liabilities	**1 870**	1 040	**1 829**	877
Deferred reinsurance acquisition revenue	**45**	(7)	**43**	(3)
Provisions for other liabilities and charges	**(15)**	(50)	**1**	(4)
Cell owners' and policyholders' interest and investment contracts	**(40)**	–	**–**	–
Trade and other payables including insurance payables	**615**	743	**493**	506
Investment income received in cash	**1 458**	991	**965**	898
Dividends received	**130**	64	**188**	115
Dividends received from associates	**5**	–	**–**	–
Interest received	**1 318**	941	**769**	788
Movement in provision for investment income	**5**	(14)	**8**	(5)
Cash generated from operations	**3 289**	2 171	**1 575**	2 045
27. INCOME TAX PAID				
Amounts charged to profit or loss	**(489)**	(524)	**(302)**	(427)
Income tax credited directly to equity	**(2)**	35	**(2)**	(7)
Movement in deferred taxation	**(86)**	(16)	**(28)**	(35)
Movement in taxation liability	**34**	(176)	**32**	(163)
	(543)	(681)	**(300)**	(632)

28. RELATED-PARTY TRANSACTIONS – SANLAM GROUP

Major shareholders

Sanlam Ltd (incorporated in South Africa) is the ultimate holding company with a 61.5% (2016: 61.5%) shareholding in Santam Ltd. The balance of the shareholders (38.5% (2016: 38.5%)) do not have significant influence and thus no other shareholder is treated as a related party. The shares are widely held by public, non-public, individual and corporate shareholders (refer to Analysis of shareholders on page 121 for detail).

Transactions with the Sanlam group

The company transacts with the Sanlam group on various levels, predominantly insurance-related cover, provided to Sanlam group companies. Sanlam Investment Management acts as the largest investment fund manager for the group with its fees negotiated on a regular basis. Santam also subscribed to target shares in Sanlam Emerging Markets (SEM) as described in note 5.1.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2017 R million	2016 R million

28. RELATED-PARTY TRANSACTIONS – SANLAM GROUP (continued)

The following is a summary of transactions and balances with Sanlam related parties:

	2017 R million	2016 R million
a) Insurance contracts and other services		
– Sanlam Ltd and related parties (for insurance premiums)	**10**	10
– Sanlam Ltd and related parties (for investment management services)	**(35)**	(36)
– Sanlam Ltd and related parties (for IT infrastructure costs)	**(235)**	(232)
– Sanlam Ltd and related parties (for administration services)	**(11)**	(10)
– Sanlam Ltd (for insurance services)	**(5)**	(6)
b) Investment income and net realised/unrealised gains/(losses) received from:		
– Sanlam Ltd and related parties	**139**	(237)
c) Dividends paid		
– to Sanlam group	**(614)**	(1 111)
d) Year-end balances with related parties		
Sanlam group: Sanlam Emerging Markets		
– target shares acquired (refer to note 5.1)	**1 089**	1 127
– target shares issued (refer to note 11)	**(322)**	(311)
Sanlam Alternative Income Fund		
– investment	**74**	178
Sanlam Active Income Fund		
– investment	**75**	76
Sanlam Property Fund		
– investment	**82**	77
Sanlam Capital Markets		
– Sanlam Investec note	**–**	10
– cash and money market instruments	**48**	161
Sanlam Ltd		
– shares	**23**	17
Sanlam Life Insurance Ltd		
– trade payable	**(7)**	(8)

Remuneration received by Santam directors from other Sanlam group companies for services provided to these companies (disclosed in accordance with section 30(5)(b) of the Companies Act).

Emoluments for the year ended 31 December 2017

	Salary R000	Performance bonus[1] R000	Other benefits R000	Total R000
2017				
Y Ramiah[2]	3 421	2 600	218	6 239
IM Kirk	8 407	11 100	201	19 708
HC Werth	4 757	3 500	208	8 465
	16 585	**17 200**	**627**	**34 412**
2016				
Y Ramiah[2]	3 188	2 250	204	5 642
IM Kirk	7 782	8 500	398	16 680
	10 970	**10 750**	**602**	**22 322**

[1] *Performance bonus in respect of 2016 paid in 2017 (2015 paid in 2016).*
[2] *Total TGP includes amounts recharged by Sanlam Ltd to Santam Ltd for services provided.*

Deferred share plan

Sanlam shares	Balance 31 December 2016	Awarded in 2017	Shares vested	Balance 31 December 2017
Y Ramiah	67 286	17 566	(16 911)	67 941
L Lambrechts[1]	47 887	7 732	(27 605)	28 014
IM Kirk	90 609	31 352	(10 049)	111 912
HC Werth	93 646	26 897	(27 331)	93 212
Total	**299 428**	**83 547**	**(81 896)**	**301 079**

	Balance 31 December 2015	Awarded in 2016	Shares vested	Balance 31 December 2016
Y Ramiah	66 734	14 989	(14 437)	67 286
BTPKM Gamedze	64 605	–	(64 605)	–
L Lambrechts[1]	82 629	–	(34 742)	47 887
IM Kirk	76 676	23 511	(9 578)	90 609
Total	**290 644**	**38 500**	**(123 362)**	**205 782**

Performance deferred share plan

	Balance 31 December 2016	Awarded in 2017	Shares vested	Balance 31 December 2017
Y Ramiah	47 255	12 664	(13 005)	46 914
L Lambrechts[1]	30 131	4 579	(17 773)	16 937
IM Kirk	164 075	40 393	(10 643)	193 825
HC Werth	61 226	46 461	(16 288)	91 399
Total	**302 687**	**104 097**	**(57 709)**	**349 075**

	Balance 31 December 2015	Awarded in 2016	Shares vested	Balance 31 December 2016
Y Ramiah	47 726	12 989	(13 460)	47 255
L Lambrechts[1]	53 140	–	(23 009)	30 131
IM Kirk	141 221	36 243	(13 389)	164 075
Total	**242 087**	**49 232**	**(49 858)**	**241 461**

Restricted share plan

	Balance 31 December 2016	Awarded in 2017	Shares vested	Balance 31 December 2017
Y Ramiah	48 638	14 350	(7 510)	55 478
L Lambrechts[1]	68 737	–	(39 927)	28 810
HC Werth	128 460	99 449	(39 927)	187 982
Total	**245 835**	**113 799**	**(87 364)**	**272 270**

	Balance 31 December 2015	Awarded in 2016	Shares vested	Balance 31 December 2016
Y Ramiah	31 924	16 714	–	48 638
BTPKM Gamedze	18 776	–	(18 776)	–
L Lambrechts[1]	118 258	–	(49 521)	68 737
Total	**168 958**	**16 714**	**(68 297)**	**117 375**

[1] *Shares were received prior to 1 January 2015 and will vest in due course. No new shares will be awarded.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

29. CONTINGENCIES AND UNCERTAINTIES

Contracts with third parties

The group enters into outsourcing contracts and distribution arrangements with third parties in the normal course of its business and is reliant upon those third parties being willing and able to perform their obligations in accordance with the terms and conditions of the contracts.

Litigation, disputes and investigations

The group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries and investigations in the normal course of its business. The outcome of these can be uncertain, but based on current information, the directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute will have a material adverse effect on the group's financial position.

30. COMMITMENTS

Operating lease commitments – where group company is the lessee

The group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The group also leases vehicles under cancellable operating lease agreements. The group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 21.

The future aggregate minimum lease payments under operating leases are as follows:

	Up to 1 year R million	Between 1 to 5 years R million	More than 5 years R million	Total R million
GROUP				
2017				
Motor vehicles	14	19	–	**33**
Office equipment	1	8	–	**9**
Offices	125	480	534	**1 139**
Computer equipment	186	398	–	**584**
	326	**905**	**534**	**1 765**
2016				
Motor vehicles	14	17	–	**31**
Office equipment	1	1	–	**2**
Offices	113	308	111	**532**
Computer equipment	136	144	–	**280**
	264	**470**	**111**	**845**
COMPANY				
2017				
Motor vehicles	13	18	–	**31**
Offices	88	369	534	**991**
Computer equipment	186	398	–	**584**
	287	**785**	**534**	**1 606**
2016				
Motor vehicles	13	16	–	**29**
Offices	75	195	111	**381**
Computer equipment	136	144	–	**280**
	224	**355**	**111**	**690**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31. 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.

32. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

a) Standards, amendments and interpretations effective in 2017

The following amendments to published standards are mandatory for the group's accounting periods beginning on or after 1 January 2017:

Number	Effective date	Executive summary
Amendment to IAS 7 – Cash flow statements Statement of cash flows on disclosure initiative	Annual periods beginning on or after 1 January 2017 (published February 2016)	In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The information is provided by providing a split of cash vs non-cash movements in the relevant liability notes.
Amendment to IAS 12 – Income taxes Recognition of deferred tax assets for unrealised losses.	Annual periods beginning on or after 1 January 2017 (published February 2016)	The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets and therefore had no specific impact on the group.
Annual improvements 2014 – 2016 (part)	Annual periods beginning on or after 1 January 2017 (published December 2016)	These amendments impact 3 standards: IFRS 12,'Disclosure of interests in other entities' regarding clarification of the scope of the standard. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information (paragraph B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. It had no specific impact on the group.

b) Interpretations and amendments to published standards that are not yet effective and have not been early adopted by the group

Number	Effective date
Amendment to IFRS 2 – Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4 – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*	1 January 2018
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 16 *Leases*	1 January 2019
IFRS 17 *Insurance Contracts*	1 January 2021
Amendment to IAS 28 *Investments in Associates and Joint Ventures* – Long-term interest in associates and joint ventures	1 January 2019
Amendment to IAS 40 – Transfers of investment property	1 January 2018
Annual improvements 2014–16 cycle	1 January 2018
Annual improvements 2015–17 cycle	1 January 2019
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

32. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

c) Discussion of impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the group

1. IFRS 9 *Financial Instruments*

The IASB issued the final version of IFRS 9 *Financial Instruments* in July 2014. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018, however, early adoption is permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

In October 2017, the IASB also issued *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*. The amendments will be effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Santam group and company will apply IFRS 9 as issued in July 2014 on 1 January 2018. The amendments to IFRS 9 were assessed and are not expected to have a material impact on the group and company.

It should however be noted that the actual impact of adoption may change because facts and circumstances might change that will result in management opting to make different selections in terms of IFRS 9 criteria than initially envisaged.

The assessment of the impact of implementation of IFRS 9 included, but was not limited to the following:

i) Classification and measurement – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model used to manage these assets as well as their cash flow characteristics in the case of debt instruments.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVPL). It therefore eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A key input in the assessment of the classification of financial assets is the business model applied to manage the financial assets. Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVPL because they are neither held to collect contractual cash flows nor held to collect contractual cash flows and to sell.

In the assessment of the classification of debt instruments, an important consideration is whether contractual cash flows relating to the specific instrument are solely payments of principal and interest (SPPI). "Principal" was defined as the fair value of the financial asset on initial recognition. "Interest" was defined as consideration for the time value of money, for credit risk associated with the principal amount outstanding during a particular period of time. In assessing whether contractual cash flows are considered SPPI, the group considered the contractual terms of the related instruments.

The impact on the classification and measurement of financial assets will be as follows for the Santam group and company:

- Financial instruments and derivative assets held for risk management purposes, currently measured at FVPL, will also be measured at FVPL under IFRS 9.
- Loans that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

ii) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" model. This will require considerable judgement going forward over how changes in economic factors affect expected credit losses (ECL). It will also have to be determined on a probability-weighted basis.

The new impairment model will apply to the following financial instruments:
- financial assets that are debt instrument and not measured at FVPL;
- lease receivables; and
- loan commitments (including loans to subsidiaries with Santam Ltd).

No impairment loss is recognised on equity instruments at FVPL or equities at FVOCI under IFRS 9.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs . Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particular in the following areas:
- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

The majority of financial assets in the Santam group is measured at FVPL. The impact on loan commitments (both external and intergroup) is not expected to be material, but will only be confirmed once the final assessment is concluded. All insurance and reinsurance receivables are recognised in terms of IFRS 4 and will be included in the IFRS 17 assessment.

iii) Classification – financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

However, under IAS 39 all fair value changes of financial liabilities designated as at FVPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:
- the amount of the change in the fair value attributable to changes in the credit risk of the liability will be presented in other comprehensive income; and
- the remaining amount of the change in the fair value will be presented in profit or loss.

The Santam group has designated certain debt securities issued as at FVPL as these instruments are managed at fair value in terms of the related business model and to significantly reduce an accounting mismatch that would otherwise arise. The amount of changes in fair value attributable to changes in credit risk of these liabilities that were recognised in profit or loss in 2017 under IAS 39 were considered immaterial. On the adoption of IFRS 9, such changes in fair value will be recognised in OCI.

iv) Derecognition

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and liabilities without substantive amendments.

The Santam group expects an immaterial impact from the adoption of these requirements.

v) Hedge accounting

As at 31 December 2017, the group and company are not applying hedge accounting. The impact of hedging will therefore only be assessed when required.

vi) Disclosures

IFRS 9 will require extensive new disclosures, which will be considered in preparation of the 2018 reporting period.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

32. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

c) Discussion of impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the group (continued)

2. IFRS 17 *Insurance Contracts*

IFRS 17 *Insurance Contracts* was issued in May 2017 and will be effective for annual periods beginning on or after 1 January 2021. The previous IFRS Standard on insurance contracts, IFRS 4, was an interim standard that allowed entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations of those requirements. In contrast to the requirements of IFRS 4, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct and reinsurance), regardless of the type of entity that issue these contracts. The General Model (also referred to as building block approach) forms the core of IFRS 17. It is supplemented by:
- A specific adaption for contracts with direct participation features ("the variable fee approach"); and
- A simplified approach ("the premium allocation approach") mainly for short-duration contracts.

The implementation of IFRS 17 will have different financial and operational implications for each entity that adopts the standard. It is, however, expected that fundamental changes will be required in the following areas:
- Liability measurement
- Data requirements
- Operations and the underlying systems
- Management reporting

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%**

ADMINISTRATION

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, Johannesburg 2001
PO Box 61051, Marshalltown 2107
Tel: 011 370 5000
Fax: 011 688 7721
www.computershare.com

COMPANY SECRETARY
M Allie

SANTAM HEAD OFFICE AND REGISTERED ADDRESS
1 Sportica Crescent
Tyger Valley
Bellville 7530
PO Box 3881, Tyger Valley 7536
Tel: 021 915 7000
Fax: 021 914 0700
www.santam.co.za

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JSE share code: SNT
NSX share code: SNM

Santam is an authorised financial services provider (licence number 3416).

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